

THE LEBANON BRIEF

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ECONOMIC RESEARCH DEPARTMENT
Rashid Karamé Street, Verdun Area
P.O.Box 11-1540 Beirut, Lebanon
T (01) 991784/7 F (+961) 1 991732
research@blominvestbank.com
www.blom.com.lb

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FINANCIAL MARKETS

Equity Market Stock Market

	03/08/12	27/07/12	% Change
BLOM Stock Index*	1145.64	1148.24	-0.23%
Average Traded Volume	45,850	92,606	-50.49%
Average Traded Value	486,824	978,665	-50.26%

*22 January 1996 = 1000



Banking Sector

	Mkt	03/08/12	27/07/12	% Change
BLOM (GDR)	BSE	\$7.84	\$7.84	0.00%
BLOM Listed	BSE	\$7.40	\$7.40	0.00%
BLOM (GDR)	LSE	\$7.75	\$7.90	-1.90%
Audi (GDR)	BSE	\$6.00	\$6.00	0.00%
Audi Listed	BSE	\$5.37	\$5.55	-3.24%
Audi (GDR)	LSE	\$5.90	\$6.11	-3.41%
Byblos (C)	BSE	\$1.54	\$1.54	0.00%
Byblos (GDR)	LSE	\$79.00	\$79.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$1.90	\$1.90	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.99	\$1.99	0.00%

	Mkt	03/08/12	27/07/12	% Change
Banks' Preferred Shares Index *		\$103.84	\$103.40	0.43%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.00	\$10.00	0.00%
Audi Pref. E	BSE	\$100.00	\$100.00	0.00%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 09	BSE	\$101.60	\$100.60	0.99%
Bank of Beirut Pref. D	BSE	\$25.60	\$25.60	0.00%
Bank of Beirut Pref. E	BSE	\$25.65	\$25.65	0.00%
BLOM Preferred 2011	BSE	\$10.25	\$10.21	0.39%
Bank of Beirut Pref. H	BSE	\$25.40	\$25.40	0.00%

* 25 August 2006 = 100

The BLOM Stock Index (BSI), Lebanon's leading index, decreased by 0.23% to 1,145.6 points over the week, resulting in a 2.64% loss since year start. Market capitalization shrunk by \$20M to reach \$9.06B while the average daily traded volume was 45,850 shares worth \$486,824 significantly lower than last week's 92,606 shares valued at \$978,665.

The Lebanese benchmark failed to outperform the Morgan Stanley (MSCI) Emerging Index that rose by 3.11% to 944.94 points. It also lagged behind the S&P Pan Arab Composite LargeMidCap Index and the S&P AFE40 that increased by 1.92% and 1.57% each to 108.76 and 53.12 points respectively. The Egyptian bourse recorded the largest growth this week, up by 4.97%, followed by the Saudi and Dubai stock markets increasing by 3.39% and 2.70% correspondingly. On the other hand, Bahrain was the worst performer shrinking by 1.41%.

The banking sector dominated the market holding approximately 55.75% of total value traded. Audi listed stock dropped 3.24% to \$5.37. On the other hand, the preferred shares index rose by 0.43% to 103.84 points due to the increase of Byblos preferred 09 shares by 0.99% to \$101.60 and the 0.39% rise of BLOM Preferred 11 to \$10.25.

As for the real estate sector, Solidere class A shares retreated by a slight 0.07% to \$13.72, whereas, its class B shares jumped 2.58% to \$13.94.

In the industrial sector, Holcim Liban maintained its price at \$16.00.

Real Estate

	Mkt	03/08/12	27/07/12	% Change
Solidere (A)	BSE	\$13.72	\$13.73	-0.07%
Solidere (B)	BSE	\$13.94	\$13.59	2.58%
Solidere (GDR)	LSE	\$13.64	\$13.57	0.49%

The market has been moving in seesaw in the previous weeks and will keep doing so in the coming period as regional developments will continue to influence the Lebanese stock market with no clear indication to when the internal political tensions or regional instability will end.

Manufacturing Sector

	Mkt	03/08/12	27/07/12	% Change
HOLCIM Liban	BSE	\$16.00	\$16.00	0.00%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$3.05	\$3.05	0.00%

Funds

	Mkt	03/08/12	27/07/12	% Change
Beirut Preferred Fund	BSE	\$102.80	\$103.50	-0.68%
BLOM Cedars Balanced Fund Tranche "A"	-----	\$6,665.11	\$6,706.08	-0.61%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,053.47	\$5,085.89	-0.64%
BLOM Cedars Balanced Fund Tranche "C"	-----	\$5,062.20	\$5,093.31	-0.61%
BLOM Bond Fund	-----	\$9,986.31	\$9,986.31	0.00%

Retail Sector

	Mkt	03/08/12	27/07/12	% Change
RYMCO	BSE	\$2.44	\$2.44	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

Tourism Sector

	Mkt	03/08/12	27/07/12	% Change
Casino Du Liban	OTC	\$565.00	\$565.00	0.00%
SGHL	OTC	\$4.50	\$4.50	0.00%

Foreign Exchange Market

Lebanese Forex Market

	03/08/12	27/07/12	%Change
Dollar / LP	1502.00	1502.00	0.00%
Euro / LP	1841.26	1846.39	-0.28%
Swiss Franc / LP	1532.79	1537.48	-0.31%
Yen / LP	19.28	19.29	-0.05%
Sterling / LP	2342.96	2364.21	-0.90%
NEER Index**	105.05	104.53	0.50%

*Close of GMT 09:00+2

**Nominal Effective Exchange Rate; Base Year Jan 2006=100

**The unadjusted weighted average value of a country's currency relative to all major currencies being traded within a pool of currencies. The NEER represents the approximate relative price a consumer will pay for an imported good.

Nominal Effective Exchange Rate (NEER)



The exchange rate between the Lebanese Pound and the US dollar remained at the lower end of the peg on the local exchange market this week, or at \$/LP 1,500.5 - \$/LP 1,503.5 with a mid-price of \$/LP 1,502. Foreign assets (excluding gold) at the Central Bank diminished by a monthly 0.4% to \$35.21 by the end of July 2012, while the dollarization rate of private sector deposits reached 64.9% in May 2012 compared to 65.15% a month earlier.

The euro ended lower after comments by European Central Bank (ECB) chairman Mario Draghi reinforced fears over the future of the single currency, saying that the ECB will act after EU governments begin to use their own rescue funds. His comments came as a surprise to investors that anticipated stronger action after he had stated last week that the Bank is willing to do whatever it takes to save the currency. The euro thus closed at \$/€ 1.2214 on Friday August 3, 12.30 pm Beirut time, recording a 0.28% decline from last week. The Lebanese Pound thus appreciated to LP/€ 1841.26 from LP/€ 1846.39 last week. The Nominal effective exchange rate (NEER) climbed 0.5% to 105.05 points.

Money & Treasury Bills Markets

Money Market Rates

	03/08/12	27/07/12	Change bps
Overnight interbank	2.75	2.75%	0
BDL 45-day CD	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

Treasury Yields

	03/08/12	27/07/12	Change bps
3-M TB yield	4.39%	4.39%	0
6-M TB yield	4.87%	4.87%	0
12-M TB yield	5.08%	5.08%	0
24-M TB coupon	5.84%	5.84%	0
36-M TB coupon	6.50%	6.50%	0
60-M TB coupon	6.74%	6.74%	0

Broad money fell by LP542B (\$359.54M) during the week ending July 19 to attain LP153,129B (\$101.58B). However, M3 increased by 7.5% y-o-y and 4.47% from end of December 2011. M1 went down during the week by LP380B (\$252.07M) following a LP96B (\$63.68M) decrease in money in circulation, and a LP284B (\$188.39M) drop in demand deposits. Total deposits (excluding demand deposits) declined by \$107.54M as deposits denominated in foreign currencies fell by \$148M, while term and saving deposits expanded by \$40.46M. As for the dollarization rate of broad money, it rose by 6 basis points to 58.49%. The overnight interbank rate stood at 2.78% during the month of April, according to the Association of Lebanese Banks.

In the TBs auction held on July 26, the Ministry of Finance raised LP237.38B (\$157.47M) through the issuance of Treasury Bills. The 36M maturity paper captured the bulk of demand, representing 93.47% of total subscriptions, while the 12M and 24M papers accounted for 4.38% and 2.15% respectively. During the auction, the average discount rate for the 12M paper and the average coupon rate for the 24M and 36M papers stood at 5.08%, 5.84% and 6.5% respectively. Worth noting that the MoF continued to undertake all accepted bids.

Eurobond Market

Eurobonds Index and Yield

	03/08/12	27/07/12	Change	Year to Date
BLOM Bond Index (BBI)*	107.060	107.100	-0.04%	-3.50%
Weighted Yield**	5.71%	5.66%	5	93
Weighted Spread***	513	510	3	107

*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

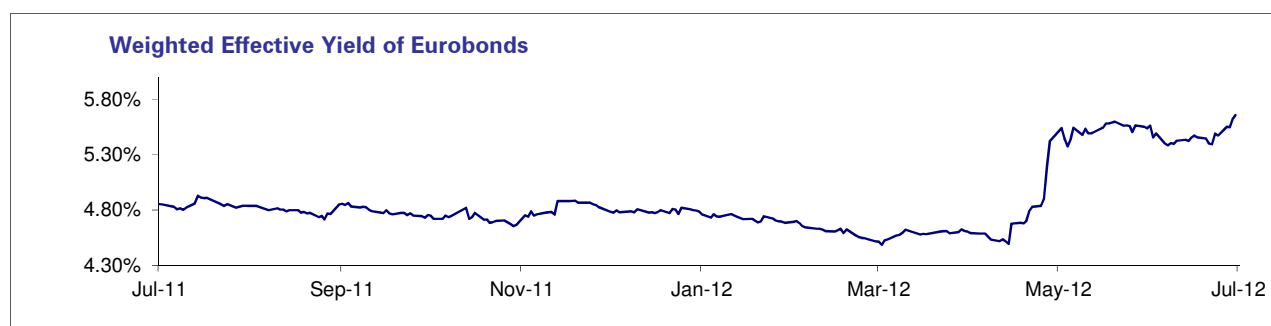
** The change is in basis points

***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	03/08/12 Price*	27/07/12 Price*	Weekly Change%	03/08/12 Yield	27/07/12 Yield	Weekly Change bps
2013, Mar - 9.125%	103.56	102.94	0.61%	3.03%	3.06%	-3
2013, Jun - 8.625%	104.50	103.75	0.72%	3.31%	3.56%	-25
2014, Apr - 7.375%	105.50	105.00	0.48%	3.96%	4.30%	-33
2014, May - 9.000%	108.00	107.75	0.23%	4.16%	4.36%	-19
2015, Jan - 5.875%	102.75	103.00	-0.24%	4.67%	4.57%	10
2015, Aug - 8.500%	110.25	110.50	-0.23%	4.79%	4.72%	6
2016, Jan - 8.500%	111.00	111.50	-0.45%	4.99%	4.86%	13
2016, May - 11.625%	122.50	123.25	-0.61%	4.98%	4.82%	17
2017, Mar - 9.000%	116.00	115.50	0.43%	5.07%	5.19%	-12
2018, Nov - 5.150%	99.75	99.00	0.76%	5.20%	5.34%	-14
2020, Mar - 6.375%	101.75	103.00	-1.21%	6.08%	5.88%	20
2021, Apr - 8.250%	113.75	114.38	-0.55%	6.18%	6.09%	8
2022, Oct - 6.100%	99.75	99.38	0.38%	6.13%	6.18%	-5
2024, Dec - 7.000%	104.50	105.75	-1.18%	6.46%	6.32%	14
2026, Nov - 6.600%	100.75	100.63	0.12%	6.52%	6.53%	-1

• Mid Prices ; BLOMINVEST bank

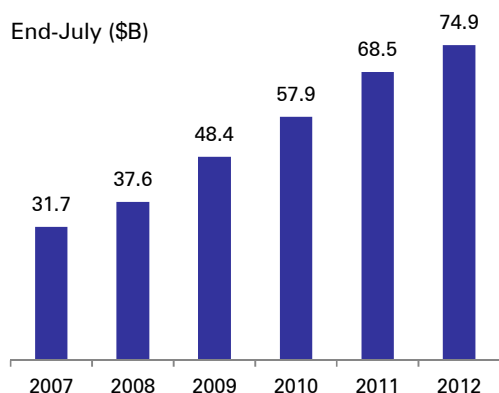


Eurobond prices fluctuated over the past week breaking their previous downtrend in two sessions. The BLOM Bond Index (BBI) closed at 107.06 points after with its weekly decline moderating to 0.04%. Demand for Eurobonds remained shy although investors continued to buy into the undervalued medium and long-term papers. Bonds maturing in 2018, 2021, and 2022 added an average 0.5%, while prices of papers maturing before 2017 diminished by an average 0.28%. The Portfolio's average weighted yield climbed 5 basis points to 5.71% and the spread against the US benchmark yield widened 3 bps to 513 bps. In comparison, the JP Morgan emerging markets' bond index resumed its rally rising 1.4% from last week.

Lebanon's credit default swap for 5 years (CDS) was narrowed by an average 5 bps to 477-498 bps. In regional economies, Dubai's 5-year CDS quotes declined to 320-330 bps from 335-345 bps whereas Saudi Arabia's CDS quotes were unchanged at 102-109 bps. In emerging In emerging Turkey and Brazil, 5-year CDS quotes narrowed to 188-193 bps and 133-136 bps respectively from 203-206 bps and 140-144 bps.

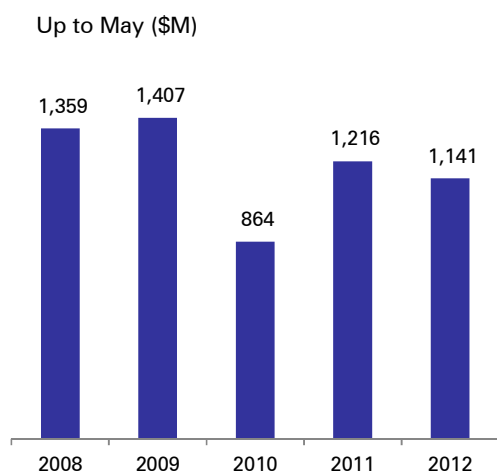
ECONOMIC AND FINANCIAL NEWS

BdL Total Assets



Source: BdL

Government Fiscal Deficit



Source: Ministry of Finance

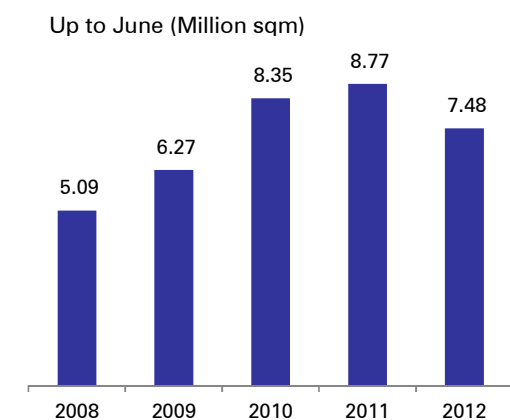
Central Bank Total Assets Climb Towards \$75 Billion

Total assets at Lebanon's Central Bank (BdL) reached \$74.9B by end of July 2012, up by 0.73% from the previous month and 5.8% from the beginning of the year, figures released by BdL showed today. BdL's foreign assets (excluding gold) slid by a monthly 0.4% to stand at \$35.21 billion, while the value of gold reserves increased by 3.4% to \$14.98 billion, as the international price of gold rose to \$1614 per ounce. BdL's securities portfolio diminished by 0.57% month-on-month to \$11.04 billion. On the liabilities' side, financial sector deposits increased by 0.9% m-o-m to \$53 billion, while public sector deposits remained almost flat at \$6.13 billion. Finally, currency in circulation outside of BdL rose by 0.5% to \$2.12 billion.

Cumulative Fiscal Deficit till May improves by \$75M compared to 2011

Lebanon's fiscal budget recorded a deficit of \$1.14B up until May 2012, a 6% improvement equivalent to \$75M compared to the same period of last year, according to data released by the Ministry of Finance this week. The narrowing deficit represented 22% of total expenditures and was brought by 17% higher revenues totaling \$3.9B and 2% lower expenditures amounting to \$4.37B. Government revenues were boosted by VAT collection which increased by 10% during the first 5 months of the year to reach \$987M and by Telecommunication receipts amounting to \$593M. Income taxes, the second largest contributor to tax revenues after VAT have however dropped by 23% from \$1B to \$786M affected by 50% lower revenues from taxes on profits amounting to \$292M, and pushed by a 16% increase in revenues from taxes on wages and salaries amounting to \$175M. Expenditures rose by 2% compared to last year, although transfers to EdL increased by 49% reaching \$934M accounting to 21% of total expenditures, compared to \$627M only last year. Budget expenses for previous years were lowered by \$253M, and debt service decreased by 3% from \$1.68B to \$1.63B, of which 61% were noted for domestic debt interests payment. Budget Primary surplus amounted to \$491M, an increase of 4% or \$18M compared to the same period of 2011.

Construction Area Authorized by Permits



Source: Order of Engineers in Beirut and the North

Authorized construction areas and issued permits down by 14.7% and 7.5% in H1

The total construction area authorized by issued permits (CAP) in June has decreased by an annual 23.5% to record 1.36 million square meters in June, against a slight annual increase of 1.1% in the number of construction permits issued, as shown by data from the Orders of Engineers in Beirut and the North this week. On a cumulative basis, both figures were lower in H1 with authorized construction areas declining 14.7% to total 7.48M sqm, and permits lessening by 7.5% to 8996. The exploited surfaces in June were 14% less than those of June 2011, and reported figures for all the districts fell except for the North. Mount Lebanon was down 35%, Beirut 14% and Nabatiyeh 52%. Tripoli had a noticeable record for authorized construction area standing a year high of 42 thousands sqm. Mount Lebanon witnesses still the largest share with 48% of total registered sqm, followed by the North which holds 12%, the Capital 11%, and the South 10%. The largest average authorized area per permit were noted in the North (2489 sqm/ permit) and Beirut (2209sqm /permit).

CORPORATE DEVELOPMENTS

BLOM Financial Highlights

\$M	Jun-12	Jun-11	% change
Total Assets	23.8	23.10	3.01%
Customers' Deposits	20.9	20.33	2.79%
Loans and Advances	5.8	5.53	4.88%
Net Profits	165.26	163.57	1.03%

Source: Company Data

BLOM Bank Profits Rise to \$165.26 Million in H1 2012

BLOM Bank published today its un-audited financial results for the first-half of 2012, reporting a 1% increase in net profits to \$165.26 million. The results came after the bank constituted \$60 million in provisions for protection against regional risks. BLOM's rate of return on average equity was the highest among Lebanese banks at 17.6%. BLOM also maintained tight control over banking risks and expenses, sustaining a 128% coverage ratio of non-performing loans (including collective provisions), a high capital adequacy ratio of 13%, and the lowest cost to income ratio among Lebanese Banks at 37.8%. Blom bank's Total assets rose to \$23.8 billion in the first half of 2012, up by 3% or \$700 million from the same period last year; whereas customer deposits increased to \$20.9 billion, higher by 2.8% or \$268 million. Loans and advances climbed to \$5.8 billion, increasing by 4.8% or \$200 million from the previous year.

BEMO Bank Financial Highlights

\$M	Jun-12	Dec-11	% change
Total Assets	1,481	1,529	-3.11%
Customers' Deposits at Amortized Cost	1,148	1,112	3.26%
Loans and Advances	563	548	2.88%
Net Profits	0.71	4.87*	-85.35%

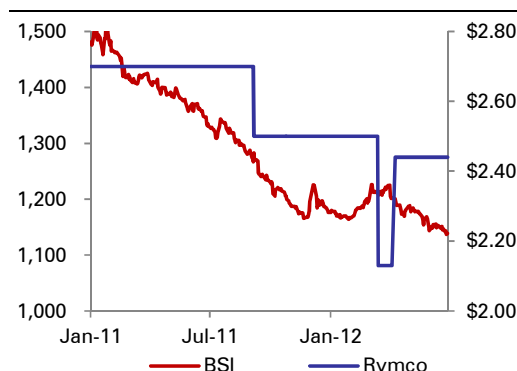
*: Up to June 2011

Source: Company Data

BEMO Bank Posts \$0.71M Profits in H1 2012

BEMO Bank Sal posted its financial results for the first half of 2012, reporting a significant decline in net profit to \$0.71M compared to \$4.87M registered during H1 2011. Net interest income surged 40.72% to \$7.17M, while net fees and commission income fell 12.26% to \$2.1M. With respect to the bank's balance sheet, total assets witnessed a year-to-date decrease of 3.11% to \$1.48B. Loans and advances to customers rose by 2.88% to reach \$563M, while customers' accounts at amortized cost climbed 3.26% to \$1.15B.

RYMCO Stock Performance vs. BLOM Stock Index



Source: Beirut Stock Exchange, Blominvest Bank

Rymco Begins Dividend Distribution

As per the Annual General Assembly that was held on July 5, 2012, RasamnyYounis Motor Company S.A.L. (RYMCO) began its dividend distribution on Monday July 30, 2012, allocating LBP 150 per share, subject to 5% distribution tax for all categories "A", "B" & "C". Payment will be made through the company's head office for shareholders carrying categories "A" & "C" shares and through Midclear S.A.L. for shareholders carrying category "B" shares.

FOCUS IN BRIEF

Financial Results of the Three Largest Lebanese Banks for the First Half of 2012:

Stable profits despite economic and political challenges in the region

	Earnings (in \$M)	*ROE (%)	*ROA (%)	Cost-to-Income (%)
BLOM	165.26	17.55	1.41	37.79
Audi	230.05	16.70	1.29	45.65
Byblos	80.36	11.64	0.97	48.23

* Without profits from discontinued operations or sale of assets

The three largest Lebanese banks (BLOM, Audi, and Byblos) have proven highly resilient growing their earnings despite the local political bickering, regional turmoil, and global economic slowdown. Having led the regional expansion among Lebanese financial institutions, the three largest banks have succeeded in managing risks posed by the uncertainty in the region and especially in the markets which they operate in. This can be observed through their unaudited results reporting an aggregate of \$475.67 million during the first half of 2012. These results are reported despite the \$145.05 in net provisions the three banks have taken, which have grown by 196.2% over provisions taken during the first half of 2011. The distribution of net provisions is as follows: \$67.96 million by Bank Audi, \$53.98 million by BLOM, and \$23.11 million by Byblos.

On an individual basis, Bank Audi reported the highest absolute level of net profits at \$230.05 million, growing by 27.67% over 2011. However, this is reduced to 5.6% when accounting for the \$44.5 million profits made through the sale of 81% of LIA Insurance Company. BLOM Bank came second, growing its earnings by 1.04% to reach \$165.26 million while Byblos profits marginally declined by 0.08% to \$80.36 million. When looking at profitability ratios, which represent the bank's ability to generate earnings from its equity and assets, BLOM Bank registered the highest rate of return on equity (ROE) at 17.55% with a return on assets (ROA) of 1.41%. Bank Audi comes second with an ROE of 16.70% and an ROA of 1.29%, followed by Byblos Bank with an ROE of 11.64% and an ROA of 0.97%. What drives BLOM Bank's high profitability ratios is its managerial efficiency in generating revenues and controlling costs. This is demonstrated in BLOM Bank's cost-to-income ratio, estimated at 37.79%, the lowest of all three, followed by 45.65% for Audi Bank and 48.23% for Byblos.

Despite a slower economic growth rate and increasing uncertainty in Lebanon and the region, the three banks registered growth in most of the key balance sheet items. BLOM reported \$23.82 billion in assets, growing by 2.85% since the beginning of the year. Its loan portfolio grew by 3.9% to \$5.8 billion while its deposits increased by 2.8% to \$20.86 billion. As for Audi Bank, its assets grew by 0.19% to \$28.79 billion with its loan portfolio reaching \$9.07 billion, or 5.61% higher than end of 2011. However, Audi's deposits retreated by 0.37% to \$24.7 billion. Assets at Byblos Bank mildly shrank to \$16.58 billion at a rate of 0.09%, while its loan portfolio increased by 2.15% to \$4.09 billion with deposits growing 3.51% to \$13.27 billion.

Results during the first six months of 2012 demonstrate the ability of Lebanon's three largest banks to properly manage challenging operating conditions, building on their rich experience in the local market which endures an unstable political and economic environment. The banks' conservative policies that aim at sound risk management, ample liquidity, and high quality of assets and investments also contribute to their resilient performance. This has resulted in sustainable profitability and growth while maintaining financial ratios that demonstrate these safety measures. For example, non-performing loans do not exceed 3.96% at any of the three banks while capital adequacy ratio is at least 12.2% in accordance with the requirements set by Basel 3; additionally, primary liquidity is at least 49.3%. All these indicators point to the successful efforts made by these banks to limit the negative repercussions on their performance and to remain in the forefront of regional banks in the Arab world.



Research Department:

Maya Mantach
Michel Oueiss
Malak Hawa
Walid Sayegh
Gaëlle Khoury
Marwan Mikhael

maya.mantach@blominvestbank.com
michel.oueiss@blominvestbank.com
malak.hawa@blominvestbank.com
valid.sayegh@blominvestbank.com
gaelle.khoury@blominvestbank.com
marwan.mikhael@blominvestbank.com



Your Investment Reference