

THE LEBANON BRIEF

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FINANCIAL MARKETS

Equity Market Stock Market

	03/11/2012	25/10/2012	% Change
BLOM Stock Index*	1,112	1,119	-0.61%
Average Traded Volume	36,814	21,116	74.34%
Average Traded Value	667,406	241,088	176.83%

*22 January 1996 = 1000



Banking Sector

	Mkt	03/11/2012	25/10/2012	% Change
BLOM (GDR)	BSE	\$7.80	\$7.80	0.00%
BLOM Listed	BSE	\$7.64	\$7.35	3.95%
BLOM (GDR)	LSE	\$7.90	\$7.90	0.00%
Audi (GDR)	BSE	\$5.80	\$5.75	0.87%
Audi Listed	BSE	\$5.35	\$5.68	-5.81%
Audi (GDR)	LSE	\$6.10	\$5.78	5.54%
Byblos (C)	BSE	\$1.49	\$1.49	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	\$1.89	\$1.89	0.00%

	Mkt	03/11/2012	25/10/2012	% Change
Banks' Preferred Shares Index *		\$106.24	\$106.29	-0.05%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. D	BSE	\$10.20	\$10.20	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	\$102.60	\$102.60	0.00%
Byblos Preferred 09	BSE	\$103.60	\$103.60	0.00%
Bank of Beirut Pref. D	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. E	BSE	\$26.00	\$26.00	0.00%
BLOM Preferred 2011	BSE	\$10.17	\$10.17	0.00%
Bank of Beirut Pref. H	BSE	\$25.94	\$26.00	-0.23%

* 25 August 2006 = 100

The Lebanese Stock Market is still caught by the uncertainty of the future political arrangements between the government and the opposition following the assassination of Brig. Gen. Wissam Al Hassan, as well as by the socio-economic demands returning to the front scenes of debate with the government. In this atmosphere and while no sign of a solution materializing soon appears, the BLOM Stock Index closed on Friday on a 0.61% drop to 1,112 points, resulting in 5.52% loss since year start. Market Capitalization contracted \$54 million to \$8.79 billion, with better daily traded volumes averaging 36,814 shares worth \$667,406 compared to last week's 21,116 shares valued at \$241,088.

The Lebanese index was outperformed by the 3 regional benchmarks this week, with the MSCI emerging scoring a rise of 0.51% to close at 999.6 points, and the S&P AFE40 and S&P Pan Arab LargeMidCap indices both dropping by 0.24% and 0.21% to 54 points and 110 points respectively. Regionally, the Stock Exchange of Jordan was the best performer rising 1.6%, followed by Qatar increasing 1% and Abu Dhabi 0.6%. The Worst performers were Egypt plunging 3.8%, Kuwait losing 2% and Dubai sinking 1.1%.

The banking sector accounted for 76.2% of total traded value this week, with the results of most major banks having come out. BLOM Bank was the best performer this week rising 3.95% to \$7.64 while Audi Listed was the worst performer dropping 5.8% to \$5.35. Audi GDR on the other hand increased 0.81% to \$5.8. The Preferred shares index slid 0.05% to 106.24 points, with only BoB preferred shares H losing 0.23% to \$25.94. On the London stock exchange, Audi GDR ended the week with a 5.54% gain closing at \$6.1. BLOM GDR and Byblos GDR remained flat at \$7.9 and \$79 respectively.

Solidere shares declined in value with Class A losing 0.73% to end the week at \$12.25, and Class B falling 1.05% to \$12.3. In London, Solidere GDR slipped 0.32% to \$12.46.

The industrial sector was idle and Holcim and Ciment Blancs share prices remained flat.

Real Estate

	Mkt	03/11/2012	25/10/2012	% Change
Solidere (A)	BSE	\$12.25	\$12.34	-0.73%
Solidere (B)	BSE	\$12.30	\$12.43	-1.05%
Solidere (GDR)	LSE	\$12.46	\$12.50	-0.32%

In general, investors on the Lebanese Stock Exchange remain alert for concrete developments that could help unfold the direction of the political and economic situation. Meanwhile, the capacity of the Lebanese Banks to overcome the crisis in Syria, proven through their 3rd quarter financial results, might help restore the confidence in the resilience of markets that is needed for the coming issuance of Eurobonds.

Manufacturing Sector

	Mkt	03/11/2012	25/10/2012	% Change
HOLCIM Liban	BSE	\$15.51	\$15.51	0.00%
Ciments Blancs (B)	BSE	\$3.50	\$3.50	0.00%
Ciments Blancs (N)	BSE	\$3.05	\$3.05	0.00%

Funds

	Mkt	03/11/2012	25/10/2012	% Change
Beirut Preferred Fund	BSE	\$103.00	\$103.00	0.00%
BLOM Cedars Balanced Fund Tranche "A"	----	\$6,744.58	\$6,727.80	0.25%
BLOM Cedars Balanced Fund Tranche "B"	----	\$5,110.44	\$5,097.44	0.26%
BLOM Cedars Balanced Fund Tranche "C"	----	\$5,122.56	\$5,109.81	0.25%
BLOM Bond Fund	----	\$9,859.37	\$9,859.37	0.00%

Retail Sector

	Mkt	03/11/2012	25/10/2012	% Change
RYMCO	BSE	\$2.20	\$2.20	0.00%
ABC (New)	OTC	\$16.50	\$16.50	0.00%

Tourism Sector

	Mkt	03/11/2012	25/10/2012	% 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

	03/11/2012	25/10/2012	%Change
Dollar / LP	1506.50	1502.00	0.30%
Euro / LP	1941.51	1952.50	-0.56%
Swiss Franc / LP	1608.34	1613.63	-0.33%
Yen / LP	18.78	18.71	0.37%
Sterling / LP	2426.92	2419.31	0.31%
NEER Index**	103.95	103.61	0.33%

*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)



Demand for US dollars drove the currency higher against the Lebanese Pound on the local exchange market to a range of \$/LP 1,505 - \$/LP 1,508 with a mid-price of \$/LP 1,506.5. Foreign assets (excluding gold) at the Central Bank had increased by a monthly 0.16% to \$35.15 billion by the end of October 2012, while the dollarization rate of private sector deposits remained slightly below 65% by the end of August 2012, compared to 66% in December 2011.

The euro ended this week on a low note as concerns over Greece resurfaced after its government expected the economic recession to worsen in 2013 and halved its previous forecast of a primary budget surplus. By Friday November 02, 2012, 12:30 pm Beirut time, the euro closed at €/ \$ 1.2879 down by 0.56% from the previous week. The dollar-pegged Lebanese Pound thus appreciated to €/LP 1941.51, from €/LP 1952.5. The Nominal effective exchange rate (NEER) added 0.33% to 103.95 points.

Money & Treasury Bills Markets

Money Market Rates

	03/11/2012	25/10/2012	Change bps
Overnight interbank	2.75	2.75%	0
BDL 45-day C	3.57%	3.57%	0
BDL 60-day CD	3.85%	3.85%	0

Treasury Yields

	03/11/2012	25/10/2012	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 M3 increased by LP190B (\$126.04M) during the week ending October 18 to reach LP155,510B (\$103.16B). Accordingly, M3 increased by 7.46% y-o-y and 6.1% from end of December 2011. M1 fell during the week by LP174B (\$115.42M) due to a LP120B (\$79.60M) drop in money in circulation, while demand deposits declined by LP54B (\$35.82M). Total deposits (excluding demand deposits) advanced by \$240.9M as term and saving deposits in LP increased by \$86.9M, and deposits denominated in foreign currencies rose \$154M. As for the dollarization rate of broad money, it edged up by 8 basis points (bps) on a weekly basis to 58.24%. The overnight interbank rate on funds in LBP stood at 2.75% during the month of August, according to the Association of Lebanese Banks.

On October 25, the Ministry of Finance (MoF) raised only LP11.84B (\$7.85M) through the issuance of Treasury Bills, as the maturing amount was only around LP40B. The 60M paper took 61.65% of total subscriptions, while the 6M and 3M papers captured 21.27% and 17.08% of total demand respectively. The average discount rate for the 3M and 6M papers were unchanged at 4.39% and 4.87% respectively, with the average coupon rate for the 60M paper also steady at 6.74%. To note that the MoF continues to undertake all accepted bids.

Eurobond Market

Eurobonds Index and Yield

	02/11/2012	25/10/2012	Change	Year to Date
BLOM Bond Index (BBI)*	109.080	109.100	-0.02%	-1.68%
Weighted Yield**	4.98%	5.02%	-4	20
Weighted Spread***	430	431	-1	24

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

** The change is in basis points

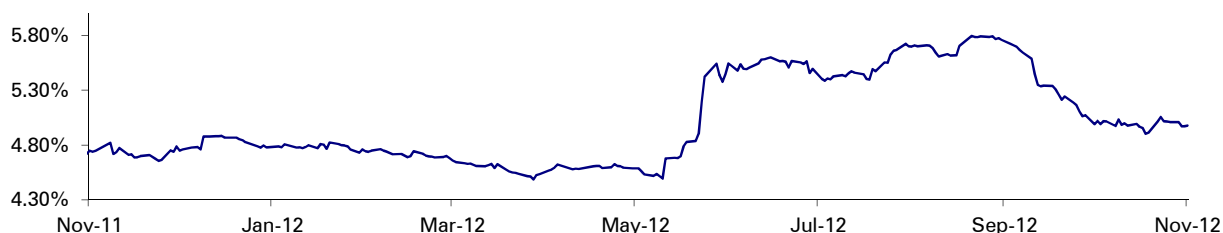
***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	02/11/2012 Price*	25/10/2012 Price*	Weekly Change%	02/11/2012 Yield	25/10/2012 Yield	Weekly Change bps
2013, Mar - 9.125%	102.81	102.99	-0.17%	0.98%	0.94%	4
2013, Jun - 8.625%	104.25	104.38	-0.12%	1.69%	1.71%	-1
2014, Apr - 7.375%	107.50	107.50	0.00%	2.05%	2.12%	-7
2014, May - 9.000%	108.50	108.50	0.00%	3.10%	3.17%	-7
2015, Jan - 5.875%	104.50	104.50	0.00%	3.71%	3.73%	-2
2015, Aug - 8.500%	112.50	112.50	0.00%	3.67%	3.70%	-3
2016, Jan - 8.500%	112.38	112.38	0.00%	4.32%	4.34%	-2
2016, May - 11.625%	122.50	122.50	0.00%	4.61%	4.64%	-3
2017, Mar - 9.000%	116.50	116.50	0.00%	4.77%	4.79%	-2
2018, Nov - 5.150%	100.25	100.25	0.00%	5.10%	5.10%	0
2020, Mar - 6.375%	104.75	104.50	0.24%	5.58%	5.62%	-4
2021, Apr - 8.250%	116.00	116.25	-0.22%	5.82%	5.79%	3
2022, Oct - 6.100%	101.00	102.00	-0.98%	5.96%	5.83%	13
2024, Dec - 7.000%	106.50	106.75	-0.23%	6.23%	6.20%	3
2026, Nov - 6.600%	101.50	102.00	-0.49%	6.44%	6.38%	5

• Mid Prices ; BLOMINVEST bank

Weighted Effective Yield of Eurobonds



The Lebanese Republic has appointed 3 banks for the anticipated issuance of its \$2 billion Eurobonds, being Credit Suisse, BLOM Bank and Byblos Bank. Awaiting the date of the operation, the Eurobond market slightly declined this week with BLOM Bond Index decreasing 0.02% to 109.080 points as short-term and long-term notes were bet against favoring medium-term ones, leading the portfolio's average weighted yield to contract 4 basis points (bps) to 4.98%. The spread between average Eurobond yield and the US treasury yields narrowed 1 basis point to 430 bps as the latter remained almost unchanged in wake of hurricane Sandy and while the central bank swapped shorter-term treasuries in its holdings with those due in six to 30 years. It remains to be seen the impact of the US employment report, the last to be released before the November elections and which is anticipated to reveal positive results. In comparison, the JP Morgan Emerging Market Bond Index lost 0.36% this week.

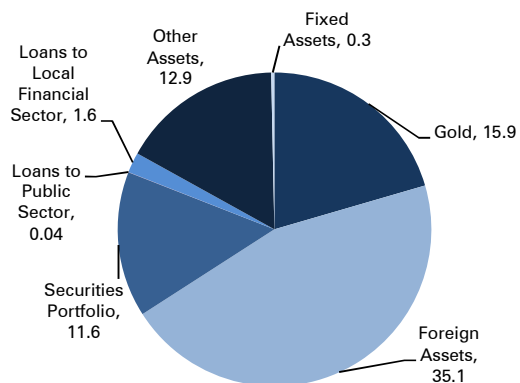
Lebanon's credit default swap for 5 years (CDS) barely moved as not material changes occurred on the Lebanese scenes to stimulate reactions, and spreads were last quoted at 407-445 bps against 415-440 bps last week. Dubai and Saudi Arabia 5-yr CDS quotes improved by less than 10 bps each to 235-245 bps and 75-85 bps respectively. Brazil CDS quotes remained flat at 108-111 bps while Turkey's improved to 158-161 bps from 164-167 bps last week.

ECONOMIC AND FINANCIAL NEWS

BdL Assets Climb 9.34% Y-o-Y to \$77.4 Billion

Components of BdL Assets

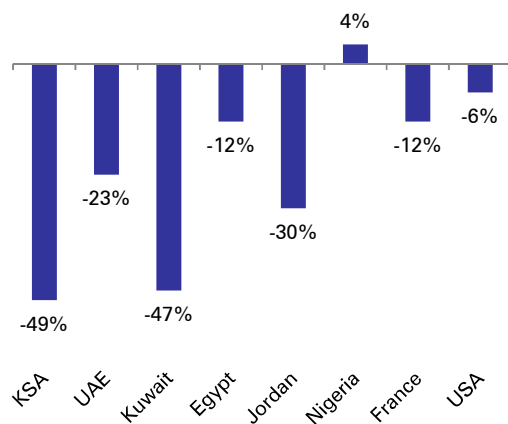
end-October 2012, \$B



Source: BdL

Total assets at Lebanon's Central Bank (BdL) stood at \$77.38 Billion by end of October 2012, and were thus unchanged from the previous month, but 8.03% above their October 2011 value, figures released by BdL showed this week. BdL's foreign assets (excluding gold) edged up by a monthly 0.16% to \$35.15 billion, rising almost 10% from the previous year. The value of gold reserves shrank 3.43% to \$15.86 billion, with the international price of gold sliding to \$1720 per ounce by the end of October, from \$1,771 in September. This decline was however covered by a 1.4% monthly rise in BdL's Securities portfolio to \$11.61 billion, and a 3.09% increase in other assets to \$12.86 billion. On the liabilities' side, financial sector deposits climbed by 1.51% m-o-m to \$54.31 billion, while public sector deposits dropped 1.31% m-o-m to \$5.85 billion. Currency in circulation outside BdL, jumped 9.11% or almost \$200 million from September to reach \$2.36 billion.

Refund Transactions Q3 2012 vs Q2 2012



Source: Global Blue

Tourist Spending Records Annual Decline

Statistics published by Global Blue showed that the number of refund transactions in Lebanon dropped by 22% y-o-y in Q3 2012, while the average value of spending slid by only 2%. While the decrease in the number of transactions is synonymous with slowing tourist activity this year, the considerably slower contraction in average spending indicates a sustained increase in prices of especially luxury products. Arab tourists remained the largest spenders in Lebanon, with Saudi visitors accounting for 14% of refund transactions, followed by tourists from the UAE with 12% and Kuwait with 7%. However, spending habits substantially diminished compared to a year earlier with Saudi and Kuwaiti spending almost halving from Q3 2011. In contrast, the number of refund transactions by Nigerian residents was the only reported annual increase (4%) in Q3 2012, as was the spending of US visitors (14%). On a quarterly basis, the number of refund transactions jumped 49% in Q3 although average spending dropped 26%. With regards to Q3 spending by category, fashion and clothing accounted for 72% of total refund transactions. Watches took 11%, while home and garden products, and spending at department stores captured 4% each.

ESFD Funds 223 Lebanese Projects in Q3 2012

ESFD Projects in Lebanon Since 2002

Projects	Estimated Costs
Community Development Projects	EUR 7.9 Million
Business and Entrepreneurial Loans	USD 67 Million

Source: ESFD

The Economic and Social Fund for Development (ESFD) said that it funded 223 startup firms between June and September 2012. Those firms, it added, helped create 250 new job opportunities. The total value loans offered to the firms exceeded LBP 6.5 billion (\$4.31 million). Between 2003 and September 2012, ESFD has awarded 6882 soft loans to Lebanese businesses for a total worth of LBP 100.9 billion, or approximately \$67 million, helping create almost 4,500 job opportunities. ESFD was established in accordance with the Euro-Med partnership in November 2000 and under an agreement between the Lebanese government, represented by the Council for Development and Reconstruction, and the European Commission.

CORPORATE DEVELOPMENTS

Byblos Bank Profits Drop 4%, Sound Liquidity Ratios Maintained

Byblos Bank Financial Highlights (\$M)

	Sept 2012	Sept 2011	% Ch
Customers' Deposits*	13,235	12,719	4.05%
Net Loans and Advances to Customers*	4,128	3,999	3.22%
Total Assets	16,897	16,602	1.78%
Total Equity	1,601	1,648	-2.84%
Net Profit	122	128	-4.24%

*Excluding Deposits/Loans to related parties
Source: Company Data

Byblos Bank released its unaudited consolidated financials for the period ending on September 30, 2012, showing a 4.24% drop in net profits to \$123 million compared to \$128 million during the same period last year, mainly affected by a 10.7% fall in net interest revenues in addition to reporting credit losses of \$34 million against \$12 million recognized a year earlier. Total assets slightly increased by 1.8% to reach \$16.9 billion, and the portfolio of loans grew 3.2% to \$4.1 billion. The bank allocated provisions of \$40.1 million, with Net nonperforming loans standing at 1.7% of total loans, however noting that they are covered up to 98.6% by unrealized interest and provisions. On the other hand, deposits expanded by 4.17% to \$13.4 billion, while equity dropped by 2.84% due to lower profits although the legal reserves were increased by 16% to \$361 million. Byblos bank reported a Cost to Income ratio of 49.8% during the first 9 months of 2012, an abundant Capital adequacy ratio of 13% exceeding Basel3 standards stipulating 12% and a good Liquidity ratio of 68.8% of total deposits.

Syrian Crisis Pummels BEMO Bank Profits

BEMO Bank SAL Financial Highlights (\$M)

	Sept 2012	Sept 2011	% Ch
Customers' Deposits *	1,190	1,112	7.0%
Net Loans and Advances to Customers *	605	548	10.4%
Total Assets	1,561	1,529	2.1%
Total Equity	112	112	-0.1%
Net Profit	1.8	7.0	-73.8%

*Excluding Deposits/Loans to related parties
Source: Company Data

BEMO bank released its unaudited consolidated financial results ending on September 30, 2012 revealing a severe 75% drop in profits to \$1.83 million from \$6.99 million realized in September 2011, brought by the bank's share of losses suffered by its Syrian partner Banque BEMO Saudi Fransi (BBSF). In fact, Earnings before Provisions and Taxes and excluding the accounts of BBSF actually witnessed a 3% increase to \$4.92 million. However these were eroded by the booking of a collective provision for the amount of \$ 584k and the inclusion of a \$1.3 million loss representing the bank's participation in BBSF-Syria's results. The latter, which operates 36 branches in tormented Syria, had contributed in September 2011 to a profit of \$3 million. On the other hand, BEMO Bank' assets rose 2% to \$1.56 billion with loans to customers growing 10.4% to \$605 million. Deposits were also 7% larger reaching \$1.19 billion.

FOCUS IN BRIEF

Financial Results of the Three Largest Lebanese Banks for the First Nine Months of the Year 2012:

Sustainability in growth and profits despite the political and economic turmoil in Lebanon and the region.

	Earnings (in \$m)	*ROE (%)	*ROA (%)	Cost-to-Income (%)
BLOM	250.68	17.73	1.41	38.11
Audi	309.39	17.60	1.27	44.10
Byblos	122.64	11.84	0.98	49.85

The three largest Lebanese banks (BLOM, Audi, and Byblos) maintained their growth and saw their profits rise despite difficult operating conditions resulting from political turmoil locally and in other countries where they are located, especially in Syria. This can be observed from their un-audited financial results reporting aggregate profits of \$682.7 million during the first nine months of 2012, growing by 7.4% over 2011. These results are obtained despite the \$203 million in net credit loss provisions the three banks have taken, which have grown by 211.3% over those taken during the first nine month of 2011. The distribution of net provisions was as follows: \$93.9 million by Bank Audi, \$75.5 million by BLOM bank, and \$33.7 million by Byblos bank.

On an individual basis, Bank Audi reported the highest net profit of \$309.39 million, growing by 14.06% over 2011. However, this includes \$32.83 million resulting from discontinued operations reducing the growth rate to 1.96%. BLOM bank came second, growing its earnings by 6.08% to reach \$250.68 million while Byblos Bank's profits marginally declined by 4.24% to \$122.64 million. As for the profitability ratios which reflect the bank's ability to generate earnings from its equity and assets, BLOM Bank recorded the highest rate of return on equity (ROE) at 17.73% and the highest rate of return on assets (ROA) at 1.41%. Bank Audi came second with an ROE of 17.6% and an ROA of 1.27%, followed by Byblos Bank with an ROE of 11.84% and an ROA of 0.98%. BLOM Bank's high profitability ratios can be attributed to its managerial efficiency in generating revenues and controlling costs. This efficiency is demonstrated by BLOM Bank's cost-to-income ratio at 38.11%, the lowest of all three, followed by 44.1% for Audi Bank and 49.85% for Byblos bank. In addition, BLOM bank's total operating income increased by 21.42% over 2011 along with a 4.48% rise in total operating expense while Bank Audi listed similar increases of 14.95% and 10.13% respectively. As for Byblos bank, total operating income decreased by 1.32% and total operating expense increased by 3.7%.

Increases were not limited to profits only, since the three banks registered growth in most of the key balance sheet items, despite declining economic indicators in Lebanon and the region. These results are reflected clearly in BLOM bank's ability to consistently achieve strong and balanced growth in its balance sheet. BLOM reported \$24.37 billion in assets, growing by 5.21% since the beginning of the year. Its loan portfolio grew by 5.25% to \$5.88 billion while its deposits increased by 5.06% to \$21.32 billion and its shareholder's equity also went up by 6.25% to \$2.1 billion. As for Audi Bank, its assets grew by 1.55% to \$29.18 billion with its loan portfolio reaching \$9.25 billion, or a 7.6% increase. However, Audi's deposits only grew by 0.32% to \$24.88 billion and its shareholder's equity increased by 11.49% to \$2.63 billion. Assets at Byblos Bank reached \$16.89 billion growing at a rate of 1.78%, while its loan portfolio increased by 3.2% to \$4.14 billion with deposits growing 4.17% to \$13.35 billion. However, shareholder's equity retreated to \$1.6 billion at a rate of 2.84%.

Once again the top three Lebanese banks displayed their ability to withstand shocks as well as political and economic turmoil, relying on their accumulated experience and efficiency in prudent banking practices. These results also came associated with financial indicators of high quality in terms of solvency, liquidity and coverage for doubtful loans. All these indicators point to the successful precautionary measures pursued by the banks in an effort to limit the negative repercussions on their performance and to remain at the forefront of safe and rewarding banks in the Arab world.



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Your Investment Reference