

THE LEBANON BRIEF

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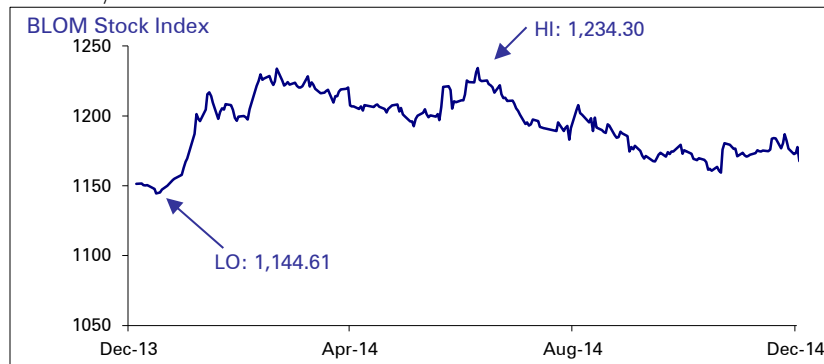
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FINANCIAL MARKETS

Equity Market Stock Market

	12/12/2014	05/12/2014	% Change
BLOM Stock Index*	1,181.69	1,176.62	0.43%
Average Traded Volume	510,146	85,447	497.03%
Average Traded Value	3,746,166	661,163	466.60%

*22 January 1996 = 1000



The Beirut Stock Exchange reversed last week's decline, as the BLOM Stock Index (BSI) recorded a weekly 0.43% increase to close at 1,181.69 points following heavy trade on Friday.

The average traded volume went up from 84,447 shares worth \$661,163 to 510,146 shares worth \$3,746,166. As for the market capitalization, it widened by \$42.40M since last week to \$9.87B.

As a result of the increase, the BSI managed to outperform its regional peers. The Morgan Stanley Emerging Markets Index (MSCI), the S&P AFE40 Index and the S&P Pan Arab Composite Large Midcap Index declined by 4.14%, 7.10% and 6.68% to 946.04 points, 60.86 points and 131.06 points, respectively.

In the Arab World, the BSI also outperformed the rest of the markets, where all other markets were in the red.

Banking Sector

	Mkt	12/12/2014	05/12/2014	% Change
BLOM (GDR)	BSE	\$9.65	\$9.60	0.52%
BLOM Listed	BSE	\$8.80	\$8.75	0.57%
BLOM (GDR)	LSE	\$9.55	\$9.50	0.53%
Audi (GDR)	BSE	\$6.54	\$6.50	0.62%
Audi Listed	BSE	\$6.18	\$6.22	-0.64%
Audi (GDR)	LSE	\$6.35	\$6.61	-3.93%
Byblos (C)	BSE	\$1.65	\$1.64	0.61%
Byblos (GDR)	LSE	\$76.50	\$76.50	0.00%
Bank of Beirut (C)	BSE	\$18.39	\$18.39	0.00%
BLC (C)	BSE	\$1.70	\$1.70	0.00%
Fransabank (B)	OTC	\$22.00	\$22.00	0.00%
BEMO (C)	BSE	\$1.75	\$1.75	0.00%

The worst performers among the Arab bourses were Dubai and Muscat with respective drops of 13.81% and 11.70% as oil levels fell below the \$60, representing a five-year low, and also drove investors away from other sectors. Qatar also suffered from low oil prices, with the stock market losing 7.40%.

Back to the BSE, the banking sector contributed around 75.22% of total traded value and was followed by the real estate sector with a share of 24.78%.

In the banking sector, Byblos listed shares, Audi GDR shares and BLOM listed and GDR shares increased by 0.61%, 0.62%, 0.57% and 0.52% to respectively close at \$1.65, \$6.54, \$8.80 and \$9.65. On the other hand, Audi listed shares lost a weekly 0.64% to \$6.18.

	Mkt	12/12/2014	05/12/2014	% Change
Banks' Preferred Shares Index *		105.55	105.53	0.02%
Audi Pref. E	BSE	\$102.20	\$102.20	0.00%
Audi Pref. F	BSE	\$102.20	\$102.00	0.20%
Audi Pref. G	BSE	\$101.50	\$101.50	0.00%
Audi Pref. H	BSE	\$101.00	\$101.00	0.00%
Byblos Preferred 08	BSE	\$101.30	\$101.30	0.00%
Byblos Preferred 09	BSE	\$101.60	\$101.60	0.00%
Bank of Beirut Pref. E	BSE	\$26.00	\$26.00	0.00%
Bank of Beirut Pref. I	BSE	\$25.75	\$25.75	0.00%
Bank of Beirut Pref. H	BSE	\$26.00	\$26.00	0.00%
BLOM Preferred 2011	BSE	\$10.20	\$10.20	0.00%
BLC Pref A	BSE	\$103.00	\$103.00	0.00%
BLC Pref B	BSE	\$100.00	\$100.00	0.00%
BLC Pref C	BSE	\$100.00	\$100.00	0.00%
Bemo Preferred 2013	BSE	\$100.90	\$100.90	0.00%

Real Estate

	Mkt	12/12/2014	05/12/2014	% Change
Solidere (A)	BSE	\$11.48	\$11.41	0.61%
Solidere (B)	BSE	\$11.41	\$11.36	0.44%
Solidere (GDR)	LSE	\$11.25	\$11.60	-3.02%

Manufacturing Sector

	Mkt	12/12/2014	05/12/2014	% Change
HOLCIM Liban	BSE	\$16.21	\$15.00	8.07%
Ciments Blancs (B)	BSE	\$3.75	\$3.75	0.00%
Ciments Blancs (N)	BSE	\$2.75	\$2.75	0.00%

Funds

	Mkt	11/12/2014	03/12/2014	% Change
BLOM Cedars Balanced Fund Tranche "A"	-----	\$7,367.97	\$7,397.62	-0.40%
BLOM Cedars Balanced Fund Tranche "B"	-----	\$5,266.66	\$5,291.14	-0.46%
BLOM Cedars Balanced Fund Tranche "C"		\$5,592.99	\$5,618.54	-0.45%
BLOM Bond Fund	-----	\$9,587.89	\$9,587.89	0.00%

Retail Sector

	Mkt	12/12/2014	05/12/2014	% Change
RYMCO	BSE	\$3.19	\$3.32	-3.92%
ABC (New)	OTC	\$27.00	\$27.00	0.00%

Tourism Sector

	Mkt	12/12/2014	05/12/2014	% Change
Casino Du Liban	OTC	\$330.00	\$330.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

The BLOM Preferred Stock Index (BPSI) remained almost stable, inching up 0.02% to 105.55 points, as Audi preferred shares class "F" gained 0.20% to \$102.20.

On the London Stock Exchange (LSE), the Global Depository Receipts (GDRs) of BLOM Bank increased by 0.53% to \$9.55. On the other hand the GDRs of Solidere and that of Bank Audi lost 3.02% and 3.93% to \$11.25 and \$6.35, respectively.

In the real estate sector, Solidere shares classes "A" and "B" improved, and revealed weekly gains of 0.61% and 0.44% to \$11.48 and \$11.41, respectively.

In the industrial sector, Holcim shares improved by a weekly 8.07% to \$16.21.

In the retail sector, RYMCO shares dropped by a weekly 3.92% to \$3.19 per share following the distribution of dividends.

Looking forward, we expect the Lebanese stock market to maintain its upward trend as we enter the final weeks of the year and investors maintain their end of year momentum and rebalance their positions.

Foreign Exchange Market

Lebanese Forex Market

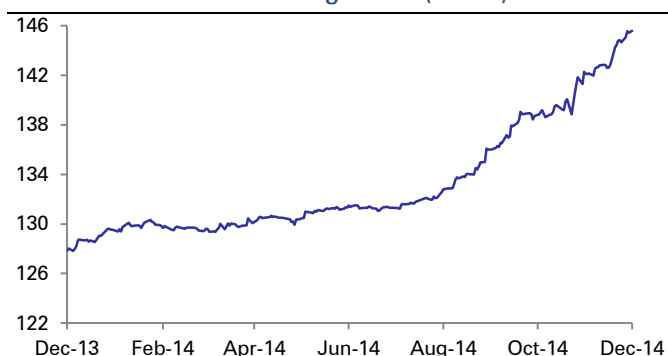
	12/12/2014	05/12/2014	% Change
Dollar / LP	1,512.00	1,513.50	-0.10%
Euro / LP	1,873.52	1,864.78	0.47%
Swiss Franc / LP	1,560.00	1,550.61	0.61%
Yen / LP	12.74	12.52	1.76%
Sterling / LP	2,368.13	2,362.86	0.22%
NEER Index**	145.49	144.68	0.56%

*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.

Nominal Effective Exchange Rate (NEER)



Money & Treasury Bills Market

Money Market Rates

	12/12/2014	05/12/2014	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

	12/12/2014	05/12/2014	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

Demand for the dollar decreased over the prior week as reflected by the Lebanese pound's peg against the dollar that went from \$/LP 1,513-1,514 with a mid-price of \$/LP 1,513.5 to \$/LP 1,510-1,514 with a mid-price of \$/LP 1,512, this week. Foreign assets (excluding gold) at the Central Bank dropped a monthly 0.37% from \$38.87B at end-October to \$38.73B by end-November. Meanwhile, the dollarization rate of private sector deposits stood at 65.87% in September compared to 66.13% in December 2013.

Outlook for slow inflation in the U.S. led the dollar to decline against the Euro. The euro strengthened against the dollar by 0.47%, ending the week at €/€ 1.2428.

Demand for gold strengthened amidst weak inflation prospects in the US. The price of gold went up from \$1,205.32/ounce last Thursday to \$1,227.55/ounce this week.

By Friday December 12th, 2014, 12:30 pm Beirut time, the dollar-pegged LP depreciated against the euro going from €/LP 1,864.78, the prior week, to €/LP 1,873.52. The Nominal effective exchange Rate (NEER) gained 0.56%, weekly, to 145.49 points, where its year-to-date gain reached 12.73%.

During the week ending November 20, 2014, broad Money M3 increased by LP 244B (\$162.17M), to reach LP 175,348B (\$116.32B). M3 growth rate reached 6.49% year-on-year and 4.64% since year start. In contrast, M1 decreased by LP 144B (\$95.28M) due to the drop in money in circulation by LP 102B (\$67.66M) and demand deposits by LP 42B (\$27.86M), respectively.

Total deposits (excluding demand deposits) jumped by LP 388.12B (\$257.46M), given the rise in deposits denominated in foreign currencies and term and saving deposits in domestic currency by \$151M and LP 162B, respectively. Over the above mentioned period, the broad money dollarization increased from 58.86% to 58.90%. According to the Central Bank, the overnight interbank rate stood at 2.75% at the end of September 2014.

In the TBs auction held on the 27th of November 2014, the Ministry of Finance raised LP 487.51B (\$323.39M), through the issuance of bills maturing in 1Y, and 2Y and 3Y notes. The highest demand was achieved on the 3Y notes that took a share of 94.15%, while the 1Y bills and 2Y notes accounted for 4.30% and 1.55%, respectively. The 1Y bills yielded 5.08%, while the average coupon rate for 2Y and 3Y notes stood at 5.84% and 6.50%, respectively. Maturing T-bills exceeded new subscriptions by LP 23.60B (\$15.66M).

Eurobond Market

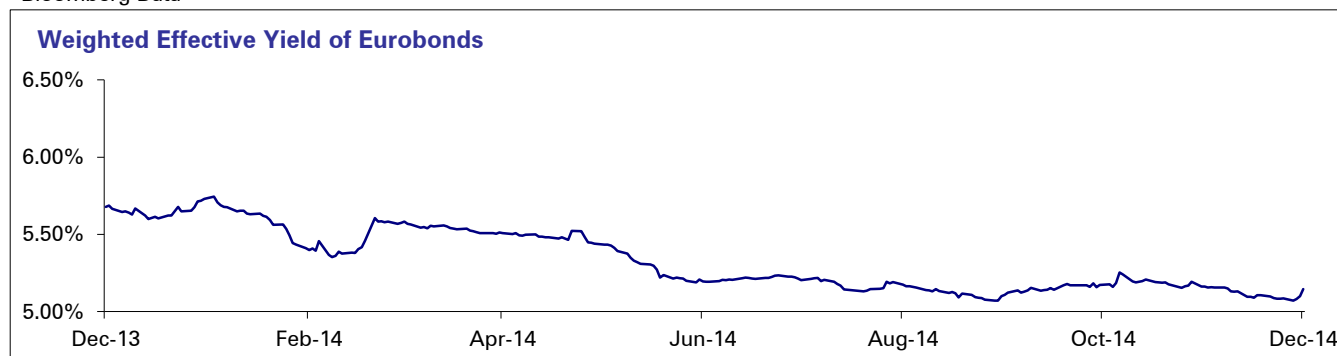
Eurobonds Index and Yield

	11/12/2014	04/12/2014	Change	Year to Date
BLOM Bond Index (BBI)*	108.253	108.528	-0.25%	2.47%
Weighted Yield**	5.15%	5.08%	6	13
Weighted Spread***	362	359	3	-68

Eurobonds Lebanese Government

Maturity - Coupon	11/12/2014 Price*	05/12/2014 Price*	Weekly% Change	04/12/2014 Yield	27/11/2014 Yield	Weekly Change bps
2015, Aug - 8.500%	103.298	103.328	-0.029%	3.35%	3.45%	-10
2016, Jan - 8.500%	105.187	105.308	-0.115%	3.67%	3.65%	3
2016, May - 11.625%	110.761	110.907	-0.132%	3.77%	3.77%	0
2017, Mar - 9.000%	110.23	110.602	-0.336%	4.24%	4.11%	12
2018, Jun - 5.150%	101.579	101.651	-0.071%	4.67%	4.65%	2
2020, Mar - 6.375%	104.736	105.038	-0.288%	5.33%	5.27%	6
2021, Apr - 8.250%	114.472	114.794	-0.281%	5.52%	5.47%	5
2022, Oct - 6.100%	101.997	102.359	-0.354%	5.78%	5.73%	6
2023, Jan - 6.000%	101.147	101.477	-0.325%	5.83%	5.78%	5
2024, Dec - 7.000%	106.542	106.798	-0.240%	6.16%	6.13%	3
2026, Nov - 6.600%	102.873	103.198	-0.315%	6.26%	6.23%	4
2027, Nov - 6.75%	103.801	104.176	-0.360%	6.33%	6.29%	4

*Bloomberg Data



The Lebanese Eurobonds Market weakened during the week, amidst security turbulences. The BLOM Bond Index (BBI) dropped 0.25%, to settle at 108.25 points, with a 2.47% gain since year start. Low demand on medium and long-term maturities pushed 5Y and 10Y yields on the Lebanese Eurobonds up by 5 basis points (bps) and 6 bps to 5.17% and 6.18%, respectively.

Demand on emerging market bonds fell as investors fear that slumping oil prices will hurt government efforts to reduce fiscal deficit. This lead the JP Morgan Emerging Countries' bond index to drop by 2.71% to 658.16 points.

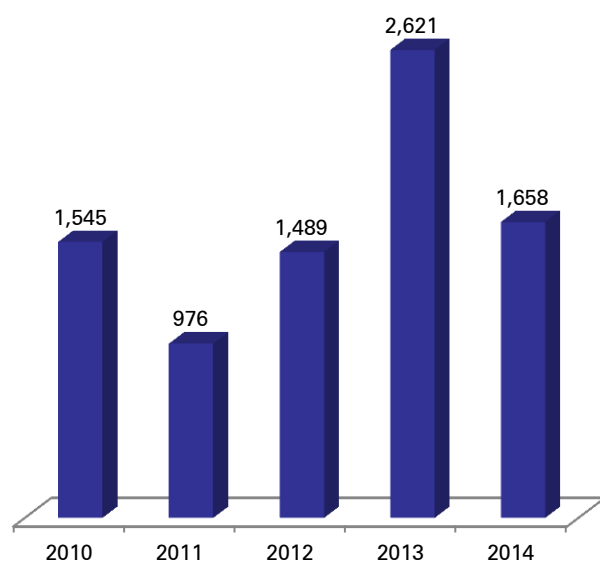
In the U.S, outlook for slow inflation shifted investors' appetite towards long-term maturities. The 5Y yield added 3 bps to 1.62%, while that of 10Y lost 6 bps to 2.19%, respectively. Correspondingly, the 5Y and 10Y spreads between the Lebanese Eurobonds and their U.S benchmark broadened by 2 bps and 12 bps to 355 bps and 399 bps, respectively.

In Lebanon, the 5Y CDS added 27 bps to 377-407 bps this week. Likewise the 5Y CDS of Dubai broadened from 175-185 bps to 198-212 bps, while that of Saudi Arabia stayed constant at 65-75 bps. Internationally, the 5Y CDS of Turkey went up from 156-159 bps to 175-178 bps, while that of Brazil stood at 191-193 bps compared to last week's quote of 156-159 bps.

ECONOMIC AND FINANCIAL NEWS

Total Budget Deficit by August

(in \$M)



Source: Ministry of Finance

Fiscal Deficit Narrowed to \$1.66B by August

The fiscal performance improved during the first eight months of the year with the deficit narrowing by 36.77% (year-on-year) y-o-y to \$1.66B and the primary surplus standing at \$951M, compared to a deficit of \$284M last year. This improvement came as a result of a 12.60% y-o-y increase in total revenues, coupled with a 1.70% drop in total expenditures.

Tax revenues grew by 3.22% yearly to \$4.92B, by August. This was due to the 10.22% increase in Miscellaneous Tax Revenues and the marginal increase in VAT revenues by 0.04% to \$1.52B, despite the 8.35% drop in customs revenue, resulting from the slowdown in economic activity, as well as the decline in trade across the Syrian border.

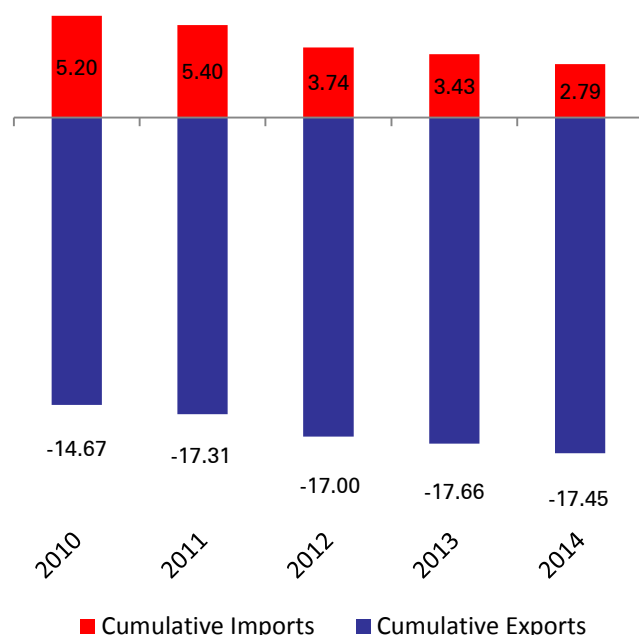
Non-tax revenues also improved, revealing a 12.30% y-o-y rise to \$1.44B, attributed to the 4.95% annual increase in telecom revenues to \$841M.

On the expenditures side, transfers to Electricite du Liban (EdL) declined by 6.46% y-o-y to reach \$1.41B.

Total interest payments increased by 11.67% to \$2.49B. Interest payments on domestic debt rose by 15.21% to \$1.57B. Interest payments on foreign debt also grew by 6.11% to \$920M. Worth mentioning that gross public debt increased by 10.02% during the period December 2012-2013, where debt in domestic currency grew by 12.16%, while debt in foreign currency grew by 7.09%.

Total Imports and Exports by October

(in \$B)



Source: Customs

Lebanon Trade Deficit Widened by 3% y-o-y by October

Lebanon's trade deficit for the first 10 months of 2014 stood at \$14.66B. This represents a 3.00% year-on-year (y-o-y) due to the decrease in exports more than offsetting the decrease in imports. Lebanon's exports covered 16.00% of the imports by October 2014, up from 19.42% for the same period in 2013.

Total imports dropped by 1.20% y-o-y to \$17.45B. The three main goods imported to Lebanon were mineral products, which increased by 4.47% y-o-y (24.67% share of total imports), machinery and electrical instruments, which dropped by 16.51% y-o-y (10.53% share of total imports) partly due to the weak construction activity and to the mild intensity of the past winter, and products of the chemical or allied industries, which rose 3.43% y-o-y (9.70% share of total imports). The three major countries that Lebanon imports products from were China, Italy and France, with respective weights of 12%, 8% and 7%.

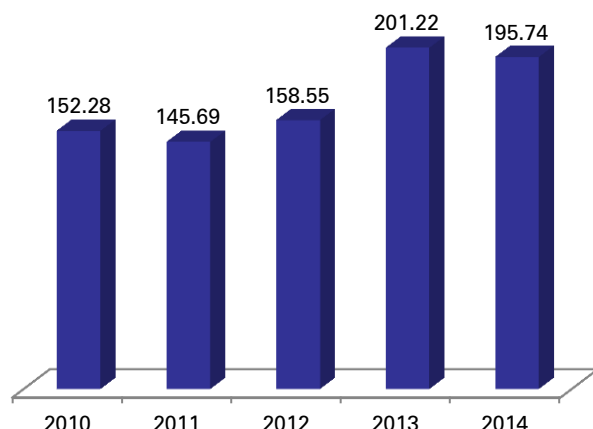
Simultaneously, total exports fell by 18.61%, yearly, to \$2.79B. This was mainly due to the significant drops in exports of pearls, precious stones and metals by 32.48% y-o-y (17.26% of total exports) and the 15.05% y-o-y decline in exports of machinery and electrical instruments (13.30% share of total exports). These declines are mainly due to decreased quantity demanded y-o-y, as shown by the 19.41% y-o-y decline in quantities of machinery and electrical instruments exported. The three major countries that Lebanon exports products to were Saudi Arabia, South Africa, and the United Arab Emirates, with weights of 11%, 10% and 10%, respectively.

Lebanon's trade deficit, for the month of October alone, narrowed by 2.76% y-o-y to \$1.44B, triggered by the 1.92% drop in imports. In contrast, exports increased by 2.65% in October.

Port of Beirut Revenues Decreased to \$195.74M by November

PoB Revenues by November

(in \$M)



Source: Port of Beirut

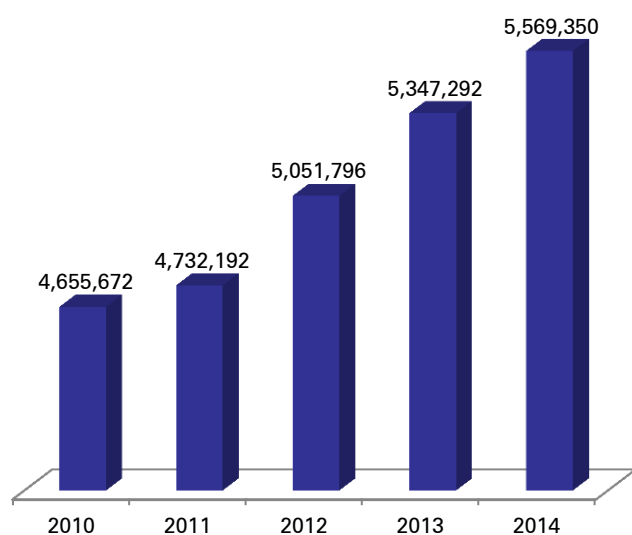
Port of Beirut (PoB) revenues declined by 2.72% year-on-year (y-o-y) to settle at \$195.74M by November 2014.

Imported cars decreased by 0.97% to 82,130 cars, by November. Likewise, the number of vessels docked at the country's main port dropped by 7.63% y-o-y to 1,803 vessels.

In contrast, total container activity including transshipment jumped by 8.59% from last year, to reach 1,113,289 twenty-foot equivalent units (TEU), by November. Container activity excluding transshipment inched up by 0.89% y-o-y to 701,644 TEU. Transshipment alone surged by 24.80% y-o-y to 411,645 TEU. Total volume of merchandise (imports and exports) added 0.29% to 7.52M tons.

In addition, CMA CGM's transshipment volume grew by 42.49% y-o-y to 173,787 TEU. Similarly, that of MSC also increased, by 17.02% to 221,946 TEU.

Airport Passengers Up to October



Source: RHIA

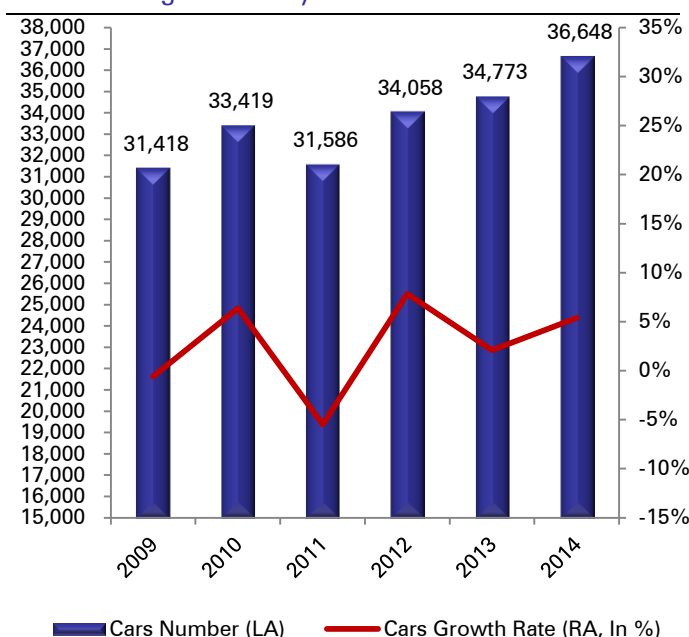
Airport Passengers enhanced by 4.15% y-o-y by October

Rafic Hariri International Airport (RHIA) activity progressed during the first 10 months of 2014, where the total number of passengers increased by 4.15% year-on-year (y-o-y) to 5.57M. The number of arrivals inched up by 2.52% to 2.72M. During the same period, departures rose by 5.83% y-o-y to 2.84M. In contrast, transit travelers dropped by 9.89% to 11,720.

Taking the month of October alone, the total number of airport passengers grew by 4.75% y-o-y to reach 549,678. Arrivals dropped by 1.16% to 259,275, while departures increased by 10.68% reaching 289,378. Transit travelers inched-up by 6.55% y-o-y, to 1,025 in October 2014.

Registered New Cars Increased by 5.39% y-o-y by November

Total Car Registration by November



Source: AIA

The total number of registered new and imported used cars during the first 11 months of 2014 has dropped by 2% compared to the same period last year. According to the Association of Car Importers in Lebanon (AIA), there was a 5.39% year-on-year (y-o-y) increase in the number of registered new passenger and commercial cars, which implies that the increase took place at the expense of used cars. Registered new cars stood at 36,648 vehicles by November. This was due to the 5.59% y-o-y surge in the registration of new passenger vehicles to 34,522 in the first eleven months of the year. Likewise, the number of registered commercial cars inched up by 2.13% y-o-y to 2,126.

Moreover, 90% of the registered cars are small cars with low selling prices less than \$15,000, while luxury cars, with selling price above \$100,000, represent only 3.5%.

Worth mentioning that compared to the previous month, the number of registered new cars plunged by 25.51% due to the Central Bank's decision to impose a down payment of 25% on car loans, in addition to the dramatic economic, political and security situation in the country.

Looking at the car sales brand breakdown, Kia topped the list with a 22.50% share of the total, followed by Hyundai (18.98%), Toyota (13.01%), Nissan (12.37%) and Renault (3.48%). As for the top five distributors in Lebanon by November, NATCO SAL had the highest share of 21.20% of the total, followed by Century Motor Co (18.26%), BUMC (13.26%), RYMCO (13.00%), and Bassoul Heneine (7.33%).

Aid Projects July-August 2014

Source	In Participation With	Amount (\$M)	Project
EU	Première Urgence-Aide Médicale Internationale Association	1.73	Water infrastructure rehabilitation in Akkar
EU	Council for Development and Reconstruction	9.9	Lebanese security system
EU	Gruppo di Volontariato Civile Associazione	2.35	Water services in the North Bekaa Valley
EU	World Vision	4.31	Water and sanitation in Bekaa
EU	OXFAM	1.44	Rehabilitation and expansion of water supply network in Chtaura
EU	Lebanese Government	17.32	Solid waste management in Bekaa and Akkar
World Bank	Lebanese Government	10	Municipal services
World Bank	Lebanese Delegation	474	Water Supply in Beirut and Mount Lebanon

Source: Aid Coordination Newsletter

Lebanon's Water Sector Received Largest Portion of International Aid from July to August

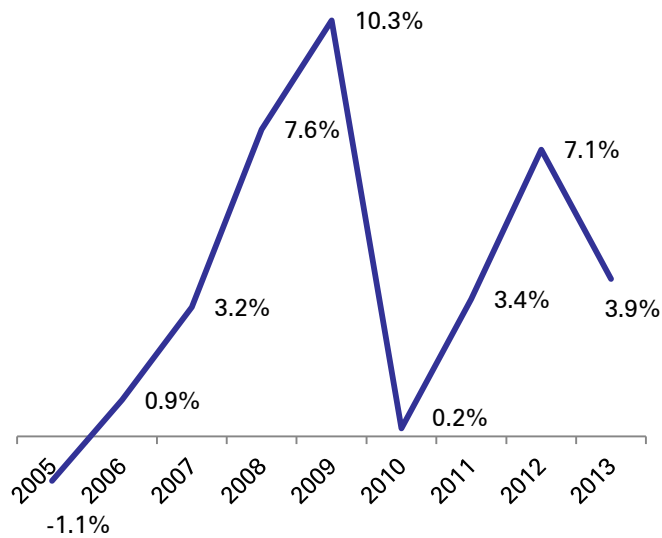
According to the Ministry of Finance's Aid Coordination Newsletter, aid to Lebanon was focused on the water sector during the period July-August 2014.

In July, 3 aid agreements worth \$8.39M were designed to improve the water sector across different regions, and one agreement worth \$9.90M was signed to reinforce the Lebanese security system.

During August, Lebanon received 3 aid grants, 2 of which were signed with the European Union to boost water accessibility to households in Chtaura (Bekaa) and waste management in the Bekaa and Akkar regions. The respective values of aid received were \$1.44M and \$17.32M, respectively. The third and final aid agreement was signed with the World Bank and targeted the Emergency Municipal Services project with a loan value of \$10M.

It is also worth noting that, between August 11th and 12th of 2014, a Lebanese delegation agreed on a \$474M loan from the World Bank to increase water supplies to the Beirut and Mount Lebanon regions via the Water Supply Augmentation project. Construction costs for this project were valued at \$319M, while expropriation costs amounted to \$155M.

Inflation Rate Measured by the GDP Deflator



Source: CAS

CAS Estimates Real GDP Growth at 3% in 2013

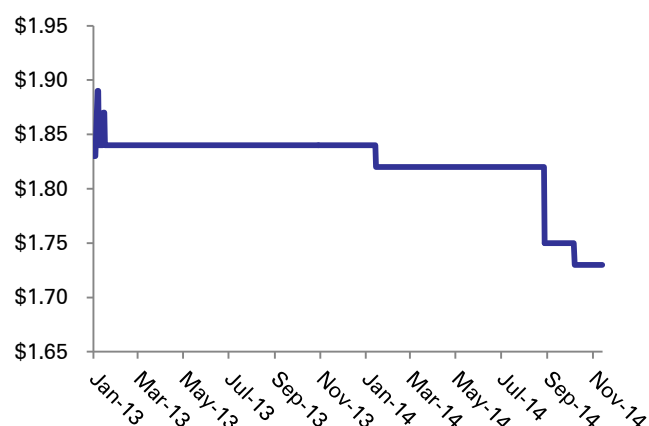
The Central Administration of Statistics (CAS) released the Lebanese National Accounts Reports, where Real GDP is predicted to have grown by 3% in 2013, compared to 2.8% in 2012 and a revised 0.9% in 2011. Nominal GDP is valued at LBP 71.19T (\$47.22B) in 2013 and LBP 66.50T (\$44.11B) in 2012.

CAS estimated inflation at 3.9% in 2013 and 7.1% in 2012, as measured by the GDP deflator.

"Transport activity" recorded the highest real growth of 14% during 2013, followed by "Manufacturing of food products" and "Textile and leather", with respective rises of 10% and 8%. In contrast, "Hotels and restaurants" registered the biggest drop of 5%. "Agriculture and forestry" came next declining by 3%, while "Chemicals, rubber and plastic" fell by 1% in 2013. The Lebanese economy is still led by "Commercial trade and motor vehicle repairs", and by "Real estate activities" with each accounting for 14% of GDP. The latter registered an increase of 6% during 2013, after remaining constant in 2012.

CORPORATE DEVELOPMENTS

BEMO Listed Shares Performance



Source: BSE, BLOMINVEST

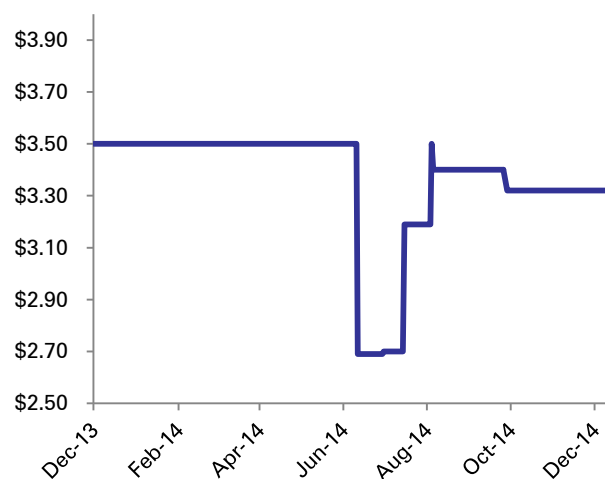
BEMO Bank Issue Subordinate Debt Securities

During the ordinary general assembly held on the 24th of October, 2014, the shareholders of Bank BEMO approved the issuance of 2,500 subordinate debt securities worth \$25M, with a nominal value per bond \$10,000.

Direct or indirect subscription is open to individuals and companies, whether local or foreign. The subscription period will be determined by the bank at a later time.

The annual interest rate of these securities has been set at 6% and is subject to a 5% deductible tax. Interests are to be disbursed on the 30th of June and the 31st of December of each year. The 2,500 subordinated debt securities are to be redeemed on the 4th of January 2021.

Performance of RYMCO's Listed Shares



Source: BSE, BLOMINVEST

RYMCO Distributed Dividends

After the General Assembly meeting held on the 26th of June, RYMCO's board of directors decided to distribute dividends relative to the financial year of 2013. Shareholders entitled of dividends are the ones holding the shares prior the 26th of June 2014. The dividend per share amounts to 138 LBP, and is subject to a distribution tax.

BankMed Increased its Capital from \$432.84M to \$442.79

BankMed Company Profile

Date of Establishment	1944
Owner	Mr. Mohammed Hariri
Mission	Reinvent itself to meet the needs of a fast-changing world

Source: Company Website

BankMed increased its capital from \$432.84 to \$442.79M by issuing 1.5M new preferred shares series 3, in accordance with the first three decisions made during the extraordinary general assembly of September 4th, 2014. The preferred shares offer non-cumulative dividend payments of 6.5%, with annual distributions subject to a current withholding tax rate of 10%, of which up to half will be reimbursed to holders of the preferred shares series 3 by BankMed.

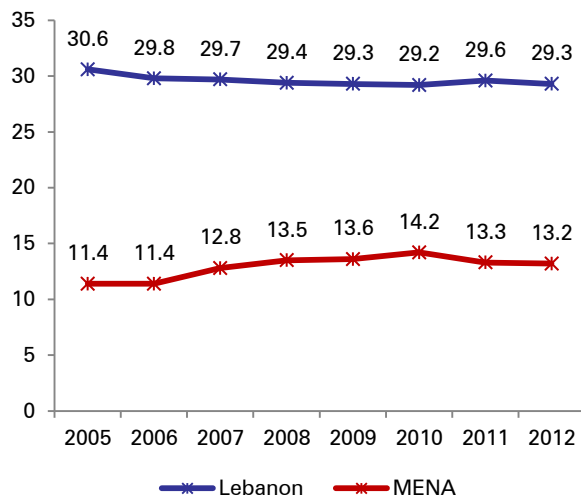
The preferred shares are not listed on the Beirut Stock Exchange and cost \$100 per share. The shares are redeemable, with the redemption price set at the issue price in addition to any declared but unpaid distributions.

BankMed also decided to redeem 1M preferred shares series 1 and freely issued 1M common shares to holders of common shares. On December 9th, 2014, Midclear announced the issuance of the Preferred Shares Class 3, in addition to an increase in shares traded over the counter to 63M.

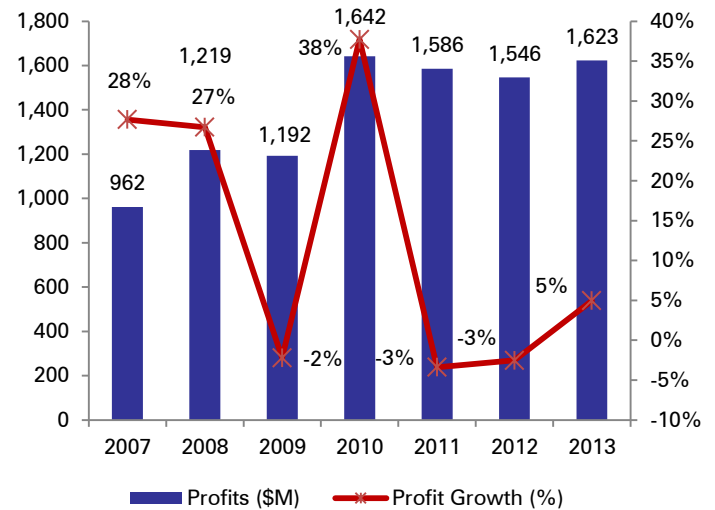
FOCUS IN BRIEF

Mergers and Acquisitions between Lebanese Banks

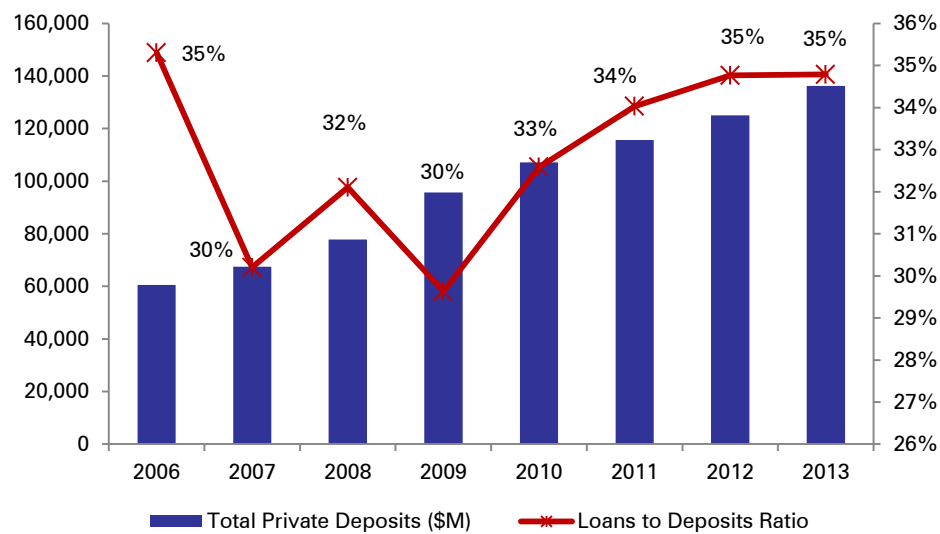
Commercial Bank Branches per 100,000 adults



Regional and Local Turmoil Taking its Toll on Lebanese Banks



Lebanese Banks Accumulating Ample Liquidity



Source: World Bank, ABL, BDL, Blominvest Research

In a Euromoney article published in May 2014, the governor of the Central Bank of Lebanon mentioned that the number of Lebanese banks (Lebanese shareholders and Lebanese management) was slashed by almost half in the past 20 years. However, he stressed the fact that this slide was the result of a consolidation process and not a series of bank failures: A fact that preserves confidence in the sector and that enhances competition. The following gathers some thoughts on banking consolidation and details the latest in banking M&A activity.

According to 2013's national accounts, the value added of financial services represented 7% of GDP or \$3.31B. Since banks are the major players of financial intermediation, it is safe to say that the banking sector occupies an important weight in the Lebanese economy.

Given the importance of this sector, it is key to ensure that the market operates at high efficiency. One of the cornerstones of efficiency is assessing whether or not the number of players on the market allows healthy competition on the market.

Today, several categories of banks operate on the market. In terms of commercial banks, Lebanon counts: 10 Lebanese Banks with Arab Control, 1 Lebanese bank with foreign non-Arab control, 4 foreign banks, 31 Lebanese banks, 16 investment banks and 10 Arab banks.

In terms of loans and advances to customers the top three lenders are Bank Audi, BLOM Bank and Fransabank. Byblos Bank, BankMed, Bank of Beirut, Banque Libano-Francaise, SGBL, Credit Libanais, BBAC and Credit Bank follow and all together constitute the top 11 lenders of the country.

Ensuring competition amongst the lenders can be achieved through consolidation in the sector. Law number 192, promulgated in 1993, stands as a testimony to that. According to the Association of Lebanese Banks (ABL), the law facilitates mergers and acquisitions between banks and is designed to help small yet well managed banks go through tough times and avoid liquidation. The law enables M&A activity since it offers the acquiring bank soft loans that would cover the charges resulting from the operation such as the negative net asset value of the acquired bank, if any.

The governor of the Central Bank has however repeatedly ruled out any mergers between the top 11 lenders of the country. The reason behind this is that the market would witness very little competition if only a few banks operate on the market and we would witness the creation of "too big to fail" institutions, a model which we have seen drained taxpayers' money and destabilized the entire international financial system.

Mergers and acquisitions would also deliver better results if they are led by banks of similar or close sizes. If only large banks are the ones growing through M&A activity, a large gap would be created between large and small banks. This gap would negatively weigh on the profit margins of small banks which can only attract customers by charging low fees and commission on their offered services. This gap would also allow large banks to maintain wide profit margins due to the low competition levels.

In order to understand why the Central Bank of Lebanon has recently received many proposals for mergers and acquisitions, one should examine the context in which Lebanese banks are operating. The model applied by Lebanese banks has so far relied on attracting deposits, on the lucrative lending to the government and on lending to the private sector especially in terms of housing and retail loans. With a low loan to deposits ratio of just 35% and private deposits representing 300% of GDP in 2013, it is clear that Lebanese banks have accumulated ample liquidity. In fact, their conservative management is always eager to maintain high levels of liquidity since they operate in a tough political, economic and security environment both locally and abroad.

Difficult operating environment on local and regional markets, combined with the lack of investment opportunities in Lebanon and the cost of maintaining high levels of liquidity, makes it harder for banks to create profits and gives them more incentive to engage in consolidation activities. The law facilitating M&As was designed for times like these: rather than having small banks be shunned from the market due to difficult times, consolidation steps in to preserve confidence in the sector.

Moreover, with new compliance laws such as FATCA and those designed to combat money laundering, the cost of compliance has increased on local and correspondent banks, giving yet additional incentives for bank consolidation.

Below are the details for mergers and acquisitions in our banking sector.

Fransabank Fully Acquires Ahli Bank Lebanon, May 2014

Fransabank fully acquired the operations of Ahli International Bank in the local market (part of the Jordan-based Al-Ahli Bank) through a deal valued at \$102 million and approved by the Central Bank. Ahli's implied Price to Earnings (PE) ratio is 28.78 while the Price to Book (PB) ratio is 1.64.

Deal Value	\$102 million
Ahli Implied PE	28.78
Ahli Implied PB	1.64

Ahli International Bank Financial Highlights, in millions of USD

	2012	2013	% change
Total Assets	724.7	787.3	8.6
Loans and Advances to Customers	189	220.3	16.5
Customer's Deposits	620.2	669.5	7.9
Total Shareholders' Equity	58.7	62.2	6.0
Capital – Common Shares	19.8	19.8	-
Total Profit (In \$M)	3.59	3.54	-1.4

Fransabank Financial Highlights, in millions of USD

	2012	2013	% change
Total Assets	15,751	16,964	7.7
Loans and Advances to Customers	4,714	5,273	11.9
Customer's Deposits	12,824	13,731	7.1
Total Shareholders' Equity	1,489	1,655	11.2
Capital – Common Shares	278.6	278.6	-
Capital – Preferred Shares	17.2	17.2	-
Total Profit (In \$M)	160.4	160.7	0.2

ZR Group Trying to Acquire Banque Pharaon et Chiha, October 2014

In order to increase its capital and further its development, Banque Pharaon et Chiha sold 80% of its shares to the ZR Group, a Beirut based multinational.

The deal was valued at around \$90M. Bank Pharaon and Chiha's implied PE is 18.48 while the PB is 1.80. The Central Bank of Lebanon has requested further information about the deal in order to announce a final decision.

The shares were sold by Naji Pharaon and his family. The remaining shares will stay with the bank's other shareholders.

Deal Value	\$90 million
Pharaon et Chiha Implied PE	18.48
Pharaon et Chiha Implied PB	1.80

Banque Pharaon et Chiha Financial Highlights in millions of USD

	2012	2013	% change
Total Assets	283.3	299.5	5.7
Loans and Advances to Customers	81.4	91.6	12.5
Customer's Deposits	227.1	238.5	5.0
Total Shareholders' Equity	46.1	50	8.5
Capital – Common Shares	27.1	27.1	-
Total Profit (In \$M)	4.78	4.86	1.7

BIT and NECB Merge, July 2014

Banque de L'Industrie et du Travail and the Near East Commercial Bank announced that they will be merging, a move that would bring their combined assets to \$1.1B.

According to news reports, the total equity would amount to \$185M and would be split 50-50 between NECB and BIT's shareholders. The additional capital injection would come from NECB. The implied Price to Book ratio of the new entity would therefore be 1.31.

Fouad al-Khazen will be the honorary chairman of the new bank which will be called BIT. BIT has 13 branches while NECB has six branches in Lebanon.

Among the key shareholders in the merged bank is former Prime Minister Najib Mikati, Nissan chairman Carlos Ghosn, the Saradar family and the Shammas Economic Institute.

The chairman and CEO of the bank will be Mario Saradar who was the chairman of NECB.

Banque de l'Industrie et du Travail and Near East Commercial Bank Financial Highlights, 2013, in millions of USD

	BIT	NECB
Total Assets	724.4	397.3
Loans and Advances to Customers	201.1	87.5
Customer's Deposits	550.8	315.7
Total Shareholders' Equity	80.7	50.7
Capital – Common Shares	3.4	42.6
Total Profit	0.6	0.9

Cedrus Invest Bank Acquires Retail Operations of Standard Chartered, June 2014

Cedrus Invest Bank signed an agreement to acquire the retail operations of Standard Chartered Bank for \$25 to \$27 million. A deal that was granted BDL approval.

According to news reports, officials at Cedrus said that they would keep 85 of Standard Chartered Bank's employees while the rest will receive their end of service indemnity according to the Lebanese labor law.

Cedrus Invest Financial Highlights, in millions of USD

	2012	2013	% change
Total Assets	83.9	85.4	1.8
Loans and Advances to Customers	6.91	8.23	19.1
Customer's Deposits	5.37	4.73	-11.9
Total Shareholders' Equity	54.1	57.3	5.9
Capital – Common Shares	51.7	51.7	-
Total Profit (In \$M)	2.34	3.20	36.8

Standard Chartered Financial Highlights in millions of USD

	2012	2013	% change
Total Assets	132.9	131.7	-0.9
Loans and Advances to Customers	67.6	60.6	-10.3
Customer's Deposits	100.0	106.4	6.4
Total Shareholders' Equity	14.8	12.1	-18.2
Capital – Common Shares	7.96	7.96	-
Total Profit (In \$M)	-1.808	-3.071	-69.9

in millions of USD	Retail Portfolio	Loans to customers
Standard Chartered	53.9	54.6

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