

THE LEBANON BRIEF

ISSUE 820

Week of 13 May – 18 May, 2013



ECONOMIC RESEARCH DEPARTMENT
Rashid Karame Street, Verdun Area
P.O.Box 11-1540 Beirut, Lebanon
T (01) 747802 F (+961) 1 737414
research@blominvestbank.com
www.blom.com.lb

TABLE OF CONTENTS

FINANCIAL MARKETS	3
Equity Market	3
Foreign Exchange Market	5
Money & Treasury Bills Market	5
Eurobond Market	6
ECONOMIC AND FINANCIAL NEWS	7
Trade Deficit Amounted to \$4.32B in Q1 2013	7
Consumer Confidence Index (CCI) Registers Its Highest Level In 2013 at 89 Points	8
Lebanon Receives \$7.54M in Aid during April	8
Port of Beirut Posts Robust Revenues of \$68.01M up to April	9
Cleared Checks Reached \$23.59B up to April 2013	10
New Vehicle Sales Grew 5.8% Up to April 2013	11
CORPORATE DEVELOPMENTS	12
BLOM Bank Targets the Issuance of the First "Beirut Traders Shopping Card" in August 2013	12
Byblos Bank Announces 2012's Dividend Distribution	12
BLC Calls for Annual General Assembly	12
FOCUS IN BRIEF	13
Lebanon's Public Debt – Sustainability Factors under Tough Challenges	13

This report is published for information purposes only. The information herein has been compiled from, or based upon sources we believe to be reliable, but we do not guarantee or accept responsibility for its completeness or accuracy. This document should not be construed as a solicitation to take part in any investment, or as constituting any representation or warranty on our part. The consequences of any action taken on the basis of information contained herein are solely the responsibility of the recipient.

FINANCIAL MARKETS

Equity Market

Stock Market

	17/5/2013	10/5/2013	% Change
BLOM Stock Index*	1,210.60	1,219.38	-0.72%
Average Traded Volume	90,047	270,751	-66.74%
Average Traded Value	1,354,963	1,242,402	9.06%

*22 January 1996 = 1000



Banking Sector

	Mkt	17/5/2013	10/5/2013	% Change
BLOM (GDR)	BSE	\$8.85	\$8.85	0.00%
BLOM Listed	BSE	\$8.40	\$8.40	0.00%
BLOM (GDR)	LSE	\$9.00	\$8.99	0.11%
Audi (GDR)	BSE	\$6.75	\$6.75	0.00%
Audi Listed	BSE	\$6.56	\$6.70	-2.09%
Audi (GDR)	LSE	\$6.95	\$7.00	-0.71%
Byblos (C)	BSE	\$1.56	\$1.69	-7.69%
Byblos (GDR)	LSE	\$70.00	\$70.00	0.00%
Bank of Beirut (C)	BSE	\$19.00	\$19.00	0.00%
BLC (C)	BSE	\$1.95	\$1.95	0.00%
Fransabank (B)	OTC	\$28.00	\$28.00	0.00%
BEMO (C)	BSE	\$1.84	\$1.84	0.00%

	Mkt	17/5/2013	10/5/2013	% Change
Banks' Preferred Shares Index *		104.38	104.89	-0.49%
BEMO Preferred 2006	BSE	\$100.00	\$100.00	0.00%
Audi Pref. E	BSE	\$100.90	\$101.00	-0.10%
Audi Pref. F	BSE	\$100.00	\$100.00	0.00%
Byblos Preferred 08	BSE	\$101.00	\$102.50	-1.46%
Byblos Preferred 09	BSE	\$101.00	\$102.90	-1.85%
Bank of Beirut Pref. E	BSE	\$25.40	\$25.30	0.40%
Bank of Beirut Pref. I	BSE	\$25.40	\$25.40	0.00%
Bank of Beirut Pref. H	BSE	\$25.40	\$25.40	0.00%
BLOM Preferred 2011	BSE	\$10.07	\$10.06	0.10%

* 25 August 2006 = 100

Activity on the Beirut Stock Exchange (BSE) was driven by the wait and see approach of investors as the parliamentary discussions targeting a new electoral law reached a dead end. The average daily traded value reached \$1,354,963 on a volume of 90,047 compared to last week's 270,751 traded shares worth \$1,242,402. The BLOM Stock Index (BSI) ended the week at 1,210.60 points down by 0.72% from last week's close and up by 3.55% on a year to date basis. As for market capitalization, it narrowed by \$71.28M to \$9.45B.

On the regional scene, the BSI outperformed the Morgan Stanley (MSCI) Arab index that slumped on a weekly basis by 1.34% to 1,046.33 points. Hence, the BSI lagged behind the S&P Pan Arab Composite LargeMidCap Index and the S&P AFE40 that improved by 0.12% and 0.05% to reach 115.76 points and 57.65 points, respectively.

Dubai and Abu Dhabi were the best two performers among the Arab Stock Exchanges this week with respective 5.43% and 4.30% weekly progress. Saudi Arabia bourse was the biggest weekly loser retreating by 0.82%.

Banking sector shares constituted 80.5% of the total value traded on the BSE last week, whereas Solidere shares in the real estate sector made up 18.8% and the industrial sector took the remaining 0.7%.

The prevailing banking sector witnessed a negative performance with the listed shares of Audi and Byblos falling by 2.09% and 7.69% to close at \$6.56 and \$1.56, respectively.

On the London Stock Exchange (LSE), BLOM GDR increased by 0.11% on a weekly basis to close at \$9.00. Meanwhile, Audi and Solidere GDR shares fell by 0.71% and 0.05% to stand at \$6.95 and \$13.14, respectively.

Real Estate

	Mkt	17/5/2013	10/5/2013	% Change
Solidere (A)	BSE	\$13.11	\$12.97	1.08%
Solidere (B)	BSE	\$13.10	\$12.79	2.42%
Solidere (GDR)	LSE	\$13.14	\$13.15	-0.05%

The bank's preferred share index (BPSI) decreased by a weekly 0.49% to 104.38 points. Byblos Preferred 08 and 09 lost by the end of the week 1.46% and 1.85% to stand both at the same price of \$101.00. Audi Preferred "Class E" decreased by 0.10% to settle at \$100.90. On the other hand, Bank of Beirut (BoB) Preferred shares class "E" and BLOM Preferred 2011 gained 0.40% and 0.10% to reach \$25.40 and \$10.07, respectively.

Manufacturing Sector

	Mkt	17/5/2013	10/5/2013	% Change
HOLCIM Liban	BSE	\$16.12	\$15.50	4.00%
Ciments Blancs (B)	BSE	\$3.23	\$3.23	0.00%
Ciments Blancs (N)	BSE	\$3.24	\$3.24	0.00%

Solidere shares revealed a positive performance on the real estate sector over the past week. The class "A" added 1.08% to close at \$13.11 and the class "B" grew by 2.42% to stand at \$13.10.

Funds

	Mkt	17/5/2013	10/5/2013	% Change
Beirut Preferred Fund	BSE	\$102.00	\$102.00	0.00%
BLOM Cedars Balanced Fund Tranche "A"	----	\$7,006.57	\$7,023.23	-0.24%
BLOM Cedars Balanced Fund Tranche "B"	----	\$5,107.64	\$5,120.33	-0.25%
BLOM Cedars Balanced Fund Tranche "C"	----	\$5,321.54	\$5,334.19	-0.24%
BLOM Bond Fund	----	\$9,738.32	\$9,738.32	0.00%

Within the industrial sector, HOLCIM shares jumped 4.00% to close at \$16.12.

Looking ahead, market activity will likely remain slow until the awaited breakthrough in Lebanon's political stalemate.

Retail Sector

	Mkt	17/5/2013	10/5/2013	% Change
RYMCO	BSE	\$3.04	\$3.04	0.00%
ABC (New)	OTC	\$33.00	\$33.00	0.00%

Tourism Sector

	Mkt	17/5/2013	10/5/2013	% Change
Casino Du Liban	OTC	\$515.00	\$515.00	0.00%
SGHL	OTC	\$7.00	\$7.00	0.00%

Foreign Exchange Market

Lebanese Forex Market

	17/5/2013	10/5/2013	%Change
Dollar / LP	1512.50	1512.50	0.00%
Euro / LP	1939.10	1960.05	-1.07%
Swiss Franc / LP	1559.11	1573.26	-0.90%
Yen / LP	14.69	14.87	-1.21%
Sterling / LP	2295.47	2322.76	-1.17%
NEER Index**	114.13	104.68	9.03%

*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

	17/5/2013	10/5/2013	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

	17/5/2013	10/5/2013	Change bps
3-M TB yield	4.39%	4.38%	1
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

A stable demand on the US dollar was witnessed during the past week since the range at which banks exchanged the currency remained unchanged at \$/LP 1,510.5 - \$/LP 1,514.5 with a mid-price of \$/LP1, 512.5. Foreign assets (excluding gold) at the Central Bank stood at \$37.29B as of end April 2013, 5.5% more than end of March's \$35.33B. Meanwhile, the dollarization rate of private sector deposits stood at 65.17% in March 2013 compared to 64.6% in February 2013.

The euro weakened against the dollar, given that lackluster economic results from the Eurozone revived talks of a further interest rate cut by the European Central Bank (ECB). In fact, Germany's slow return to growth at the start of the year was insufficient to ease six-straight quarters of economic contraction in the Eurozone as a whole and in France in particular. Meanwhile, the dollar was boosted as the Federal Reserve pointed at a potential wind-down in its quantitative easing program and as gold is no longer sought after for its "store of value" function. By Friday May 17th, 2013, 12:30 pm Beirut time, the euro closed at €/ \$ 1.29 down by 1.07% from last week. As for the dollar-pegged LP, it appreciated to €/LP 1,939.10 from €/LP 1,960.05 recorded on Friday April 10th. The Nominal effective exchange rate (NEER) rose 9.03% over the cited period to 114.13 points, while its year-to-date performance stood at 9.94%. This considerable increase is due to the heavy depreciation of the Syrian Pound against the dollar from \$/SYP 70 to \$/SYP 98.

During the week ending May 2nd, broad Money M3 expanded by LP622B (\$412.60M), to reach LP160,945B (\$106.76B). M3's growth rate reached 6.99% on a year-on-year basis and 1.91% from end of December 2012. As for M1, it expanded by LP567B (\$376.12M) since currency in circulation increased by LP310B (\$205.64M) and demand deposits rose by LP257B (\$170.48M). Total deposits (excluding demand deposits) registered a LPB54.69B (\$36.28M) expansion, justifiable by the LP185B decrease of term and saving deposits in LP and the \$159M increase in deposits denominated in foreign currencies. During the period 26 April-2 May, broad money dollarization rate slipped by 8 basis points to reach 58.56%. According to The Central Bank, the overnight interbank rate stood at 2.75% by the end of March 2013. In the TBs auction held on May 9th, the Ministry of Finance raised LP116.983B (\$77.60M) through the issuance of Treasury Bills. The highest demand was witnessed on the 5Y bill capturing 48% of total subscriptions, while the 3M and 6M papers accounted for 12% and 41%, respectively. During the auction, the average discount rate for the 3 and 6 months Bills stood at 4.39% and 4.87%, while the average coupon rate for the 5Y note registered 6.74%. New subscriptions exceeded maturing T-bills by LP149.581B (\$99.22M).

Eurobond Market

Eurobonds Index and Yield

	16/5/2013	9/5/2013	Change	Year to Date
BLOM Bond Index (BBI)*	107.480	107.640	-0.15%	-1.45%
Weighted Yield**	5.44%	5.39%	5	42
Weighted Spread***	462	461	1	32

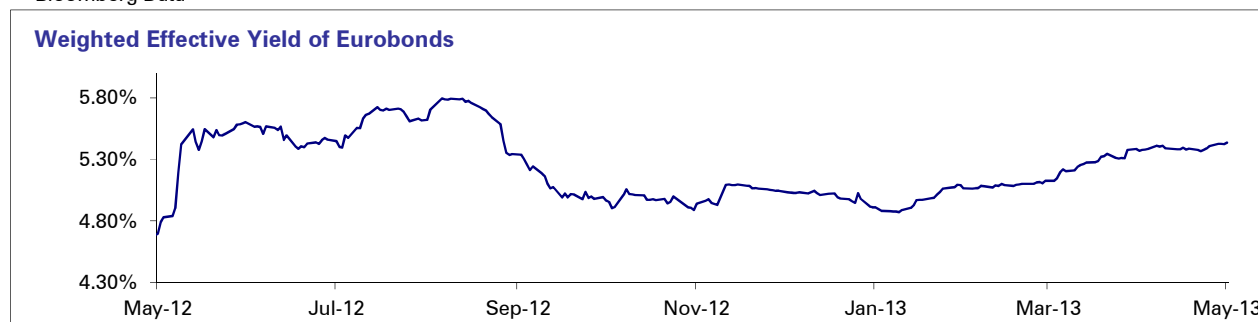
*Base Year 2000 = 100; includes US\$ sovereign bonds traded on the OTC market

** The change is in basis points ***Against US Treasuries (in basis points)

Lebanese Government Eurobonds

Maturity - Coupon	16/5/2013 Price*	9/5/2013 Price*	Weekly Change%	16/5/2013 Yield	9/5/2013 Yield	Weekly Change bps
2014, Apr - 7.375%	103.70	103.86	-0.15%	3.22%	3.13%	8
2014, May - 9.000%	105.17	105.79	-0.59%	3.49%	2.96%	52
2015, Jan - 5.875%	102.85	103.00	-0.15%	4.08%	4.01%	7
2015, Aug - 8.500%	108.87	109.10	-0.21%	4.27%	4.20%	7
2016, Jan - 8.500%	109.32	109.45	-0.12%	4.75%	4.72%	3
2016, May - 11.625%	119.26	119.25	0.01%	4.64%	4.68%	-4
2017, Mar - 9.000%	113.75	113.81	-0.05%	5.02%	5.02%	0
2018, Nov - 5.150%	99.94	99.25	0.70%	5.16%	5.22%	-6
2020, Mar - 6.375%	102.96	103.03	-0.07%	5.84%	5.83%	1
2021, Apr - 8.250%	113.08	113.33	-0.22%	6.14%	6.10%	3
2022, Oct - 6.100%	99.75	99.89	-0.14%	6.13%	6.11%	2
2023, Jan - 6.00%	98.18	98.29	-0.11%	6.25%	6.24%	2
2024, Dec - 7.000%	105.26	105.69	-0.41%	6.35%	6.30%	5
2026, Nov - 6.600%	99.86	100.15	-0.29%	6.62%	6.58%	3
2027, Nov - 6.75%	100.00	100.14	-0.14%	6.75%	6.73%	2

*Bloomberg Data



Activity on the Eurobond markets retreated this week with no significant trades recorded, with investors' concerns rising due to the ongoing political conflict surrounding the formation of a new cabinet and the disagreement over a new electoral law. Accordingly, the BLOM Bond index inched 0.15% down settling at 107.48 points on Thursday. Demand on the long term Lebanese Eurobonds retreated as their yields added 1 basis point (bps) to stand at 6.25%, while the yield on the 5Y Lebanese Eurobonds lost 6 bps to reach 5.16% reflecting a shift in investors' behaviors towards shorter maturity notes. On a comparative scale, the BBI outpaced the JP Morgan's emerging markets bond index that fell 1.14% during the last week to 670.71 points revealing a lower demand in the Emerging markets this week.

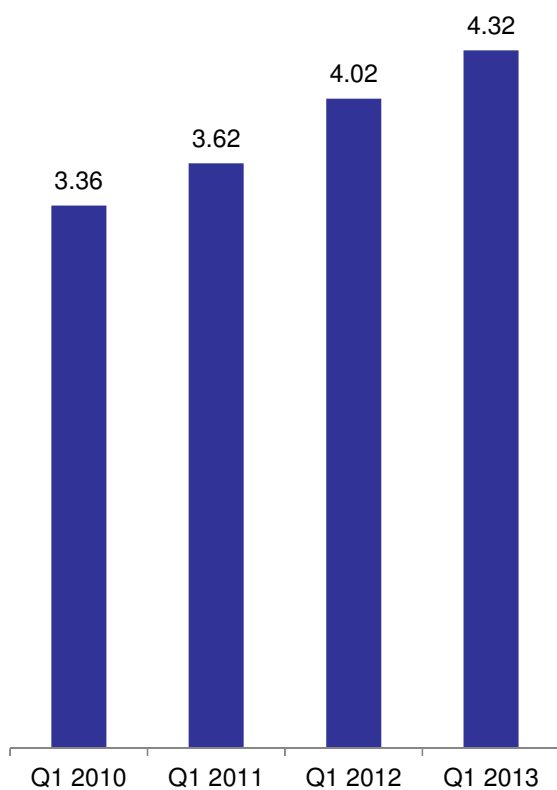
In the US, the labor market improvement is still pushing investors away from the bond market in favor of risky investments. As a result, the 5Y and 10Y US benchmark Treasury notes and bonds yields rose by a weekly 4 bps and 6 bps to stand at 0.79% and 1.87%, respectively. As for the spreads of Lebanese Eurobond yields with their comparable US treasuries, they narrowed by 10 bps and 5 bps to stand at 437 bps and 438 bps, respectively.

By the end of this week, Lebanon's 5Y CDS narrowed from a range of 418-444 bps to 410-440 bps. In the Arab markets, Dubai CDS quotes widened to 196-206 bps compared to 188-202 bps, while KSA's widened to 62-68 bps compared to 61-66 bps. In the emerging markets, Brazil's CDS were last quoted at 126-128 bps, up from 108-111 bps a week ago, and Turkey's read 120-124 bps down from 109-112 bps.

ECONOMIC AND FINANCIAL NEWS

Lebanon's Trade Deficit (In \$B)

Up to January (In \$B)



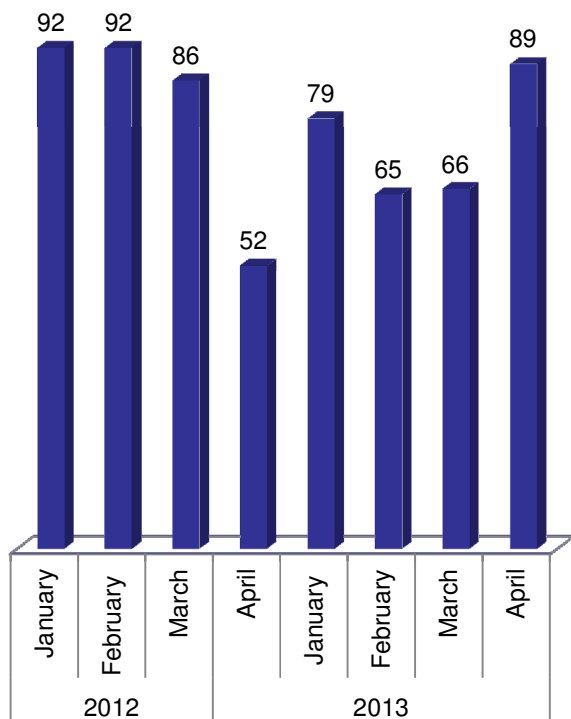
Source: Lebanese Customs

Trade Deficit Amounted to \$4.32B in Q1 2013

Lebanon's trade balance posted a deficit of \$4.32B in the first three months of 2013, 7.46% wider than the same period last year. Over the cited period, the expansion was mirrored by the \$62.2M shortfall in the balance of payments. When annualized, trade deficit to GDP ratio reached 38.7% in Q1 2013 compared to 37.9% in 2012. Q1 2013's trade balance deficit stems from a 6.53% y-o-y expansion in imports to \$5.51B, which exceeded the 3.29% growth in exports to \$1.19B. In addition, while exports covered 22.3% of imports in the first quarter of 2012, they only cover 21.6% in the corresponding quarter of 2013. The bulk of imports is attributable to three product categories: Mineral products, Machinery and electrical instruments and products of the chemical industries that took over 28%, 13% and 9% of total imports. Machinery and electrical instruments imports presented the largest y-o-y increase of 62%. On the other hand, the main exported products were pearls-precious stones and metals, accounting for 26.48% of total exports followed closely by mineral products, base metals and machinery and electrical instruments that constituted respective shares of 15.40%, 12.42% and 10.47% of the total. Pearls and precious stones weighed down on exports by decreasing 42% on a year-on-year basis but this downward pressure was compensated as mineral products rose from \$7.19M in Q1 2012 to \$183.52M in Q1 2013. Syria still stands as the top export destination with a share of 19.20% of the export market followed by a stake of 16% for South Africa and an identical share of 7% for the UAE and the Kingdom of Saudi Arabia. Meanwhile, the USA attracted the largest portion of Lebanese external demand with a share of 10% of the import market tracked by Italy, China and Turkey that captured 8% each as Russia and France took up 7%.

Consumer Confidence Index (CCI) Registers Its Highest Level In 2013 at 89 Points

CCI Levels Up to April



Source: ARA Marketing Research and Consultancy

According to ARA Marketing Research and Consultancy, April's Consumer Confidence Index (CCI) gained 23 points from the previous month to settle at 89 points, on the back of the designation of a consensual prime-minister. All sub-indices compensated their year-long losses, with the exception of the Security Situation Index. Despite its increase to 77 points in April, the latter remains 46 points lower than its level at year-start. In fact, consumers are still showing apprehension in regard of the security situation since Lebanon's linkage to the aggravating Syrian crisis grows. However, despite the IMF's 0.5% downward revision of its GDP growth projection to 2% in 2013, the Current Economic Situation Index edged up by 25 points from the previous month and posted 140 points while the Current Personal Income Index climbed 47 points to 109 points. This amelioration on the present front was matched by improved sentiment for the future indices. Accordingly, the Expected Economic Situation Index augmented by 22 points thus regaining a level of 71 points that hasn't been reached since September 2011. This could indicate consumer's faith in the preparatory phase of the parliamentary elections. Whereas, the Expected Personal Income Index only gained 10 points to reach 75 points. Given the overall boost in consumer morale, the Purchase of Durable Goods Index registered 209 points, a 58 points monthly increase, and the third highest level since the index's installment in 2006. In fact, after dropping by 11.8% from February to March, new cars registration jumped 14.8% in months-ago terms during April.

April's Aid Summary

Initiating Agent	Project	Value	Goals
European Union	Quality Development Program	\$18.2M	Improve the Competitiveness of the private sector
European Union	QUALEB	\$5.72	Enhance Export and Services Quality
European Union	Twinning	\$1.82	Implementation of European standards good practices

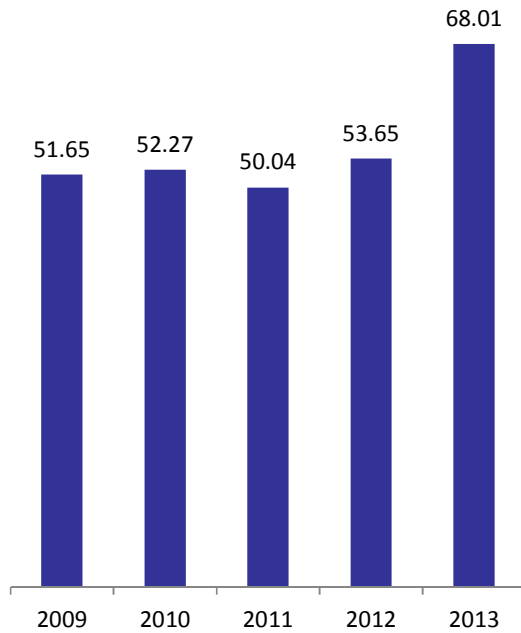
Source: Ministry of Finance

Lebanon Receives \$7.54M in Aid during April

As reported by the Ministry of Finance's Aid Coordination Newsletter, the European Union and the Minister of Economy and Trade launched two programs on the 24th of April: Phase III of the QUALEB program, worth \$5.72M and the Twinning Program worth \$1.82M. These two initiatives are inscribed within a broader \$18.2M project that seeks to raise Lebanese exports, and improve job creation via the empowerment of small and medium enterprises. QUALEB's goal is to ensure the conformity of Lebanese products with international health, safety and environmental standards so as to enhance export quality. Emphasis was also placed on boosting the quality of public and private services through the provision of Information and Communication Technology (ICT) as well as technical assistance. The Twinning Program is based on an exchange of good practices between the Lebanese and European public administrations with the purpose of ameliorating Lebanon's quality infrastructure.

Port of Beirut Revenues

Up to April (In \$M)



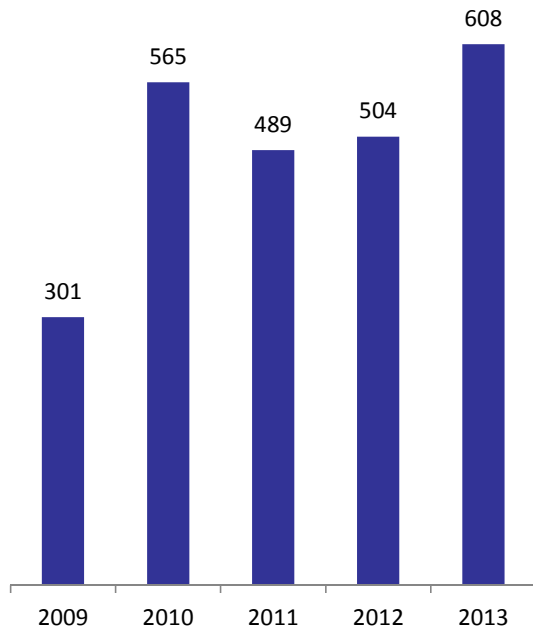
Source: Port of Beirut Authorities

Port of Beirut Posts Robust Revenues of \$68.01M up to April

During the first four months of 2013, Port of Beirut's (PoB) total revenues rose to \$68.01M compared to \$53.65M throughout the same period last year. The recovery of revenues appears to be taking place at a sharp pace. After falling by 4% on a y-o-y basis the first four months of 2011, revenues picked up by 7% during the same period of 2012 to finally jump by 27% during January - April 2013. Revenues were lifted by total container activity (container activity and transshipment) that rose by 6.63% y-o-y to 354,882 twenty-foot equivalent units (TEU) up to April 2013 compared to 332,810 TEU up to April 2012. In detail, the 20.81% upturn in total container activity to 232,253 TEU overtook the 12.76% downturn in transshipment activity that stood at 122,629 TEU as of April's end. CMA CGM continues to account for the majority of the strain on transshipment volume, as the company's routed volume through the Port of Beirut fell by 42.28% y-o-y on the back of increased risk emanating from neighboring turbulences. However, demand for cars demonstrated an 18.20% y-o-y jump as they totaled 29,016 units up to April 2013 compared to 24,548 units up to the same month last year. Over the aforementioned period, imported and exported merchandises travelling through the city's port increased from 2256.5 tons to 2679.6 tons. Port of Beirut's authorities also reported that 711 vessels docked at the port up until April while that number stood at 657 in the same period last year.

Value of Returned Checks

Up to April (In \$M)



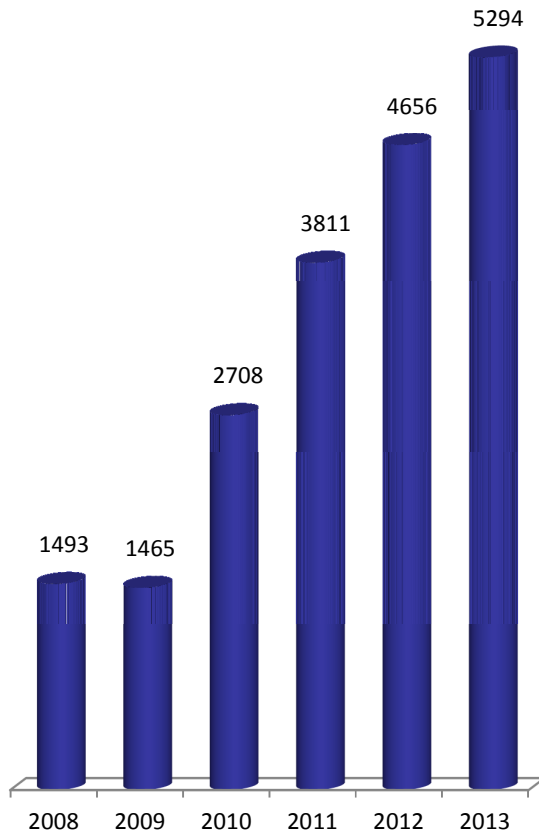
Source: ABL

Cleared Checks Reached \$23.59B up to April 2013

Cleared checks activity, one of the major economic indicators that reflects spending and consumption, grew in April by 4.4% and 9.9% m-o-m in terms of volume and value respectively. The total number of checks reached 1.12M worth \$6.33B compared to a total of 1.07M checks valued at \$5.76B registered in March. Worth noting that cleared checks activity started picking up in March after two months of decline this year. This increase probably indicates a strengthening consumption and spending in April during the Easter vacation, especially after the nomination of Tamam Salam for Premiership. On a yearly basis, the number of checks rose 2.9% during the first four months of the year to reach 4.28M with a 3.4% higher value amounting for \$23.59B. Checks denominated in foreign currency augmented by 2.1% y-o-y to 3.06M compared to April 2012, whereas their value added 1.4% to \$18.31B. As for checks denominated in Lebanese pounds, their volume advanced by 4.7% to 1.23M while their value increased by 11.2% to \$5.28B. Both volume and value of checks denominated in foreign currencies preserved their dominance up to April this year, representing 71.40% and 77.63% of the total respectively. However, they both retreated by a respective 51 bps and 157 bps from a year ago, pointing towards an increasing role of the national currency. Furthermore, default on check payments volume in the first five months of 2013 declined by 8.8% to reach 84,160 returned checks, while their value climbed 20.5% to \$608M.

Number of Registered Korean New Cars

Up to April



Source: Association of Car Importers in Lebanon

New Vehicle Sales Grew 5.8% Up to April 2013

According to figures released by the association of car importers in Lebanon, 3,400 new passenger and commercial vehicles were registered in April this year compared to 2,961 vehicles a year earlier, recording an increase of 14.8% after an 11.8% y-o-y drop in March. Passengers' car sales, an indicator of spending trend on durable goods, reflected the optimistic consumers' behavior in April after the designation of Tamam Salam for Premiership. Commercial vehicles registration went up from 129 cars in March 2013 to 237 cars in April. This increase indicates a monthly growth of business expenditures, partly due to a correction of the 24% loss in March and partly as a result of the depreciation of the yen which made Japanese cars cheaper. Furthermore, on a cumulative basis, registration of new passenger and commercial cars during the first four months of 2013 reached 11,565, rising 5.8% from the same period last year. Demand for Japanese cars dropped by 16.4% as of April 2013 to 2,615 compared to the same period last year, while Demand for Chinese vehicles increased to 222, up by 131.3% from the same period last year as consumers are seeking low cost and fuel efficient cars. Korean makes came in the second place with their sales rising by 12.5% as of April 2013 to 5,294 vehicles from 4,705 a year earlier. On the other hand, US brands reached 654 cars from the beginning of the year, increasing by 5.8% from the same period in 2012. In terms of market share, Korean cars are still grabbing the lion stake with a share of 47% of total car sales up to April followed by the Japanese and European vehicles with shares of 23% and 20%, respectively. Car sales breakdown according to brand ranked Kia at the top with 3,107 vehicles sold, followed by Hyundai with 2,187 units, Nissan (1,313 units) and Toyota (530 units). Furthermore, with respect to the shares of distributors in Lebanon, NATCO SAL ranked first with a stake of 26.9%, followed by Century Motor Co. and Rasamny Younis Motor (RYMCO) with a respective 19.2% and 12.6% of total market share.

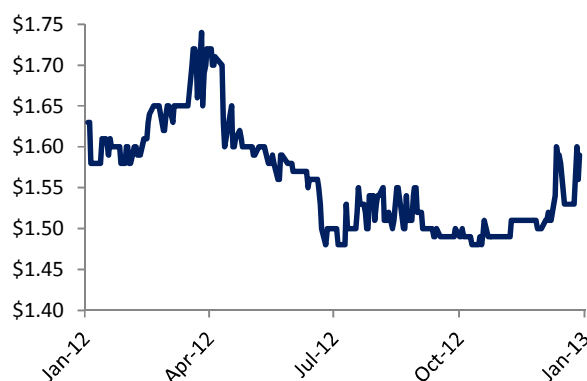
CORPORATE DEVELOPMENTS

Corporate Social Responsibilities of Blom Bank

Year	Project	Goal
2004	BLOM Beirut Marathon	Support NGO's and Charity Causes
2010	BLOM Shabeb	Youth Empowerment
2010	BLOM MasterCard Giving Card	Fundraising for the "Lebanese Mine Action Center"
2013	Protect ED	Child Safety Education

Source: Blom Bank Website

Byblos Bank's Common Shares Performances in 2012



Source: Beirut Stock Exchange, BlomInvest Research department

BLC Listed Stocks

	Number of shares	Last Closing
BLC Common shares	51,033,333	\$1.95
BLC Preferred class A	400,000	\$103.00
BLC Preferred class B	550,00	\$102.00

Source: Beirut Stock Exchange, BlomInvest Research department

BLOM Bank Targets the Issuance of the First "Beirut Traders Shopping Card" in August 2013

Referring to a press release issued by BLOM Bank, the Bank announced the promotion of a new MasterCard credit card dedicated to the Beirut Traders Association's customers. A cooperation agreement was signed at the Four Seasons Hotel on the 15th of May 2013. The release of this credit card will be in cooperation with the Traders Association and MasterCard with August 2013 as the issuance date. It will also allow its holders to benefit of exclusive discounts from the network of traders registered with the program. The card aims at enhancing consumer loyalty as well as providing them with financial liquidity. The program will help in revitalizing the retailer activity by stimulating domestic demand in many retailing sectors.

Byblos Bank Announces 2012's Dividend Distribution

The ordinary General Assembly of Byblos Bank held on 11 May 2013, approved the distribution of dividends for the year 2012. Common shareholders shall receive LBP 200/share or a net LBP 190/share after the 5% tax deduction. Meanwhile, holders of the bank's Preferred 2008 and 2009 shares are to receive a remuneration of \$8/share or \$7.6 net of the 5% withholding tax. The net payments will be distributed on or about the 17th of May to shareholders as at the record date of May 15th 2013, according to Midclear records. The ex-dividend date was set as the 13th of May. Regarding GDR holders, a LBP 200/Share will be disbursed in US dollars through the Bank of New York Mellon, while extracting the 5% withholding tax as well as other expenses starting the 23rd of May.

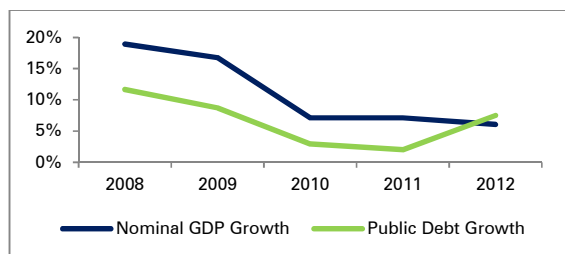
BLC Calls for Annual General Assembly

BLC Bank board of directors invited its shareholders for an ordinary general assembly that will be held at the bank's headquarters on May 22, 2013 at 11 am. The meeting's agenda will include hearings of the board's report and the auditors' findings, approval of the financial statements of end 2012, clearing the chairman and boards' administrative duties for the financial year 2012. Other diverse subjects are also on the meeting's schedule.

FOCUS IN BRIEF

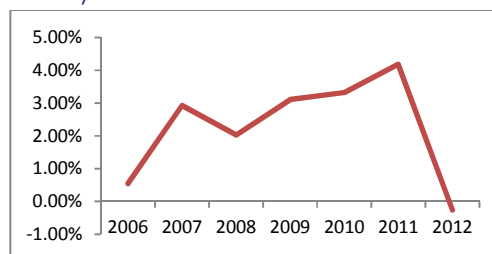
Lebanon's Public Debt – Sustainability Factors under Tough Challenges

Nominal GDP and Public Debt Growths



Sources: Ministry of Finance, Blominvest research dept.

Primary Balance % of GDP



Since the fall of communist Russia, self-sufficiency has become less of a concern and public debts grew easier in terms of acceptance across nations worldwide. Economists long debated the level of a reasonable public debt and much controversy contested the generally referenced thresholds of 60% of GDP under the stability and growth pact of the EU that entered into force in 1998, and the 90% of GDP recently mentioned in a paper by Reinhart and Rogoff. Trends went more towards laying a framework assessing debt sustainability factors and their changing dynamics instead of taking debt in absolute terms.

Certainly, the need for debt-to-GDP to be on a declining or by the least steady trend remains important. For a middle income country like Lebanon, having one of highest debt-to-GDP ratios in the world still meant Lebanon was more credible than many countries with the same or better rating around the globe as it never defaulted on its public debt and it had a declining debt to GDP ratio in the past six years. Lebanon is far more credible than countries like Cyprus and Greece, as it brought down its debt-to-GDP ratio in the past 6 years from 180% to 137%. Meanwhile the ratio went up for Cyprus and Greece from 50% and 110% in 2008, to near 90% and 160% in 2012. Gross public debt in Lebanon stood at \$57.7B in 2012, of which 42% are denominated in foreign currencies enjoying acceptable ratings of B1 stable outlook by Moody's, and B negative outlook by S&P's.

The concept of debt sustainability actually means the ability of a country to assume the burden of its debt without further accumulation. However high levels of public debt and significant budget deficits need to be reduced to ensure stability of public finances and debt, as is the case for Lebanon. The main idea is to examine the debt's variability components, namely interest payments and primary surplus. Interest payments are a function of (i) the debt level, (ii) interest rates which direct the cost of debt being rolled over or newly issued, and (iii) the domestic currency's exchange rate against loans' currencies which render debt cheaper or more expensive. As for the primary surplus, the government's fiscal policy is assessed based on its ability to meet the short-term dues and maintain debt-to-GDP on a stable to declining path.

Lebanon was scoring well on the debt sustainability checklist, up until the eruption of war in Syria started to reverse the declining trend of debt to GDP ratio. This war can be considered as a real stress test for the sustainability of the public debt in Lebanon considering its spillovers effects on both the political and economic fronts.

The first factor in considering debt sustainability is the expansion of debt against the growth of the economy. At this level, Lebanon had done a good job during the period 2009-2011, when debt grew by 4.56% on average, less than the 6% achieved by real GDP and the 10.3% realized by the nominal GDP. This success is mainly attributed to a recovering confidence, fiscal discipline and worldwide declining interest rates. Naturally in 2012, the equation reversed as the spillovers from Syria to the security-sensitive country constrained output's real and nominal growths to 1% and 6% respectively, while public debt sprung 7% on the back of market issued bonds to finance the government's deficit.

Another determinant of a sustainable debt level is the country's ability to meet its immediate dues. In fact, most of nations' debts are rolled over, and what matters more are the short-term obligations, consisting of the year's interest and amortized principal. In a country with a starting point of high debt-to-GDP ratio, a healthy fiscal policy would boost creditors' confidence in the country's ability to repay its debt, by achieving a primary surplus that is at least enough to cover the debt service. This would ensure the stabilization of debt and reduce the ratio over time without relying solely on GDP growth.

Lebanon consistently managed to produce a positive primary surplus except in year 2012 when the government's budget ended up with a small primary deficit for the first time in around ten years, pressured by the straining revenues and the heavy drains in expenditures. Yet, Lebanon's primary surplus per se was never sufficient to meet the country's debt service.

In details, a look over the government's public finances for the past 5 years shows an average debt service of \$3.9B, with a clearly declining trend that resulted from the fall of international interest rates during that period. Meanwhile, the highest primary surplus ever reached was during 2011 scoring \$1.6B, far from what is needed to meet the debt service, and therefore leading the government to tap the markets for financing through issuing debt securities.

The government's issued debt of domestic bonds and Eurobonds¹ so far stands at around \$33B and \$19.5B respectively, mostly held by commercial banks with a stake of 64%, BdL 22% and public institutions 12%. It is worth noting that the average time to maturity of domestic currency TBs and bonds is 3 years while that of Eurobonds stands at 6 years. These debt issuances have resulted in short term dues that need to be met by the government, whether by rolling the debt or effectively settling it. In 2013, maturing TBs will total \$7B² and maturing Eurobonds sum to \$824M. This leads to an estimated total of \$7.8B needed in 2013 to pay for Lebanon's maturing debt. However, the government does not use all of the proceeds from its revenues or debt issuances. In fact, the public sector's deposits at BdL and commercial banks average around \$6B to \$7B yearly, a considerable amount to be set aside without a direct usage, but quite enough to cover for any surprises especially under the current tough scenario. Worth mentioning that not all these deposits can be immediately used by the government for its current spending as some of the money is in the accounts of municipalities and other public administrations that are to a certain extent independent from the government.

In order to be able to service its foreign denominated currencies debt or to issue new debt in foreign currencies, the government or the country has to have enough foreign exchange reserves, which bring upfront the importance of capital flows into a country. This is where the balance of payments (BoP) has helped Lebanon in financing the shortfall in its public finances, thanks to ample flows from expatriates and foreign investments. Historically positive with balances as high as \$7.9B in 2009, the BoP managed to absorb Syria's shock to Lebanon's finances for 2 years so far, ending up with a deficit of \$2B in 2011 and \$1.5B in 2012, and it may be the case that it will continue to cover for another year.

Lebanon also enjoys a considerable cushion of assets provided by a large base of savers. The banking system sits on deposits worth 3 times Lebanon's GDP, reaching around \$125B in 2012, and growing by 61% since 2008. Under this view, a more meaningful ratio for the Lebanese debt would be the debt-to-deposits ratio, which stands at a very reasonable level of 46%, down from 60% in 2008. To note that about 65% of Lebanon's deposits are in foreign currencies, contributing to the Central bank's foreign reserves of \$35.7B, and providing a trustworthy guarantee for Lebanon's foreign debt repayment capacity.

Finally, certain factors were not mentioned here, such as the impact of the inflation rate and the interest levels. The latter has so far worked in favor of the Lebanese debt, ensuring a lower cost of refinancing and reducing the annual costs. However, the unexpected pressure on the public finances will wipe this advantage in absence of alternative plans to avoid accumulations of debt that would reverse international confidence and at the least raise the costs of borrowing. Eventually, much is still expected from the oil discoveries in terms of bringing back the debt levels to lower stances, but it is still a necessity to control the debt variability, especially that the country needs to modernize its infrastructure which by default will call for more debt in the coming years, although one alternative would be to consider privatization and private-public partnerships that would both save debt and secure further inflows to the government.

¹ Including Eurobonds under Paris II and III agreement

² Accounting only for outstanding principals



Research Department:

Riwa Daou	riwa.daou@blominvestbank.com
Mirna Chami	mirna.chami@blominvestbank.com
Maya Mantach	maya.mantach@blominvestbank.com
Marwan Mikhael	marwan.mikhael@blominvestbank.com



Your Investment Reference