

The Beirut Stock Exchange – Drivers of Activity & Stimulus Measures

BSE's Key Performance Indicators

	2006	2007	2008	2009	2010	2011	2012	2013	Up to April 2014
Volume Traded (in millions)	134.85	114.24	105.52	102.59	271.10	77.50	55.03	51.41	19.23
Value Traded (in \$ millions)	2,031.88	993.80	1,710.41	1,038.11	1,870.63	515.37	408.50	375.16	137.22
Market Cap (in \$ millions)	8,303.64	10,894.02	9,608.58	12,842.74	12,676.48	10,285.39	10,421.02	10,545.36	11,053.15
Turnover Ratio	14.02%	14.80%	13.13%	12.71%	15.44%	4.07%	3.27%	3.05%	1.15%
Weighted P/E	26.96	36.33	19.67	13.81	10.83	8.42	7.53	7.73	8.56
Weighted P/BV	2.27	1.83	1.83	1.67	1.43	1.12	1.00	1.01	0.99

The Beirut Stock Exchange has been travelling through a wobbly path, clawed by the family nature of Lebanese companies, which continues to thwart the listing of new companies on the official market. In parallel, the ever-changing economic and political conditions reigning on the local scene have played a pivotal role in setting the track to the Lebanese Stock Exchange's trading activity, which has been oscillating between different periods of booms and busts since its re-opening in the year 1996. More particularly, the BSE's aggregate market capitalization has rallied by 33.11% during the eight-year period extending between the year 2006 and April 2014, fueled by the listings of additional securities by already listed companies on the official market amid various phases of capital increases witnessed over the past decade. In fact, and when factoring out the impact of the additional increase in the number of listed securities on the evolution of market capitalization, the latter would have suffered a sizeable 46.26% slump over the aforementioned period. Said drop mirrors the contraction in the prices of listed securities on the back of the recurrent sequences of political and economic shocks, of which we name the Israeli aggression on Lebanon in summer 2006, the long sit-in in the Beirut central district since late 2006, the outbreak of the global financial crisis since early 2008, and the spillover of the Arab Spring since late 2010, only to name a few.

In this context, the turnover ratio of the Beirut Stock Exchange (BSE), which measures the aggregate traded volume as a percentage of the number of outstanding listed stocks, peaked at 15.44% in the year 2010, before plummeting to 4.07% in the year 2011, 3.27% in the year 2012, and an even lower 3.05% reading in the year 2013, hence mimicking the many stages of political bickering. From a different angle, the weighted average price to earnings (P/E) multiple of the Beirut bourse surpassed the 36x mark in the year 2007, mainly lifted by the rallying prices of heavy market-cap weighted Solidere shares and various other banking stocks. This owes to the fact that many Lebanese expatriates and regional investment funds channeled back their investment portfolios to the country as Lebanon was spared from the global financial crisis that struck major stock markets across the world. The BSE's weighted average P/E subsequently spiraled through a downward twirl starting the year 2008 amid the wider spread of the financial crisis and the global recessionary environment, plunging to 19.67x in 2008, 13.81x in 2009, and a much lower 8.56x as at end of April 2014.

Based on the empirical model developed in this research report, a positive and significant correlation is witnessed between net financial inflows to Lebanon and the performance of listed banking stocks represented by the Credit Libanais Financial Sector Stock Index ("CLFI"). The performance of the listed construction stocks, on the other hand, measured by the Credit Libanais Construction Sector Stock Index ("CLCI") turns out to be significantly negatively correlated to political shocks. Accordingly, our econometric model leads us to conclude that the impact of a positive political shock, such as the election of a new president on the performance of listed construction stocks is a 3.21% increase in their market capitalization.

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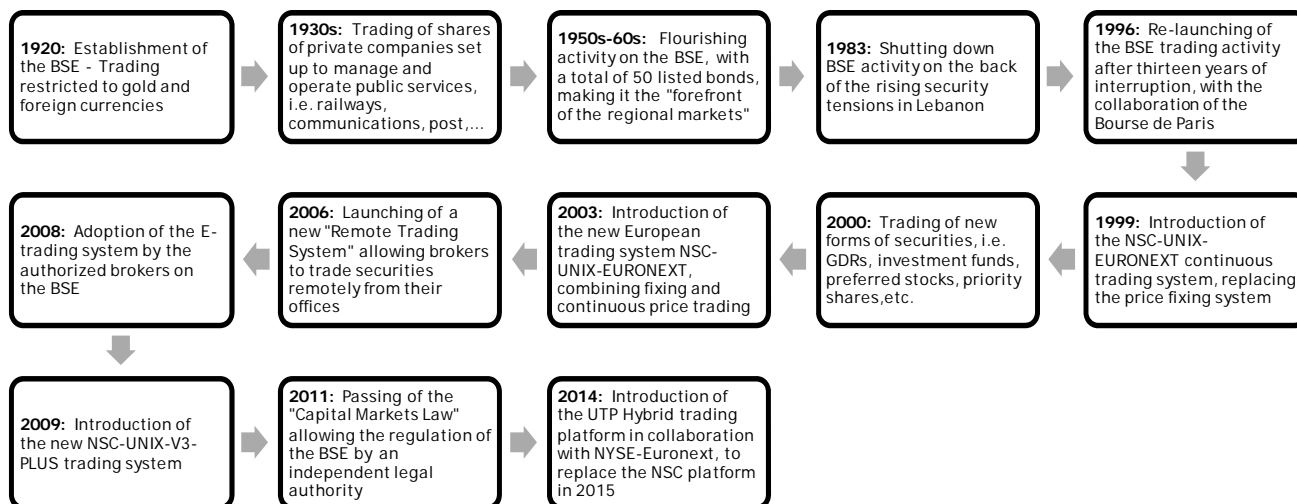
Synopsis of Terms

"ABL"	Association of Banks in Lebanon
"BDL"	Banque Du Liban
"BIS"	Bank for International Settlements
"BSE"	Beirut Stock Exchange
"CDs"	Certificates of Deposits
"CLASI "	Credit Libanais Aggregate Stock Index
"CLCI "	Credit Libanais Construction Sector Stock Index
"CLFI "	Credit Libanais Financial Sector Stock Index
"CMA"	Capital Markets Authority
"ETF"	Exchange Traded Fund
"FDI "	Foreign Direct Investment
"GCC"	Gulf Cooperation Council
"GDP"	Gross Domestic Product
"GDRs"	Global Depository Receipts
"IMF"	The International Monetary Fund
"IPO"	Initial Public Offering
"LBP"	The Lebanese Pound
"Market Cap"	Market Capitalization
"MENA"	Middle East and North Africa
"Moody's"	Moody's Investors Service
"MSCI "	Morgan Stanley Capital International
"P/E"	Price to Earnings Multiple
"P/BV"	Price to Book Value Multiple
"Pref"	Preferred Shares
"RYMCO"	Rasamny Younes Motor Company
"TOP"	Theoretical Opening Price
"USD"	The United States Dollar
"Y-O-Y"	Year-On-Year
"YTD"	Year to Date

I. History

The Beirut Stock Exchange, the principal and only stock exchange of Lebanon, is a public institution that was established on July 2nd 1920 via a decree issued by the French Commissioner. The BSE is the second oldest stock exchange in the MENA region, only preceded by the Egyptian Stock Exchange, and which comprises the Alexandria Stock Exchange (1883) and the Cairo Stock Exchange (1903). At first, trading on the BSE was restricted to gold and foreign currencies, yet expanded in the 1930s to encompass Lebanese-French private companies established to manage public services and sectors (railways, communications, post, etc...), the thing which attracted significant French, Syrian and local investments allowing as such BSE activity to flourish. It is worth noting, in this perspective, that some of these companies were listed on the BSE and the Bourse de Paris simultaneously. The 1950s-1960s period saw the BSE emerge as one of the main regional markets, with the listing of various banking, industrial and services companies in addition to the listing of some 50 bonds, in line with the economic prosperity prevailing back then. The onset of the civil war, however, severely hampered trading activity on the BSE, before being halted as of the year 1983. As stability and security were restored following the end of the civil war, the Lebanese government appointed in the year 1994 a new administrative committee to pave the way for the re-launching of the BSE. Said committee set up new internal by-laws, re-structured and streamlined mechanisms and trading systems in collaboration with the Bourse de Paris, in addition to the installation of a new electronic automated order brokers system. The Beirut Stock Exchange was officially re-launched on January 22, 1996. Ever since its reactivation, the BSE has been keen on updating its trading platform and mechanism in an endeavor to keep pace with the developments in trading systems in international bourses. In this context, the BSE penned in June 1999 a cooperation agreement with the Bourse de Paris to replace the outdated price fixing system with a new electronic trading system, the NSC-UNIX-EURONEXT, which allows for continuous trading, while a temporary trading system, based on a combined continuous-fixing price trading, was installed until the new system is set. Concurrently with the developments in its trading system, the regulatory framework of the BSE was also improved to stimulate trading activity. More particularly, the BSE's by-laws were amended on October 12, 2000 to allow for the listing and trading of new forms of securities, of which we mention Global Depository Receipts (GDRs), investment funds, preferred stocks, priority shares, and some tradable derivatives. In the year 2002, the BSE relocated to its new headquarters at the Lazarieh building in the Beirut Central District. On July 7, 2003, the BSE launched the NSC-Unix-EURONEXT trading system, alternatively known as the ATOS Euronext market solutions. In late 2006, the BSE launched a new "Remote Trading System", which allowed brokers to trade securities in a remote manner from their offices. In the year 2008, the BSE launched E-trading on the internet, and this via authorized brokers at the stock exchange. On March 3, 2009, the BSE launched a more developed trading system "NSC UNIX V3 PLUS", developed by NYSE Euronext, in order to replace the old trading system that was installed in July 2003. Nevertheless, ever since the re-launching of its operations in 1996, the Beirut Stock Exchange strived hard to return to its pre-war dynamic state, yet was interrupted by many political incidents that kept activity at subdued levels. As a result, efforts have been made to replenish investor confidence and improve activity on the stock exchange, of which we mention the passing of the "Capital Markets Law" by the Lebanese parliament in the year 2011 in an endeavor to promote transparency and enforce regulation through the establishment of an independent legal entity called the "Capital Markets Authority". More recently, the BSE inked an agreement with NYSE-Euronext to introduce the new and advanced UTP Hybrid trading platform to replace the NSC platform in the year 2015.

Key Milestones that Marked the Beirut Stock Exchange History



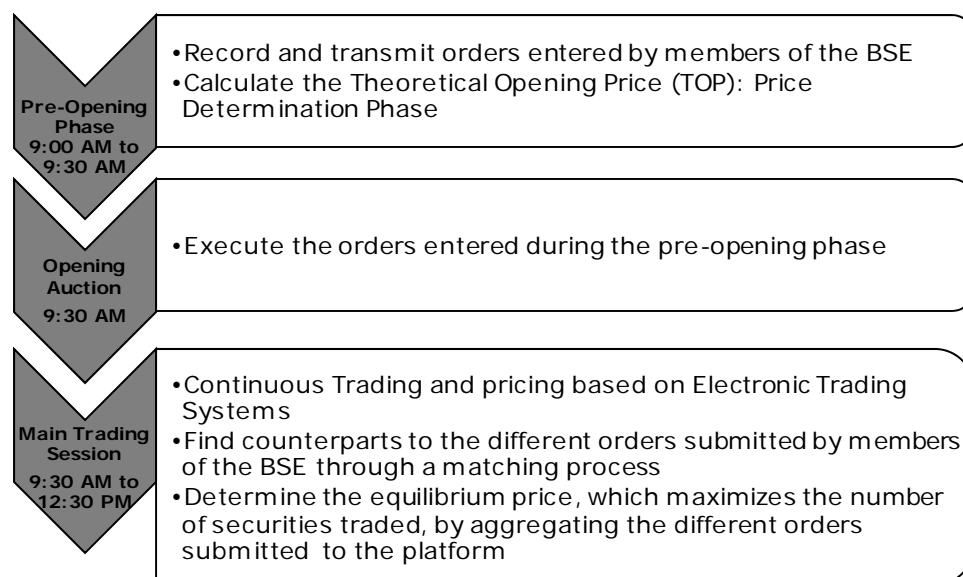
Source: BSE, Credit Libanais Economic Research Unit

II. Trading Mechanism

A. Types of operations on the BSE

The trading day on the BSE is divided into three major phases, namely the pre-opening phase, from 9:00 AM to 9:30 AM, the opening auction, and the trading session, from 9:30 AM to 12:30 PM. The first phase consists of registering the different orders entered by members and transmitting them to the trading platform. The theoretical opening price (TOP) is then calculated based on the orders entered in the order book during this phase. The opening auction phase, on the other hand, consists of executing the orders entered during the pre-opening phase. It is worth noting that the opening price on the BSE is determined before the matching process begins. Finally, after the price determination phase, the main trading session begins and continuous trading takes place. During the main trading session, the trading platform aims at finding a counterpart to the different orders submitted by the members. The aggregation of the orders submitted to the platform determines the price of the different securities.

The chart on the following page summarizes the trading mechanism that takes place on the Beirut Stock Exchange:



The table herein sheds light on the different types of orders that can be executed on the Beirut Stock Exchange platform:

Types of Orders	
Orders Entered During the Pre-Opening Phase or the Main Trading Session	
Limit	Based on maximum purchase/ minimum selling price
On-first Limit	Based on maximum purchase/ minimum selling price; Priority over limit orders
Iceberg Orders	Only a specified quantity of the securities is publicly disclosed and visible to other members
Orders Entered During the Main Trading Session Only	
Market-to-Limit	The orders placed by buyers are transformed into limit orders at the best ask price; the orders placed by sellers are transformed into limit orders at the best bid price. The order is cancelled if no order on the opposite side is found
Fill-and-Kill	Order must be executed immediately, in full or in part, at the limit price
Minimum Quantity	"Fill-and-Kill" orders specifying a minimum quantity of securities that must be filled immediately. If the minimum quantity is not executed, the order is cancelled.

It is worth mentioning that the maximum order limit specified by the BSE is 100,000,000 shares.

In addition, orders can be entered on the BSE with a predetermined date and time of execution. Moreover, members of the BSE can place basket orders on the market, which are orders that involve different operations on different types of securities. The members must, in this case, specify the trade size, the order type, the quantity, etc. on each financial instrument included in the basket order.

It is also worth noting that the orders placed on the trading platform can come in three forms. More particularly, orders can be either valid only for the trading day (Good for Day), or valid until a predetermined date (Good till Date), or until the order is cancelled (Good till Cancelled). In these different schemes, the orders are either executed at the specified conditions, or cancelled according to the abovementioned parameters.

B. Pricing Mechanism

The auction price is the price which allows the platform to execute the maximum volume of transactions in the sense that it should correspond to the demand and supply on a specific security. In this context, an issuer can resort to a market maker in order to enhance the market liquidity of its stocks. In addition, once the equilibrium price is determined, and in the event an order is not fully executed, the broker may place additional orders on the remaining volume at the equilibrium price.

It is also worth noting that there is a limit to the price fluctuations in share prices on the BSE. In details, all shares are permitted to oscillate within a +/- 10% corridor from their opening prices, with the exception of the Solidere shares "A" and "B", which are allowed a wider +/- 15% price fluctuation range.

Finally, all securities that are introduced or reintroduced on the Beirut Stock Exchange are subject to a special pricing procedure. The conditions of this special pricing procedure are discussed by the BSE Committee and should be published at least two weeks before the securities are introduced on the BSE.

III. Regulations

A. The BSE Law & By-Laws

The legislative decree No. 120, dated September 16, 1983, dictates the laws that govern the Beirut Stock Exchange and ensure its proper functioning. In details, Article 2 of the BSE law states that the stock exchange should have two markets: the "securities market" and the "market for raw materials and non-ferrous metals, including precious metals and currencies". The BSE by-laws, on the other hand, define the roles of the BSE committee and its members as well as the government commissioner and Secretary General of the Stock Exchange.

The BSE is administered by a committee whose main purpose is to manage and regulate the markets' daily activities and oversee its proper functioning while protecting investors' interests. It also has the role of drafting all regulatory texts and laws concerning the Stock Exchange and its staff. The BSE Committee is composed of ten members including the Committee's Chairman and Vice-Chairman (representing the Ministry of Finance). Two of the eight other members are appointed by the Association of Banks in Lebanon (ABL) to represent the banks operating in Lebanon, while two others are designated by the Brokers' Association of the Beirut Stock Exchange to represent the brokers. The Lebanese joint-stock companies listed on the BSE have two representatives, while the members of the BSE are represented by one member in the Committee. Finally, a Lebanese or foreign expert in stock exchange affairs is appointed as the eighth member in the Committee.

The government commissioner ensures the proper implementation of the laws and regulations set by the BSE Committee and has the right to object, if justified, to all decisions taken by the Committee. He also acts as an intermediary between the Committee and the Ministry of Finance.

Brokers

The BSE law defines a broker, also known as an agent, as the only corporate body allowed to conduct on-floor securities' transactions. The number of brokers on the BSE should not exceed 32 during the first two years following the implementation of the law back in 1996. Afterwards, the BSE can accept up to three brokers a year.

As highlighted in the table below, the BSE has 17 brokers licensed by the Lebanese Central Bank as at end of year 2013:

Broker	Chairman
Arab Finance Corporation S.A.L	Mr. Sami Akhras
Audi Saradar Investment Bank S.A.L	Dr. Imad Itani
BLC Finance S.A.L	Dr. Chady A. Karam
Bank of Beirut Invest S.A.L	Mr. Salim Sfeir
BLOM Invest Bank S.A.L	Mr. Saad Azhari
Byblos Invest Bank S.A.L	Mr. Semaan Bassil
Cedrus Invest Bank S.A.L	Mr. Ghassan Ayache
Credit Commercial et Foncier (CC&F) S.A.L	Mr. Antoine Dib
Credit Libanais Investment Bank S.A.L	Dr. Joseph Torbey
FIDUS S.A.L	Mr. Antoine Sehnaoui
F.F.A (Private Bank) S.A.L	Mr. Jean Riachi
Fransa INVEST Bank S.A.L	Mr. Nadim Kassar
LCB Finance S.A.L	Mr. George Zard Abou Jaoude
Libano Française Finance S.A.L	Mr. Walid Raphael
Mediterranee Investment Bank S.A.L (MIB)	Mr. Mohammed Hariri
MENA Invest S.A.L	Mr. Tarek Farah
Middle East Capital Group S.A.L (MECG)	Mr. Rami Nemmer

Source: BSE, Credit Libanais Economic Research Unit

As for the "market for raw materials and non-ferrous metals", the only entities allowed to trade on this market are banks operating in Lebanon, brokers, and financial institutions and currency dealers accredited by the BSE committee.

Commissions & Fees

The following table illustrates the annual fees paid by listed companies, brokers and members of the BSE:

<i>Fees in \$</i>	Issuers	Brokers	Members
First Year	10,000	10,000	100
Subsequent Years	0.5 ‰ of the stock capitalization	2,000	100

Source: BSE, Credit Libanais Economic Research Unit

It is worth noting that a stock capitalization is defined as "the average trading price in the last month prior to the due annual fee, multiplied by the number of securities accepted for trading"¹. The stock capitalization fee, however, should be bound by a \$2,000 floor and a \$10,000 cap. The table on the following page highlights the commissions on the transactions carried out on the official or secondary market as stipulated by the BSE by-laws:

¹ Beirut Stock Exchange By-Laws

Value of Transaction in \$	Commissions in ‰
0 - 100,000	4
100,001 - 1,000,000	2.5
1,000,001 - 5,000,000	1
> 5,000,000	0.1

Source: BSE, Credit Libanais Economic Research Unit

The BSE by-laws also highlight that the minimum commission applicable on each transaction is \$10, regardless of the size of the transaction. Furthermore, 64% of the commission goes to the broker, 24% to the stock exchange, while 12% is retained by the body carrying out the payment and delivery operations (Midclear). In addition, a 7.5‰ commission is imposed on any transaction carried out on the OTC market.

B. Capital Markets Law

On August 17, 2011, the Lebanese parliament passed the “Capital Markets Law” (law no. 161), a step considered to be essential for the revitalization of the Beirut Stock Exchange. The main purpose of this law is to form an independent regulatory entity, namely the “Capital Markets Authority” (CMA), to govern all operations related to the listing and trading of financial instruments on the Lebanese capital markets, including the Beirut Stock Exchange. In details, said financial instruments include stocks, shares, bonds, certificates of deposits, depositary receipts, Treasury bills, financial derivatives and structured financial products offered for public subscription, those listed or traded on the stock exchange as well as those purchased or sold on behalf of the public. In addition, the law consents the participation of non-Lebanese institutions in financial instrument operations.

This law also oversees and organizes the activities of the Beirut Stock Exchange. In fact, the latter is compelled to disclose any information concerning the listed and traded financial instruments. Furthermore, the “Capital Markets Law” requires changing the legal status of the Beirut Stock Exchange to that of a Lebanese joint-stock company, “Beirut Stock Exchange S.A.L”, within a period of one year following the start of the Capital Markets Authority’s Board operations. Subsequently, the Beirut Bourse’s shares are to be transferred to private sector third parties through a public or private offering, basically a form of privatization.

The “Capital Markets Authority”, on the other hand, consists of four main bodies namely the Board, the Secretariat, the Capital Markets Control Unit, and the Sanction Committee. These four bodies coordinate with each other in order to ensure the protection of investors from any unethical or unfair practices, such as insider trading in addition to reducing the systemic risks and monitoring the disclosure of information within an organized regulatory framework, in coordination with the Authority’s counterparts as well as the Lebanese Central Bank.

More recently, Mr. Riad Salameh, Governor of the Central Bank and president of the Lebanese Capital Markets Authority signed on Monday May 12, 2014 a cooperation agreement with Mr. Gérard Rameix, president of the AMF (Autorité des marchés financiers), the authority in charge of capital markets’ regulation in France. Mr. Riad Salameh stated that this agreement will reinforce the cooperation between both authorities, which will be able to share helpful information for a better management of capital markets and a better monitoring of the transactions executed on both markets. Governor Salameh also commented that similar agreements will be ratified with other countries in Europe, America and in the region to increase

the BSE's standing in the world and make it more attractive to foreign investors. This series of agreements is part of a global strategy by the BSE to combat the various abuses and frauds witnessed in stock markets in recent years.

The Board

The CMA's Board consists of seven members: The Governor of the Lebanese Central Bank Mr. Riad Salameh as Chairman of the CMA, the general directors of the Ministry of Finance and the Ministry of Economy and Trade, and the Banking Control Commission Chairman. An expert in banking matters must also be appointed by the Association of Banks in Lebanon (ABL), together with an expert in capital markets delegated by the Beirut Stock Exchange and a third expert in financial markets designated by the Minister of Finance. The Board of the CMA will elect one of these three members as vice-Chairman of the Authority. Moreover, the Board's main function revolves around encouraging investments in the Lebanese capital markets by implementing the regulations pertaining to the proper functioning and management of the markets. The Chairman, in particular, has the executive power to organize and manage the Authority's daily activities.

The Secretariat

"The Secretariat of the Capital Markets Authority" constitutes the administrative body of the organization. It serves as an intermediary between the Board and the other units within the Authority by relaying any report, complaint or decision submitted by the Capital Markets Control Unit or the Sanction Committee to the Board. It also oversees and ensures the execution of any regulatory decisions and general directives set by the Board and the Sanction Committee. Finally, the Secretariat can conduct studies and statistics and collect specific data as requested by the Board.

The Capital Markets Control Unit

Established by the Authority's Board, "The Capital Markets Control Unit" has to monitor and ensure the proper implementation of any regulations as well as the disclosure of the correct and necessary information concerning the listed companies. The Control Unit reports directly to the Board and operates as an autonomous body the expenses of which (compliance investigations expenses, monitoring expenses, etc.) are fully borne by the Authority.

The Sanction Committees

"The Sanction Committee" has the authority to impose administrative (warnings, suspension of transactions involving listed financial instruments, suggestions to the Board to withdraw any security from the trading process or withdraw the granted license) and monetary sanctions (penalties following the disclosure of incomplete or false information, the manipulation of prices, etc.) on the concerned entities upon any violation of the regulatory framework set forth by the Capital Markets Authority. The Sanction Committee comprises five members appointed by the Ministers of Finance and Justice, with the prior approval of the High Judicial Council: the Chairman being a judge from the tenth grade at least, two experts in finance or economics and two experts in the capital markets who are also in the legal profession.

The Capital Markets Court

"The Capital Markets Court" is composed of a judge from at least the tenth grade acting as Chairman, appointed by the Minister of Justice, with the prior approval of the High Judicial

Council, along with two other members: a legal professional with experience in financial matters and an expert in economics or finance, both appointed by the Ministers of Justice and Finance. The Capital Markets Court's main function is to examine the conflicts arising between individuals in the Authority or the concerned entities, examine all the violations made concerning the trading of financial instruments, and assess the decisions taken by the Sanctions Committee.

C. Types of Listed Securities

The Securities market of the BSE comprises all shares categories, government or corporate bonds (including convertible bonds), Certificates of Deposits (CDs) issued by banks, Global Depository Receipts (GDRs – number equivalent to a minimum of 20% of the issuer's shares), or any other type of securities or financial rights tradable by nature.

D. Fiscal Regulations

Dividend distribution is subject to a 10% dividend withholding tax in Lebanon. However, article 72 of law number 107 dated July 30, 1999 specifies that Lebanese financial institutions listed on the Beirut Stock Exchange are instead subject to a 5% dividend tax. This fiscal regulation provides an incentive for Lebanese companies to float their shares on the stock exchange.

IV. Types of Markets

The Beirut Stock Exchange authorizes any Lebanese joint-stock company or any other foreign company, member of the BSE, to be listed on the Beirut Bourse. The BSE is divided into three distinct sub-markets, depending on the size of the capital of the candidate company.

Official Market

A company wishing to be listed on the official market of the BSE should meet the \$3 million minimum capital requirement and have at least 25% of its shares floated on the stock market and owned by a minimum of 50 shareholders. Such a company should also publish its financial statements to the public on a quarterly basis. A listed company should have been incorporated at least three years before the date of listing added that the total value of the listing should be equivalent to a minimum of \$2 million. It is worth noting that a bank wishing to be listed should float at least one third of its shares on the official market.

The following is a comprehensive table of all the securities listed on the BSE's Official Market as at end of April 2014:

Listed Stocks	Listed Shares
<u>Development & Reconstruction</u>	
Solidere "A"	100,000,000
Solidere "B"	65,000,000
<u>Banking</u>	
BLC Bank - Listed Shares	51,033,333
BLC Bank Preferred Class "A"	400,000
BLC Bank Preferred Class "B"	550,000
BLC Bank Preferred Class "C"	350,000
Bank Audi - Listed Shares	349,749,204
Bank Audi - GDRs	102,493,911
Bank Audi Preferred "E"	1,250,000
Bank Audi Preferred "F"	1,500,000
Bank Audi Preferred "G"	1,500,000
Bank Audi Preferred "H"	750,000
Bank Of Beirut - Listed Shares	16,822,467
Bank Of Beirut Preferred "E"	2,400,000
Bank Of Beirut Preferred "H"	5,400,000
Bank Of Beirut Preferred "I"	5,000,000
Byblos Bank - Listed Shares	565,515,040
Byblos Bank Preferred Class 2008	2,000,000
Byblos Bank Preferred Class 2009	2,000,000
BEMO Bank - Listed Shares	51,400,000
BEMO Bank Preferred	200,000
BEMO Bank Preferred Class 2013	350,000
BLOM Bank GDR	73,896,010
BLOM Bank Listed Shares	215,000,000
BLOM Bank Preferred Class 2011	20,000,000
<u>Trading</u>	
Rasamny Younis Motor Co. B	10,920,000
<u>Industrial</u>	
HOLCIM Liban	19,516,040
Ciments Blancs Bearer	6,000,000
Ciments Blancs Nominal	3,000,000

Companies other than those appearing in the table above were previously listed and later delisted, including "Bou Khalil Markets", "Eternit", "Ciment Libanais" (all three delisted in 2002), and "Uniceramic" (delisted in 2009).

Republic of Lebanon Eurobonds are also listed on the BSE's official market and are depicted in the table on the following page:

Lebanese Eurobonds	Currency	Maturity	Coupon	Coupon Frequency	Total Nominal Value
Republic of Lebanon	USD	Jan-15	5.875%	2	250,000,000
Republic of Lebanon	USD	Jun-15	4.100%	2	500,000,000
Republic of Lebanon	USD	Aug-15	8.500%	2	500,000,000
Republic of Lebanon	USD	Jan-16	8.500%	2	750,000,000
Republic of Lebanon	USD	Apr-16	4.500%	2	600,000,000
Republic of Lebanon	USD	Nov-16	4.750%	2	500,000,000
Republic of Lebanon	USD	Mar-17	9.000%	2	1,500,000,000
Republic of Lebanon	USD	Jul-17	3.750%	2	300,000,000
Republic of Lebanon	USD	Oct-17	5.000%	2	600,000,000
Republic of Lebanon	USD	Dec-17	4.000%	2	2,007,511,000
Republic of Lebanon	LBP	Dec-17	7.900%	2	1,500,000,000,000
Republic of Lebanon	USD	Jun-18	5.150%	2	700,000,000
Republic of Lebanon	USD	Nov-18	5.150%	2	997,999,000
Republic of Lebanon	EUR	Nov-18	5.350%	1	445,000,000
Republic of Lebanon	USD	Apr-19	5.500%	2	500,000,000
Republic of Lebanon	USD	May-19	6.000%	2	650,000,000
Republic of Lebanon	USD	Nov-19	5.450%	2	1,500,000,000
Republic of Lebanon	USD	Mar-20	6.375%	2	1,200,000,000
Republic of Lebanon	USD	Apr-21	8.250%	2	1,661,469,000
Republic of Lebanon	USD	Oct-22	6.100%	2	1,540,000,000
Republic of Lebanon	USD	Nov-23	6.000%	2	1,100,000,000
Republic of Lebanon	USD	Dec-24	7.000%	2	250,000,000
Republic of Lebanon	USD	Jun-25	6.250%	2	800,000,000
Republic of Lebanon	USD	Nov-26	6.600%	2	725,000,000
Republic of Lebanon	USD	Nov-27	6.750%	2	1,000,000,000

Source: BSE, Credit Libanais Economic Research Unit

Secondary Market (Junior Market)

A company wishing to be listed on the Secondary Market should have a paid-up capital in excess of \$1 million and have at least 25% of its shares floated to the public. In addition, ownership of the floated shares should be spread over a minimum of 50 shareholders.

The following table captures the various funds that have been listed on the Junior Market since the year 1996:

Name of the Fund	Issuer	Date of Listing	Date of Delisting	Listed Shares (in thousands)
Lebanon Holdings	Lebanon Holdings	1998	2004	2,015.24
Beirut InterBank Fund	Bank of Beirut	2002	2006	200.00
Beirut Lira Fund	Bank of Beirut	2004	2007	275.00
Beirut Global Income	Bank of Beirut	2003	2007	340.00
Beirut Golden Income	Bank of Beirut	2004	2008	410.00
Beirut Preferred Fund	Bank of Beirut	2006	2013	325.76

It is worth noting that no securities are currently listed on the BSE's Junior Market.

Over-the-counter (OTC) market

The securities listed on this sub-market are not listed on the official Stock Exchange. The OTC market allows the listing of any security issued by a Lebanese joint-stock company having a capital of at least \$100,000.

The shares currently trading on the BSE's OTC market are outlined in the following table:

Sector	Name of Stock
Banking	Fransabank "B" Shares Byblos Bank GDRs
Retail	ABC Shares
Tourism	Casino du Liban Shares SGHL (Société des Grands Hôtels du Liban) Shares

International Markets

Finally, various Lebanese companies have listed their shares in the form of Global Depositary Receipts (GDRs) on international stock markets, namely the London Stock Exchange and the Luxembourg Stock Exchange:

Listed GDRs	Stock Exchange
<u>Development & Reconstruction</u>	
Solidere	London Stock Exchange
<u>Banking</u>	
Byblos Bank	London Stock Exchange
BLOM Bank	Luxembourg Stock Exchange
Bank Audi	London Stock Exchange

The following is a summary of the pre-requisites for companies to list their stocks on the different Lebanese stock markets:

Type of Market	Minimum Paid-Up Capital	Date of Incorporation	Minimum Flotation Rate
Official Market	\$3 million	At least 3 years before the date of listing	25% for non-banking stocks and 33% for banking stocks allocated over at least 50 shareholders
Secondary Market	\$1 million	-	25% allocated over at least 50 shareholders
Over-the-Counter Market	\$100,000	-	-
International Markets	-	-	30% of the company's listed common shares

V. Analysis of Trading Activity

A. Volume & Value Traded

The following table depicts the trading activity on the Official Market of the Beirut Stock Exchange during the first four months (January through April) of the year 2014:

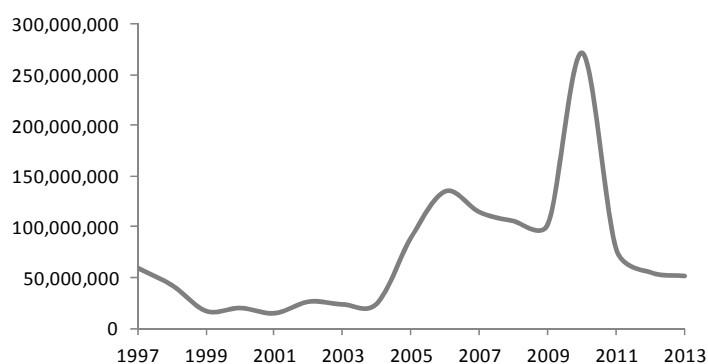
Listed Shares on the Official Market	Opening Price (\$) (January 2, 2014)	Closing Price (\$) as at End of April 2014	Total Traded Volume	Total Traded Value (\$)	Average Traded Volume/Day	Average Traded Value/Day (\$)	YTD Price Performance	Market Capitalization as at end of April 2014 (\$ Thousands)
Development & Reconstruction								
Solidere "A"	11.04	12.90	1,931,848	25,292,380	24,148	316,155	16.74%	1,290,000
Solidere "B"	10.95	12.90	836,502	10,897,807	10,456	136,223	17.06%	838,500
Banking								
BLC Bank - Listed Shares	1.95	1.85	17	33	0	0	0.00%	94,412
BLC Bank Preferred Class "A"	101.00	103.00	4,500	456,000	56	5,700	1.98%	41,200
BLC Bank Preferred Class "B"	100.00	100.00	6,000	602,500	75	7,531	0.00%	55,000
BLC Bank Preferred Class "C"	100.00	100.50	3,000	301,500	38	3,769	0.50%	35,175
Bank Audi - Listed Shares	6.30	6.05	5,525,827	35,369,543	69,073	442,119	-3.04%	2,115,983
Bank Audi GDR	6.49	6.20	374,374	2,429,880	4,680	30,374	-4.47%	635,462
Bank Audi Preferred "E"	102.50	100.00	8,860	892,750	111	11,159	-2.44%	125,000
Bank Audi Preferred "F"	102.50	100.00	31,297	3,173,220	391	39,665	-2.44%	150,000
Bank Audi Preferred "G"	100.00	100.00	17,905	1,789,315	224	22,366	0.00%	150,000
Bank Audi Preferred "H"	100.00	100.00	16,485	1,650,566	206	20,632	0.00%	75,000
Bank Of Beirut - Listed Shares	19.00	19.00	68,000	1,291,287	850	16,141	0.00%	319,627
Bank Of Beirut Preferred "E"	26.00	25.15	38,750	1,019,475	484	12,743	-3.27%	60,360
Bank Of Beirut Preferred "H"	25.90	26.84	166,058	4,333,586	2,076	54,170	3.87%	144,936
Bank Of Beirut Preferred "I"	25.80	26.40	49,600	1,312,975	620	16,412	2.33%	132,000
Byblos Bank - Listed Shares	1.57	1.69	6,358,867	10,542,797	79,486	131,785	9.03%	955,720
Byblos Bank Preferred Class 2008	101.00	103.50	8,136	827,536	102	10,344	2.48%	207,000
Byblos Bank Preferred Class 2009	101.50	103.10	6,100	629,369	76	7,867	1.58%	206,200
BEMO Bank - Listed Shares	1.84	1.82	14,105	25,671	176	321	-1.09%	93,548
BEMO Bank Preferred	100.30	100.00	1,150	115,000	14	1,438	-0.30%	20,000
BEMO Bank Preferred Class 2013	-	100.00	11,050	1,114,225	138	13,928	0.00%	35,000
BLOM Bank GDR	8.80	9.20	1,376,658	12,350,733	17,208	154,384	4.55%	679,843
BLOM Bank Listed Shares	8.25	8.95	2,170,378	18,802,075	27,130	235,026	8.48%	1,924,250
BLOM Bank Preferred Class 2011	10.17	10.18	178,108	1,812,556	2,226	22,657	0.10%	203,600
Trading								
RYMCO Class "B"	3.50	3.50	0	0	0	0	0.00%	38,220
Industrial								
Holcim Liban	15.65	15.49	10,248	148,258	128	1,853	-0.58%	302,303
Ciment Blancs Bearer	3.50	3.50	0	0	0	0	0.00%	21,000
Ciment Blancs Nominal	3.24	2.75	12,822	37,011	160	463	-15.12%	8,250
Total	-	-	19,226,645	137,218,048	240,334	1,715,226	-	11,053,152

The following section depicts the historical evolution of both volume and value traded on the BSE from the year 1997 up until the end of the year 2013:

Historical Evolution of Traded Volume

Year	1997	1998	1999	2000	2001	2002	Volume High	Year
Volume (in millions)	59.17	42.23	16.84	19.97	14.73	26.18	271.10	2010
Y-O-Y % Change	-	-29%	-60%	19%	-26%	78%		
Year	2003	2004	2005	2006	2007	2008		
Volume (in millions)	23.48	24.54	89.74	134.85	114.24	105.52		
Y-O-Y % Change	-10%	5%	266%	50%	-15%	-8%		
Year	2009	2010	2011	2012	2013			
Volume (in millions)	102.59	271.10	77.50	55.03	51.41			
Y-O-Y % Change	-3%	164%	-71%	-29%	-7%			

Evolution of BSE Traded Volume

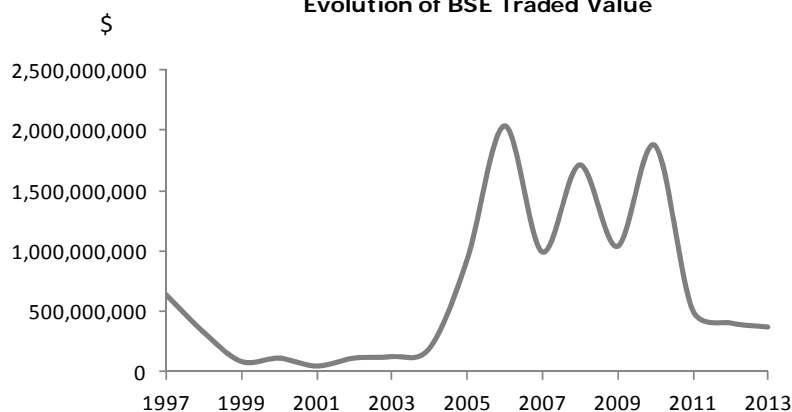


Source: BSE, Credit Libanais Economic Research Unit

Historical Evolution of Traded Value

Year	1997	1998	1999	2000	2001	2002	Value High	Year
Value (in \$ millions)	639.75	330.46	90.54	117.96	52.97	118.90	2,031.88	2006
Y-O-Y % Change	-	-48%	-73%	30%	-55%	124%		
Year	2003	2004	2005	2006	2007	2008		
Value (in \$ millions)	130.99	197.85	923.42	2,031.88	993.80	1,710.41		
Y-O-Y % Change	10%	51%	367%	120%	-51%	72%		
Year	2009	2010	2011	2012	2013			
Value (in \$ millions)	1,038.11	1,870.63	515.37	408.50	375.16			
Y-O-Y % Change	-39%	80%	-72%	-21%	-8%			

Evolution of BSE Traded Value

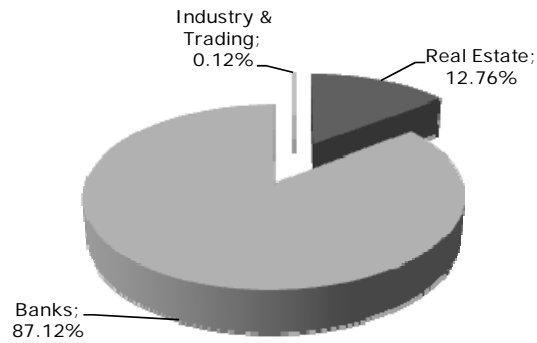


Source: BSE, Credit Libanais Economic Research Unit

As illustrated above, it is obvious that traded volume and traded value have reached their peak of 134.85 million shares and \$2.03 billion respectively in the year 2006, before continuously dropping ever since.

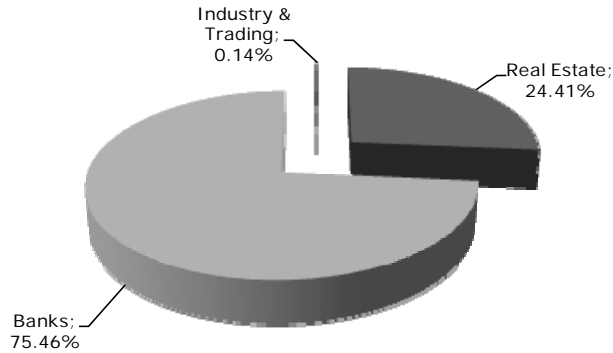
Banking sector stocks detained the lion's share of volume traded (87.12%; 16,435,225 traded shares) during the first four months of the year 2014. Realty stocks, on the other hand, consisting of Solidere "A" and "B" shares, amassed a relatively smaller stake of 12.76% of total volume traded (2,768,350 traded shares) up until April 2014.

Allocation of Traded Volume Up to April 2014



As far as traded value is concerned, listed banking stocks also controlled the largest share of 75.46% of total traded value, valued at \$100.84 million up to April 2014. The real estate sector followed suit with a contribution of 24.41% (valued at \$36.19 million) of the total Beirut Stock Exchange traded value up to April 2014.

Allocation of Traded Value Up to April 2014



B. Market Capitalization

Notwithstanding the fact that the BSE's market capitalization has widened astoundingly by 295.46% over the 1997-April 2014 period, from \$2.68 billion to just over \$11 billion at present, it remains one of the smallest stock exchanges in the Middle East and North Africa (MENA) region, with the number of listed companies increasing from 8 in the year 1997 to 16 in the year 2006, before dropping to 10 companies since the year 2010. The following table compares market capitalization across different countries in the region:

Country	Market Capitalization (\$ million)
Tunisia	9,157
Lebanon	11,053
Bahrain	21,533
Jordan	26,820
Oman	36,716
Morocco	57,548
Egypt	68,218
Dubai	97,850
Kuwait	111,153
Abu Dhabi	138,358
Qatar	201,052
Saudi Arabia	519,771

*Source: EFG Hermes, Credit Libanais
Economic Research Unit*

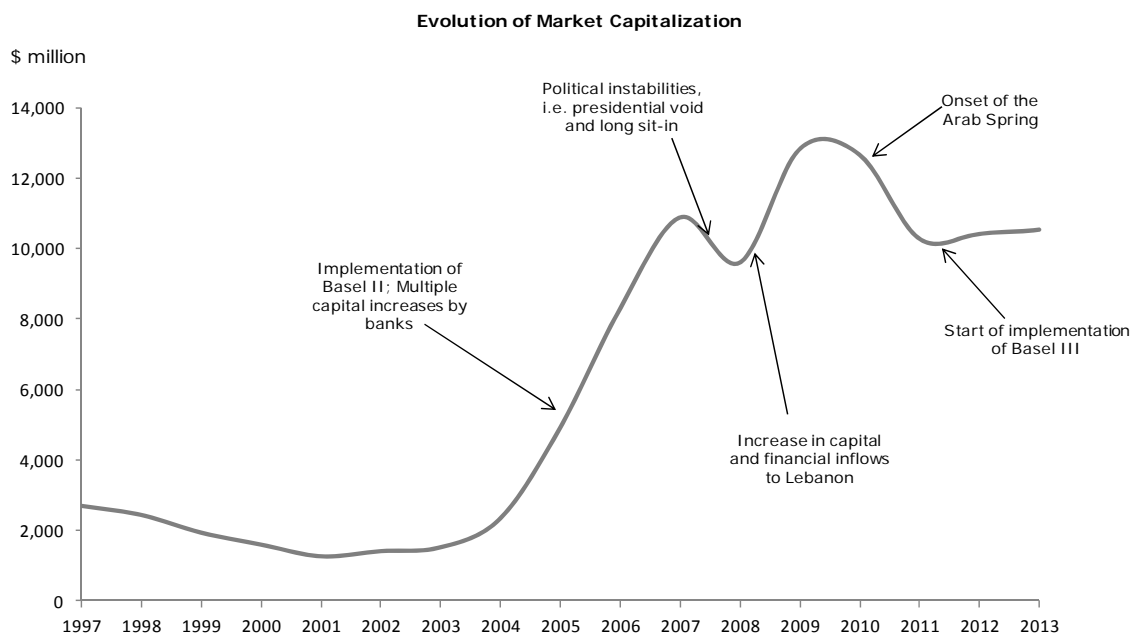
As captured by the chart on the following page, the Beirut Stock Exchange witnessed a relatively dormant activity between 1997 and 2004, before it reached its first peak in volume, value and, of course, market capitalization in the year 2007. In fact, starting the year 2004, the BSE market capitalization embarked on an upward trend to reach \$10.89 billion in 2007 fueled by the large inflow of foreign capital (FDIs) channeled back into the region.²

In fact, and knowing that listed banking stocks detain the largest stake in terms of volume and value on the Beirut Stock Exchange over the period under study, we can conclude that specific factors directly influencing the banking sector, aside from political and security-related issues, explain the fluctuation in the BSE's market capitalization. More specifically, in November 2005, the Bank for International Settlements (BIS) released the "International Conversions of Capital Measurements and Standards" version of Basel, prompting the international community to abide by the Basel II standards. In this context, the Lebanese Central Bank called for the immediate implementation of the new Basel requirements by banks operating in Lebanon. As a result, a number of banks resorted to issuing common and preferred shares to increase their capital base and meet the then capital adequacy threshold of 8%, the thing which explains the substantial increase in the BSE's market capitalization witnessed during the 2004-2007 period. For instance, Bank of Beirut issued and listed its preferred callable shares Class "B" in the year 2004 and its class "C" convertible preferred shares in the year 2005. Similarly, BLOM Bank listed its class "2002", "2004" and "2005" preferred shares in the year 2006 with Bank Audi listing its class "C"

² Le Commerce du Levant – July 2007

and class “D” preferred shares later in 2007 together with BEMO Bank’s listing of its first class of preferred shares.

The aforementioned hike in market capitalization can also be attributed in part to the issuance and listing of additional securities (common shares, preferred stocks, or GDRs) by some Lebanese banks to finance their expansion outside Lebanon and/or acquisitions of domestic or foreign banks.



Source: BSE, Credit Libanais Economic Research Unit

The BSE’s activity slowed significantly afterwards amid the presidential void, protests and long sit-in which lasted until May 2008 (presidential elections). It is worth noting that the year 2008 was also marked by the onset of the global financial crisis, yet the resulting losses remained limited on the back of the sustained influx of capital to the country, thanks to the prudent and cautious measures put in place by the Lebanese Central Bank which spared Lebanon from the repercussions of the crisis. Consequently, Lebanon saw an economic boom during the 2007-2010 period, with real GDP growth averaging around 9% per annum, propelling as such an increase in market capitalization to its record high of \$12.84 billion in the year 2009. The outbreak of the Arab Spring, however, since the year 2010, had put investors on the sidelines and consequently backfired on trading activity and market capitalization which watered down to \$10.29 billion as at end of year 2011.

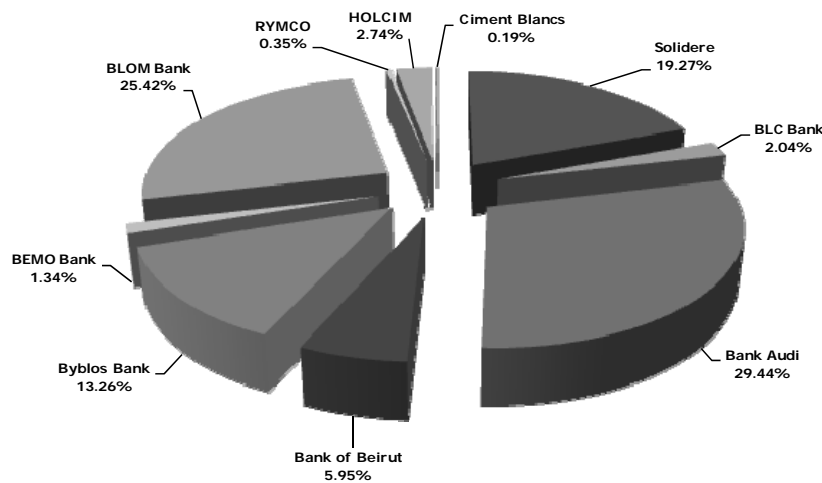
Market capitalization oscillated between \$10.42 billion and \$10.55 billion during the years 2012 and 2013 before notching slightly higher to around \$11 billion as at end of April 2014. This correction comes in spite of the devastations in neighboring Syria and its repercussions on Lebanon as Lebanese banks continuously increased their capital, whether by issuing preferred or common stock, to address the solvency and liquidity requirements of Basel III. It is worth noting, in this context, that the Lebanese Central Bank required banks operating in Lebanon to maintain a minimum capital adequacy ratio of 10.5% by the year 2013, 11.5% by 2014, and 12% by end of 2015, according to the Basel III pillars.

Accordingly, BLC Bank listed its preferred shares, classes “A” and “B”, in the year 2012 together with Bank Audi’s class “F” preferred shares. The following year, BLC Bank listed its class “C” preferred shares, Bank Audi listed its class “G” preferred shares, Bank of Beirut its class “I” preferred shares, and BEMO Bank its preferred shares class 2013 on the BSE’s official market.

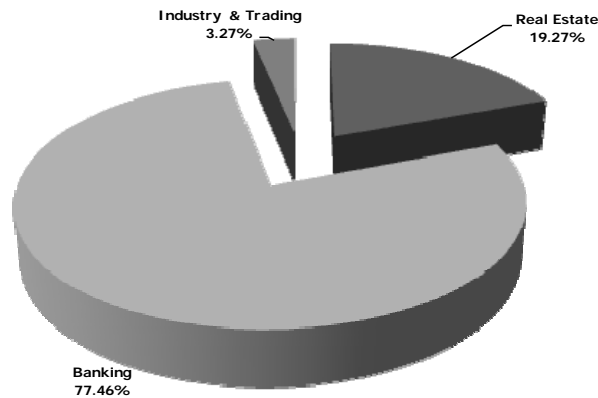
It is noticeable that the banking sector enjoys today the largest market capitalization of securities listed on the BSE, with Bank Audi (comprising common shares, GDRs, and four classes of preferred shares) controlling a stake of 29.44% (\$3,251.44 million), followed by BLOM Bank (common shares, GDRs, and preferred shares), which holds a stake of 25.42%. Real estate stocks, represented by Solidere “A” and “B” shares, came in the third place (\$2,128.50 million; 19.27% share of total market cap), followed by Byblos Bank (common shares, GDRs, and preferred classes 2008 and 2009), detaining 13.26% of total market capitalization (\$1,464.48 million).

The following pie charts depict the breakdown of market capitalization by listed company and by economic sector during the first four months of the year 2014:

Breakdown of Market Cap by Company as at End of April 2014



Breakdown of Market Cap by Sector as at End of April 2014



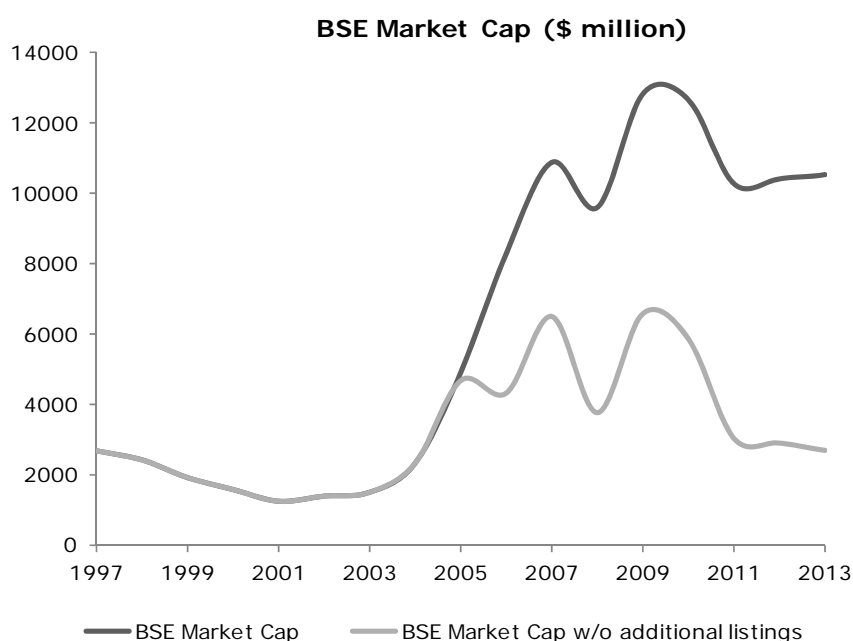
C. Understanding the Evolution of the BSE’s Market Capitalization

2006 Through April 2014

	2006	Apr-14
Market Capitalization	\$8,303,640,000	\$11,053,150,000
Change Over the Period		\$2,749,510,000
% Change Over the Period		33.11%
Listing of Common Shares		\$4,157,894,326
Listing of GDRs		\$674,523,143
Listing of Preferred Shares		\$1,758,000,000
Effect of Additional Listings on Market Cap		\$6,590,417,469
% of the variation in market cap		239.69%
Price Effect on Market Cap		(\$3,840,907,469)
% of the variation in market cap		-139.69%

The aggregate market capitalization of all stocks listed on the BSE increased by 33.11% during the eight-year period extending between 2006 and April 2014. However, and when factoring out the impact (around \$6.59 billion) of listings of additional securities by existing companies on the evolution of market capitalization, the latter would have suffered a significant 46.26% drop over the aforementioned period. This can be explained by the contraction in the prices (price dilution effect on market cap estimated at a negative \$3.84 billion) of listed stocks during the many periods of political instability, namely the Israeli aggression on Lebanon in 2006, the long sit-in since late 2006, the outbreak of the global financial crisis, and more recently the spillover of the Arab Spring since late 2010.

The following chart depicts the evolution of the BSE’s market capitalization over the 2006-2013 period against its adjusted values when factoring out the impact of new listings of common and preferred shares:



2006

	Audi-Saradar Bank Lists a total of 3,488,709 new GDRs		Audi-Saradar Bank Lists a total of 32,766,240 new shares at a price of \$65.5 per share	
1-Mar-06	between March 1, 2006 and August 16, 2006	6-May-06	16-Oct-06	Throughout the year 2006
BLOM Bank Lists a total of 3,000,000 new GDRs for a total consideration of \$276 million		BLC Lists 20,023,580 new shares, for a total consideration of LBP 100 billion		BLOM Bank lists a total of 2.5 million class 2002, 2004, and 2005 preferred shares

2006	
Market Capitalization	\$8,303,640,000
Annual Change	\$3,386,460,000
Annual % Change	68.87%
Listing of Common Shares	\$2,212,523,712
Listing of GDRs	\$515,325,437
Listing of Preferred Shares	\$253,000,000
Effect of Additional Listings on Market Cap	\$2,980,849,149
% of the variation in market cap	88.02%
Price Effect on Market Cap	\$405,610,851
% of the variation in market cap	11.98%

The market capitalization of the Beirut Stock Exchange soared by 68.87% during the year 2006, reaching \$8.30 billion by year-end, up from \$4.92 billion a year earlier. It is worth noting that the bulk (88.02%) of this expansion was attributed to the listing of additional shares and GDRs worth some \$2.98 billion. Part of this was the result of Lebanese banks' resolution to increase their capital in order to be compliant with the Basel norms of capital adequacy, added their need to finance their domestic and regional expansion. The change in the prices of listed securities, on the other hand, accounted for only 11.98% of the total increase in market capitalization during that specific year. This fluctuation in stock prices was in part buoyed by the market making performed by many listed banks ahead and during the process of listing additional shares and GDRs on the Beirut and international stock exchanges.

2007

	BEMO Bank lists 66,666 additional shares on the BSE		BLC approved the listing of 17,155,000 new shares		Bank Audi lists 142,000 GDRs for a total consideration of \$10.83 million
14-Apr-07	23-Apr-07	15-Jun-07	24-Oct-07	2007	
	BEMO Bank lists 200,000 series 2006 preferred shares on the BSE		RYMCO lists 400,000 new shares on the BSE		

2007	
Market Capitalization	\$10,894,020,000
Annual Change	\$2,590,380,000
Annual % Change	31.20%
Listing of Common Shares	\$171,836,664
Listing of GDRs	\$10,830,000
Listing of Preferred Shares	\$20,000,000
Effect of Additional Listings on Market Cap	\$202,666,664
% of the variation in market cap	7.82%
Price Effect on Market Cap	\$2,387,713,336
% of the variation in market cap	92.18%

During the year 2007, the BSE's market capitalization rose by 31.20%, boosted mainly by a rally in stock prices. In details, the expansion in stock prices accounted for 92.18% of the increase in market capitalization, and was possibly lifted by market making activities completed by Lebanese banks to facilitate the listing of new securities, coupled with the repatriation of funds by Lebanese expatriates and sovereign wealth funds which were channeled back into the region at the onset of the global financial crisis.

2008

Byblos Bank lists 12,088,834 additional shares on the BSE	Byblos Bank approves the listing of 200,000 class 2008 preferred shares for a total consideration of \$200 million		
4-Apr-08	6-Jun-08	September 2008	22-Sep-08
	BLOM Bank lists 14,333,333 additional shares on the BSE		Audi Bank lists 1,287,000 new common shares on the BSE

2008	
Market Capitalization	\$9,608,580,000
Annual Change	(\$1,285,440,000)
Annual % Change	-11.80%
Listing of Common Shares	\$1,419,702,208
Listing of GDRs	-
Listing of Preferred Shares	\$200,000,000
Effect of Additional Listings on Market Cap	\$1,619,702,208
% of the variation in market cap	-126.00%
Price Effect on Market Cap	(\$2,905,142,208)
% of the variation in market cap	226.00%

During the year 2008, the market capitalization of the Beirut bourse shed around \$1.29 billion as a result of the fast propagation of the global financial crisis which hit stock markets around the globe including GCC markets.

2009

BOB lists 1,413,847 additional common shares on the BSE		Trading on Unicericam's "Nominal A" and "Bearer C" shares was suspended as of September 18, 2009		Byblos Bank lists 2 million series 2009 preferred shares	
25-May-09	18-Jun-09	17-Sep-09	13-Nov-09	November 2009	November 2009
	Byblos Bank lists 1,033,042 new GDRs on the BSE for a total consideration of \$82.65 million		BOB lists Class "E" 2.4 million preferred shares for a total consideration of \$60 million		Audi Bank lists 229,552 new common shares for a total consideration of \$1.87 million

2009

Market Capitalization	\$12,842,740,000
Annual Change	\$3,234,160,000
Annual % Change	33.66%
Listing of Common Shares	\$26,744,015
Listing of GDRs	\$82,650,000
Listing of Preferred Shares	\$260,000,000
Effect of Additional Listings on Market Cap	\$369,394,015
% of the variation in market cap	11.42%
Price Effect on Market Cap	\$2,864,765,985
% of the variation in market cap	88.58%

During the year 2009, the peak of the Subprime crisis was paradoxically met by an economic boom in Lebanon, attracting capital and financial inflows to the country and lifting stock prices to new highs. This expansion in stock prices accounted for 88.58% of the rise in the market capitalization in 2009. The listing of additional securities, however, accounted for a mere 11.42% of the increase in market capitalization.

2010

BOB lists 1.87 million new common shares on the BSE	Bank Audi's common shares, preferred "D" shares, and GDRs were split at a ratio of 10 to 1	Byblos Bank lists 142,378,760 new common shares on the BSE for a total consideration of \$249.16 million	BLOM Bank's common shares, GDRs, and preferred shares class 2004 and 2005 were split at a ratio of 10 to 1
17-Feb-10	22-Feb-10 25-May-10	14-Jul-10	15-Jul-10 6-Sep-10 4-Oct-10 31-Dec-10
Audi Bank lists 326,859 new GDRs	Audi Bank lists 1.25 million series "E" preferred shares for a total consideration of \$125 million	Byblos Bank lists 276,036 new additional GDRs	Audi Bank lists 12,317,460 new common shares for a total consideration of \$10.25 million

2010	
Market Capitalization	\$12,676,480,000
Annual Change	(\$166,260,000)
Annual % Change	-1.29%
Listing of Common Shares	\$294,472,500
Listing of GDRs	\$53,528,706
Listing of Preferred Shares	\$125,000,000
Effect of Additional Listings on Market Cap	\$473,001,206
% of the variation in market cap	-284.49%
Price Effect on Market Cap	(\$639,261,206)
% of the variation in market cap	384.49%

The year 2010 saw a slim \$166 million contraction in market capitalization to \$12.67 billion. More specifically, the impact of the additional listing of some 157.17 million new securities on the BSE's market capitalization was more than offset by the drop in prices amid the onset of the Arab Spring revolutions.

2011

Bank BEMO lists 46 million new common shares for a total consideration of LBP 46 billion	BLOM Bank lists 20 million preferred shares series "2011" on the BSE for a total consideration of \$200 million		
15-Apr-11	23-May-11	11-Aug-11	26-Oct-11
	BLC Bank lists 133,333 new common shares		BOB lists 5,400,000 class "H" preferred shares on the BSE for a total consideration of \$135 million

2011	
Market Capitalization	\$10,285,390,000
Annual Change	(\$2,391,090,000)
Annual % Change	-18.86%
Listing of Common Shares	\$30,735,227
Listing of GDRs	-
Listing of Preferred Shares	\$335,000,000
Effect of Additional Listings on Market Cap	\$365,735,227
% of the variation in market cap	-15.30%
Price Effect on Market Cap	(\$2,756,825,227)
% of the variation in market cap	115.30%

The rippling effect of the Arab Spring which struck neighboring Syria since March 2011 severely backfired on trading activity on the Beirut bourse, with the average daily traded value dropping markedly by 72.22% year-on-year. On the capitalization front, and notwithstanding the listing of additional securities worth some \$365.74 million, the BSE's market capitalization shed 18.86%, dragged by a sharp drop in stock prices amid the growing fears surrounding the economy and its political scene.

2012

	Bank Audi lists 1,500,000 series "F" preferred shares for a total consideration of \$150 million	
27-Jan-12	20-Apr-12	Throughout 2012
BLC Bank lists 400,000 Class "A" preferred shares for a total consideration of \$40 million, and 550,000 Class "B" preferred shares valued at \$55 million		Bank Audi lists 309,000 common shares and 1,937,000 GDRs

2012	
Market Capitalization	\$10,421,020,000
Annual Change	\$135,630,000
Annual % Change	1.32%
Listing of Common Shares	\$1,880,000
Listing of GDRs	\$12,189,000
Listing of Preferred Shares	\$245,000,000
Effect of Additional Listings on Market Cap	\$259,069,000
% of the variation in market cap	191.01%
Price Effect on Market Cap	(\$123,439,000)
% of the variation in market cap	-91.01%

In 2012, the prices of stocks listed on the BSE extended their downward spiral, and activity remained subdued, mainly tamed by the spillover of the Syrian conflict and the massive influx of Syrian refugees to Lebanon. The BSE's market capitalization, however, managed to increase slightly by 1.32%, mainly driven by the listing of new preferred shares worth some \$245 million on the Beirut bourse as banks had started the implementation of the Basel III standards of capital adequacy.

2013

	Bank Audi lists 1.5 million calss "G" preferred shares and 0.75 million class "H" preferred shares	
28-Jan-13	2-Jul-13	29-Aug-13
BOB lists 5 million preferred shares series "I" for a total consideration of \$125 million part of which (\$100 million) to offset the redemption of series "D" preferred shares		BLC Bank lists 350,000 newly issued series "C" preferred shares for a total consideration of \$35 million

2013	
Market Capitalization	\$10,545,360,000
Annual Change	\$124,340,000
Annual % Change	1.19%
Listing of Common Shares	-
Listing of GDRs	-
Listing of Preferred Shares	\$285,000,000
Effect of Additional Listings on Market Cap	\$285,000,000
% of the variation in market cap	229.21%
Price Effect on Market Cap	(\$160,660,000)
% of the variation in market cap	-129.21%

Market capitalization inched slightly higher in 2013, thanks to the effect of the listing of preferred securities worth some \$285 million as banks were seeking to improve their capital adequacy ratios in line with the Basel III thresholds. The effect of the additional listings was diluted to a great extent by the sustained downturn in prices amid the escalating political and security tensions in Lebanon.

2014

BEMO Bank Lists 350,000 Class "2013" preferred shares for a total consideration of \$35 million
4-Mar-14

	Apr-14
Market Capitalization	\$11,053,150,000
Annual Change	\$507,790,000
Annual % Change	4.82%
Listing of Common Shares	-
Listing of GDRs	-
Listing of Preferred Shares	\$35,000,000
Effect of Additional Listings on Market Cap	\$35,000,000
% of the variation in market cap	6.89%
Price Effect on Market Cap	\$472,790,000
% of the variation in market cap	93.11%

BEMO's listing of Class "2013" preferred shares effective March 4, 2014 and worth \$35 million only explained 6.89% of the \$508 million rise in the BSE's market capitalization during the first four months of the year 2014. In fact, the 4.82% increase in market capitalization to \$11.05 billion as at end of April 2014 can be explained by the correction in stock prices amid the restored political stability and investors' confidence pursuant to the formation of a national unity government since the month of February.

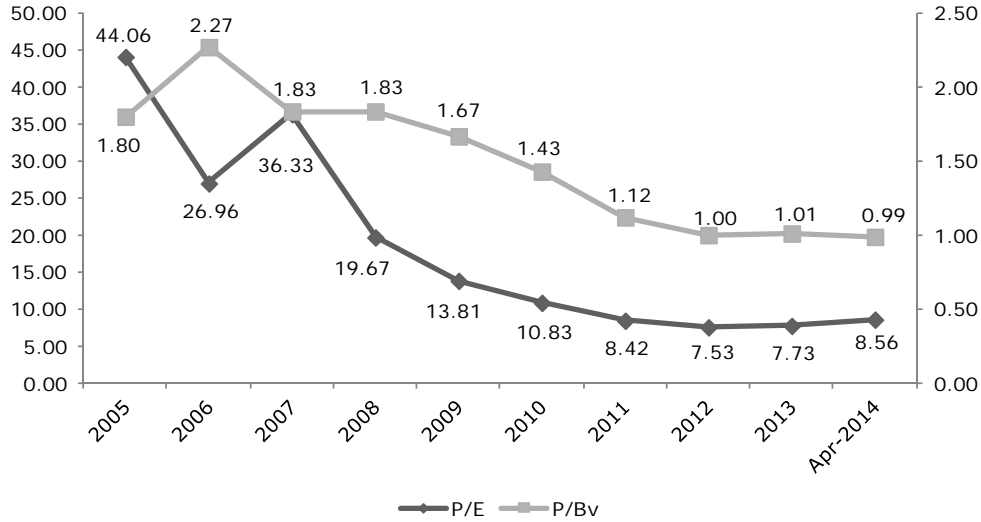
D. Valuation Benchmarks

The historical evolution of the Beirut Stock Exchange's market capitalization, which was elaborated in the previous section, was naturally mimicked by the BSE's weighted price to earnings (P/E) and price to book (P/Bv) multiples, reflecting the various stances gone through by listed companies, their related sectors, and the Lebanese economy as a whole throughout the years.

In fact, the weighted average price to earnings (P/E) multiple of the Beirut Bourse surpassed the 36x mark in the year 2007, mainly lifted by the exponential increase in the prices of heavy market-cap weighted Solidere shares and various other banking stocks (especially Bank Audi and Byblos Bank listed securities). The BSE's weighted average P/E subsequently stalled starting the year 2008 following the collapse of some international stock markets, diving to 19.67x as at end of year 2008 and a much deeper 13.81x as at end of year 2009, amid the contraction in the prices of most listed shares. The Beirut Stock Exchange's weighted average P/E ended, however, its swoon in 2013, yet remained below the 10.00x mark, to eventually reach 8.56x by the end of the fourth month of 2014. Said correction may be attributed to the squeezed profit margins of listed companies, mainly banks, amid the swelling political and security tensions since the year 2011, which had casted their shadows on the country's economic activity.

As for the price to book (P/Bv) metric of the Beirut Bourse, the latter dwindled from 2.27x in the year 2006 to just below parity at present as graphically illustrated on the following page:

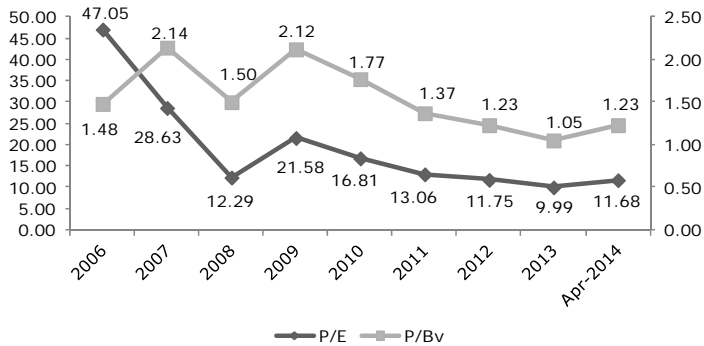
Historical Evolution of the P/E and P/Bv Multiples of the BSE



Source: Credit Libanais Economic Research Unit

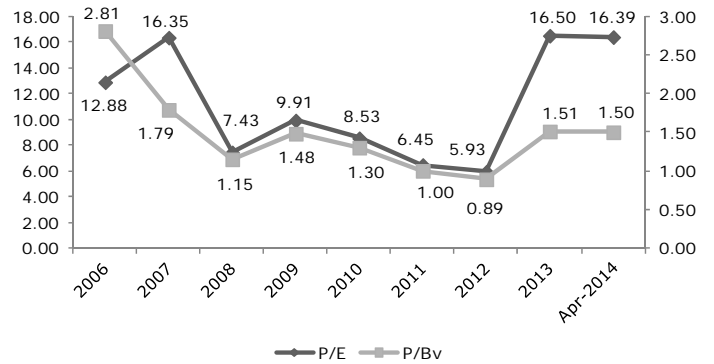
The following charts capture the historical evolution of the weighted average P/E and P/Bv multiples of the Beirut Stock Exchange by economic sector since the year 2006 and up to April 2014:

Historical Evolution of the Development & Reconstruction Sector's P/E & P/Bv



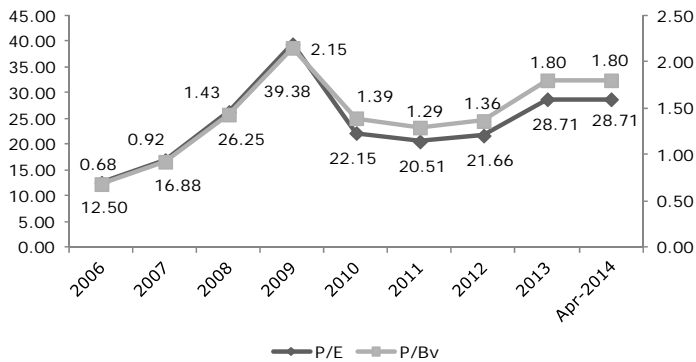
Source: Credit Libanais Economic Research Unit

Historical Evolution of the Banking Sector's P/E & P/Bv



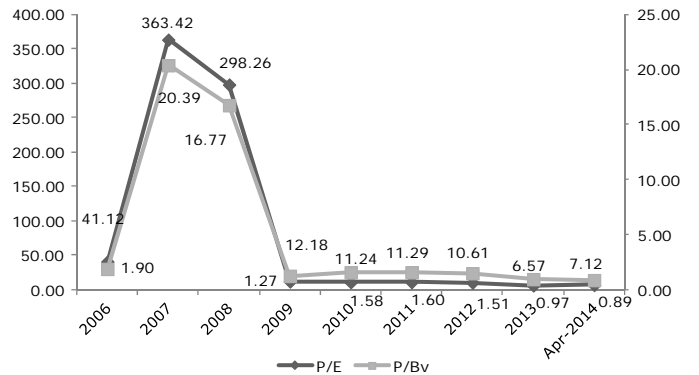
Source: Credit Libanais Economic Research Unit

Historical Evolution of the Trading Sector's P/E & P/Bv



Source: Credit Libanais Economic Research Unit

Historical Evolution of the Industrial Sector's P/E & P/Bv



Source: Credit Libanais Economic Research Unit

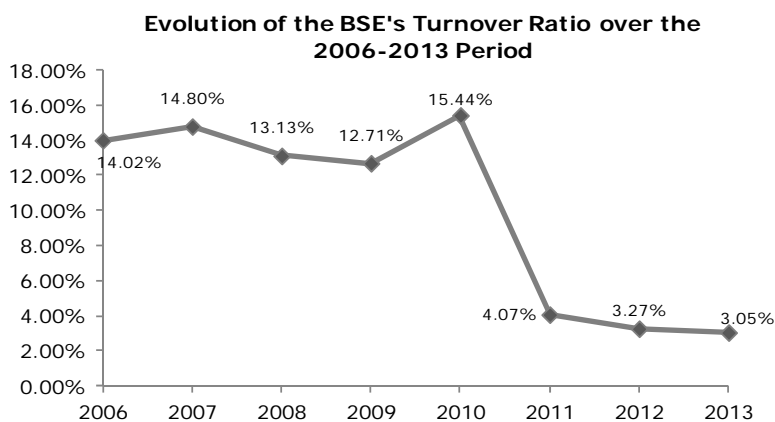
The Beirut Stock Exchange – Drivers of Activity & Stimulus Measures

The following table spots the light on the evolution of the Beirut Bourse's P/E and P/Bv metrics per share and per sector since the year 2006 and up to April 2014:

Listed Shares on the Official Market	2006		2007		2008		2009		2010		2011		2012		2013		Apr-2014		
	P/E	P/Bv	P/E	P/Bv	P/E	P/Bv	P/E	P/Bv	P/E	P/Bv	P/E	P/Bv	P/E	P/Bv	P/E	P/Bv	P/E	P/Bv	
Development & Reconstruction																			
Solidere "A"	47.06	1.48	28.79	2.15	12.27	1.50	21.65	2.13	16.78	1.76	13.02	1.37	11.77	1.24	10.01	1.05	11.68	1.23	
Solidere "B"	47.04	1.48	28.38	2.12	12.33	1.51	21.47	2.11	16.87	1.77	13.13	1.38	11.71	1.23	9.98	1.05	11.68	1.23	
Sector's Average	47.05	1.48	28.59	2.14	12.30	1.51	21.56	2.12	16.83	1.77	13.07	1.37	11.74	1.23	9.99	1.05	11.68	1.23	
Sector's Weighted Average	47.05	1.48	28.63	2.14	12.29	1.50	21.58	2.12	16.81	1.77	13.06	1.37	11.75	1.23	9.99	1.05	11.68	1.23	
Banking																			
BLC Bank	25.64	13.37	22.86	3.79	5.43	0.90	4.57	0.76	7.55	1.11	8.23	1.21	8.23	1.21	8.86	1.30	8.41	1.23	
BLC Bank Preferred Class "A"	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
BLC Bank Preferred Class "B"	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
BLC Bank Preferred Class "C"	-	-	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	
Bank Audi - Listed Shares	12.66	2.01	16.63	1.62	7.88	1.02	11.07	1.54	9.21	1.34	5.87	0.98	4.80	0.88	6.18	1.00	7.47	0.96	
Bank Audi GDR	11.78	1.87	18.11	1.77	7.84	1.01	11.88	1.65	10.00	1.46	5.70	0.95	4.95	0.91	6.43	1.04	7.65	0.99	
Bank Audi Preferred "C"	-	-	n.a.	n.a.	n.a.	n.a.	-	-	-	-	-	-	-	-	-	-	-	-	
Bank Audi Preferred "D"	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-	-	-	
Bank Audi Preferred "E"	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Bank Audi Preferred "F"	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Bank Audi Preferred "G"	-	-	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	
Bank Audi Preferred "H"	-	-	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	
Bank Of Beirut - Listed Shares	20.68	3.24	28.33	2.45	12.41	2.61	27.17	2.73	13.29	1.79	14.26	1.95	13.10	1.59	11.66	1.60	8.68	0.95	
Bank Of Beirut Preferred "B"	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-	-	-	-	-	-	-	-	-	-	-	
Bank Of Beirut Preferred "C"	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-	-	-	-	-	
Bank Of Beirut Preferred "D"	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-	-	-	-	-	
Bank Of Beirut Preferred "E"	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Bank Of Beirut Preferred "H"	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Bank Of Beirut Preferred "I"	-	-	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	
Byblos Bank "C"	7.08	1.09	14.80	1.47	7.36	0.73	7.46	1.12	8.32	0.91	6.79	0.78	6.91	0.72	7.38	0.75	7.68	0.75	
Byblos Bank Priority	n.a.	n.a.	14.70	1.50	7.40	0.70	7.50	1.10	8.32	0.90	-	-	-	-	-	-	-	-	
Byblos Bank Preferred	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-	-	-	-	-	-	-	-	-	-	-	
Byblos Bank Preferred Class 2008	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Byblos Bank Preferred Class 2009	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Byblos Bank GDR	-	-	-	-	-	-	7.50	1.10	5.86	0.80	6.46	0.74	6.09	0.64	6.95	0.71	6.64	0.65	
BEMO Bank - Listed Shares	16.00	1.50	9.20	0.70	12.10	1.40	9.80	1.34	10.78	1.32	18.08	1.62	15.75	1.24	20.44	1.20	22.75	1.34	
BEMO Bank Preferred	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
BEMO Bank Preferred Class 2013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	
BLOM Bank GDR	9.61	1.67	12.63	1.64	6.31	1.25	7.41	1.44	7.50	1.40	5.14	0.96	5.41	0.86	5.61	0.96	5.82	0.83	
BLOM Bank Listed Shares	9.78	1.70	11.76	1.53	6.40	1.27	6.93	1.35	6.81	1.28	5.12	0.96	5.34	0.85	5.25	0.90	5.66	0.81	
BLOM Bank Preferred "2002"	16.75	2.91	16.75	2.91	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
BLOM Bank Preferred "2004"	16.42	2.86	16.58	2.88	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-	-	-	-	-	-	-	
BLOM Bank Preferred "2005"	16.58	2.88	16.62	2.89	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	-	-	-	-	-	-	-	-	
BLOM Bank Preferred "2011"	-	-	-	-	-	-	-	-	-	-	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	
Sector's Average	14.82	3.19	16.58	2.10	8.13	1.21	10.13	1.41	8.76	1.23	8.41	1.13	7.84	0.99	8.75	1.05	8.97	0.95	
Sector's Weighted Average	12.88	2.81	16.35	1.79	7.43	1.15	9.91	1.48	8.53	1.30	6.45	1.00	5.93	0.89	16.50	1.51	16.39	1.50	
Trading																			
RYMCO Class "B"	12.50	0.68	16.88	0.92	26.25	1.43	39.38	2.15	22.15	1.39	20.51	1.29	21.66	1.36	28.71	1.80	28.71	1.80	
Sector's Average	12.50	0.68	16.88	0.92	26.25	1.43	39.38	2.15	22.15	1.39	20.51	1.29	21.66	1.36	28.71	1.80	28.71	1.80	
Sector's Weighted Average	12.50	0.68	16.88	0.92	26.25	1.43	39.38	2.15	22.15	1.39	20.51	1.29	21.66	1.36	28.71	1.80	28.71	1.80	
Industrial																			
Holcim Liban	34.50	1.93	391.50	21.84	300.60	16.77	12.50	1.23	11.40	1.58	11.34	1.58	10.50	1.47	16.93	1.47	16.80	1.46	
Ciments Blancs Bearer	14.49	2.15	13.04	1.94	15.14	2.25	8.75	1.82	9.72	1.63	11.48	1.92	11.52	1.93	12.50	1.97	12.50	1.97	
Ciments Blancs Nominal	10.36	1.54	10.14	1.51	13.77	2.04	1.39	0.29	1.77	0.30	8.52	1.43	11.66	1.95	11.57	1.82	9.82	1.54	
Uniceramic Nominal "A"	128.38	0.76	-1.80	0.50	-0.44	0.12	-	-	-	-	-	-	-	-	-	-	-	-	
Uniceramic Bearer "C"	236.50	1.40	-6.80	1.89	-6.80	1.89	-	-	-	-	-	-	-	-	-	-	-	-	
Sector's Average	84.85	1.56	81.22	5.54	64.45	4.61	7.55	1.11	7.63	1.17	10.45	1.64	11.23	1.78	13.67	1.75	13.04	1.66	
Sector's Weighted Average	41.12	1.90	363.42	20.39	298.26	16.77	12.18	1.27	11.24	1.58	11.29	1.60	10.61	1.51	6.57	0.97	7.12	0.89	
BSE's Weighted Average	26.96	2.27	36.33	1.83	13.81	1.67	13.81	1.67	10.83	1.43	8.42	1.12	7.53	1.00	7.73	1.01	8.56	0.99	

E. Turnover Ratio

The turnover ratio of the Beirut Stock Exchange (BSE), a gauge of trading activity measuring ratio of aggregate traded volume to the number of outstanding listed stocks, registered double digit figures over the 2006-2010 period, with a peak of 15.44% in the year 2010. Afterwards, however, the ratio engaged in a downward spiral, plummeting to 4.07% in the year 2011, 3.27% in the year 2012 and 3.05% in the year 2013. This significant drop can be attributed to the dull trading activity marked in the last couple of years amid the outbreak of the Arab Spring added the ever-increasing number of listed securities on the Beirut Bourse, especially by banks aiming at shoring up their capital base in order to meet Basel solvency requirements. Said thin turnover ratios in recent years point to a serious liquidity squeeze on the Beirut Bourse, limiting exit potential, and keeping investors on the sidelines.



Source: Credit Libanais Economic Research Unit

It is worth noting, in this perspective, that the BSE's turnover ratio pales in comparison with that of other regional stock exchanges such as the Saudi Arabian Stock Exchange (121.38%), the Dubai Stock Exchange (61.56%), and the Egyptian Stock Exchange (27.49%).

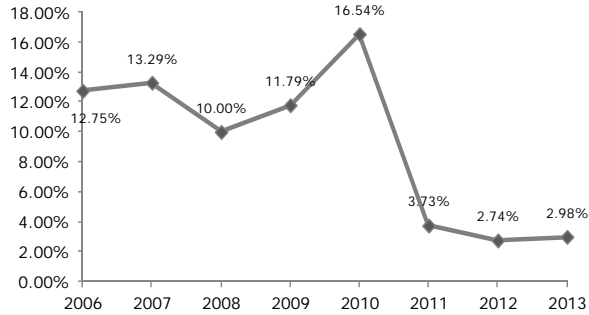
The table on the following page captures the historical trend in the turnover ratios by listed stocks and sectors over the 2006-April 2014 period:

The Beirut Stock Exchange – Drivers of Activity & Stimulus Measures

	2006	2007	2008	2009	2010	2011	2012	2013	Apr-14
Development & Reconstruction									
Solidere									
Solidere "A"	38.56%	24.21%	30.09%	22.42%	11.43%	9.83%	7.40%	4.27%	1.93%
Solidere "B"	27.63%	18.63%	21.29%	15.46%	5.99%	5.09%	4.09%	2.82%	1.29%
Total Solidere	34.25%	22.01%	26.62%	19.68%	9.29%	7.96%	6.10%	3.70%	1.68%
Total Development & Reconstruction	34.25%	22.01%	26.62%	19.68%	9.29%	7.96%	6.10%	3.70%	1.68%
Banking									
BLC Bank									
BLC Bank - Listed Shares	39.61%	97.53%	71.41%	0.79%	1.36%	0.01%	0.01%	0.00%	0.00%
BLC Bank Preferred Class "A"							3.25%	1.25%	1.13%
BLC Bank Preferred Class "B"							5.45%	1.45%	1.09%
BLC Bank Preferred Class "C"								0.29%	0.86%
Total BLC Bank	39.61%	97.53%	71.41%	0.79%	1.36%	0.01%	0.09%	0.03%	0.03%
Bank Audi									
Bank Audi - Listed Shares	0.69%	2.60%	2.67%	3.07%	26.66%	2.80%	4.56%	5.87%	1.58%
Bank Audi GDRs	41.53%	6.57%	12.00%	4.94%	27.57%	3.25%	4.10%	0.39%	0.37%
Bank Audi Preferred "C"		0.28%	3.93%	0.15%					
Bank Audi Preferred "D"		1.60%	3.84%	3.60%	4.23%	4.98%	2.98%	0.30%	
Bank Audi Preferred "E"					2.56%	4.00%	6.96%	6.24%	0.71%
Bank Audi Preferred "F"							2.13%	2.47%	2.09%
Bank Audi Preferred "G"								2.73%	1.19%
Bank Audi Preferred "H"								1.07%	2.20%
Total Bank Audi	10.01%	3.19%	4.66%	3.22%	26.19%	2.95%	4.42%	4.50%	1.31%
Bank of Beirut									
Bank Of Beirut - Listed Shares	4.04%	0.72%	12.09%	0.37%	14.11%	1.43%	0.99%	0.28%	0.40%
Bank Of Beirut Preferred "B"	1.93%	0.77%	20.60%						
Bank Of Beirut Preferred "C"	9.42%	8.70%	5.65%	4.49%	1.95%				
Bank Of Beirut Preferred "D"			2.40%	2.88%	7.10%	1.78%	7.40%		
Bank Of Beirut Preferred "E"				0.00%	7.83%	2.00%	7.63%	10.13%	1.61%
Bank Of Beirut Preferred "H"						0.07%	5.44%	5.22%	3.08%
Bank Of Beirut Preferred "I"								2.36%	0.99%
Total Bank of Beirut	4.52%	1.93%	10.72%	1.24%	11.10%	1.27%	3.28%	2.33%	1.09%
Byblos Bank									
Byblos Bank - Listed Shares	12.00%	5.24%	4.59%	27.15%	24.47%	3.47%	1.75%	2.69%	1.12%
Byblos Bank - Priority	10.33%	4.65%	2.80%	2.88%	1.32%	10.10%			
Byblos Bank GDR				0.58%	0.15%	0.08%	0.08%	1.83%	0.00%
Byblos Bank - Preferred	2.40%	7.20%	2.60%	0.60%					
Byblos Bank Preferred Class 2008			0.30%	3.05%	3.85%	3.50%	4.40%	3.75%	0.41%
Byblos Bank Preferred Class 2009				0.15%	3.00%	5.50%	6.75%	9.30%	0.31%
Total Byblos Bank	11.14%	4.95%	3.70%	15.13%	15.91%	5.23%	1.77%	2.72%	1.12%
Bemo Bank									
BEMO Bank - Listed Shares	10.54%	2.87%	7.94%	23.78%	6.02%	1.70%	1.56%	0.17%	0.03%
BEMO Bank Preferred		24.50%	16.50%	6.00%	5.00%	13.00%	2.00%	45.50%	0.58%
BEMO Bank Preferred Class 2013									3.16%
Total Bemo Bank	10.54%	3.64%	8.25%	23.14%	5.98%	1.74%	1.56%	0.35%	0.05%
BLOM Bank									
BLOM Bank GDR	31.04%	15.58%	11.96%	6.98%	10.93%	1.91%	5.64%	2.12%	1.86%
BLOM Bank - Listed Shares	3.80%	1.44%	1.25%	2.07%	4.95%	2.66%	1.58%	2.11%	1.01%
BLOM Bank Preferred Class 2002	4.40%	0.13%							
BLOM Bank Preferred Class 2004	2.40%	4.93%	7.73%	2.93%	4.84%	0.31%			
BLOM Bank Preferred Class 2005	1.70%	7.30%	2.30%	2.60%	1.71%	0.10%			
BLOM Bank Preferred Class 2011						3.29%	2.39%	3.07%	0.89%
Total BLOM Bank	15.44%	8.00%	4.03%	3.29%	6.28%	2.40%	2.60%	2.18%	1.21%
Total Banking	12.75%	13.29%	10.00%	11.79%	16.54%	3.73%	2.74%	2.98%	1.12%
Trading									
RYMCO Class B	19.68%	36.00%	20.05%	0.52%	2.91%	5.50%	39.14%	4.24%	0.00%
Total Trading	19.68%	36.00%	20.05%	0.52%	2.91%	5.50%	39.14%	4.24%	0.00%
Industrial									
Holcim Liban	3.57%	1.25%	1.41%	1.00%	1.07%	1.36%	0.27%	0.91%	0.05%
Ciment Blancs Bearer	3.02%	0.50%	3.43%	0.12%	0.13%	0.57%	0.80%	0.22%	0.00%
Ciment Blancs Nominal	0.30%	0.10%	0.17%	0.07%	0.00%	1.30%	0.80%	14.30%	0.43%
Uniceramic Nominal "A"	1.59%	2.33%	5.45%	1.63%					
Uniceramic Bearer "C"	0.36%	0.23%	0.00%	2.68%					
Total Industrial	3.38%	0.96%	1.74%	1.22%	0.76%	1.19%	0.43%	2.17%	0.08%
Total	14.02%	14.80%	13.13%	12.71%	15.44%	4.07%	3.27%	3.05%	1.15%

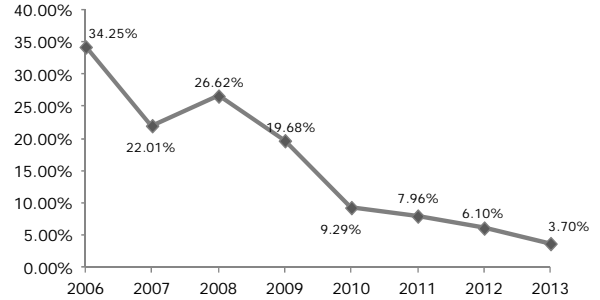
The charts hereunder capture the historical evolution of the turnover ratios of the Beirut Stock Exchange by economic sector since the year 2006:

Evolution of the Banking Sector's Turnover Ratio



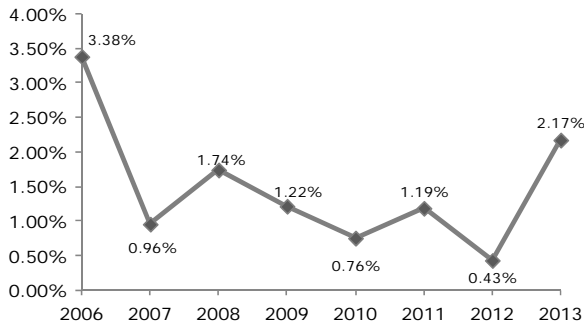
Source: Credit Libanais Economic Research Unit

Evolution of the Development & Reconstruction Sector's Turnover Ratio



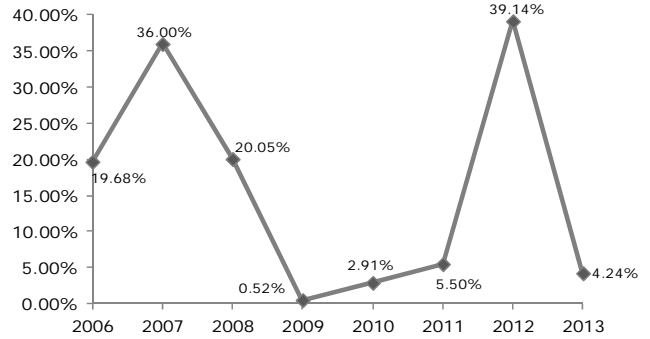
Source: Credit Libanais Economic Research Unit

Evolution of the Industrial Sector's Turnover Ratio



Source: Credit Libanais Economic Research Unit

Evolution of the Trading Sector's Turnover Ratio



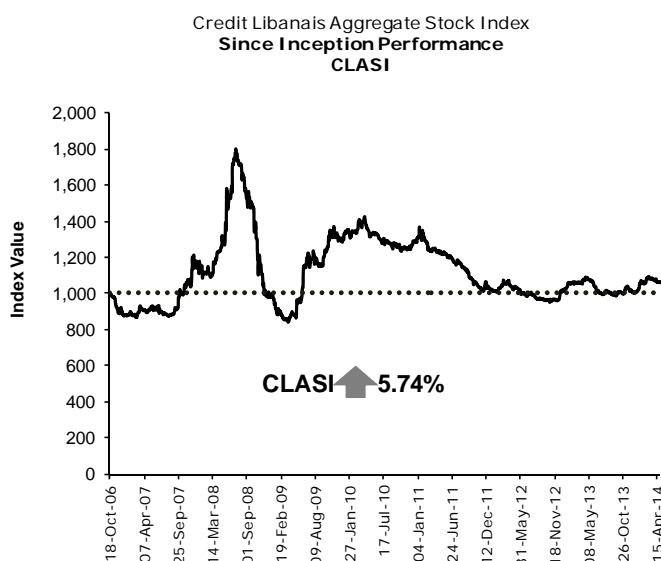
Source: Credit Libanais Economic Research Unit

VI. Stock Indices' Performance

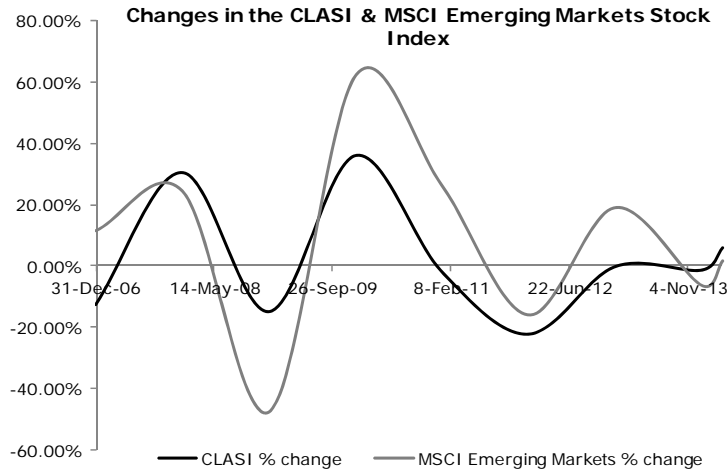
Indices Performance												
	Inception Date	Inception Value	Value on April 30, 2013	Value on Dec 31, 2013	Value on April 30, 2014	% Change since Inception	Yearly % Change	YTD % change	Year High	Year Low	All Time High	All Time Low
CLASI	Oct-06	1,000	1,075.13	1,004.78	1,057.44	5.74%	-1.65%	5.24%	1,089.14	1,004.78	1,801.01	836.11
CLFI	Oct-06	1,000	1,311.48	1,256.75	1,286.95	28.69%	-1.87%	2.40%	1,325.82	1,256.75	1,666.64	864.82
CLCI	Oct-06	1,000	708.59	613.33	699.80	-30.02%	-1.24%	14.10%	734.02	613.33	1,948.82	706.20

A. Credit Libanais Aggregate Stock Index (CLASI)

The Credit Libanais Aggregate Stock Index (CLASI) is a benchmark of the overall performance of the securities listed on the Beirut Stock Exchange. With a value of 1,000 at inception (in 2006), the market cap-weighted index rose exponentially to an all-time high of 1,801.01 on July 7, at a time when, paradoxically, international stock markets crashed amid the propagation of the global financial crisis. The index dipped into the red, starting late 2008 to a record low of 836.11 reached on March 25, 2009. The CLASI fluctuated thereafter, hovering between 1,423.26 and 946.11, depending on the state of the economy and political atmosphere.



The chart on the following page depicts the historical evolution (in % changes) of the CLASI versus the MSCI Emerging Markets Stock Index since October 2006:

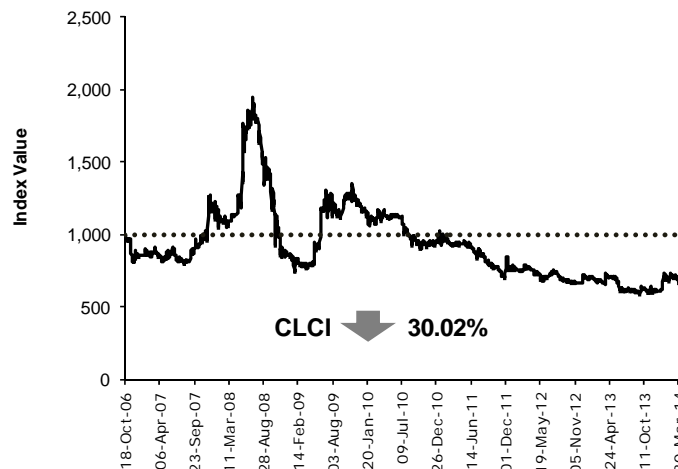


It is noticeable that the CLASI and the MSCI Emerging Markets Stock Index generally move in tandem and are highly positively correlated. In details, the CLASI has always underperformed the MSCI index except from the year 2008 to the year 2009, a period marked by the global financial crisis.

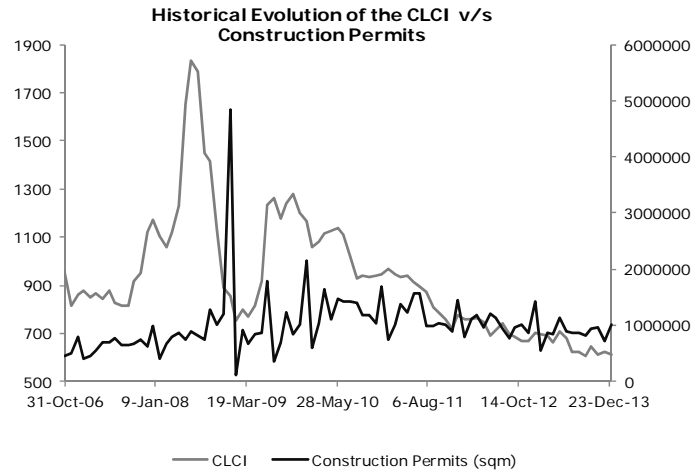
B. Credit Libanais Construction Sector Stock Index (CLCI)

The CLCI, a market cap-weighted gauge of listed construction and realty stocks, registered an all-time high of 1,948.82 on July 7, 2008, not only reflecting the construction companies' healthy performance during that specific year, but also the country's flourishing economy and booming real estate sector. The CLCI started its downturn afterwards, dropping dramatically starting the last quarter of 2008, on the back of the aggravating local political scenes marked by a presidential void and the long sit-in in the Beirut Central District and protests. The CLCI's value sank to below its inception value of 1,000 with the onset of the Arab Spring posting as at end of April 2014 a 30% contraction from its inception value.

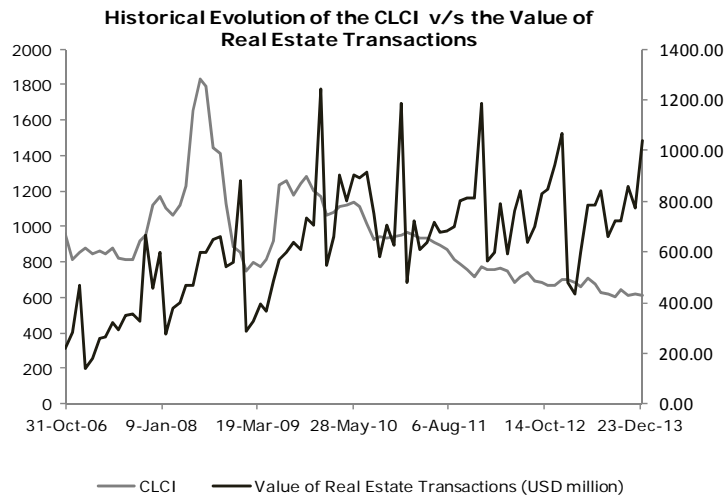
Credit Libanais Construction Sector Stock Index
Since Inception Performance
CLCI



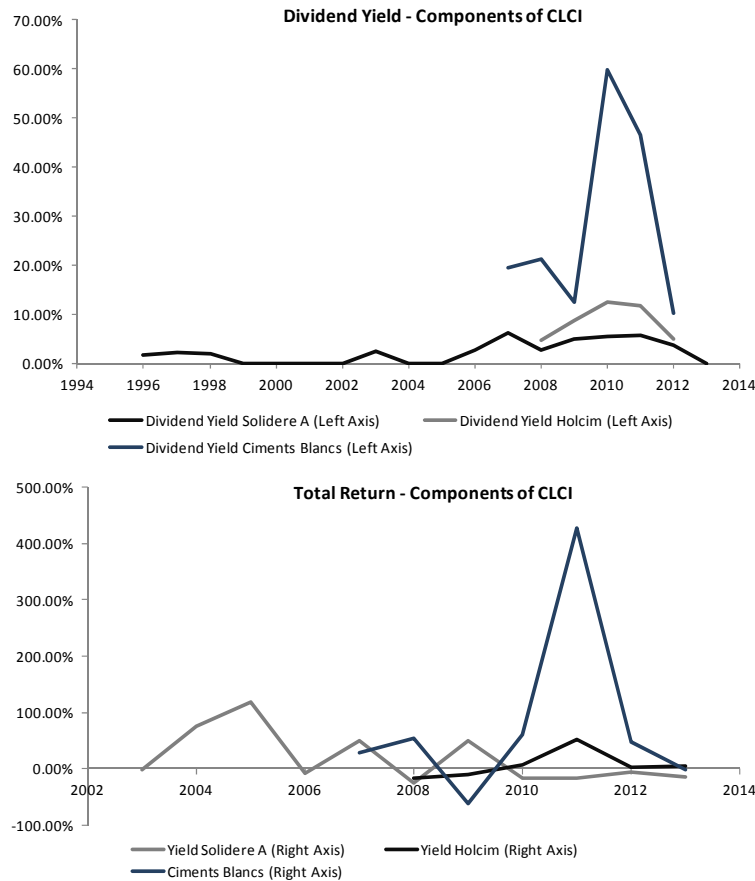
If we try to analyze the CLCI’s performance over the years, we conclude that the realty sector stock index and total construction permits (in sqm) are somewhat positively correlated.



The correlation between the CLCI stock index and the value of real estate transactions, as portrayed by the chart below, seems to be very robust during the 2007-2010 period, yet this relationship seems to fade away during the 2011-2013 period. This can be partly explained by the deterioration in the country’s political arena as of the year 2011, on the back of the rising tensions in neighboring Syria, which kept investors on the sidelines. These hostilities, which resulted in a number of security incidents in Lebanon, had devastating effects on the prices of listed construction stocks, with the price of Solidere “A” for instance, plummeting by 40.64% over the three-year period ended December 2013.

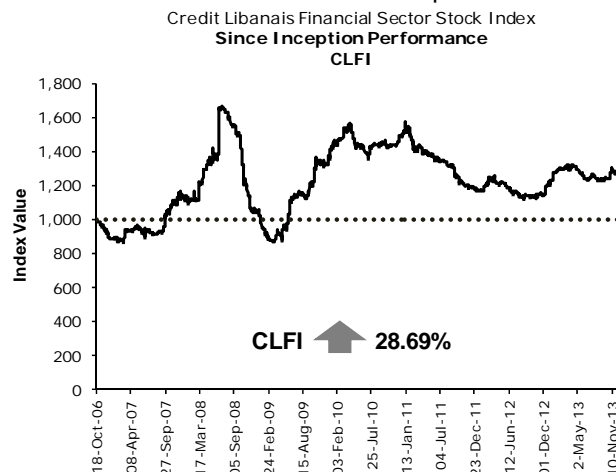


The following charts illustrate the evolution of dividend yields and the total returns of listed stocks operating in the development & reconstruction sector, namely Solidere, Holcim and Ciments Blancs:

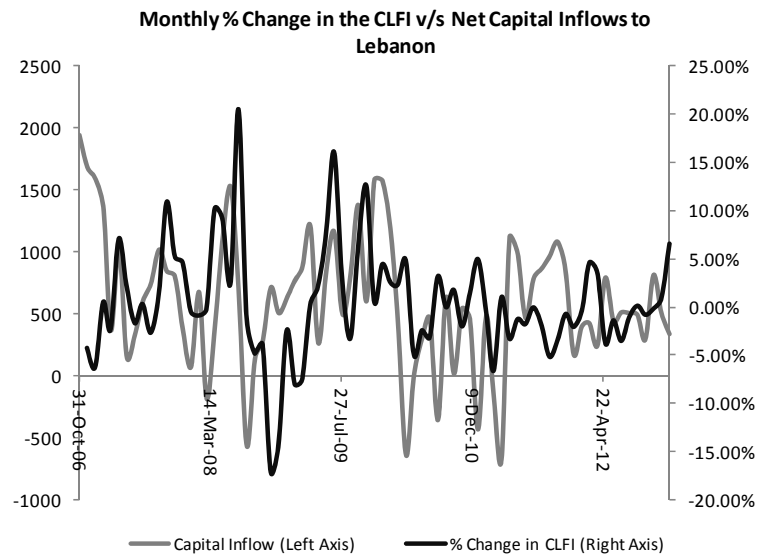


C. Credit Libanais Financial Sector Stock Index (CLFI)

The CLFI appreciated by 28.69% in value since its inception date to 1,286.95 as at end of April 2014. In fact, the index reached an all-time high of 1,666.64 on July 7, 2008 (same date as CLCI’s all-time high), reflecting, once again, the country’s improved economic activity during that period. The CLFI continued to fluctuate afterwards depending on the fundamentals of listed banks, on the one hand, and the macroeconomic and political environments on the other.

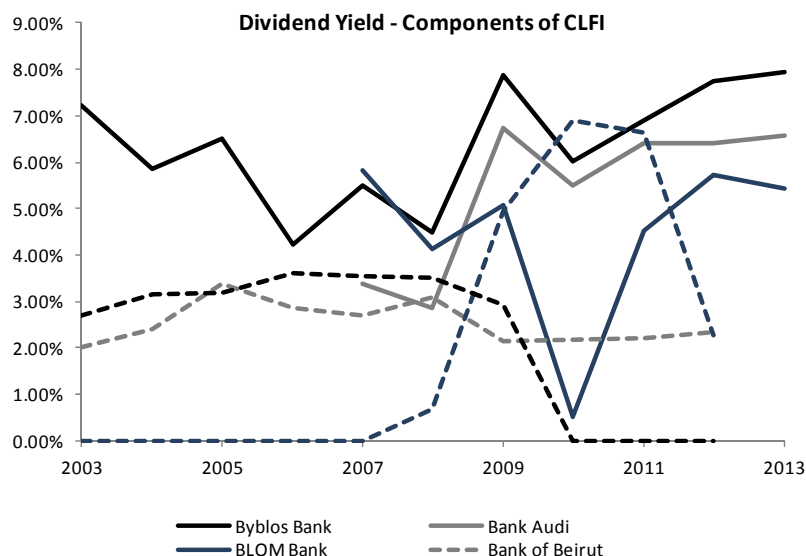


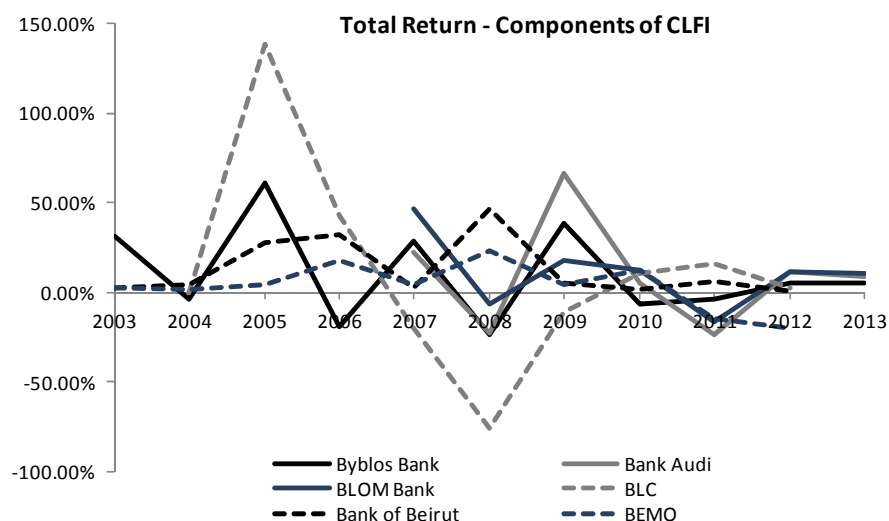
The following chart portrays the monthly evolution of the Credit Libanis Financial sector Index and the net capital inflows (financial and capital accounts) to Lebanon:



Since a large chunk of capital inflows to the country are portfolio investments, a rise in net capital inflows to Lebanon should, in theory, yield an increase in the country’s major stock indices. Furthermore, the wide definition of capital inflows adopted in this analysis takes into consideration the remittances of the Lebanese Diaspora, mainly in the form of bank deposits. Accordingly, in theory, a positive correlation between net capital inflows to Lebanon and the CLFI should be observed. The correlation coefficient between both variables settled, however, at a mild 3.32% over the 2006-2012 period.

The charts below depict the evolution of total returns and dividend yields of the six listed banks: Byblos Bank, BLOM Bank, BLC, Bank Audi, Bank of Beirut and BEMO over the 2003-2013 period:





VII. The Empirical Models

Knowing that the activity on the BSE is dormant most of the time and that many investors are reluctant to invest in Lebanese stocks due to the unstable political and security environments, we would expect both Credit Libanais Stock Indices (CLFI and CLCI), representing the performance of banking stocks and real estate & development stocks respectively, to react more to political events and/or shocks than to changes in the macroeconomic environment. The Vector Auto Regression (VAR) models used to determine the relationship between the stock indices (CLFI and CLCI) and the political environment, on the one hand, and some key macroeconomic indicators, on the other, show that these indices do not react the same way to political shocks and the chosen economic indicators.

A. Spotting the Triggers Behind the Performance of Listed Banking Sector Stocks

The purpose of this first VAR model is to identify the relationship between listed banking stocks, represented by the Credit Libanais Financial Sector Stock Index, and some key macroeconomic indicators (net financial inflows and loans to the private sector) and political shocks (dummy variable).

The variables are determined as follows:

P-S: Political Shocks (dummy variable taking the value 1 at the occurrence of a political shock and 0 in the absence of any political shock);

lnCLFI: the natural logarithm of the CLFI;

FI: Net financial inflows;

lnloans: the natural logarithm of loans to the private sector.

Vector Autoregression Estimates
Sample (adjusted): 2006M03 2012M12*
Included observations: 82 after adjustments
Standard errors in () & t-statistics in []

	DLNCLFI	FI
DLNCLFI(-1)	0.42428 (-0.0984) [4.31192]	-488.1239 (-912.845) [-0.53473]
FI(-1)	2.27E-05 (-0.000011) [2.06390]	0.347339 (-0.10184) [3.41069]
C	-0.011177 (-0.00836) [-1.33722]	366.8212 (-77.5393) [4.73078]
R-squared	0.229524	0.129968
Adj. R-squared	0.210019	0.107942
F-statistic	11.76704	5.900612
Schwarz SC	-3.091455	15.17917

*M03 Stands for Month 3

M12 Stands for Month 12

The regressions performed lead us to conclude that only net financial inflows are significant at the 5% level. The equation herein describes the relationship between net financial inflows and the CLFI:

$$dlnCLFI_t = -0.011 + 0.424 * dlnCLFI_{t-1} + 0.000023 * fi_{t-1} + \varepsilon_t$$

Based on this model, we can conclude that a rise in net financial inflows to the country generates a slight, yet statistically significant increase in the Credit Libanais Financial Stock Index. Political shocks, on the other hand, have no significant effect on the CLFI. Consequently, we deduce that net financial inflows tend to positively affect the performance of listed banking sector stocks, while political shocks have no significant effect on investors' appetite for banking stocks. This may be the result of the high dependence of the Lebanese banking sector on financial inflows (mainly remittances), which constitute an important source of funding for Lebanese banks. In parallel, portfolio investments from foreign investors (another component of financial inflows) are usually geared towards the largest and most liquid securities, i.e. stocks of listed Lebanese banks, which explains the aforementioned correlation.

B. Spotting the Triggers Behind the Performance of Listed Construction Sector Stocks

This second model aims at analyzing the relationship between listed construction stocks, represented by the Credit Libanais Construction Sector Stock Index (CLCI), and political shocks on the one hand and the previously mentioned macroeconomic variables on the other:

P-S: Political Shocks (dummy variable taking the value 1 in the occurrence of a political shock and 0 in the absence of any political shock);

Ln_CLCI: the natural logarithm of the CLCI;

FI: Net financial inflows;

Ln_Cons: the natural logarithm of construction permits;

Ln_Val: the natural logarithm of the value of real estate transactions.

When regressing listed realty stocks against all the aforementioned independent variables, we notice that the performance of the CLCI is significantly explained by its own lagged values, the one-period lagged construction permits, and the political shocks occurring on the local scene.

On the other hand, net financial inflows to the country and the value of real estate transactions did not turn out to be statistically significant when included with all the other variables.

However, when omitting the non-significant variables from our model (i.e. when including only construction permits and political shocks), construction permits lose their statistical significance and the dummy variable measuring local political shocks turns out to be the only statistically significant variable influencing the performance of listed construction stocks apart from the one-month lagged CLCI.

The following table summarizes the main results of the concerned VAR model:

Vector Autoregression Estimates	
Sample (adjusted): 2006M12 2013M12	
Included observations: 85 after adjustments	
Standard errors in () & t-statistics in []	
	DLN_CLCI
DLN_CLCI(-1)	0.303983 (-0.10078) [3.01619]
PS	-0.032606 (-0.01897) [-1.71918]
C	0.006609 (-0.00964) [0.68585]
R-squared	0.133867
Adj. R-squared	0.112741
F-statistic	6.336815
Schwarz SC	-2.18307

The equation here below describes the relationship between the CLCI, its lagged values, and political shocks:

$$dln_CLCI_t = 0.0066 + 0.304 * dln_CLCI_{t-1} - 0.033 * PS + \varepsilon_t$$

The above equation reveals that during periods of political instability, the Credit Libanais Construction Sector Stock Index has a tendency to drop by 3.26%. This result is statistically significant at the 10% level.

It is also worth noting that both net financial inflows and the value of real estate transactions were significant at the 10% level when regressed separately against CLCI values and when omitting political shocks.

C. One Period Ahead Forecast Results

Based on the model developed in the previous section, this paper adopts the dummy variable measuring the occurrence of a political shock and the one period lagged value of CLCI to predict the value of the construction sector stock index in the upcoming month. Given the previously proven significant influence of political shocks on listed construction stocks, we ran two scenarios to forecast the future change in the CLCI value and consequently its impact on market capitalization. The first scenario considers that the current political stalemate will persist, and that it will continue weighing negatively on listed construction stocks. The second scenario, however, centers upon the successful election of a consensus president before the end of May, which will ease the prevailing tensions.

The following table sheds light on our forecasts of the values of the construction sector stock index as at end of June 2014 based on the variable's lagged values and on the occurrence of a political shock.

CLCI	PS		Difference
	0	1	
dlnCLCI (june 2014)	0.016	-0.016	-
lnCLCI (june 2014)	6.600	6.567	-
CLCI (June 2014)	734.939	711.362	3.21%
Market Cap of Listed Construction Stocks as at end of June	\$2,583,588,659	\$2,500,706,734	3.21%

Our forecasts show that, in the event the parliament fails to elect a president and that the political stalemate is prolonged, the Credit Libanais Construction Sector Stock Index would end the month of June at around 711 (market capitalization of listed construction stocks of around \$2,500.71 million). On the other hand, and in the event the parliament successfully elects a consensus president who manages to ease the political tensions, the regained confidence could possibly boost the CLCI value to around 735 as at end of June 2014 (market capitalization of listed construction stocks of \$2,583.59 million). These results compare to a current value of CLCI of 723 and a present market cap of \$2,541.34 million.

VIII. BSE Activity Constraints & Suggested Remedies

Factors Restraining Activity on the BSE and Possible Corrective Measures		
Constraints	Remarks	Corrective Measures
Low liquidity	Low liquidity on the BSE with thin turnover ratios and wide bid/ask spreads, limiting exit potential for investors	Insuring economic and political stability and attracting foreign investors and capital
Low capitalization of family-owned Lebanese companies	The low capitalization level of typically family-owned Lebanese companies, which renders it almost impossible to meet the \$3 million minimum capital requirement for listed companies	Exploiting intermediary circular 331 recently promulgated by BDL, which authorizes Lebanese banks to participate in up to 80% of the capital of start-up companies, with BDL sharing 75% of the associated investment risk
Family structure of Lebanese companies	Shareholders of Lebanese companies are not enthusiastic to cede ownership to new shareholders (intruders) through an Initial Public Offering (IPO) of the shares	Incentives in the form of additional tax cuts should be offered to companies going public on top of the 5 percentage points reduction in dividend withholding tax
Tendency to borrow	Lebanese companies are more inclined towards financing their projects through bank borrowings rather than the offering of new shares and subsequent listing on stock exchanges	Creating awareness within companies on the advantages of going public, including increased liquidity, tax holidays, access to international investors, only to name a few
Ample liquidity in the banking sector	Lebanese banks enjoy ample liquidity levels enabling them to promptly meet the financing needs of corporate customers	Promoting the role of Lebanese investment banks in structuring IPOs for relatively large companies as an alternative to debt financing
Lack of abidance by international accounting standards	The lack of abidance of Lebanese companies by international accounting standards, which makes the job of investment bankers a rough mission in preparing the IPO stage	Promote a wider application of international accounting standards within all Lebanese joint-stock companies
Lack of transparency within Lebanese joint stock companies	The lack of transparency in most Lebanese joint stock companies when it comes to financial reporting for tax evasion purposes renders the listing mission difficult given the discipline to report financial statements on a quarterly basis in such a way that is compliant with international accounting standards	This should be remedied by more stringent control measures put in place by the Ministry of Finance
Low valuation multiples	The uncertainties surrounding the region coupled with the domestic turmoil and global recession weigh negatively on the valuation of potential BSE candidates from a required risk premium standpoint	Fostering a stable political and economic environment
Annual listing fees	An annual fee of \$10,000 must be paid by companies listed on the BSE in the first year, and between \$2,000 and \$10,000 in each subsequent year	Consider reducing the cost of listing new companies on the BSE

Limited operating hours	Trading hours (from 9:30 AM to 12:30 AM)	Consider extending working hours to respond to international investors' trading orders due to the different time zones
Incoherence between listed companies' fundamentals and their stock market prices	The prices of listed securities on the BSE do not reflect the fundamentals of the related companies. In other words, prices of listed companies have shown resilience to positive and negative shocks in recent years, associated with thin turnover ratios	Increase investors' confidence in the fundamentals of the Beirut bourse through the newly enacted Capital Markets Law and related transparency measures
Absence of derivatives and structured products	Absence of options and other derivatives on the stocks of Lebanese companies	Expand the array of tradable instruments on the BSE including the listing of already existing asset-backed securitization funds, knowledge-based funds wrapped under circular 331, private equity funds, and closed-end mutual funds
High concentration in specific sectors	<ul style="list-style-type: none"> Listed companies are highly concentrated in the banking sector, with 6 out of the 10 listed companies being banking stocks Banking stocks account for 87.79% of the BSE's total listed shares and some 77.46% of market capitalization Bank Audi alone amasses 29.44% of total stock market capitalization, thus creating a bias on the overall direction of the Beirut bourse 	Create incentives for companies operating in other economic sectors to encourage them to float their shares on the Beirut bourse, such as waving the three-year operating history, annual membership fees, income tax exemptions, etc.

Credit Libanais SAL

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