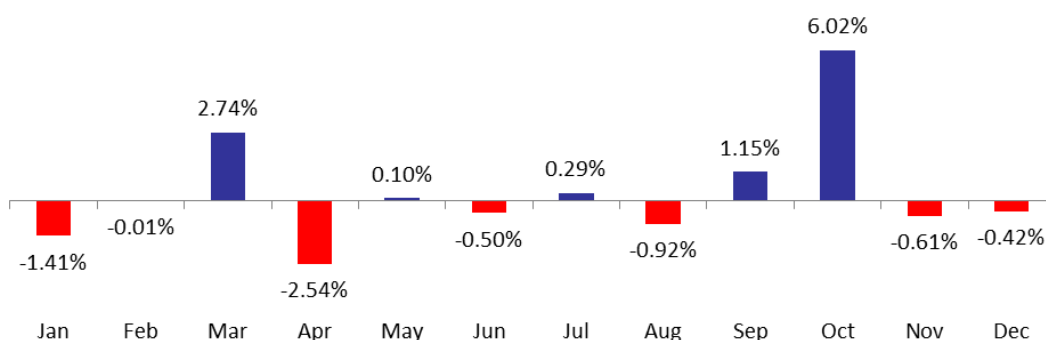


*The Lebanese Bourse Mirrored the Positive Political Scene*

As 2016 came to a close, the presidential election of General Michel Aoun and the cabinet formation have brought with them a surge in optimism in Lebanon that the economy and stocks have not seen in years. The BLOM Stock Index (BSI), tracking the activity of the Lebanese Bourse, recorded a 3.69% annual rise and had registered some of its highest levels during this year. Hence, the market capitalization rose by a yearly 4.33% to stand at \$10.20B. Also, the total volume and value of stock traded, registering a 5- year high, increased from 55.22M shares worth \$496.85M in 2015 to 108.25M shares worth \$884.73M in 2016.

Monthly Changes in in the BLOM Stock Index



Source: BLOMINVEST Research Department

In details, the first half of 2016 kicked off as a continuation of the slow economic performance of 2015. This was reflected by the BSI registering a 1.69% downtick since the beginning of year to close at 1,149.79 points. On a monthly basis, following the positive performance of the last two months of 2015, the month of January revealed a 1.41% month-on-month (m-o-m) decline as no major political change was exhibited. Similarly, February showed no sign of improvement as the BSI displayed a mere monthly change.

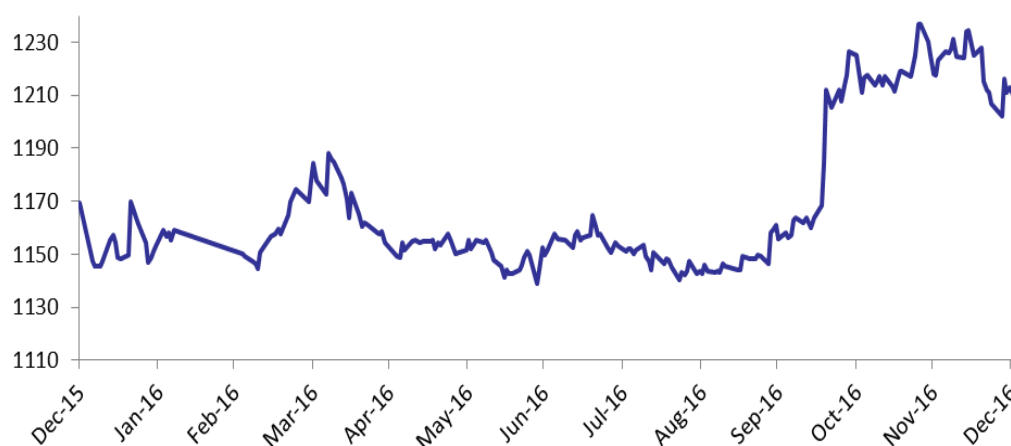
The month of March unveiled the main monthly positive growth of 2.74% in H1 as Lebanese banks revealed robust balance sheets, and BLOM and Byblos announced their dividends distribution to shareholders. However, this uprise was short-lived since the month of April registered a 2.54% downtick as clashes in Ain Al-Helweh camp, in Sidon, had their toll on the business environment.

However, the long awaited presidential elections that took place during the second half of the year managed to offset the first half’s losses. The BSI recorded a 5.37% gain during H2 and hovered between a lower band of 1,139.05 points and a higher band of 1,236.64 points, its highest level in the last 5 years.

In fact, October witnessed the end of the presidential vacuum as Former Prime Minister Saad Hariri declared support for General Michel Aoun as President for the Republic. The political talks that took place over the month led to the substantial 6.02% increase, and the month was concluded by the election of the 12<sup>th</sup> Lebanese president.

During the last two months of the year, the Lebanese bourse lost its momentum. As a matter of fact, profit taking trades and several investors rebalancing their portfolios characterized the months of November and December. Moreover, the end of year festivities triggered, as usual, a slowdown in trading activity. This was translated by a 0.42% monthly slip to 1,212.73 points on December 30<sup>th</sup>.

### Performance of the BLOM Stock Index



Source: BLOMINVEST Research Department

By the end of 2016, 28 stocks were listed on the Beirut Stock Exchange (BSE), compared to 29 stocks in the previous year. However, there were activities of listing and de-listing conducted by Lebanese commercial banks. The Beirut Stock Exchange decided to De-list the 4,000,000 Preferred Shares Class "A" of BLC from the official market of the stock exchange, and list 60,000,000 common shares as well as 750,000 new preferred "D" shares, thus taking note of the Bank's capital increase from LBP/154,000,000,000/ to LBP/214,750,000,000/. Moreover, the BSE also decided to accept the capital increase of Bank of Beirut to LBP 115,218,674,000 through the issuance of 4,000,000 new preferred class "K" shares.

On November 16, BLOM BANK announced that it has signed an agreement to acquire the assets and liabilities of HSBC Bank Middle East Limited, Lebanon subject to regulatory approval from Banque du Liban on the transaction which is expected to be completed during the first half of 2017. As of June 30th, 2016, HSBC Bank Middle East Limited had 3 branches in Lebanon and approximately USD 953 million in total assets.

In the banking sector, the best performing stocks on the Lebanese bourse in 2016 were BLOM GDRs, BLOM listed shares, and Audi listed shares. In details, BLOM GDRs and BLOM listed shares increased by 12.82% and 12.77% over the year to reach \$11 and \$10.6, respectively. BLOM Bank's net profits posted an 18.74% yearly increase to stand at \$344.07M by the third quarter of 2016, and the bank recorded the highest return on common equity ratio of 17% and the lowest cost-to-income ratio of 35.3%. Audi common shares increased by a yearly 12.40% to \$6.80, as net profits surged 15.18% year-on-year to \$350.34M. Also, Bank Audi's Turkish subsidiary, ODEA Bank, revealed an increase in its net profits to \$3.02M compared to a \$3.18M loss during the same period in 2015.

As for the worst performers, BEMO listed shares, BLC Preferred shares class "B" and "C" recorded the largest losses through the year. BEMO lost 10.53% to stand \$1.7, while BLC Preferred shares class "B" and "C" saw respective falls of 2.44% and 0.99% each to stand at \$100.

In the real estate sector, despite substantial political improvements, Solidere shares registered declines in value. Solidere released its consolidated financial statements for the first 6 months of 2016, revealing an improvement in its bottom line, from a net loss of \$28.71M by H1 2015 to a net profit of \$72.10M over the same period this year. Also, ahead of the presidential elections, Solidere shares rallied to reach their peak levels this year on October 28. As such, heavy selling followed and led the stocks into a correction phase. Consequently, Solidere A and B shares respectively decreased by a yearly 6.15% and 5.15% to stand at \$10.38 and \$10.5.

As for the manufacturing sector, Ciments Blancs' Nominal shares and HOLCIM shares recorded the largest declines through the year. Ciments Blancs' nominal shares and HOLCIM shares plunged by 49.35% and 19.08% to reach \$1.57 and \$11.75, respectively. This drop can be attributed to HOLCIM's capital decrease from LBP 195,160,400,000 (\$129.46M) to LBP 97,580,200,000 (\$64.73M), where the nominal value of the share will drop to LBP 5,000 instead of LBP 10,000.

Despite the fact that the world had undergone a year full of drastic changes defined by the Syrian Refugees crisis, terrorist attacks, Brexit and the election of Donald Trump in the U.S, Lebanon's overall economy was only impacted by local political developments. As such, future investor sentiment will be directly correlated to the progress on the political front, government economic policy, and the security situation of the country and the region.

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