



LEBANON THIS WEEK

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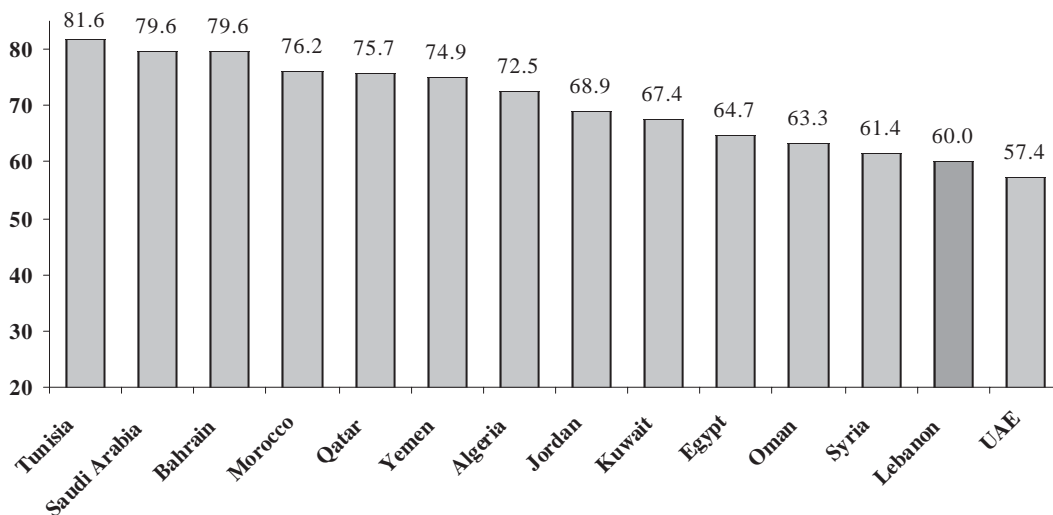
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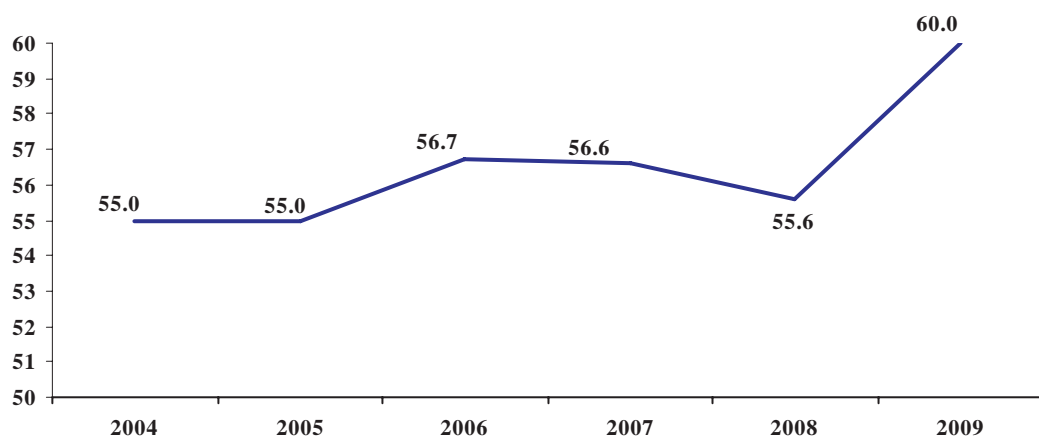
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Charts of the Week

Business Freedom Index in MENA Countries for 2009



Business Freedom Index in Lebanon



Source: Heritage Foundation/Wall Street Journal, 2009

Quote to Note

“Increases in spending in Lebanon by those who are laid off and return from the Gulf could, in the short-term, offset some of the reduction in remittances.”

The Economist Intelligence Unit, on one possible outcome of expected layoffs of Lebanese expatriates in the GCC

Number of the Week

60: National average distance in kilometers to Beirut, one of the shortest distances in the world to a capital city, according to the World Bank

Economic Indicators

| \$m (unless otherwise mentioned) | Nov. 2007 | Jan-Nov. 07 | 2007 | Oct. 2008 | Nov. 2008 | Jan-Nov. 08 | % Change* |
|---|------------------|--------------------|-------------|------------------|------------------|--------------------|------------------|
| Exports | 293 | 2,575 | 2,816 | 254 | 330 | 3,228 | 25.36 |
| Imports | 1,054 | 10,751 | 11,815 | 1,490 | 1,664 | 14,998 | 39.50 |
| Trade Balance | (761) | (8,176) | (8,999) | (1,236) | (1,334) | (11,770) | 43.96 |
| Balance of Payments | 547 | 1,172 | 2,036 | 231 | 303 | 2,747 | 134.38 |
| Checks Cleared in LBP | 778 | 7,727 | 8,409 | 847 | 782 | 8,536 | 10.46 |
| Checks Cleared in FC | 2,902 | 27,124 | 29,883 | 3,938 | 3,519 | 39,964 | 47.34 |
| Total Checks Cleared | 3,680 | 34,851 | 38,292 | 4,785 | 4,301 | 49,500 | 42.03 |
| Budget Deficit/Surplus | 314 | (2,391) | (2,546) | (68) | (511) | (2,589) | 8.28 |
| Primary Balance | (30) | 639 | 731 | 297 | (246) | 646 | 1.09 |
| Airport Passengers | 225,571 | 3,074,348 | 3,408,834 | 351,753 | 299,175 | 3,666,005 | 19.24 |

| \$bn (unless otherwise mentioned) | Dec. 2006 | Nov. 2007 | Dec. 2007 | Sep. 2008 | Oct. 2008 | Nov. 2008 | % Change* |
|--|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| BdL FX Reserves | 10.21 | 9.75 | 9.78 | 15.32 | 16.17 | 16.42 | 68.41 |
| <i>In months of Imports</i> | <i>11.30</i> | <i>9.25</i> | <i>9.19</i> | <i>10.42</i> | <i>10.85</i> | <i>9.87</i> | <i>6.70</i> |
| Public Debt | 40.37 | 41.61 | 42.03 | 45.68 | 46.19 | 46.86 | 12.61 |
| Net Public Debt | 37.42 | 38.71 | 39.03 | 40.89 | 40.85 | 41.18 | 6.38 |
| Bank Assets | 74.27 | 80.11 | 82.26 | 91.73 | 90.43 | 91.76 | 14.54 |
| Bank Deposits (Private Sector) | 60.69 | 65.93 | 67.29 | 75.13 | 74.80 | 75.65 | 14.74 |
| Bank Loans to Private Sector | 17.02 | 17.65 | 20.42 | 24.80 | 24.61 | 24.69 | 39.88 |
| Money Supply M2 | 15.57 | 16.27 | 16.47 | 22.13 | 23.10 | 23.87 | 46.71 |
| Money Supply M3 | 53.23 | 58.75 | 59.83 | 66.44 | 66.38 | 67.08 | 14.18 |
| LBP Lending Rate (%) | 10.37 | 10.24 | 10.10 | 9.98 | 9.90 | 10.08 | (16b.p.) |
| LBP Deposit Rate (%) | 7.49 | 7.42 | 7.40 | 7.18 | 7.28 | 7.27 | (15b.p.) |
| USD Lending Rate (%) | 8.55 | 8.22 | 8.02 | 7.37 | 7.53 | 7.54 | (68b.p.) |
| USD Deposit Rate (%) | 4.76 | 4.84 | 4.69 | 3.57 | 3.54 | 3.47 | (137b.p.) |
| %* Change in CPI** | 7.04 | 5.07 | 5.92 | 11.76 | 11.13 | 9.78 | (471b.p.) |

* Year-on-Year; ** Consumer Price Index

Note: b.p. i.e. basis point

Sources: ABL, BdL

Capital Markets

| Most Traded Stocks on BSE | Last Price (\$) | % Change* | Total Volume | Weight in Market Capitalization | Sovereign Eurobonds | Coupon % | Mid Price \$ | Mid Yield % |
|----------------------------------|------------------------|------------------|---------------------|--|----------------------------|-----------------|---------------------|--------------------|
| Solidere "A" | 16.00 | (1.84) | 691,837 | 17.78% | Oct.2009 | 10.250 | 102.50 | 6.66 |
| Solidere "B" | 16.00 | (1.78) | 140,650 | 11.56% | Dec.2009 | 7.000 | 100.25 | 6.71 |
| Byblos Common | 1.63 | 0.00 | 27,000 | 3.93% | Mar.2010 | 7.125 | 99.88 | 7.23 |
| Byblos Priority | 1.63 | 0.00 | 28,000 | 3.73% | May 2011 | 7.875 | 99.13 | 8.29 |
| BLOM GDR | 67.90 | (1.16) | 7,864 | 5.58% | Sep.2012 | 7.750 | 96.50 | 8.89 |
| BLOM Listed | 66.00 | (10.69) | 9,000 | 15.77% | June 2013 | 8.625 | 97.75 | 9.25 |
| Audi GDR | 48.89 | (2.22) | 6,938 | 5.34% | Apr.2015 | 10.000 | 102.75 | 9.41 |
| Audi Listed | 46.90 | (0.19) | 2,920 | 17.82% | Jan.2016 | 8.500 | 94.50 | 9.60 |
| HOLCIM | 14.00 | 9.63 | 1,046 | 3.04% | May 2016 | 11.625 | 108.50 | 9.96 |
| | | | | | Apr.2021 | 8.250 | 90.50 | 9.39 |

Source: Beirut Stock Exchange (BSE); *Week-on-week

Source: Byblos Capital Markets

| | This Week | Last Week | % Change | Dec. 2008 | Dec. 2007 | % Change |
|------------------------------|------------------|------------------|-----------------|------------------|------------------|-----------------|
| Total Shares Traded | 918,445 | 542,508 | 69.30 | 3,338,870 | 4,989,644 | (33.08) |
| Total Value Traded | \$15,507,401 | \$8,104,479 | 91.34 | \$41,912,782 | \$66,067,899 | (36.56) |
| Market Capitalization | \$8.99bn | \$9.21bn | (2.29) | \$9.61bn | \$10.89bn | (11.80) |

Source: Beirut Stock Exchange (BSE)



Merrill Lynch maintains its recommendation on Lebanese Eurobonds to 'Market Weight', Eurobonds post second best performance in emerging markets in 2008

Merrill Lynch maintained its recommendation on Lebanon's external debt to 'Market Weight' in its model portfolio of emerging markets debt and slightly decreased Lebanon's market weight to by 0.8 percentage point to 6.9% after raising it by 2.2 percentage points last November due to the performance of Lebanese Eurobonds, and specifically since the spread of financial turmoil to emerging markets in September. Merrill Lynch upgraded its recommendation to 'Market Weight' from 'Underweight' following the Doha Accord last May. The 'Underweight' recommendation was in place since April 2007 due to the negative political outlook and deteriorating situation in the country at the time. It noted that Lebanon has been one of the best performers, along with Iraq, in its portfolio since its upgrade to 'Market Weight' on May 22nd.

Lebanon's external debt rating of 'Market Weight' placed Lebanon in the same category as Argentina, as Mexico was downgraded and Ecuador defaulted on its debt. Lebanon's Market Weight compares well with the Under Weight recommendation on the EMEA region and to the Under Weight recommendation for similarly-rated countries. Merrill Lynch decreased Lebanon's weight in the portfolio to 6.9% from 7.7% in November, but still up from 5.5% in September and 5.6% in May. Lebanon had just a 1.5% weight in March, a higher allocation of only Iraq. Lebanon is represented in the portfolio by the Republic March 2013 Eurobond. Lebanon accounted for 21.8% of the allocations in the EMEA region, down from 24% in November, but still up from 19% in September and from 14.6% at the beginning of May. Lebanon's allocation is the 7th highest among countries in the portfolio, down from 6th highest in November and up from 9th highest in September.

In parallel, Lebanon's external debt posted the second highest return at 5.76% among 19 countries in the Europe, the Middle East & Africa (EMEA) region in 2008, as well as the second best return after Latvia among the 29 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA returns of -9.84% and the overall emerging market returns of -10.7% in 2008. Also, Lebanon posted the best performance at 6.13% in the EMEA region as well as among emerging markets in US dollar terms last year. It outperformed the EMEA returns of -10.24% and the overall emerging market returns of -10.19% during the same period. However, Lebanon underperformed most emerging markets in December, as it posted returns of 2.53% for the month, 9th among 19 markets in the EMEA and 25th among the 29 markets forming the index. It also underperformed the EMEA returns of 5.87% and the overall emerging markets returns of 8% in December.

Beirut selected as top travel destination in 2009

The New York Times selected Beirut as the overall number one destination globally among its list of "The 44 Places To Go in 2009". The annual survey said the Lebanese capital is poised to reclaim its title as the Paris of the Middle East with the recent decline political tensions and the return of stability and security. The survey chose Beirut as one of 12 destinations for luxury travel, along with Fjhalinas in Sweden, Phuket in Thailand, Monterrey in Mexico, Bhutan, the Seychelles, and Boracay in the Philippines, among others. Phuket was ranked as the top luxury destination for 2009. Also, Beirut was selected as one of 8 destinations to visit for food, along with Marrakesh in Morocco, Maremma in Italy, Washington, DC, and Penang in Malaysia. Marrakesh was the top destination in this category. Last, but not least, Beirut was selected as one of the 9 trendiest destinations for partying, along with Florianopolis in Brazil, Monterrey in Mexico, Deauville in France, Berlin in Germany and Cuba, among others. Florianopolis was chosen as the number one destination for partying. *The New York Times* said this year's most compelling destinations are awash in sublime landscapes, cutting-edge art, gala music festivals, and stylish new resorts.

| Emerging Markets External Debt Portfolio | | |
|--|---------------------|------------|
| Country | Bonds | Weight (%) |
| Turkey | Turkey '18s | 11.8 |
| Brazil | Brazil '17s | 11.0 |
| Mexico | Mexico '31s | 8.7 |
| Indonesia | Indonesia '18s | 7.9 |
| Russia | Russia '18s | 7.8 |
| Philippines | Philippines '16Ns | 7.7 |
| Lebanon | Lebanon '13s | 6.9 |
| Venezuela | Venezuela '18Ns | 6.5 |
| Peru | Peru '37s | 5.5 |
| Colombia | Colombia '17s | 4.5 |
| Ukraine | Ukraine '13s | 3.4 |
| Panama | Panama '36s | 3.0 |
| Argentina | Pars | 1.6 |
| Uruguay | Uruguay '22s | 1.6 |
| South Africa | South Africa '14s | 1.4 |
| Jamaica | Jamaica '17s | 0.8 |
| El Salvador | El Salvador '23s | 0.6 |
| Iraq | Iraq '28s | 0.4 |
| Cash | | 9.1 |
| Total | | 100 |

Source: Merrill Lynch, January 2009

Lebanon is 68th largest market for US exports, key exports include autos, pharmaceuticals, medical equipment and agricultural products, with ICT offering the best prospects

The United States Department of Commerce's 2009 Country Commercial Guide for Lebanon (CCG) highlighted the country's favorable investment climate and its liberal economic system, but said that red tape and an unpredictable operating environment are some of the issues hurting Lebanon's image as a country open for investment. It said the country has very few restrictions on the movement of capital across its borders, foreign investors are allowed to manage and hold business and private assets without any restrictions, and the government does not require investors to engage in any particular sector or project. The guide indicated that corruption is more extensive in government contracts, taxation and real estate registration than in private sector deals.

The U.S. Department of Commerce said Lebanon is the 68th largest market for U.S. exports, adding that the U.S. exported \$1.1bn worth of goods to Lebanon in the first 9 months of 2008, up 81% year-on-year. The top 5 U.S. exports were vehicles, mineral fuel & oil, machinery, agricultural commodities, and medical equipment. It noted that major competitors of U.S. companies in Lebanon include French, Italian, German, British, Korean and Chinese firms.

The Guide said leading Lebanese sectors for U.S. exports and investment include the automobile sector, air conditioning & refrigeration equipment, pharmaceuticals, medical equipment, apparel, education services, and agriculture. The CCG expected the U.S. share of the local auto market to reach 17% in 2008, adding that demand for U.S. automotive products such as brakes, clutches, engine lubricants, and safety accessories are increasing because of their quality advantage over foreign competitors. Also, U.S. air conditioning and refrigeration exports to Lebanon reached \$111m in the first 8 months of last year, with a projected market share of 10% in 2008. Further, U.S. pharmaceuticals accounted for about 6% of total pharmaceutical imports in the first 8 months of 2008. Also, U.S. exports of medical equipment reached \$34m in the first 8 months of 2008 and their market share was expected to reach 27% in 2008. It noted that Lebanon is an ideal location for establishing a regional office to cover the Levant, including Iraq, for this sector.

Also, U.S. apparel exports to Lebanon reached around \$7m, about 3% of total apparel imports to Lebanon, while US agricultural exports totaled \$148m, equivalent to 8.7% of agricultural imports. Major U.S. agricultural exports to Lebanon include dairy products, cereals, beverages and spirits and tobacco. Finally, it noted that Lebanon has one of the best educational systems in the Middle East with 125,000 students enrolled in universities throughout Lebanon and over 2,100 Lebanese students studying in the U.S.

In parallel, the US Department of Commerce considered the Information & Communication Technology (ICT), pharmaceuticals and insurance sectors as offering the best prospects. It said Lebanon has the fundamental building blocks needed to become a regional center for technology that include a highly-educated and multilingual workforce, a strong private sector, world-class advertising firms, and multi-lingual media content providers and web portals. Additionally, Lebanon is the leading importer of pharmaceuticals in the Levant, as 95% of the \$545m market consists of imported medicine.

Association of Banks in Lebanon recommends adjustments to prime lending rates

The Association of Banks in Lebanon recommended to banks operating in Lebanon an increase of 25 basis points in the prime lending rate in US dollars to 8.25% from 8%. It also recommended a reduction of 50 basis points in the prime lending rate in Lebanese pounds to 10% from 10.5%. The ABL attributed its recommendation to the decrease in the dollarization rate of deposits, leading to lower liquidity in foreign currency, as well as to the goal of stimulating lending in the local currency. The dollarization rate of deposits dropped from 77% at end-2007 to 69% at the end of November 2008.

Cleared checks reach \$52.5bn in 2008

The value of cleared checks reached \$52.5bn in 2008, up 37.2% from the same period last year. The value of cleared checks in Lebanese pounds rose by 11.4% to the equivalent of \$9.4bn, while the value of cleared checks in US dollar rose by 44.4% to \$43.2bn. The dollarization rate of cleared checks increased from 78 % to 89.1% year-on-year.

Consumer Price Index up 5.5% in 2008

The Central Administration of Statistics' Consumer Price Index indicates that inflation rose by nearly 5.5% in 2008. Prices at restaurants & hotels increased by 25.3%, followed by prices of food and non-alcoholic beverages with an 18.2% rise, furnishing & household equipment (+7%), clothing & footwear (+4.9%). Prices of water, electricity, gas & other fuels regressed by 8.6% and those of communication declined by 0.5%. The Consumer Price Index declined by 0.7% in December 2008 from the previous month. Prices of clothing and footwear rose by 0.7%, constituting the biggest rise among all categories on a monthly basis. They were followed by recreation, amusement and culture with a 0.4% rise, restaurants & hotels (+0.2%), and alcoholic beverage & tobacco (+0.1%). In addition, prices of water, electricity, gas & other fuels declined by 7.1%, health by 0.4%, and food and non-alcoholic beverages and transportation by 0.1%.

Inflation up 6.4% in 2008

Figures issued by the Consultation and Research Institute (CRI) show that inflation rose by 6.4% in 2008. According to the CRI, prices of food & beverages increased by 12.1%, followed by prices of transportation & telecommunications with a 6.4% rise, durable consumer goods (+6%), education (+5.6%), other goods & services (+3.1%), and recreation (+2.5%). Prices of housing decreased by 5.6% while those of apparel declined by 3.4%. Prices of health care remained stable. The CRI is a private consulting firm that issues inflation figures on a monthly basis.

The CRI results show that non-alcoholic beverages recorded the biggest rise with a 29.7% increase in the food & beverages category while glassware recorded the highest increase with a 24.6% rise in the durable consumer goods category. The CRI said that the decline in housing prices was due to an 8.3% decrease in the prices of household energy. It added that healthcare costs remained stable, but prices of medications and medical accessories increased by 9.9% and inpatient services' costs decreased by 11.5%, while outpatient services' costs remained stable. It noted that transportation costs increased by 7.5% in 2008.

Trade deficit up 44% to \$11.8bn in first 11 months of 2008

Imports rose by 39.5% to \$15.1bn in the first 11 months of 2008, while exports grew by 25.3% to \$3.2bn in the same period, leading to a trade deficit of \$11.8bn, up 43.9% year-on-year. The coverage ratio reached 21.5% in the first 11 months of 2008 compared to 24% in the same period of 2007. The trade deficit reached \$1.33bn in November 2008, up 75.1% from November 2007. Exports averaged \$293m per month in the first 11 months of 2008 compared to \$235m in the same period of 2007, \$190m in 2006 and \$157m in 2005, while imports averaged \$1.34bn per month in the year-to-November 2008 period compared to \$985m in 2007, \$783m in 2006 and \$778m in 2005.

The United States was the main source of imports with \$1.8bn or 12% of the total, followed by China and France with \$1.3bn (8% each), Italy with \$1.05bn (7%) and Germany with \$912m (6%). The UAE was the main export destination with \$310m or 10% of the total, followed by Switzerland with \$304m (9%), Iraq with \$243m (8%), Syria with \$204m (6%) and Saudi Arabia with \$192m (6%). Lebanon's main export was jewelry at \$524m or 16% of total exports, followed by base metals with \$507m (16%), machinery & appliances with \$472m (15%), chemical products with \$423m (13%), and food & beverages with \$261m (8%). Re-exports totaled \$169m in the first 11 months of 2008, down 0.6% from \$170m in the same period of 2007. The Port of Beirut was the main source of Lebanese exports accounting for 35% of total exported goods up to November 2008, followed by the Hariri International Airport with 25%, the Masnaa crossing point with 19% and the Port of Tripoli with 12%. The Port of Beirut was also the main source for imports, accounting for 71% of total imports, followed by the Hariri International Airport with 16%, the Port of Tripoli with 6% and the Masnaa crossing point with 5%.

Customs receipts up 20.2% to \$971m in first 11 months of 2008

Figures released by the Higher Customs Council show that customs revenues reached \$971m in the first 11 months of 2008, up 20.2% from the same period last year. The Port of Beirut continues to be the main point of customs revenues, accounting for 87% of the total, and was followed by the Hariri International Airport with 8.7%, the Masnaa crossing point with 2.1%, and the Port of Tripoli with 1.3%. Overall customs receipts reached \$2.13bn in the first 11 months of 2008 when including revenues from the value-added tax that totaled \$1.16bn over that period of time.

Beirut port activity in 2008

Figures released by the Port of Beirut Authority show that port revenues amounted to \$132.6m in 2008, up 16.4% from 2007 and 61.6% from 2006. Freight activity reached 5.75 million tons in 2008, up by 8.1% compared 2007. The number of ships reached 2,055, down 6% from 2007. Further, the port's revenues reached \$12.5m in December 2008, down 2.3% from the previous month. Freight activity increased by 17.2% to 491,300 ton, while the number of ships increased by 16.1% to 187 ships in December 2008.

Subsidized interest loans reach \$2.21bn at end-September 2008

Figures released by the Central Bank show that the cumulative amount of subsidized interest loans to productive sectors in Lebanon reached \$2.21bn at the end of September 2008. The industrial sector accounted for \$1.33bn, or 60% of the total, followed by tourism with \$640m (28.9%), agriculture with \$198.6m (9%), specialized technology with \$45.7m (2.1%) and handicrafts with \$0.93m (0%). Subsidized interest loans extended in the first 9 months of the year totaled \$344.5m relative to \$251.8m in 2007.

Subsidized medium- and long-term loans reached \$1.49bn, equivalent to 67.2% of the total at end-September 2008. Industry accounted for 61.3% of the total, followed by tourism with 33.6%, agriculture with 4.1% and specialized technologies with 0.9%. The program was established in the first quarter of 1997 and consists of a 5% to 7% subsidy on the interest for loans extended in foreign currencies to productive sectors. Also, subsidized interest loans guaranteed by the Kafalat Corporation totaled \$490.4m, or 22.1% of the total. Industry accounted for 54.1% of Kafalat-backed subsidies, followed by tourism with 27.4%, agriculture with 15.1%, special technologies with 3.3% and handicrafts with 0.2%. Kafalat provides financial guarantees for loans of up to \$400,000 for small and medium-sized enterprises in productive sectors.

Further, interest subsidized under the protocol signed with the European Investment Bank totaled \$131.7m, or 5.9% of the total, with industry accounting for 46.9% of the total, followed by tourism with 39.4%, specialized technologies with 12.1%, and agriculture with 1.6%. In addition, subsidized interest loans granted by leasing companies totaled \$72m at the end of September 2008, or 3.3% of the total, with industry accounting for 96.9%, tourism with 3.1% and specialized technologies with 0.1% of such subsidies. Finally, subsidized interest loans granted by the International Finance Corporation totaled \$25.9m, or 1.2% of the total, with industry accounting for 79.6%, tourism for 17.5% and agriculture for 2.9%, while subsidized interest loans to finance working capital totaled \$6.7m, or 0.3% of the total with tourism accounting for 100% of the total.

Industrial and commercial activity up in third quarter of 2008

According to the Central Bank's business survey, industrial production increased during the third quarter of 2008, with a balance of opinion standing at +29, compared to +11 during the same quarter of 2007. The business survey reflects the opinions of enterprise managers on the evolution of their businesses, in order to depict the evolution of a number of key economic variables. The balance of opinion for overall demand for industrial goods increased from +7 in the third quarter of 2007 to +23 in the same quarter of 2008.

For commercial activity, the volume of sales also increased significantly during the third quarter of 2008, with a balance of opinion standing at +41 compared with +8 during the same quarter of 2007. Moreover, overall activity in the construction and public works sectors improved significantly in the third quarter of 2008, with a balance of opinion standing at +14, compared with -7 in the same quarter of 2007. A number of surveyed managers reported, for ongoing projects in the construction and public work sectors, a balance of opinion standing at -3 at the end of the third quarter of 2008, compared with -20 a year earlier.

| Year-on-year Evolution of Opinions | | |
|---|-------|-------|
| Aggregate Results | Q3-07 | Q3-08 |
| Industrial production | +11 | +29 |
| Total demand for industrial goods | +7 | +23 |
| Commercial sales volume | +8 | +41 |
| Overall activity in construction and public works | -7 | +14 |
| Ongoing projects in construction and public works | -20 | -3 |

Source: Central Bank Business Survey

Six business plans submitted at launch of Lebanese Business Angels network

The Lebanese Business Angels network (LBA) officially launched its activities by receiving six business plans for potential financing. The LBA is part of the Bader Young Entrepreneurs Program. Last year, Bader, an organization launched by a group of local business leaders and entrepreneurs to raise awareness about the importance of entrepreneurship in Lebanon, announced plans to develop a network of 'angel' investors who will channel investments to start-up companies and share their expertise with Lebanese entrepreneurs. In advanced economies, 'angel' investors are typically proven entrepreneurs who have worked with or founded start-ups themselves and have a personal interest or expertise in an industry. They operate on an individual basis as part of a loosely structured group, but they can be found in more sophisticated networks with strict protocols, sometimes pooling money in syndicates.

Angel investors in Lebanon plan to invest between \$50,000 and \$500,000 at a very early stage of a Lebanese start-up, and will also mentor local entrepreneurs. The LBA considers ideas from all sectors, with a focus on innovative products and companies with the potential for international reach. The six plans submitted covered high-end goods, media, customer loyalty solutions, toys, pest control and design-publishing. The LBA works in close cooperation with the Kafalat Corporation, Berytech and the Arab Business Angel Network.

ALICO up for sale

American International Group Inc, the largest insurance group in the world, has put up for sale its insurance subsidiary American Life Insurance Company (ALICO) as part of its plan to pay \$60bn in debt to the US government. ALICO, one of AIG's most profitable subsidiaries, sells life and health insurance, wealth management and retirement plans in more than 55 countries and regions, including Japan, Western, Central & Eastern Europe, the Middle East, South Asia, Latin America and the Caribbean. ALICO is the largest provider of life insurance in Lebanon with \$74.2m in premiums generated in 2007, accounting for 26.7% of the Lebanese life insurance market, down from 63% in 2000.

AIG is accepting bids for several of its units and is selling most of its operations to repay the loan to the American government. The US-based AIG nearly collapsed last year when the financial crisis forced it to make payments tied to Credit Default Swaps it previously sold to banks. CDS are a type of insurance policy against default on securities that grew in recent years into an unregulated market of about \$60,000bn, and where AIG sold about 80% of these policies. As global financial markets collapsed last fall, AIG received an \$85bn loan from the U.S. government to avoid bankruptcy. The insurer's rescue package has since expanded to about \$150bn and included more time and a lower interest rate on the loan. AIG has struck deals to raise about \$2.2bn so far by selling some of its businesses. Along with ALICO, AIG plans to sell AIG Star Life and AIG Edison Life, as well as a minority stake in AIA, the leading life insurer in Southeast Asia. Earlier this month, AIG sent out a sales memorandum for ALICO, which is expected to sell for as much as \$10.6bn. Potential bidders for AIG's assets include China Life Insurance Co., HSBC Holdings Plc, U.K. insurer Prudential Plc, Prudential Financial of the U.S., ManuLife Financial, Allianz AG, AXA and Met Life.

Daily Star newspaper declared bankrupt

The Daily Star newspaper, the region's oldest English language daily, has stopped publishing after being ruled bankrupt by a Lebanese Court. The court's decision was based on the paper's default on a \$1.7m loan from Standard Chartered Bank Plc. The loan was originally contracted from Metropolitan Bank prior to the latter's acquisition in 1999 by Standard Chartered. The newspaper's majority owner and editor-in-chief, Jamil Mroué, stressed in its court appeal that the newspaper relies mainly on local advertising for its revenues and that the instability in Lebanon over the past three years has hurt its income. Mr. Mroué is offering a 40% stake in the paper in order to pay off the loan and reverse the court's ruling. The stake would come from his 80% share.

The newspaper was established in 1952 and continued being published until the outbreak of Lebanon's conflict in 1975. It was re-launched in 1983 but had to close a year later due to the war. *The Daily Star* re-opened in 1996 and was the only English daily in the country until its recent shut down. In 2002, *The Daily Star* launched a joint venture with the *International Herald Tribune*. The two dailies started to co-publish in Beirut, with the IHT providing its entire international edition as a daily supplement. But the IHT stopped being co-published with *The Daily Star* since the summer 2006 war.

Ratio Highlights

| (in % unless specified) | 2006 | 2007 | Change* | Q3-2008 |
|-----------------------------------|--------|--------|---------|---------|
| Nominal GDP ⁽¹⁾ (\$bn) | 22.7 | 24.6 | | 27.75 |
| External Debt / GDP | 89.9 | 86.4 | (350) | 77.4 |
| Local Debt / GDP | 88.1 | 84.6 | (350) | 87.3 |
| Total Debt / GDP | 178.4 | 171.0 | (740) | 164.7 |
| Trade Balance / GDP | (31.3) | (36.6) | (530) | (33.2) |
| Exports / Imports | 24.3 | 23.8 | (50) | 22.3 |
| Budget Revenues / GDP | 19.4 | 23.6 | 420 | 18.2 |
| Budget Expenditures / GDP | 30.8 | 33.9 | 310 | 25.4 |
| Budget Balance / GDP | (11.5) | (10.3) | 120 | (7.2) |
| Primary Balance / GDP | 0.4 | 2.9 | 250 | 2.1 |
| BdL FX Reserves / M2 | 65.6 | 59.6 | (600) | 69.3 |
| M3 / GDP | 234.4 | 243.2 | 880 | 239.4 |
| Bank Assets / GDP | 327.2 | 334.4 | 720 | 330.6 |
| Bank Deposits / GDP | 267.4 | 273.5 | 610 | 270.7 |
| Private Sector Loans / GDP | 67.4 | 72.2 | 480 | 89.4 |
| Dollarization of Deposits | 76.2 | 77.3 | 110 | 72.0 |
| Dollarization of Loans | 84.0 | 84.3 | 30 | 87.2 |

* Change in basis points 06/07

(1) Based on Ministry of Finance Estimations and the International Monetary Fund

Source: Association of Banks in Lebanon, Byblos Research Calculations

Note: M2 includes money in circulation and deposits in LBP, M3 includes M2 plus Deposits in FC and bonds

Risk Outlook

| Lebanon | Dec 2007 | Nov 2008 | Dec 2008 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 56.5 | 57.5 | 57.5 | ▲ | High |
| Financial Risk Rating | 31.5 | 28.0 | 28.0 | ▼ | High |
| Economic Risk Rating | 29.0 | 30.0 | 30.0 | ▲ | Moderate |
| Composite Risk Rating | 58.5 | 57.7 | 57.7 | ▼ | High |

| Regional Average | Dec 2007 | Nov 2008 | Dec 2008 | Change* | Risk Level |
|-----------------------|----------|----------|----------|---------|------------|
| Political Risk Rating | 65.6 | 65.6 | 65.6 | ↔ | Moderate |
| Financial Risk Rating | 41.3 | 41.5 | 41.8 | ▲ | Very Low |
| Economic Risk Rating | 40.0 | 39.0 | 39.5 | ▼ | Low |
| Composite Risk Rating | 73.5 | 73.0 | 73.4 | ▼ | Low |

*year-on-year

Source: The PRS Group, Byblos Research

Note: Political & Composite Risk Ratings range from 0 to 100 (where 100 indicates the lowest risk)

Financial & Economic Risk ratings range from 0 to 50 (where 50 indicates the lowest risk)

Ratings & Outlook

| Sovereign Ratings | Foreign Currency | | | Local Currency | | |
|----------------------|------------------|----|----------|----------------|----|---------|
| | LT | ST | Outlook | LT | ST | Outlook |
| Moody's | B3 | NP | Positive | | | |
| Fitch | B- | B | Stable | B- | | |
| S&P | B- | C | Stable | B- | C | Stable |
| Capital Intelligence | B- | B | Stable | B- | B | Stable |

Source: Rating agencies

| Banking Ratings | Banks' Financial Strength | Banking Sector Risk | Outlook |
|-----------------|---------------------------|---------------------|---------|
| Moody's | D- | | Stable |
| EIU | | B | Stable |

Source: Rating agencies



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