

# THE YEAR IN BROAD STROKES

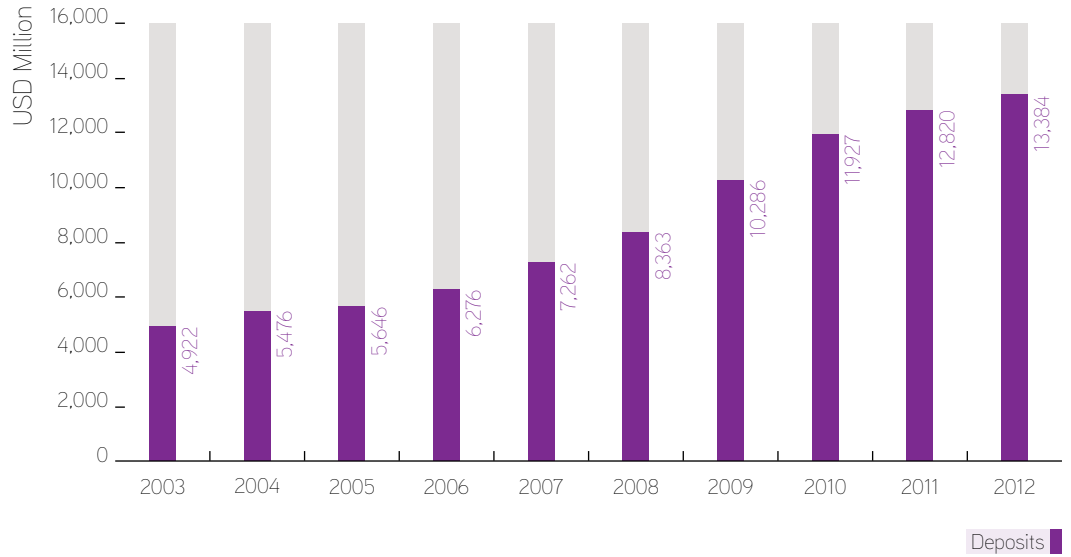


## FINANCIAL HIGHLIGHTS

### CUSTOMERS' DEPOSITS

Evolution of Customers' Deposits

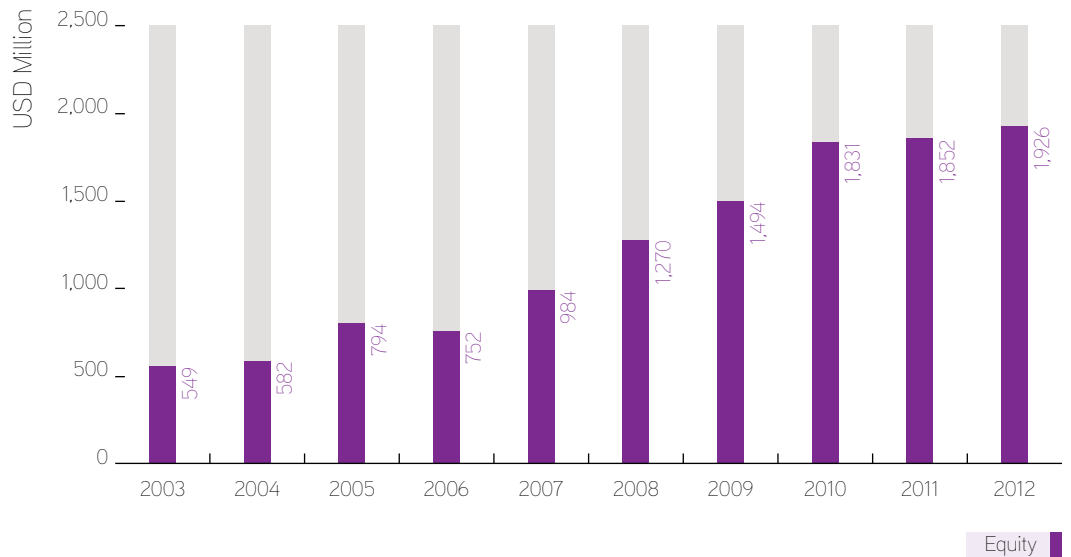
**CAGR** 11.76%  
for the last ten years



### TOTAL EQUITY

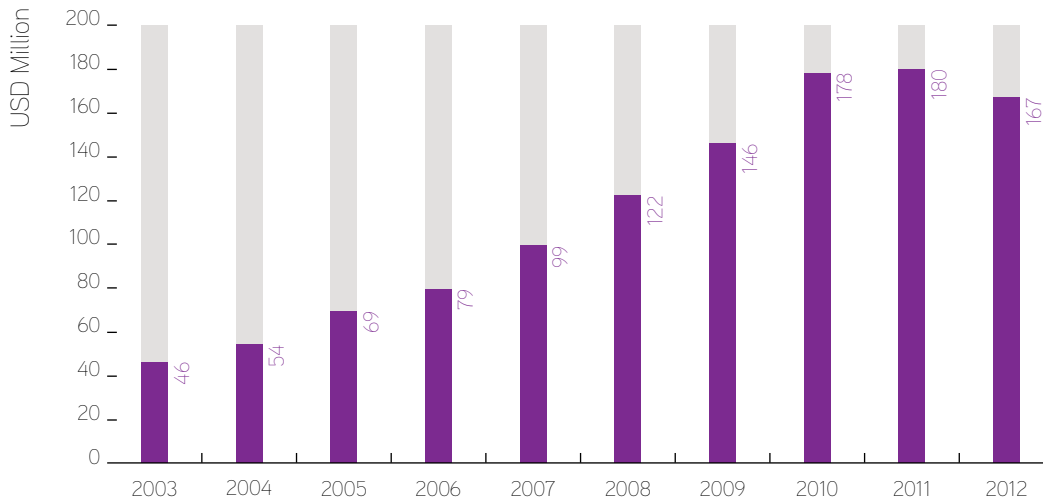
Evolution of Total Equity

**CAGR** 14.97%  
for the last ten years



### NET INCOME

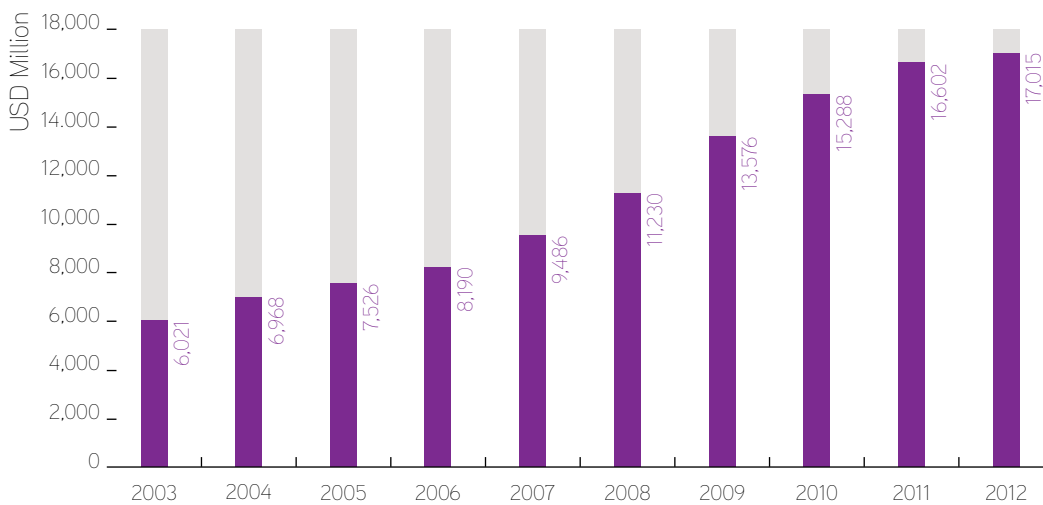
#### Evolution of Net Income



**CAGR** 15.33%  
for the last ten years

### TOTAL ASSETS

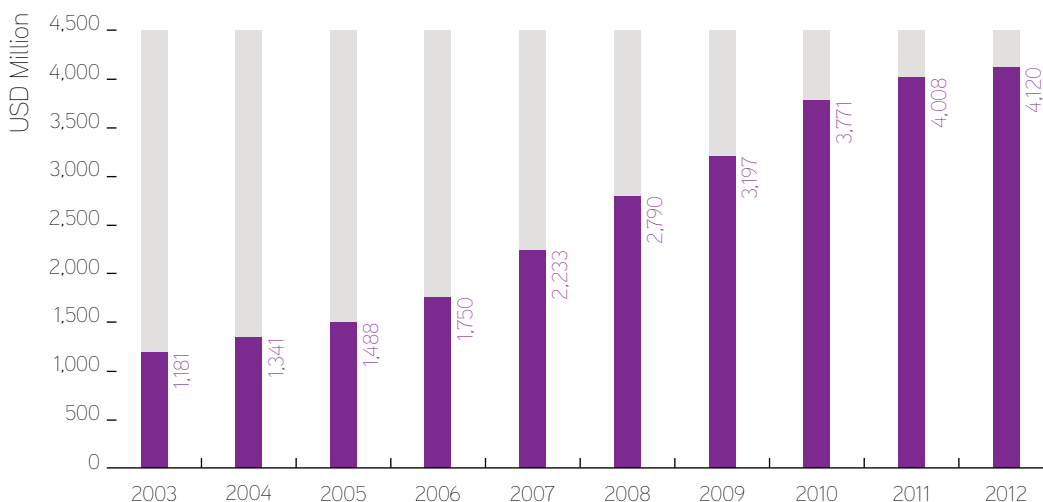
#### Evolution of Total Assets



**CAGR** 12.23%  
for the last ten years

### NET CUSTOMERS' LOANS

#### Evolution of Customers' Loans



**CAGR** 14.89%  
for the last ten years

## A MESSAGE FROM THE CHAIRMAN



*"Success is not final, failure is not fatal: it is the courage to continue that counts."*

– Winston Churchill

*"I do not think that there is any other quality so essential to success of any kind as the quality of perseverance. It overcomes almost everything, even nature."*

– John D. Rockefeller

### DISTINGUISHED STAKEHOLDERS,

Like many other countries in the Middle East and North Africa (MENA) region, Lebanon has been impacted by both the global economic slowdown and the regional sociopolitical unrest. As a result, its economy has lost momentum after years of strong GDP growth.

The political transitions taking place in a number of MENA countries, coupled with the dramatic situation unfolding in Syria, the prospect of the hostilities' continuing to escalate and the heightened risk of spillovers into Lebanon, have affected our political and economic climates and wrought increased uncertainty that weighs on investment, consumption, tourism, remittances and overall economic activity.

Yes, 2012 was indisputably a challenging year, and the Byblos Bank Group was not immune to these global and regional developments.

In face of this adverse environment and in anticipation of what is to come, the Group realigned its strategy and priorities and adopted an even more prudent, risk-averse growth approach. This new approach favors stricter risk management and lending, higher asset quality, higher liquidity and higher capitalization while maintaining acceptable profitability.

Despite the challenges mentioned above, the Byblos Bank Group's total assets grew by 2.5% to reach USD 17 billion in 2012, while the net loan portfolio grew by 2.8% to reach USD 4.1 billion, and our loan/deposit ratio held firm at 31%.

The Byblos Bank Group's net operating income before provisions and taxes grew by 7.4% to reach USD 267 million, as compared to USD 249 million in 2011, while net income dropped by 6.9% to reach USD 167.3 million as compared to USD 179.7 million the previous year.

At the same time, the Byblos Bank Group's conservative provisioning policy and a drive to clean up our balance sheet have led us to allocate additional provisions, net of recoveries, of USD 70.5 million in 2012. Total collective provisions reached USD 75 million, equal to 1.8% of the consolidated net loan portfolio, while loan loss provisions stood at USD 157 million. Total provisions to non-performing loans reached 100% in 2012, excluding the value of collaterals.

On the other hand, the Byblos Bank Group's total deposits grew by 4.4 % to reach USD 13.4 billion in 2012, a figure made possible by a large base of loyal depositors. In addition, equity grew by 4% to reach USD 1.9 billion as a result of the successful closing of a convertible bond issue during the year. The deposit and equity increases reflect the confidence of our customer and investor bases, and align with our strategy to boost our liquidity and solvency positions. As a matter of fact, the Byblos Bank Group's primary liquidity reached USD 8.9 billion in 2012, the equivalent of 66.6% of total deposits. And the strength of its capital base is shown in its capital adequacy ratio of 15.03%, far exceeding the requirements of Basel III and the Central Bank of Lebanon's standard of 12% by December 2015.

The foregoing results were more than satisfactory given the circumstances, but the really important story is what the numbers represent in terms of how we work. Our business model is informed by an overwhelming attachment to the notion that a bank can and should conduct itself as a loyal, committed and fully engaged citizen. This means that we define our interests in such a way that they mesh with those of the communities we serve, constantly expanding the areas in which our activities have positive impacts far beyond our own balance sheet. In this way, as time passes, it becomes increasingly true that what is good for the Byblos Bank Group is also good for society at large – and vice versa.

The direct offshoots of this approach include the provision of financing for the kinds of healthy ventures that generate good jobs and contribute to overall economic growth, but also for young people to gain the education they need to compete for those jobs. In addition, the Group takes very seriously its role as a stakeholder in society, above all when it comes to issues that imperil the socioeconomic wellbeing of its customers, its employees, and its neighbors. Accordingly, the Byblos Bank Group has long used its high profile to promote policies and practices that tend to generate both public and private benefits: over the years, we have taken up the banner of environmental awareness, extended support for efforts to preserve vital elements of national culture and heritage, and counseled the Lebanese state to help revive the economy by introducing structural reforms and embracing public-private partnerships. At all times we work toward a better Lebanon that more accurately reflects the energy, creativity and overall potential of its people.

In the coming year and those that follow, the Group will continue to act as an economic engine for communities large and small. No one is better at identifying and partnering with the small- and medium-sized enterprises that are the most effective at creating new jobs – or at offering the kinds of products and services that SMEs need to compete in their respective fields. From manufacturing and import/export to agriculture and construction, we will stand by our customers as they ride out the rough spots, providing advice based on long experience and helping them make preparations for the return of more promising conditions. We will assist them, too, in identifying and seizing new opportunities by, for instance, entering under-served markets, tapping the enormous potential of the environmental sector, and/or exploiting the pace of technological change.

These plans will not unfold in a vacuum. Like our customers, we at the Byblos Bank Group will have to make adjustments in the face of difficult circumstances. While we contemplate entry into new markets, therefore, we also have had to temporarily scale back our operations in war-torn Syria. It is my fondest hope that peace will soon return to that country so that its people can begin the processes of reconciliation and reconstruction. When that day comes, the Byblos Bank Group plans to be there to do what it does best: helping families and businesses to build better tomorrows.

Prospects for growth in our home market of Lebanon also face significant obstacles, not least the side-effects of the conflict in Syria. These have included considerable domestic political discord and repeated blows to consumer and investor confidence, not to mention a sharp decline in the number of tourists arriving from the countries of the Gulf Cooperation Council and much needed capital and investment inflows. Much of the Byblos Bank Group's reputation, though, has been earned by helping its clients to overcome all manner of adversity, and our employees have all the expertise, experience and equipment they need to get the job done, so I have every confidence that this will continue to be the case.

As always, it is my honor to praise these employees, these outstanding men and women whose abilities and dedication are the driving force behind the Byblos Bank Group, for having made 2012 a successful year despite considerable impediments. To all of you who do so many things that justify the confidence placed in us by our clients and shareholders, thank you very, very much.

I would also like to express our gratitude to the Central Bank of Lebanon for all of the measures it has taken in recent years to preserve the strength and resilience of the Lebanese banking sector.

Whatever worries persist, we can feel confident because our organization remains a perennial source of both stability and dynamism. Now more than ever, Byblos Bank really is "Your Bank For Life".

Sincerely,



**François S. Bassil**

Chairman and General Manager

## THE ECONOMY IN 2012

### ECONOMIC ACTIVITY

The Lebanese economy continued to be affected in 2012 by the same factors that led to its drastic slowdown in 2011: domestic political uncertainties, rising political polarization, worsening public finance vulnerabilities, the lack of any credible attempt at implementing reforms, the weak rule of law, and the Syrian crisis, in addition to severe deterioration in security conditions across the country. The economy grew by 0.6% in real terms in 2012, compared to real GDP growth of 1.8% in 2011. Lebanon's real GDP grew at an annual rate of 2.6% in the first quarter of 2012, contracted by 0.8% and by 1.3% in the second and third quarters of the year, respectively, and expanded by 1.8% in the fourth quarter.

The slowdown in 2012 was broad-based, with consumption, trade, tourism, capital flows and investment indicators all pointing to anemic economic activity. In particular, domestic political volatility, repeated security breaches, the wave of kidnappings, the resumption of political assassinations, increasing concerns about spillovers from the escalating Syrian crisis, and the dispute over the public-sector salary adjustment dealt severe blows to the economy during the year. As a result, both consumer confidence and investor sentiment remained at low levels throughout the year.

### REAL SECTORS

The Central Bank's Coincident Indicator, a proxy for overall economic activity in Lebanon, averaged 256.6 in 2012 compared to 255.7 in 2011, increasing marginally by 0.4% year-on-year, which reflects economic stagnation in real terms.

The Byblos Bank/AUB Consumer Confidence Index averaged 32.5 in 2012 compared to 51.7 in 2011, 72.8 in 2010 and 96.7 in 2009. The worsening local political climate and deteriorating security conditions negatively affected consumer sentiment and reflected growing consumers' concerns about future economic conditions and political stability in the country.

Consumer confidence in Lebanon was severely tested in 2012, as 10 out of the 12 monthly readings of the Byblos Bank/AUB Consumer Confidence Index posted their lowest levels since calculations began in July 2007. Security- and safety-related issues dominated consumers' concerns during the year. But other powerful issues such as rising political rhetoric and uncertainties, the inability of authorities to satisfy citizens' basic needs, the rising cost of living, decaying public services, the weak rule of law, and economic stagnation also resonated strongly among consumers. Consequently, the results of the Byblos Bank/AUB Consumer Confidence Index clearly reflected citizens' declining confidence in the seriousness of the government, of public authorities and of political parties about achieving real change, meeting their basic needs, improving their living standards, and providing the framework for economic opportunities. Therefore, consumer confidence now requires a positive political shock equivalent to the one generated by the Doha Accord in order to return to the high levels of 2008 and 2009.

### EXTERNAL SECTOR

Lebanon is a predominantly importing country characterized by large trade deficits; however, these deficits are mostly offset by capital account inflows, in addition to inflows from remittances, foreign income earnings, tourism and other services. The trade deficit reached USD 16.8 billion in 2012, up 5.7% year-on-year, as the value of imports increased by 5.6% to USD 21.3 billion, while the value of exports rose by 5.1% to USD 4.5 billion. Also, the volume of imports reached 15.6 million tons in 2012, constituting a rise of 3.8% from 2011, while exports posted a 4.2% drop to 2.6 million tons in the covered period, leading to a trade deficit of 13 million tons, up 5.6% year-on-year. Imports of oil and mineral fuels increased by 31.8% year-on-year to USD 5.9 billion, while non-hydrocarbon imports fell by 1.9% to USD 15.4 billion. Also, the volume of imports of oil and mineral fuels surged by 18.6%

year-on-year to 6.6 million tons, while that of non-hydrocarbon imports dropped by 4.8% to 9 million tons. The trade balance posted the widest deficit in five years in both value and volume terms, and was prompted by a rise of USD 1.1 billion in imports and an increase of just USD 218 million in the value of exports. The coverage ratio reached 21.1% in 2012 compared to 21.2% in 2011.

In parallel, foreign direct investment (FDI) in Lebanon totaled USD 1.1 billion in 2012, constituting a decline of 68% from USD 3.5 billion in 2011 and compared to inflows of USD 4.3 billion in 2010 and USD 4.8 billion in 2009. FDI in Lebanon was equivalent to 2.7% of the country's GDP in 2012, down from 8.8% of GDP in 2011, 11.5% of GDP in 2010 and 14% of GDP in 2009. Also, the balance of payments posted a deficit of USD 1.5 billion in 2012 compared to a deficit of USD 2 billion in 2011 and surpluses of USD 3.3 billion in 2010, USD 7.9 billion in 2009 and USD 3.5 billion in 2008. The persistent deficit in the balance of payments reflects slowing capital inflows and increasing external financing needs. This trend is unlikely to be reversed without a clear improvement in investor sentiment, which can only happen with a major geopolitical breakthrough centered on Syria.

## TOURISM SECTOR

The tourism sector, a main driver of economic activity in the country, suffered from deteriorating domestic security conditions, political uncertainties and regional turmoil, as well as the lack of any comprehensive strategy to place Lebanon on the regional or global tourism maps. As a result, the number of incoming tourists to Lebanon totaled 1.37 million in 2012, constituting a decrease of 17.5% from about 1.66 million tourists in 2011 and a decline of 37% from 2.17 million tourists in 2010. Arab tourists accounted for 33.5% of total visitors in 2012, followed by visitors from Europe with 32.6%, the Americas with 16.2%, Asia with 9.3%, Africa with 4.5%, and Oceania with 3.8%. The number of African tourists was almost unchanged in the covered period, while the number of tourists from Asia declined by 48.1% annually, Arab tourists dropped by 21.2%, those from Europe dropped by 8.4%, visitors from Oceania fell by 8% and tourists from the Americas decreased by 0.7%. On a country basis, tourists from Iraq accounted for 15.7% of visitors during 2012, followed by France with 14.9%, the United States with 13.7%, Jordan with 11%, Canada with 9.4%, and Saudi Arabia with 9%. Further, the number of tourists from the United Arab Emirates declined by 44.7% during the year, and visitors from Saudi Arabia and Kuwait regressed by 35% each, while those from Jordan dropped by 31.3% and from Turkey by 19.1%."

Also, the average occupancy rate at hotels in Beirut was 54% in 2012, decreasing from 58% in the preceding year. The occupancy rate at hotels in Lebanon fell by four percentage points, constituting the steepest decrease among 19 markets in the Middle East and North Africa region, and relative to an average increase of 3.7 percentage points in the region. The occupancy rate was the fourth lowest in the region, while it was the seventh lowest in 2011. The average rate per room at Beirut hotels was USD 193 in 2012, ranking the capital's hotels as the 11<sup>th</sup> most expensive in the region. The average rate per room at Beirut hotels decreased by 13.3% year-on-year, the second steepest decrease among all markets in the region. Further, revenues per available room (RevPAR) were USD 106 in Beirut in 2012, down from USD 131 in 2011, ranking it in 11<sup>th</sup> place in the region. Beirut's RevPAR fell by 19.1% year-on-year, posting the steepest decrease in the region.

## THE ECONOMY IN 2012

### FISCAL SITUATION

The country's public finance imbalances deteriorated in 2012 due to the increase in government expenditures, the stagnation of public revenues, and the absence of structural and fiscal reforms. In nominal terms, the fiscal deficit widened by 68% during the year to USD 3.94 billion due to a 14.1% increase in spending and almost flat overall revenues. The deficit was equivalent to 29.5% of total budget and Treasury expenditures compared to 20.1% of overall spending in 2011. On the spending side, current expenditures grew from the equivalent of 26.9% of GDP in 2011 to 28.2% of GDP in 2012, Treasury spending rose from 1.5% of GDP in 2011 to 2.1% of GDP in the covered year; and capital outlays were nearly unchanged at 1.2% of GDP. On the revenue side, tax receipts regressed from the equivalent of 16.8% of GDP in 2011 to 16.2% of GDP in 2012, while non-tax revenues declined from 5.9% of GDP to 5.2% of GDP in 2012. Also, Treasury receipts fell from 1.2% of GDP in 2011 to 1.1% of GDP in 2012. As a result, the fiscal deficit widened from 6% of GDP in 2011 to 9.4% of GDP in 2012, and the primary budget balance shifted to a deficit of 0.26% of GDP in 2012 from a surplus of 4.26% of GDP in 2011, constituting the first primary deficit since 2006.

The increase in public expenditures mainly reflects a rise equivalent to 1.9% of GDP in personnel cost and a growth of 1.2% of GDP in transfers to Electricité du Liban (EDL), which constitute two out of the three largest expenditure items in the budget. The rise in personnel cost was caused by the implementation of the cost-of-living adjustment to public-sector salaries as well as by the rise in retirement and end-of-service disbursements; while the increase in transfers to EDL was due to a significant increase in average international oil prices. EDL continued to be a burden on taxpayers and a main cause for the deficit, as Treasury transfers to the state-owned and money-losing utility rose by 30% to USD 2.3 billion, and from 4.5% of GDP in 2011 to 5.4% of GDP in 2012. In addition, salaries and wages increased by 15.5% to USD 2.9 billion, or 7% of GDP, while retirement and end-of-service compensation grew by 35% to USD 1.3 billion, equivalent to 3% of GDP. In parallel, debt servicing decreased by 3.5% year-on-year to USD 3.6 billion, or 8.3% of GDP, and accounted for 27.2% of total expenditures and for 35.7% of budgetary spending. It absorbed 38.5% of overall revenues and 40.5% of budgetary receipts.

The deterioration in the fiscal balance reversed the public debt dynamics, as the debt level increased from 137.4% of GDP in 2011 to 138.1% of GDP in 2012, constituting the first such rise since 2006. Lebanon's gross public debt reached USD 57.7 billion at the end of 2012, constituting an increase of 7.5% from end-2011. Domestic debt increased by 1.7% to USD 33 billion, while external debt rose by 16.5% to USD 24.4 billion in 2012. The rise in the external debt was caused in part by a swap operation in June when the Finance Ministry issued three new Eurobonds totaling USD 2 billion that were used for early redemption and cancellation of Lebanese pound-denominated Treasury bills held by the Central Bank of Lebanon.

Local currency debt accounted for 57.7% of gross public debt at end-2012 compared to 61% a year earlier, while foreign currency-denominated debt represented 42.3% of the total at the end of 2012 relative to 39% at the end of 2011. Commercial banks held for 54.3% of the local public debt at the end of 2012 compared to 51% a year earlier. They were followed by the Central Bank with 30%, down from 33.2% at end-2011, while public agencies, financial institutions and the general public accounted for 15.7% of local debt compared to 15.8% a year earlier. The net public debt, which excludes the public sector's deposits at the Central Bank and at commercial banks from overall debt figures, increased by 6% to stand at USD 49.1 billion at the end of 2012. Also, gross market debt accounted for about 64% of total public debt. Gross market debt is the total public debt less the portfolios of the Central Bank, the National Social Security Fund, and bilateral and multilateral loans, as well as Paris II- and Paris III-related debt.

## CAPITAL MARKETS

### Equities

The Beirut stock market continued to suffer from low liquidity and a lack of interest from privately held firms in listing their shares. It underperformed its regional peers in 2012, as it was the second worst performer in the region, with the stock market index declining by 12.9% in 2012 compared to a 4.2% rise for Arab markets. Further, its market capitalization was equivalent to 25% of GDP, fourth lowest in the region, and accounted for about 1.2% of the aggregate market capitalization of Arab equity markets. Total trading volume on the Beirut Stock Exchange reached 55 million shares in 2012, constituting a decrease of 29% from 2011, while aggregate turnover amounted to USD 408.5 million, down 20.7% from a turnover of USD 515.4 million in the previous year. Market capitalization increased by 1.3% from end-2011 to USD 10.4 billion, of which 75.6% was in banking stocks and 20.5% in real estate stocks. The market liquidity ratio was 3.9% compared to 5% in 2011.

Bank stocks accounted for 64.4% of aggregate trading volume in 2012, followed by real estate stocks with 32.6%. In terms of the value of shares traded, banking stocks accounted for 73.7% of aggregate value, followed by real estate stocks with 18.3%. The average daily traded volume for 2012 was 225,549 shares for an average daily value of USD 1.7 million. The figures reflect decreases of 29.6% in volume and 21.4% in value year-on-year.

## RISK METRICS

Spreads on five-year credit default swaps (CDSs) for Lebanon ended 2012 at 441 basis points, tightening by 8bps from 449bps at the end of the third quarter, by 37bps from 478bps at the end of the second quarter, and by 5.3bps from 446.3bps at the end of the first quarter of 2012. Lebanon's 5-year CDS spreads were the ninth widest among 69 developed and emerging countries during the fourth quarter. Further, Lebanon ended the fourth quarter of 2012 with a five-year cumulative probability of default (CPD) of 27.5%, decreasing from 27.9% at the end of the third quarter and from 29.4% at the end of the second quarter, but similar to the CPD at the end of the first quarter of 2012. Lebanon's CPD at end-December indicates that Lebanese debt was the ninth riskiest globally.

In May 2012, Standard & Poor's revised the outlook on Lebanon's long-term sovereign credit rating to 'negative' from 'stable'. It simultaneously affirmed its 'B/B' long- and short-term foreign and local currency sovereign credit ratings, and maintained the country's transfer and convertibility assessment at 'BB-' and the recovery rating at '4'. It attributed the outlook revision to concerns that increased tensions from the ongoing turmoil in Syria have raised domestic and geopolitical risks for Lebanon, which could put further pressure on the economy and aggravate Lebanon's fiscal and external vulnerabilities.

### Fixed Income

Lebanon's external debt posted returns of 5.1% in 2012, constituting the second lowest return among 32 markets in the Eastern Europe, the Middle East and Africa (EMEA) region as well as the fifth lowest return among the 57 emerging markets. Lebanon underperformed the EMEA region's returns of 20.2%, as well as the overall emerging markets returns of 18.2% in 2012. Also, Lebanon's external debt underperformed the 22.3% returns posted by similarly-rated sovereigns. It posted the second lowest returns among 17 countries in the Middle East and Africa region in 2012. Further, Lebanon's external debt posted returns of 5.04% in US dollar terms, constituting the second lowest in the EMEA region and the fifth lowest among emerging markets.

The Lebanese Republic executed four transactions in 2012 to refinance maturing debt in 2012 and 2013. Throughout the year, the Ministry of Finance continued to follow a policy of voluntary debt exchange instead of trying to retire maturing Eurobonds, which would have sent a positive signal to markets and investors.

## THE ECONOMY IN 2012

### MONETARY SITUATION

The Central Bank's gross foreign currency reserves reached USD 30 billion at the end of 2012, constituting a decrease of 2.7% from USD 30.8 billion a year earlier, and were equivalent to about 69% of money supply (M2). Also, foreign reserves were equivalent to 10.8 months' worth of imports, well above the four-month reference and a high level by emerging market standards. However, the ability of the Central Bank to meet foreign currency demand is best reflected by the amount of net foreign currency reserves, which it does not publish. The value of the Central Bank's gold reserves reached USD 15.3 billion at the end of 2012, constituting an increase of 6.3% for the year. The Central Bank's combined assets in gold and foreign currencies at the end of the year were equivalent to about 108.5% of GDP.

### INFLATION

Inflation averaged 6.6% in 2012 compared to 5% in 2011. Inflation has been under control during the previous 10 years due to the authorities' monetary policy of maintaining a stable exchange rate and low inflation. Lebanon has an import-based economy and imports most of its energy needs, as the value of imports has been historically equivalent to about five times that of exports. As such, imported inflation accounts for about 50% of inflation in the country.

### BANKING SECTOR

The banking sector's activity slowed down in 2012 due to several converging factors that included economic stagnation in Lebanon, deterioration in domestic security conditions, the escalating Syrian crisis, shrinking margins, higher provisioning, fewer lending opportunities domestically and abroad, historic-low global interest rates, and the still-elevated borrowing needs of the Lebanese government.

Commercial banks' assets reached USD 151.9 billion at the end of 2012, constituting an increase of 8% from end-2011. The sector's aggregate assets were equivalent to 364% of GDP, one of the highest such ratios in the world, which reflects the continuing ability of the banking sector to meet the borrowing needs of both the private and public sectors, and to maintain high levels of liquidity and capitalization. Deposits of the private non-financial sector totaled USD 125 billion, increasing by 8% from end-2011. Private sector deposits were equivalent to nearly 299% of GDP, one of the highest such ratios in the world. Deposits in Lebanese pounds reached USD 44 billion, up 11.5% from end-2011, while deposits in foreign currencies totaled USD 81 billion, rising by 6.2% from end-2011. Non-resident foreign currency deposits totaled USD 20.8 billion at end-2012, increasing by 11.8% from end-2011. In parallel, deposits of non-resident banks reached USD 5.9 billion, constituting an increase of 1.5% from end-2011. The dollarization rate of deposits reached 64.8% at end-2012, down from 65.9% a year earlier.

Broad money supply (M3) grew by 7% in 2012 compared to 5.5% in 2011. Loans to the private sector totaled USD 43.5 billion at the end of 2012, constituting an increase of 10.4% from end-2011. The dollarization rate in private sector lending reached 77.6% at end-2012, down from 78.4% a year earlier. The average lending rate in Lebanese pounds was 7.07% in December 2012 compared to 7.38% a year earlier, while the same average in US dollars was 6.87% compared to 7.02% in December 2011. Claims on the public sector stood at USD 31.1 billion, up 6.5% year-on-year, and accounted for 41.7% of the banking sector's total claims. Rating agencies continued to restrain banks' ratings to the sovereign ceiling, citing the banks' high direct exposure to the sovereign as their most important risk factor.

The banks' capital base stood at USD 12.6 billion, up by 17.9% from end-2011, with core capital rising by 16.8% to USD 11.9 billion. The ratio of private sector loans to deposits in foreign currencies stood at 41.6%, well below the Central Bank's limit of 70%, and compared to 40.5% a year earlier. In parallel, the same ratio in Lebanese pounds was 22.1%, up from 21.6% a year earlier. The ratio of total private sector loans to deposits was 34.8% compared to 34% a year earlier. In parallel, the aggregate net income of the top 13 banks operating in Lebanon increased by 7.8% year-on-year to USD 1.7 billion. Also, the top banks' return on average assets was 1.1% and their return on average equity reached 12.92% in 2012. Further, the top banks' cost-to-income ratio reached 47.8% in 2012 compared to 47.6% in 2011.

Unless there is a major breakthrough in the Syrian crisis, the domestic operating environment for Lebanese banks is likely to remain challenging over the short to medium term due to political instability, weak growth, and the slower performance of sectors that are important to the banks' asset quality. However, the sector will remain solid, highly liquid and able to meet the financing needs of the private and public sectors as long as deposits continue to increase.

## GLOBAL AND REGIONAL ECONOMIES

Four years after the onset of the global financial crisis, the world economy continues to struggle. Developing economies are still the main driver of global growth, but their output has slowed compared with the pre-crisis period. Fiscal consolidation, high unemployment and very weak consumer and business confidence weighed on economic activity in advanced economies in 2012. The world economy slowed down during 2012, especially in developed countries, with global growth estimated at 3.2%, compared to an expansion of 4% in 2011. Economic growth in advanced economies was modest at 1.2%, while developing economies grew by an estimated 5.1% in 2012.

The economies of both the MENA region and Sub-Saharan Africa are of particular significance to Lebanon due to the economy's strong trade and financial links to Gulf Arab markets in particular, as well as to its dependence on the Diaspora and to the increasing activity of Lebanese banks in the two regions.

Economic growth was uneven in the MENA region last year. Real GDP growth of oil-importing Arab economies was modest at 1.9% in 2012 compared to 1.5% in 2011, excluding Syria. The weak performance of these countries is attributed to social unrest, political uncertainties, weak external demand and high global oil prices. Oil importers continue to face the challenges of weak growth, wide fiscal and current account deficits, and rising unemployment. In parallel, growth in the region's oil-exporting economies is estimated at 5.7% in 2012, and was driven mainly by the increase in the production of crude oil and the strong rebound in Libya's economy.

The Sub-Saharan Africa region grew by 4.6% in 2012 despite the slowdown in the global economy, while it grew by 5.1% when excluding South Africa. Also, about a third of countries in the region grew by at least 6% in 2012. The region's low-income countries grew by 4.6% last year, middle-income economies expanded by 3.6%, and oil exporters posted real GDP growth of 6.5% in 2012. The region's growth was mainly driven by robust domestic demand, steady remittance flows, high commodity prices, and increased export volumes.