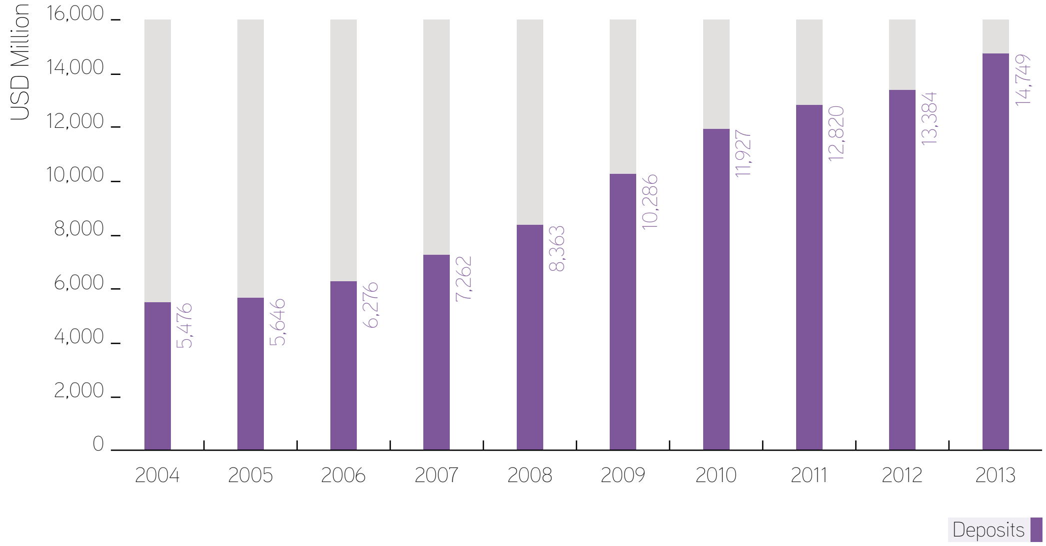
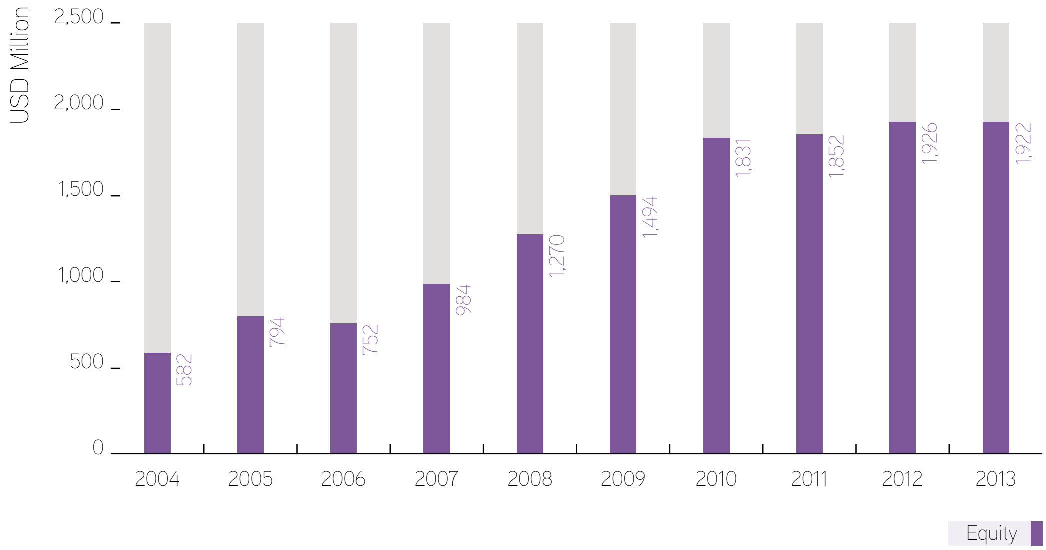
THE YEAR IN BROAD STROKES

FINANCIAL HIGHLIGHTS

CUSTOMERS' DEPOSITS
Evolution of Customers' Deposits During Last Ten Years



TOTAL EQUITY
Evolution of Total Equity During Last Ten Years



NET INCOME

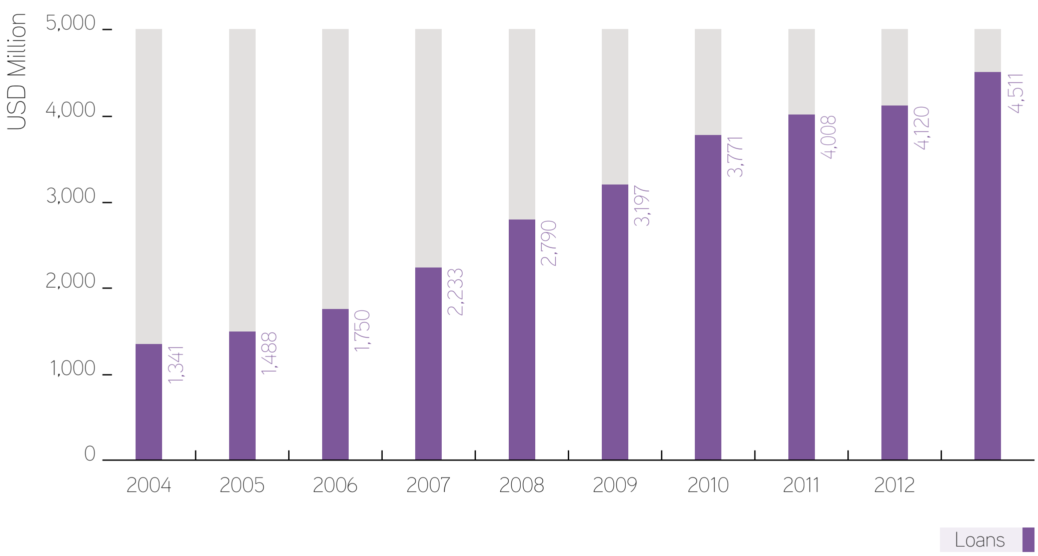
Evolution of Net Income During Last Ten Years

TOTAL ASSETS

Evolution of Total Assets During Last Ten Years

NET CUSTOMERS' LOANS

Evolution of Customers' Loans During Last Ten Years



A MESSAGE FROM THE CHAIRMAN

DEAR STAKEHOLDERS,

It is with great satisfaction that I share with you the 2013 Annual Report of Byblos Bank.

I am pleased, of course, because in yet another year of adverse conditions, the Bank's strategy has proved successful once again. What is more, I am gratified by the talent and dedication of all the professionals who implement this strategy every day of every year.

The true nature of any organization can be derived only from how it performs under pressure, and recent years have demonstrated repeatedly that Byblos Bank has what it takes, not just to survive periods of difficulty, but also to find opportunity therein. Local, regional and international factors all continued to impose significant obstacles for the financial sector in 2013, but we passed the test by a wide margin.

In a stagnant economy saddled with multiple social and political burdens – including at least 1.5 million Syrian refugees – Byblos Bank achieved quality results, including, in particular, growth in several fundamental areas: total assets finished the year at USD 18.5 billion, up 8.6% from end-2012; customers' deposits grew 10.2% to USD 14.7 billion; and net customers' loans totaled USD 4.5 billion, a rise of 9.5%.

Sound asset quality remained a key indicator of Byblos Bank's enviable financial position, as did the vigilance required to maintain that quality. Accordingly, the Bank was scrupulous in allocating sufficient specific and collective provisions against credit losses during the year. These added up to USD 52.8 million in 2013, including USD 18.2 million in collective provisions, against a gross loan portfolio of some USD 4.9 billion. Further reinforcement for Byblos Bank's robust financials was achieved by keeping non-performing loans at just 0.9% of net loans, thereby posting a coverage ratio, including collective provisions, of 119.8%. These provisions affected net income, which fell 6.7% to USD 156.2 million, but preserved the solid financial foundation required for future growth.

In addition, Byblos Bank's Basel III capital adequacy ratio stood at 16.11% as of December 2013, surpassing far in advance the minimum regulatory requirement of 12% by end-2015. The solidity of our financial position also showed itself in the Bank's primary liquidity placed with banks and central banks (including Banque du Liban certificates of deposit), which amounted to USD 9.3 billion, or 63.0% of customers' deposits, as at end-2013.

Apart from their own intrinsic value, these and other measures of Byblos Bank's performance also helped us retain the trust and confidence of strategic partners and other stakeholders. These include the International Finance Corporation, the private sector arm of the World Bank Group, which has been represented on the Board of Directors since the beginning of 2014; the Agence Française de Développement (AFD), the development agency of the French government; and the latter's subsidiary, the Société de Promotion et Participation pour la Coopération Economique, which has held a seat on the BOD since 2012. These highly respected institutions are among the Bank's main shareholders, and their seals of approval send all the right signals to our customers, our employees, and other investors.

Byblos Bank also proved its mettle by another set of criteria in 2013, further strengthening its compliance mechanisms and practices by meeting or exceeding global standards, augmenting our contributions to the fights against money laundering and terrorism, and strictly adhering to relevant international sanctions. These improvements constitute additional support, not just for the Bank's financial position, but also for its ability to keep providing world-class products and services for clients, attractive career opportunities for employees, and consistent value for shareholders. Moreover, they enhance the reputation of Byblos Bank as a reliable institution dedicated to the highest standards of corporate governance.

The situation in Syria continued to cause a variety of problems for banks and other businesses in that country, and Byblos Bank was no exception. Having scaled back our operations there because of the hostilities, our strategy remains to ensure adequate support and follow-up for customers and employees, and to be ready for the day when peace allows us to partner with all Syrians in rebuilding their shattered nation. The Group's fortunes were markedly better in other foreign markets, particularly Europe, Africa, and Iraq. These successes validate the ways and means by which we have expanded abroad, and by which we expect to seize additional opportunities in the years ahead.

Going forward, I see promise on several levels. The political standoff that has paralyzed much of Lebanon's public sector may be approaching resolution, the banking sector is highly liquid, and the country's increasingly attractive oil and gas prospects have the potential to yield unprecedented benefits, both direct and indirect, across the economy. Making the most of these and other opportunities demands, though, that the political class get its house in order so that it can implement badly needed administrative and structural reforms. It is essential that hard-working civil servants receive fair remuneration, but it is no less important that public finances be brought under control. Fiscal discipline will be required to remedy the situation, and so will stringent measures to reduce corruption, waste, redundancy, and other factors that cause scarce resources to be misused.

The best days are still ahead for Lebanon, and for Byblos Bank too. We are very much banking on the young generation to pick up where their forebears left off, build on our accomplishments, and learn from our mistakes. Nowhere is this more apparent than in the Bank's high regard for education. That commitment is expressed in our funding agreement with the AFD, which has allowed us to provide hundreds of university students with long-term loans at low rates and under optimum conditions.

Adversity tells us much about who we are, and I am pleased to report that Byblos Bank has remained faithful to its values. Rather than seeing difficulty as an excuse to cut corners or erode standards, our management and staff have used it as an impetus to be even more professional, more diligent, and more disciplined. Our belief in the practices that made us what we are, the same ones that allow us to thrive where others struggle just to survive, has only been reinforced by this experience.

Please join me in congratulating all members of the Byblos Bank team on yet another year of conspicuous success – and in thanking them for laying the groundwork of even better times to come.

Sincerely,

François S. Bassil
Chairman and General Manager

THE LEBANESE ECONOMY IN 2013

ECONOMIC ACTIVITY

The Lebanese economy was affected in 2013 by repeated security breaches, domestic political tensions, a political vacuum, and paralyzed decision-making within public institutions, in addition to the growing direct and indirect spillovers from the Syrian conflict. Also, the lack of any credible attempt at implementing reforms, the weak rule of law and the rising burden of the public sector on the private sector have taken a toll on economic activity. The economy expanded by 0.9% in real terms in 2013, compared to real GDP growth of 1.2% in 2012. Lebanon's real GDP grew at an annual rate of 2.4% in the first quarter, contracted by 0.6% in the second quarter, increased by 0.2% in the third quarter and expanded by 1.6% in the fourth quarter of the year.

The economic slowdown in 2013 was broad-based, with consumption, trade, tourism, capital flows and investment indicators all pointing to a continuation of anemic economic activity. In particular, the high level of political polarization, the deteriorating security conditions, the domestic political volatility, the prolonged deadlock over the formation of a Cabinet, and the increasing concerns about spillovers from the escalating Syrian crisis combined to negatively affect consumer confidence and investor sentiment throughout the year. The economic slowdown resulted in output losses of about USD 5.2 billion in 2013, following losses of USD 2.9 billion 2012 and USD 1.6 billion in 2011.

REAL SECTORS

The Central Bank's Coincident Indicator, a proxy for overall economic activity in Lebanon, averaged 264.7 in 2013 compared to 256.6 in 2012, an increase of 3.2% year-on-year, which reflects economic stagnation in real terms.

The Byblos Bank/AUB Consumer Confidence Index for Lebanon averaged 29 points in 2013, its lowest annual level on record, and fell by 10.7% annually, compared to declines of 37.1% in 2012 and 29% in 2011. The record-low results in 2013 are hardly surprising, given the prevailing sense of instability, uncertainty and caution among Lebanese consumers. Indeed, consumer confidence in Lebanon was severely tested in 2013, as nine out of the 12 monthly readings of the Byblos Bank/AUB Consumer Confidence Index posted their lowest levels since the start of index calculations began in July 2007. Further, the Byblos Bank/AUB Present Situation Index reached its lowest level ever in seven out of 12 months in 2013; while, more alarmingly, the Byblos Bank/AUB Expectations Index reached its lowest level ever in eight out of 12 monthly readings during the year. Security and safety-related issues dominated consumers' concerns during the year. But other persistent issues such as rising political rhetoric and uncertainty, the inability of authorities to satisfy citizens' basic needs, the rising cost of living, decaying public services, and economic stagnation resonated strongly among consumers. Therefore, consumer confidence requires a positive political shock equivalent to the one generated by the 2008 Doha Accord in order to return to the high levels of 2008 and 2009.

EXTERNAL SECTOR

The economy posted a wide trade deficit despite stagnating activity. However, as in previous years, the deficit was mostly offset by capital account inflows, foreign income earnings, as well as by inflows from remittances, tourism and other services. The ongoing Syrian conflict continued to disrupt trade routes through Syria, Lebanon's only overland route for exports. The trade deficit reached USD 17.3 billion in 2013, constituting an increase of 3% year-on-year, as the value of imports remained flat at USD 21.2 billion, while the value of exports fell by 12.2% to USD 3.9 billion. Also, the volume of imports reached 15.9 million tons in 2013, constituting a rise of 1.6% from 2012, while exports posted a 6.7% increase to 2.8 million tons in the covered period, leading to a trade deficit of 13.1 million tons that grew by a marginal 0.5% year-on-year. Imports of oil and mineral fuels fell by 15.3% year-on-year to USD 5.1 billion, while non-hydrocarbon imports rose by 5.7% to USD 16.1 billion. Also, the volume of imports of oil and mineral fuels dropped by 13.4% to 7 million tons in 2013, while that of non-hydrocarbon imports rose by 17.8% to 8.8 million tons. The trade balance posted the widest deficit in the previous five years in both value and volume terms, prompted by a drop of USD 547.2 million in the value of exports. The coverage ratio regressed to 18.5% in 2013 from 21.1% in 2012.

In parallel, the balance of payments posted a deficit of USD 1.1 billion in 2013 compared to deficits of USD 1.5 billion in 2012 and USD 2 billion in 2011, and surpluses of USD 3.3 billion in 2010 and USD 7.9 billion in 2009. 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 from 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 1.27 million in 2013, constituting a decrease of 6.7% from about 1.37 million tourists in 2012, a decline of 23% from 1.66 million tourists in 2011, and a drop of 41.2% from 2.2 million tourists in 2010. European tourists accounted for 34.1% of total visitors in 2013, followed by visitors from Arab countries with 31.6%, the Americas with 16.4%, Asia with 9.2%, Africa with 5.1%, and Oceania with 3.5%. The number of visitors from Oceania declined by 13% in 2013, followed by visitors from Arab countries with a 12.2% decrease, Asia (-7.5%), the Americas (-5.2%), and Europe (-2.4%), while the number of visitors from Africa increased by 5.8%. On a country basis, tourists from Iraq accounted for 11.2% of total visitors in 2013, followed by visitors from France with 9.2%, the United States with 8.1%, Jordan with 6.1%, Canada with 5.6% and Egypt with 5%. Further, the number of tourists from the UAE declined by 62.2% annually, followed by Saudi Arabia with a 43.6% decrease, Kuwait (-26.2%), Turkey (-17.4%), Jordan (-12.4%), the United States (-6.4%) and Canada (-5.2%).

Also, the average occupancy rate at hotels in Beirut was 51% in 2013 compared to 54% in the preceding year, and constituted the third lowest rate among Arab markets. The average rate per room at Beirut hotels was USD 169 in 2013, ranking the capital's hotels as the 11th most expensive in the region. The average rate per room at Beirut hotels decreased by 15.7% year-on-year and posted the steepest decrease among all markets in the region. Further, revenues per available room reached USD 87 in Beirut in 2013 and fell by 20.8% year-on-year, the second steepest decrease among Arab markets. Overall, the travel and tourism sector's total contribution to economic output in Lebanon fell by 2.6% in real terms in 2013, following declines of 10.2% in 2012 and 17.2% in 2011 and compared to increases of 10.5% in 2009 and 21.9% in 2010.

THE LEBANESE ECONOMY IN 2013

FISCAL SITUATION

The country's public finance imbalances continued to deteriorate in 2013 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 7.5% during the year to USD 4.2 billion due to a 2.4% increase in spending and almost flat overall revenues. The deficit was equivalent to 31% of total budget and Treasury expenditures compared to 29.5% of overall spending in 2012.

On the spending side, current expenditures fell from the equivalent of 27.7% of GDP in 2012 to 26.9% of GDP in 2013, Treasury spending remained almost unchanged at 2% of GDP, and capital outlays increased from 1.2% of GDP to 1.5% of GDP. On the revenue side, tax receipts regressed from the equivalent of 15.9% of GDP in 2012 to 15.1% of GDP in 2013, while non-tax revenues declined from 5.1% of GDP to 4.9% of GDP. Also, Treasury receipts rose marginally from 1.1% of GDP in 2012 to 1.2% of GDP in 2013. As a result, the primary budget deficit expanded from 0.3% of GDP in 2012 to 0.5% of GDP in 2013, constituting the second consecutive annual primary deficit, while the fiscal deficit widened from 9.2% of GDP in 2012 to 9.5% of GDP in 2013. In parallel, debt servicing increased by 4.3% year-on-year to USD 4 billion, or 9% of GDP, and accounted for 29.2% of total expenditures and for 37.4% of budgetary spending. It absorbed 42.3% of overall revenues and 44.8% of budgetary receipts.

The deterioration in the fiscal balance negatively affected the public debt dynamics, as the debt level increased from 135.7% of GDP in 2012 to 143.2% of GDP in 2013, constituting the ratio's second consecutive annual increase. Lebanon's gross public debt reached USD 63.5 billion at the end of 2013, reflecting a rise of 10% from end-2012 and compared to increases of 7.5% in 2012, 2% in 2011, 2.9% in 2010 and 8.7% in 2009. In nominal terms, the gross public debt grew by USD 5.8 billion in 2013 relative to increases of USD 4 billion in 2012, USD 1 billion in 2011 and USD 1.5 billion in 2010. Domestic debt increased by 12.2% to USD 37.3 billion, while external debt rose by 7.1% to USD 26.1 billion in 2013. Also, foreign currency-denominated debt represented 41.1% of gross public debt at the end of 2013 relative to 42.3% at the end of 2012.

Commercial banks accounted for 59% of the total public debt, followed by the Central Bank with an 18.8% share, public agencies, financial institutions and the general public with 12.3%, and bilateral and multilateral loans with 3.7%, while the remaining 6.2% of the debt was held by other parties. Residents held 90.1% of the total public debt, while non-residents held 9.9% of the total. 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 8.3% to USD 53.2 billion at the end of 2013. Also, gross market debt accounted for about 65% 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 2013, as it was the second weakest performer in the region, with the Banque du Liban stock market index declining by 16.6% in 2013 compared to a 21.2% rise for Arab markets. Further, market capitalization was equivalent to 23.8% of GDP, fifth lowest in the region, and accounted for about 0.9% of the aggregate market capitalization of Arab equity markets. Total trading volume on the Beirut Stock Exchange reached 51.4 million shares in 2013, constituting a decrease of 6.6% from 2012, while aggregate turnover amounted to USD 375.2 million, down 8.2% from a turnover of USD 408.5 million in the previous year. Market capitalization increased by 1.2% from end-2012 to USD 10.5 billion, of which 79.2% was in banking stocks and 17.3% in real estate stocks. The market liquidity ratio was 3.6% compared to 3.9% in 2012.

Bank stocks accounted for 86% of aggregate trading volume in 2013, followed by real estate stocks with 11.9%. In terms of the value of shares traded, banking stocks accounted for 79% of aggregate value, followed by real estate stocks with 19.6%. The average daily traded volume for 2013 was 215,112 shares for an average daily value of USD 1.6 million. The figures reflect decreases of 4.6% in volume and 6.2% in value year-on-year.

Fixed Income

Lebanon's external debt posted returns of 3.31% in 2013, constituting the 12th highest return among 35 markets in the Eastern Europe, Middle East and Africa (EMEA) region as well as the 18th highest return among the 63 emerging markets included in Merrill Lynch's Sovereign Plus Debt Index. Lebanon outperformed the EMEA region's returns of -1.74%, the overall emerging markets returns of -4.56% and the 0.09% returns posted by sovereigns rated 'BB' and lower in 2013. It posted the fifth highest returns among 18 countries in the Middle East and Africa region in 2013. Further, Lebanon's external debt posted returns of 3.28% in US Dollar terms, constituting the 10th highest in the EMEA region and the 16th highest among emerging markets.

The Lebanese Republic executed five transactions in 2013 to refinance debt maturing in 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 LEBANESE ECONOMY IN 2013

RISK METRICS

Spreads on five-year credit default swaps (CDSs) for Lebanon ended 2013 at 395 basis points, tightening by 83.6bps from 478.6bps at the end of June and narrowing by 46bps from 441bps at the end of 2012. Lebanon's 5-year CDS spreads were the 11th widest among 76 developed and emerging countries at end-2013. Further, Lebanon ended the year with a five-year cumulative probability of default (CPD) of 25.15%, constituting a decrease from 29.6% at the end of June and a drop from 27.5% at the end of 2012. Lebanon's CPD at end-2013 indicated that Lebanese debt was the 12th riskiest globally.

Rating agencies took actions following mounting political risks and the deterioration in public finances, but they remained confident in the banking sector. On 19 December 2013, Fitch Ratings revised its outlook on Lebanon's long-term foreign currency Issuer Default Rating (IDR) to 'negative' from 'stable'. It attributed the outlook revision to heightened political risks that have a "high" importance in assessing Lebanon's sovereign ratings and the outlook, as well as to deteriorating public debt dynamics and weak growth prospects, with each factor having "medium" importance in assessing the ratings and the outlook.

On 1 November 2013, Standard & Poor's downgraded Lebanon's long-term foreign and local currency sovereign credit ratings from 'B' to 'B-' and maintained a 'negative' outlook on the ratings. It attributed the downgrade to the slow but steady deterioration in Lebanon's macroeconomic fundamentals since the start of the Syrian crisis in early 2011, which, in turn, has negatively affected public finances and reversed the public debt's dynamics. It said that Lebanon's sovereign creditworthiness is supported by confidence in the Lebanese banking sector, which is the main source of funding for the government's deficits and for the stability of public finances. It noted that confidence in the Lebanese banking system remains intact despite regional turmoil and expected the banks' depositor base to remain resilient, as in previous crises and periods of high domestic instability. The agency indicated that the 'negative' outlook reflects its view that credit risks will remain significant as long as the Syrian conflict is unresolved.

On 14 May 2013, Moody's Investors Service affirmed Lebanon's government bond rating at 'B1' and revised the outlook to 'negative' from 'stable'. It attributed the outlook revision to the negative impact of the ongoing conflict in Syria on the Lebanese economy, and to concerns that an escalation of the Syrian conflict would lead to further political instability in Lebanon. The agency considered that the Syrian conflict poses a key threat to the country's already weak political balance of power.

MONETARY SITUATION

The Central Bank's gross foreign currency reserves reached USD 31.7 billion at the end of 2013, constituting an increase of 5.8% from USD 30 billion a year earlier, and were equivalent to about 69.5% of money supply (M2). Also, foreign reserves were equivalent to 10.7 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 its net foreign currency reserves, which it does not publish. The value of the Central Bank's gold reserves reached USD 11.1 billion at the end of 2013, constituting a decrease of 27.5% for the year. The Central Bank's combined assets in gold and foreign currencies at the end of the year were equivalent to about 96.6% of GDP.

INFLATION

Inflation averaged 3.2% in 2013 compared to 5.9% in 2012 according to the International Monetary Fund. 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 levels. 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 continued to slow down in 2013 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. The aggregate net income of the top 14 banks operating in Lebanon was USD 1.7 billion in 2013, unchanged from 2012 and compared to a rise of 7.4% in 2012. Also, the top banks' return on average assets was 1.02% and their return on average equity reached 11.8% in 2013, compared to 1.1% and 12.9%, respectively, in the preceding year. Further, the banks' cost-to-income ratio grew to 49.9% in 2013 from 47.6% in 2012.

Commercial bank assets reached USD 164.8 billion at the end of 2013, constituting a rise of 8.5% from end-2012 and relative to increases of 8% in 2012 and 9% in 2011. The sector's aggregate assets were equivalent to 372% 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, as well as to maintain high levels of liquidity and capitalization. Deposits of the private non-financial sector totaled USD 136.2 billion, rising by USD 11.2 billion or 9% from end-2012, relative to an increase of USD 9.3 billion or 8% in 2012. Private sector deposits were equivalent to nearly 307% of GDP, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 46.1 billion, up 4.9% from end-2012 and compared to an increase of 11.5% in 2012, while deposits in foreign currencies totaled USD 90.1 billion and rose by 11.2% from end-2012 relative to an increase of 6.2% in 2012. Non-resident foreign currency deposits totaled USD 25.1 billion at end-2013 and increased by 21% from end-2012 relative to a rise of 11.8% in 2012. The dollarization rate of deposits increased to 66.1% at end-2013 from 64.8% a year earlier. The average deposit rate in Lebanese Pounds reached 5.44% in December 2013, almost unchanged from 5.41% a year earlier, while the same rate in US Dollars was 2.95% relative to 2.86% in December 2012. In parallel, deposits of non-resident banks reached USD 5 billion and decreased by 15.1% from end-2012.

THE LEBANESE ECONOMY IN 2013

Broad money supply (M3) grew by 6.9% in 2013, similar to the growth rate of 7% posted in 2012. Loans to the private sector totaled USD 47.4 billion at the end of 2013 and increased by USD 3.9 billion or 9% from end-2012, relative to a rise of USD 4.1 billion or 10.4% in 2012. The dollarization rate in private sector lending reached 76.5% at end-2013, down from 77.6% a year earlier. The average lending rate in Lebanese Pounds was 7.29% in December 2013 compared to 7.07% a year earlier, while the same average in US Dollars was 6.88% relative to to 6.87% in December 2012. Claims on the public sector stood at USD 37.7 billion, up 21% year-on-year, and accounted for 38% of the banking sector's total claims. The sector's non-performing loans (NPLs) reached 4% of total loans at end-2013, slightly increasing from 3.8% at end-2012 and 3.7% at end-2011. Rating agencies continued to restrain the banks' ratings to the sovereign ceiling, citing the banks' elevated exposure to the sovereign as their most important risk factor.

The banks' capital base stood at USD 14.2 billion at end-2013, up by 12.3% from a year earlier, with core capital rising by 9.6% to USD 13 billion. The ratio of private sector loans to deposits in foreign currencies stood at 40.3%, well below the Central Bank's limit of 70%, and compared to 41.6% a year earlier. In parallel, the same ratio in Lebanese Pounds was 24.1%, up from 22.1% a year earlier. The ratio of total private sector loans to deposits was 34.8% at end-2013, unchanged from a year earlier.

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

Following several years of subdued growth, economic activity in advanced economies started to recover during the second half of 2013. In parallel, global financial conditions started to tighten as of May 2013 when the US Federal Reserve announced that it would reduce its quantitative easing program. As a result, many emerging markets experienced capital outflows, currency depreciation, wider bond spreads, and declining equity prices. Developing countries continued to expand but at a slower pace, given the prevailing global monetary conditions. Global growth is estimated at 3% in 2013 compared to an expansion of 3.2% in 2012. Economic growth in advanced economies was modest at 1.3%, almost unchanged from 1.4% in 2012, while developing economies remained the growth driver of global economic activity as they expanded by an estimated 4.7% in 2013 relative to a growth rate of 5% in 2012.

The economies of both the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) regions 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 Lebanese Diaspora and to the increasing activity of Lebanese banks in the two regions.

The political and social unrest that started in 2011 in some Arab countries continued to affect economic activity in the MENA region. Increased domestic tensions in Egypt weighed on confidence, spillovers from the Syrian conflict affected activity in Lebanon, Jordan and Iraq, and security setbacks, poor infrastructure and weak institutions negatively affected oil production in the region's non-GCC oil exporters. Real GDP growth of oil-importing Arab economies accelerated but remained subdued at 2.7% in 2013 compared to 2% in 2012, well below the historical average growth rate of about 5%. The subdued level of economic activity is due to political uncertainty and security challenges that weighed on key growth drivers. Growth in oil-importing Arab economies was mainly supported by domestic demand in 2013 through elevated remittance inflows; energy, food and transportation subsidies; and high public wage spending, as investment remained low due to weak confidence. Oil importers continued to face the challenges of weak growth, wide fiscal and current account deficits, and rising unemployment.

In parallel, real GDP growth in the economies of the GCC slowed to 4.1% in 2013 from a growth rate of 5.6% in 2013. Also, their hydrocarbon output grew by 0.9% in 2013 relative to a growth rate of 5.5% in 2012, reflecting lower oil prices and production. Also, activity in the non-hydrocarbon sector expanded by 5.4% in 2013, nearly unchanged from 5.6% in 2012, supported by higher public spending and stronger private sector activity. In parallel, economic activity in the region's non-GCC oil exporters contracted by 0.1% in 2013 compared to real GDP growth of 3.9% in 2012, mainly reflecting the international sanctions on Iran and disruptions to oil production in Libya.

Economic growth in Sub-Saharan Africa is estimated at 4.9% in 2013, unchanged from 2012, while it is estimated at 5.9% in 2013 and 5.8% in 2012 when excluding South Africa. Real GDP growth in SSA oil exporters accelerated to 5.7% in 2013 from 5.2% in 2012, while activity in oil-importing economies decelerated to 4.4% last year from 4.7% in 2012. Also, the region's low-income countries grew by 6.8% last year, while the middle-income economies expanded by 2.7%. Economic activity in Sub-Saharan Africa was mainly driven by strong domestic demand, ongoing investments in natural resources and infrastructure, and higher agricultural production. In contrast, external demand had a relatively weaker contribution to SSA's growth given that both economic activity in the rest of the world and commodity prices remained relatively subdued during most of the year. Further, the currencies of South Africa and some frontier economies in Sub-Saharan Africa have weakened since June 2013, reflecting capital outflows in the context of tighter global monetary conditions, as well as pronounced external or fiscal imbalances.