

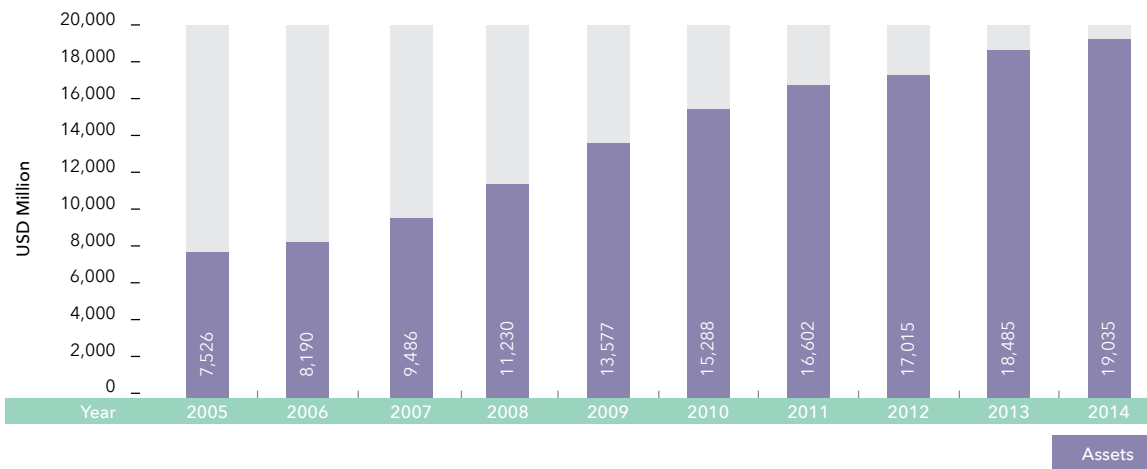
THE YEAR IN BROAD STROKES



FINANCIAL HIGHLIGHTS

TOTAL ASSETS

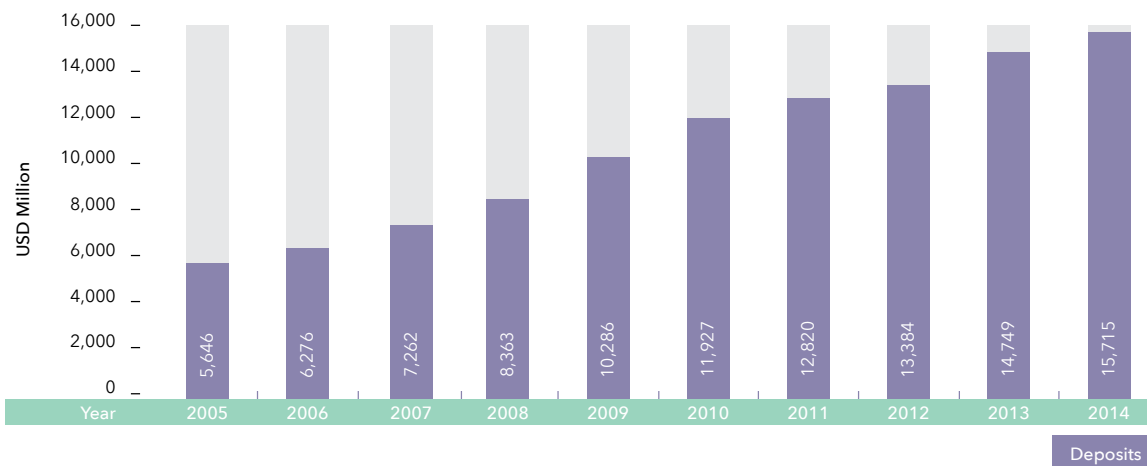
Evolution of Total Assets During Last Ten Years



CAGR
10.86%
for the last ten years

CUSTOMERS' DEPOSITS

Evolution of Customers' Deposits During Last Ten Years

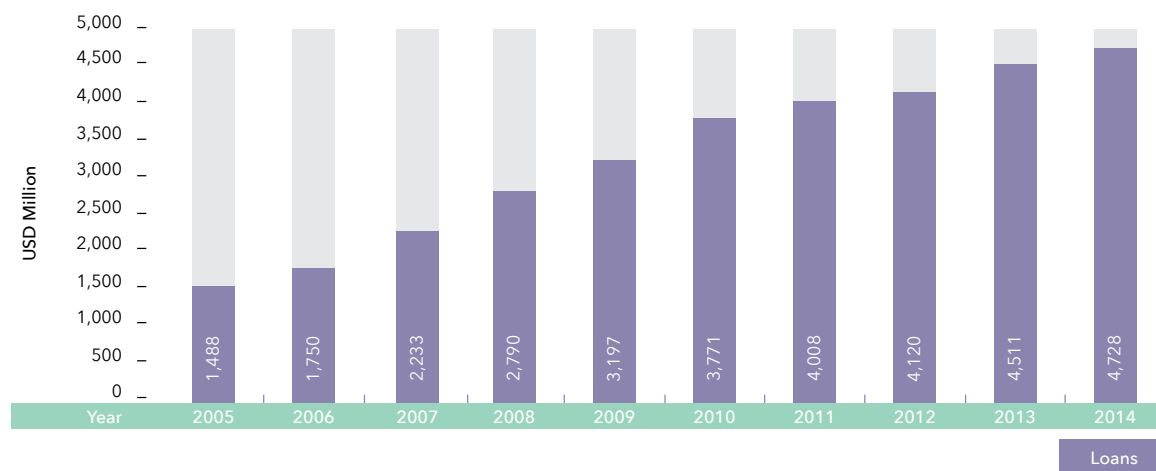


CAGR
12.05%
for the last ten years



NET CUSTOMERS' LOANS

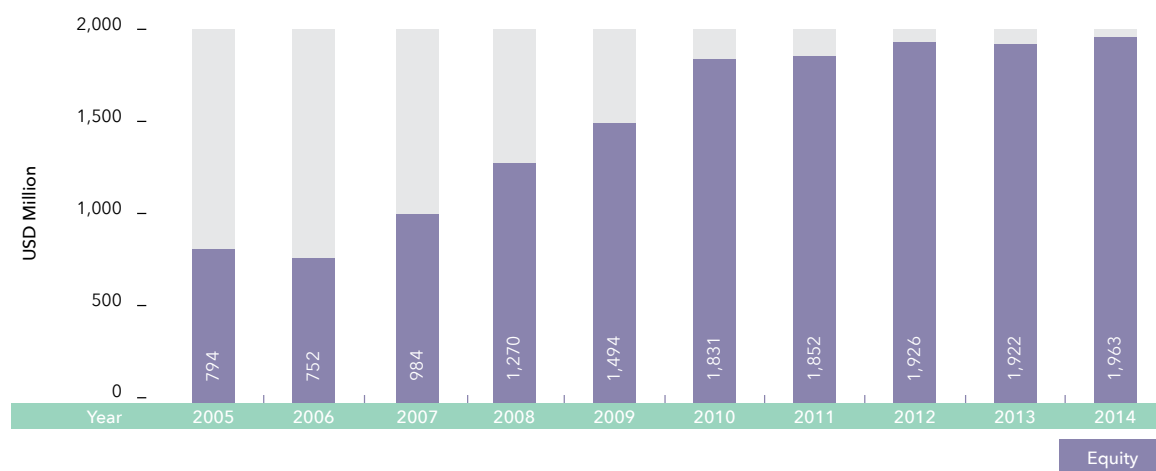
Evolution of Customers' Loans During Last Ten Years



CAGR
13.71%
for the last
ten years

TOTAL EQUITY

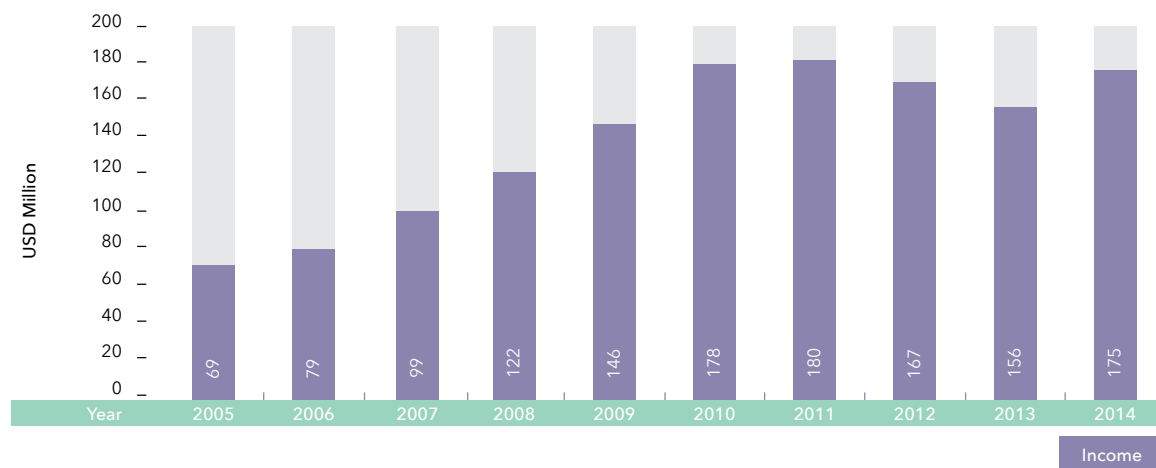
Evolution of Total Equity During Last Ten Years



CAGR
10.58%
for the last
ten years

NET INCOME

Evolution of Net Income During Last Ten Years



CAGR
10.86%
for the last
ten years



A MESSAGE FROM THE CHAIRMAN



Dear Stakeholders,

It is both my pleasure and my honor to share with you the 2014 Annual Report of Byblos Bank. Once again I do so with considerable satisfaction, for during a fourth consecutive year of challenging local, regional, and international circumstances, our business model has re-stated its ability to find opportunities amid all manner of difficulty – social, political, and economic.

Despite these unhelpful conditions, the Bank posted solid numbers by all headline measures: total assets, loans, deposits and profits were all up substantially from 2013.

This performance was backed, too, by the sound asset quality that has made Byblos Bank what it is today: a rock of stability for customers, employees, and shareholders alike. Tending assiduously to our capital base has long been a hallmark of the Bank’s success, ensuring as it does our ability to withstand pressures and/or seize opportunities, retain the confidence of all stakeholders, and lay the groundwork for similar levels of performance in the future.

This approach means that when it comes to specific and collective provisions against credit losses, we tend to allocate more than is strictly necessary to guard against the unforeseen. The Bank’s results were also bolstered by strong credit quality, with both our ratio of non-performing loans to net loans and our NPL coverage ratio standing at very comfortable levels as of year-end. Byblos Bank also continued its long tradition of meeting or even exceeding the most demanding international standards, and of doing so ahead of time.

In addition to their direct role in strengthening multiple aspects of our operations, these and other measures are why Byblos Bank enjoys the trust and confidence of its customers, strategic partners, and other stakeholders. Chief among these partners are the International Finance Corporation, private sector arm of the World Bank Group; the Agence Française de Développement (AFD), the French government’s overseas development agency; and the Société de Promotion et Participation pour la Coopération Economique (PROPARCO), the AFD’s investment subsidiary. The presence of such highly regarded partner institutions among our shareholders is an unmistakable vote of confidence in the Bank.

Byblos Bank’s reputation for solidity is the product of good habits, and in 2014 , we continued to bolster the mechanisms by which we remain in compliance with global banking standards, international sanctions against governments in countries where we do business, and programs to combat money laundering and the financing of terrorism. Regulatory and sanctions environments have become more complex and therefore more expensive in recent years, but Byblos Bank’s reputation may be its most valuable asset, and strong corporate governance is the best way to protect and even enhance it. This is not to mention the obvious moral responsibility, so our vigilance will only increase in the coming years.



A MESSAGE FROM THE CHAIRMAN

There are no secrets as to how Byblos Bank has achieved such results in the face of adverse conditions. It starts with prudent management, adherence to international best practice, and a commitment to promoting growth by supporting the private sector wherever we operate. Our success also owes much to unmatched experience and expertise, proven controls and systems to guide and monitor all aspects of our operations, and the adoption of safe and secure technologies that help us reach more customers than ever before. It stems, too, from a never-ending quest to develop and refine products and services, particularly in the retail segment.

In the final analysis, however, even these principles, tools, and processes are of little use unless they are backed by superbly trained and dedicated professionals. We have precisely such people at Byblos Bank, and that is no accident either. The Bank goes to considerable lengths to recruit and retain high-achievers, using the latest techniques to help expand their skill-sets and build their careers so that they can provide even better banking to our customers.

The short-term outlook indicates more headwinds, but there are opportunities, especially if Lebanon’s political establishment can finally separate partisan disputes from national interests. The failure to implement long-overdue reforms, and to improve public finances, only makes it more difficult for anyone to govern – and for many Lebanese to earn their livelihoods – so this should be a powerful motivator if the politicians have their priorities in order.

In particular, there is great need for public-private partnerships (PPPs) that would accomplish numerous goals while alleviating the burden on the state. Improving Lebanon’s power supply,

roads, and other transport links would remove impediments to the small- and medium-sized enterprises that provide so many jobs, making them – and the economy as a whole – more competitive on several fronts. The banking industry stands ready to contribute, but the public sector needs to make itself a viable partner, starting with the passage in Parliament of the draft law on PPPs.

For Byblos Bank’s part, we look forward to the coming years as a time to further refine our systems and practices, to plan for vigorous expansion when conditions improve, and to help members of the communities we serve to live fuller, happier, and more productive lives. We will do so not just as a forward-looking bank that supports productive ventures, but also as a good corporate citizen devoted to the humanization of capital.

We are in position to make such plans because of the men and women who make Byblos Bank what it is – the same people who have achieved so much in the past year by overcoming adversity to post surprisingly good results across the board. Please join me in congratulating them for another job well done.

Sincerely,

François S. Bassil
Chairman and General Manager



THE LEBANESE ECONOMY IN 2014

ECONOMIC ACTIVITY

Economic activity in Lebanon improved slightly in 2014 due to relatively better security conditions, a generally less confrontational political environment, and a modest rise in disposable incomes, which led to a pick-up in consumer confidence, particularly in the fourth quarter of the year. However, economic activity remained subdued and below potential in 2014 due to the prevailing high level of political polarization, the presidential vacuum, and paralyzed decision making within public institutions, in addition to chronic security breaches and the ongoing 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 took their tolls on economic activity.

The Lebanese economy benefited from the Central Bank's USD 800 million stimulus package for 2014, which supported activity in several key sectors. In addition, several factors supported private consumption throughout the year. The inflow of remittances from the Diaspora, estimated at a record high of USD 9 billion in 2014, equivalent to 18% of GDP, sustained household spending on day-to-day needs. Also, the pass-through to local consumers of the 50% drop in global oil prices in the second half of the year, the Telecommunications Ministry's decision in July to reduce tariffs by 30%, and subdued inflation raised the disposable income of households.

Still, the economy performed at a sub-par level in 2014, with consumption, trade, tourism, capital flows and investment indicators all pointing to continuing anemic economic activity. As a result, both consumer confidence and investor sentiment remained at low levels throughout the year despite modest improvements. The economy expanded by 1.2% in real terms year-on-year in the first quarter of the year, grew by 1.5% in the second quarter, accelerated by 1.9% in the third quarter, and picked up by 2% in the fourth quarter. As such, real GDP grew by 1.7% in 2014 compared to 1.4% in 2013.

REAL SECTORS

The Central Bank's Coincident Indicator, a proxy for overall economic activity in Lebanon, averaged 273.2 in 2014 compared to 264.7 in 2013, an increase of 3.2% year-on-year, which reflects modest economic growth in real terms.

Consumer sentiment recovered during 2014 from a record-low level in 2013. The Byblos Bank/AUB Consumer Confidence Index averaged 34.1 in 2014, reflecting a rise of 17.6% for the year and constituting the first annual rise since 2009. In comparison,

the Index posted declines of 10.7% in 2013 and 37.1% in 2012. The increase in consumer sentiment in 2014 is due in part to low-base effects and does not denote a reversal of trends, as the Index started from a record low in 2013, while the 2014 results still constitute a drop of 65% from the peak year of 2009. Indeed, the full-year results constituted the Index's third-lowest level since its inception, and they remained consistent with the ongoing trend of low consumer sentiment in the country that has prevailed since the first quarter of 2012.

The main factors that had a positive effect on the confidence of Lebanese households during the year were the formation of a new Cabinet in mid-February after more than 10 months of political deadlock; the relative improvement in security conditions; the rise in the purchasing power of households due to external and domestic factors; the announcement of dialogues among rival political parties; and the launch of a food safety campaign by the Ministry of Public Health.

In contrast, the main factors that had a negative impact on consumer sentiment in 2014 were the failure of the Lebanese Parliament to elect a President by the 25 May constitutional deadline; the ensuing presidential vacuum and resulting institutional paralysis; the persisting high level of political uncertainties in the country; the ongoing direct and indirect spillovers from the Syrian conflict; security breaches in various parts of the country; and the abduction of military and security personnel by terrorist groups.

The Byblos Bank/AUB Present Situation Index was consistently higher than the Byblos Bank/AUB Expectations Index during 2014, which shows that consumers were relatively more pessimistic about the future than about present circumstances. Overall, political uncertainties and security-related issues dominated consumers' concerns during the year. But other persisting issues such as the inability of authorities to satisfy citizens' basic needs, decaying public services, the weak rule of law, job insecurity, and economic stagnation resonated strongly among consumers.

REAL ESTATE SECTOR

The real estate market, which contributes nearly 14% of economic output in the country, continued to be affected by the prevailing uncertainties and economic slowdown, despite anecdotal data that suggest a slight improvement in the sector's activity.

Byblos Bank's real estate indices point to a generalized slowdown in activity in the sector. The Byblos Bank Real Estate Demand Index, which reflects Lebanese residents' plans to buy or build a home over the near term, regressed by 30% in 2014 to its lowest level on record. But the Central Bank's



THE LEBANESE ECONOMY IN 2014

stimulus package and a multitude of ongoing subsidy programs for housing loans prevented demand from sliding further, as outstanding mortgages increased by USD 1.34 billion during the year to reach USD 9.9 billion at the end of 2014. Also, the Byblos Bank Real Estate Supply Index, which reflects Lebanese residents' plans to sell real estate over the near term, regressed by 25% in 2014, posting its lowest level since the Index's inception. In parallel, the average value of real estate transactions was USD 126,387 in 2014, down by 1.4% from USD 128,201 in 2013.

TOURISM SECTOR

The tourism sector, a main driver of economic activity in the country, recovered slightly in 2014, but continued to suffer from domestic security breaches and regional turmoil. The number of incoming tourists to Lebanon totaled 1.35 million in 2014, an increase of 6.3% from about 1.27 million in 2013, but constituting a decline of 37% from the peak of 2.13 million in 2010. The increase in 2014 was mainly due to low-base effects, Iraqi nationals escaping deteriorating security conditions in their country, and an improvement of security conditions in the fourth quarter of the year.

Arab tourists accounted for 34% of total visitors in 2014, followed by those from European countries (33%), the Americas (16.6%), Asia (8.4%), Africa (4.1%), and Oceania (3.8%). The number of visitors from Arab countries increased by 14.6% in 2014, followed by those from Oceania (+12.7%), the Americas (+7.2%), and Europe (+3.2%); the number of tourists from African countries decreased by 14.2% year-on-year, while the figure for Asian countries fell by 3.5%. On a country basis, visitors from Iraq accounted for 14% of the total in 2014, followed by those from France (8.9%), the United States (8.4%), Canada (5.8%), Jordan (5.4%) and Egypt (5.1%). Also, the number of tourists from Iraq rose by 33%, followed by visitors from the UAE (+14.2%), Saudi Arabia (+11.8%), Germany (+11.2%), Italy (+11.1%), and the United States (+10.2%); the number of visitors from Turkey declined by 32.3% year-on-year, followed by those from Venezuela (-23.5%) and Jordan (-5.4%).

Also, the average occupancy rate at hotels in Beirut was 52% in 2014, unchanged from 2013 and constituting the fourth lowest rate among Arab markets. The average rate per room at Beirut hotels was USD 165 in 2014, ranking the capital's hotels as the third least expensive in the region. The average rate per room at Beirut hotels decreased by 2.7% year-on-year, the second steepest decrease among all markets in the region. Further, revenues per available room reached USD 86 in Beirut in 2014, falling by 2.8% year-on-year, the second steepest decrease among Arab markets. Overall, the travel and tourism's sector's total contribution to GDP in Lebanon rose by 6.9% in real terms in 2014, following declines of 6% in 2013, 3.7% in 2012 and of 15.1% in 2011.

EXTERNAL SECTOR

The balance of payments posted a deficit of USD 1.4 billion in 2014, constituting the fourth consecutive annual deficit. The cumulative deficit in 2014 was caused by a deficit of USD 5.2 billion in the net foreign assets of banks and financial institutions, and was partly offset by a surplus of USD 3.8 billion in those of the Central Bank. The persistent deficit in the balance of payments reflects slowing capital inflows and increasing external financing needs.

The current account deficit narrowed from 26% of GDP in 2013 to 22% of GDP in 2014. Imports declined due to subdued domestic demand, lower commodity prices, and a stronger US Dollar that reduced the import bills from the Eurozone and other countries whose currencies weakened against the dollar. The service balance improved, driven by financial services and by spending from a significant number of unregistered refugees, mainly Syrians and Iraqis who are treated as non-residents.

The trade deficit reached USD 17.2 billion in 2014, a decrease of 0.6% year-on-year, as the value of imports decreased by 3.5% to USD 20.5 billion, and the value of exports fell by 15.8% to USD 3.3 billion. Imports of oil and mineral fuels fell by 4.4% year-on-year to USD 4.9 billion, while non-hydrocarbon imports regressed by 3.2% to USD 15.6 billion. Also, the volume of imports reached 15.5 million tons in 2014, constituting a drop of 2.6% from 2013, while exports posted a 19.5% decrease to 2.2 million tons in the covered period.

FISCAL SITUATION

Lebanon's public finance imbalances persisted in 2014 despite the narrowing of the fiscal deficit by 2.8 percentage points of GDP. Budget and Treasury expenditures increased by 2.3% to USD 14 billion in 2014, while total revenues rose by 15.5% to USD 10.9 billion, which narrowed the fiscal deficit by 27.2% to USD 3.1 billion in 2014. The deficit was equivalent to 22% of total budget and Treasury expenditures compared to 31% of overall spending in 2013. As such, the deficit narrowed from 9.3% of GDP in 2013 to 6.5% of GDP in 2014, driven by one-time factors rather than by policy actions.

Tax revenues grew by 2.7% to USD 6.9 billion, or 14.5% of GDP, in 2014, due to a slight improvement in tax administration, given that receipts from the value-added tax remained flat year-on-year on the back of subdued economic activity, and that customs revenues fell by 5.4% to USD 1.4 billion. However, non-tax budgetary receipts rose by USD 720 million, or 33.2%, to USD 2.9 billion, or 6% of GDP, due to the collection of arrears from previous years, which consisted of receipts from the Telecommunications Ministry that had



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been withheld by previous ministers. Indeed, the ministry transferred USD 853 million in telecom arrears and USD 1.16 billion in realized telecom surplus in 2014. In addition, Treasury receipts grew from 1.1% of GDP in 2013 to 2.3% of GDP in 2014, given that the Finance Ministry collected telecom revenues on behalf of municipalities.

Further, current expenditures accounted for more than 90% of aggregate public spending, and consisted mainly of wages and salaries, debt servicing, and subsidies to the money-losing Electricité du Liban. Debt servicing increased by 10% year-on-year to USD 4.4 billion, or 9.3% of GDP, accounting for 31.4% of total expenditures and for 35.7% of budgetary spending. It absorbed 40.3% of overall revenues and 44.8% of budgetary receipts. The rise in debt servicing costs in 2014 reflects the increase in the cost of financing the portion of the debt denominated in Lebanese Pounds. Also, Treasury transfers to Electricité du Liban rose by 3.3% to USD 2.1 billion, equivalent to 4.4% of GDP. Excluding debt servicing, public spending fell by 0.9% to USD 9.6 billion in 2014.

The primary fiscal balance was equivalent to 2.8% of GDP in 2014 compared to a deficit equal to 0.5% of GDP in 2013, constituting the first such surplus since 2011. When excluding telecom arrears, public revenues rose by 6.4% to USD 10 billion, while the fiscal deficit narrowed by 7% to USD 3.9 billion in 2014, which is equivalent to 28.1% of expenditures. Excluding telecom arrears, the fiscal deficit reached 8.4% of GDP, while the primary surplus narrowed to 1% of GDP.

In parallel, Lebanon's public debt dynamics deteriorated slightly in 2014, as the debt level increased from 139.9% of GDP in 2013 to 140.1% of GDP in 2014, constituting the ratio's third consecutive annual increase. The gross public debt reached USD 66.6 billion at the end of 2014, reflecting an increase of 4.9% from end-2013 and compared to increases of 10% in 2013 and 7.5% in 2012. In nominal terms, the gross public debt grew by USD 3.1 billion in 2014 relative to increases of USD 5.8 billion in 2013 and USD 4 billion in 2012. Domestic debt increased by 9.7% to USD 41 billion, while debt in foreign currency decreased by 2% to USD 25.6 billion at the end of the year. Foreign currency-denominated debt represented 38.5% of gross public debt at the end of 2014, relative to 41.1% at the end of 2013.

Commercial banks accounted for 51% of the local public debt at the end of 2014 compared to 53.1% a year earlier. They were followed by the Central Bank with 32.2%, up from 30.5% at end-2013, while public agencies, financial institutions and the public accounted for 16.9% of local debt compared to 16.4% at the end of 2013. Eurobond holders, foreign private sector loans and special T-bills in foreign currencies accounted for 90.8% of the external debt, followed by foreign governments with 4.8%; multilateral institutions with 4.2%; and Paris II loans with 0.3%. The net public debt, which excludes public sector deposits at the Central Bank and at commercial banks from overall debt figures,

increased by 7.7% to USD 57.3 billion at end-2014. Also, the 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, 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. But it was the ninth best performer among 20 markets in the Arab world, with the Banque du Liban Stock Market Index rising by 3.8% compared to a 3.2% rise for Arab markets overall. Further, its market capitalization was equivalent to 23.6% of GDP, third lowest among 13 markets in the region, and accounted for about 1% of the aggregate market capitalization of Arab equity markets. Total trading volume on the Beirut Stock Exchange reached 96.8 million shares in 2014, constituting an increase of 88.3% from 2013, while aggregate turnover amounted to USD 661.4 million, up 76.3% from a turnover of USD 375.2 million in the preceding year. Market capitalization increased by 6.4% from end-2013 to USD 11.2 billion, of which 80.1% was in banking stocks and 16.7% in real estate stocks. The market liquidity ratio was 5.9% compared to 3.6% in 2013.

Bank stocks accounted for 92.3% of aggregate trading volume in 2014, followed by real estate stocks with 7.5%. In terms of the value of shares traded, banking stocks accounted for 82.6% of the aggregate value, followed by real estate stocks with 13.7%. The average daily traded volume for 2014 was 396,682 shares for an average daily value of USD 2.7 million. The figures reflect increases of 84.4% in volume and 72.7% in value year-on-year.

FIXED INCOME

Lebanon's external debt posted a return of 8.8% in 2014, constituting the 16th highest return among 41 markets in the Central, Eastern Europe, the Middle East and Africa (CEEMEA) region, as well as the 39th highest return among the 73 emerging markets included in Merrill Lynch's External Debt EM Sovereign Index. Lebanon outperformed the overall emerging markets return of 7.8% in 2014, and posted the 10th highest returns among 23 countries in the Middle East and Africa region.

In April 2014 the Lebanese Republic executed a voluntary debt exchange offer of Eurobonds maturing in 2014 for new and longer-dated notes, while also issuing additional notes for the reopening and increasing of an already-existing issue for cash. The exchange offer and additional notes resulted in aggregate new issues of USD 1.4 billion. Foreign investors represented about 25% of total subscribers on both tranches.

Also, the Lebanese Parliament ratified a law on 5 November



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2014 that allows the government to issue up to USD 2.5 billion in foreign currency debt. The Parliament had to raise the ceiling on foreign currency borrowing in order for the government to borrow externally after it reached its limit, and to reduce the government's reliance on the Central Bank for its financing needs.

RISK METRICS

Spreads on five-year credit default swaps (CDSs) for Lebanon ended 2014 at 397 basis points, almost unchanged from 395bps at the end of 2013. But the spreads fluctuated during the year, as they narrowed by 9.7bps in the first quarter and by 36.8bps in the second quarter, and widened by 15.2bps in the third quarter and by 33.4bps in the fourth quarter. Lebanon's five-year CDS spreads were the eighth widest among 73 developed and emerging countries at the end of 2014. Moreover, Lebanon ended 2014 with a five-year cumulative probability of default (CPD) of 25.3%, nearly unchanged from 25.15% at the end of 2013. Lebanon's CPD at end-2014 indicated that Lebanese debt was the ninth riskiest in the world.

Rating agencies took actions following mounting political risks, but they remain confident in the resiliency of the banking sector. On 16 December 2014, Moody's Investors Service downgraded Lebanon's government bond ratings to 'B2' from 'B1' and kept the outlook at 'negative'. Moody's attributed the downgrade to a rise in Lebanon's public debt level and to the effects of spillovers from the Syrian conflict on political stability, on economic activity and on public finances. It stated that it would revise the outlook to 'stable' if the debt metrics stopped their deterioration, and if the risks of political spillovers from the Syrian conflict receded.

On 12 December 2014, Fitch Ratings affirmed Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'. It also affirmed at 'B' the issue ratings on Lebanon's senior unsecured foreign and local currency bonds, and maintained the outlook on the long-term IDRs at 'negative'. Further, it affirmed the Country Ceiling at 'B'. The agency said that Lebanon's ratings reflect the high and rising public debt level, elevated political and geopolitical risks, as well as a credible exchange rate policy, a well-managed banking system, and high levels of human development and GDP per capita. The agency added that it could revise the outlook to 'stable' if confidence in the sustainability of the domestic political situation improved, overall security risks associated with the Syrian conflict decreased, or economic performance ameliorated.

On 11 April 2014, Standard & Poor's revised the outlook on Lebanon's long-term sovereign credit ratings to 'stable' from 'negative' and affirmed the long-term foreign and local currency sovereign credit ratings at 'B-' and the short-term foreign and

local currency sovereign credit ratings at 'B'. It also maintained the country's transfer and convertibility assessment at 'B+', senior unsecured debt rating at 'B-', and short-term debt at 'B'. The agency attributed the change in outlook to the sustained deposit inflows into the Lebanese financial system that would allow the government to meet its financing needs in 2014 despite the difficult internal and external political environments.

MONETARY SITUATION

The Central Bank's gross foreign currency reserves reached USD 32.4 billion at the end of 2014, constituting an increase of USD 0.7 billion, or 2.2%, from USD 31.7 billion a year earlier. They were equivalent to about 66.5% of money supply (M2) and to about 11 months' worth of imports, well above the four-month reference and a high level by emerging market standards. As in previous years, large capital inflows, mostly bank-related, have more than financed the current account deficit, leading to further accumulation of official reserves. Further, the Central Bank's overall assets in foreign currency increased by USD 2.6 billion in 2014 to reach USD 37.9 billion at the end of the year. The value of the Central Bank's gold reserves reached USD 10.95 billion at the end of 2014, constituting a decrease of 1.4% from end-2013. The Central Bank's combined assets in gold and foreign currencies at the end of the year were equivalent to about 102.8% of GDP.

INFLATION

The inflation rate averaged 1.9% in 2014 compared to 4.8% in 2013, according to the Central Administration of Statistics. The deceleration of inflation was due to the 30% decline in tariffs on mobile phone and internet services, and to the decline in transportation costs from the drop in global oil prices. But even when excluding telecommunication and transportation, the annual inflation rate was still -0.4% in 2014. This reflects weak domestic demand, which contained local inflation, as well as the strengthening of the US Dollar, which reduced imported inflation.

BANKING SECTOR

The banking sector continued to face a challenging operating environment in 2014 due to several converging factors, including the slow economic activity in Lebanon, domestic political uncertainties, the Syrian crisis and its direct spillovers in Lebanon, tight margins, fewer lending opportunities domestically and abroad, historic-low global interest rates, and the still-elevated borrowing needs of the Lebanese government.



THE LEBANESE ECONOMY IN 2014

Commercial bank assets reached USD 175.7 billion at the end of 2014, constituting an increase of 6.6% from end-2013 and relative to increases of 8.5% in 2013 and 8% in 2012. The sector's aggregate assets were equivalent to 370% 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 144.4 billion, an increase of USD 8.2 billion or 6% from end-2013, relative to an increase of USD 11.2 billion or 9% in 2013. Private sector deposits were equivalent to 304% of GDP, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 49.5 billion, up 7.4% from end-2013 and compared to an increase of 4.9% in 2013, while deposits in foreign currencies totaled USD 94.9 billion, rising by 5.4% from end-2013 and relative to an increase of 11.2% in 2013. Non-resident foreign currency deposits totaled USD 26.4 billion at end-2014, an increase of 5.3% from end-2013 relative to a rise of 20.9% in 2013. The dollarization rate of deposits reached 65.7% at end-2014, down from 66.1% a year earlier. The average deposit rate in Lebanese Pounds reached 5.52% in 2014, ranging from a low rate of 5.47% to a high of 5.58%. The same rate in US Dollars averaged 3.03% in 2014, with a monthly low rate of 2.95% and a high of 3.13%, compared to 2.92% in 2013. In parallel, deposits of non-resident banks reached USD 5.8 billion, rising 16.4% from end-2013. Broad money supply (M3) grew by 5.9% in 2014, down from a growth rate of 6.9% posted in 2013.

Loans to the private sector totaled USD 50.9 billion at the end of 2014, an increase of USD 3.5 billion, or 7.4%, from end-2013, relative to a rise of USD 3.9 billion, or 9%, in 2013. Lending to the resident private sector grew 9.3% from end-2013 to reach USD 45.36 billion, while credit to the non-resident private sector fell 5.9% to USD 5.53 billion. As such, credit to the resident private sector was equivalent to 95.5% of GDP in 2014. The dollarization rate in private sector lending reached 75.6% at end-2014, down from 76.5% a year earlier. The average lending rate in Lebanese Pounds was 7.27% in 2014, ranging from a low rate of 6.96% and a high of 7.49%, and compared to 7.35% in 2013. The same rate in US Dollars averaged 6.95% in 2014, with a monthly low rate of 6.82% and a high of 7.04%, and compared to an average rate of 6.96% in the preceding year. Claims on the public sector stood at USD 37.4 billion, down 0.9% year-on-year and accounting for about 37% of the banking sector's total claims. Rating agencies continued to restrain 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 15.73 billion at the end of 2014, up by 10.8% from a year earlier, with core capital rising by 11.9% to USD 14.6 billion. The ratio of private sector loans to

deposits in foreign currencies stood at 40.5% at end-2014, well below the Central Bank's limit of 70%, and compared to 40.3% a year earlier. In parallel, the same ratio in Lebanese Pounds was 25.1%, up from 24.1% at end-2013. The ratio of total private sector loans to deposits was 35.2% at end-2014, up from 34.8% a year earlier.

The aggregate net income of the top 14 banks operating in Lebanon was USD 1.87 billion in 2014, up by 9.1% from 2013. Also, the top banks' return on average assets was 1.01% and their return on average equity reached 11.55% in 2014. Further, the banks' cost-to-income ratio was nearly unchanged year-on-year at 50% in 2014.

Unless there is a major breakthrough in the domestic political situation, the operating environment for Lebanese banks is likely to remain challenging over the short-to-medium term due to political instability, weak economic growth, and the slower performance of various economic 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.

THE GLOBAL AND REGIONAL ECONOMIES IN 2014

Following several years of subdued growth, the global economy is still struggling to gain momentum as many high-income countries continue to tackle legacies of the global financial crisis, and as emerging economies are less dynamic than they were in the past. The global economy grew by 3.4% in 2014, unchanged from 2013, as a modest recovery in the Eurozone and a pick-up in India helped offset slowdowns in China and Japan. Economic growth in advanced economies improved to a modest 1.8% last year from 1.4% in 2013, partly driven by lower oil prices and accommodative monetary policy stances. In addition, growth in emerging market economies slowed in 2014, due in part to lower commodity prices and exports, weak external demand, domestic policy tightening, political uncertainties, and supply-side constraints. Emerging economies grew by an estimated 4.6% in 2014 relative to a growth rate of 5% in 2013. In parallel, the US Dollar Index appreciated by 12.6% in 2014, reflecting the strengthening of the US Dollar against a basket of currencies. The stronger dollar had a positive impact on the global economy in 2014, as it effectively transferred demand from the US economy to economies around the world.

The economies of both the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) regions are of particular significance to the Lebanese economy due to the latter's strong trade and



THE LEBANESE ECONOMY IN 2014

financial links to Gulf Arab markets in particular, as well as to its dependence on the Diaspora and to the activity of Lebanese banks in the two regions. Following years of turmoil, some economies in the MENA region appear to be stabilizing, although growth was fragile and uneven in 2014. Growth in oil-importing countries was broadly flat in 2014, while activity in oil-exporting economies recovered slightly after contracting in 2013.

Economic growth in the MENA region was moderate at 2.4% in 2014 amid declining oil prices, intensifying conflicts, and continued policy uncertainty. The 50% drop in oil prices in the second half of 2014 weakened the external and fiscal balances of the region's oil exporters. Indeed, the fiscal surplus of the MENA region's oil exporters declined from 5% of GDP in 2013 to 0.3% of GDP in 2014, while the current account surplus regressed from 14.7% of GDP to 10%. In particular, the fiscal surplus of Gulf Cooperation Council (GCC) countries declined from 12.1% of GDP in 2013 to 4.6% of GDP in 2014, and the current account surplus narrowed from 20.6% of GDP to 16.5% of GDP. In contrast, the sharp drop in oil prices provided relief for the region's oil importers. In fact, the fiscal deficit of oil importers narrowed from 10.5% of GDP in 2013 to 9.8% in 2014, while the current account deficit regressed from 7.2% of GDP to 5.5% of GDP.

Since the "Arab Spring" began in 2011, many Arab countries have been in political turmoil, which has disrupted economic activity in the region. There has been progress on the political transition in Tunisia and greater stability in Egypt in 2014. Also, official assistance from the GCC countries helped improve consumption and investor confidence, and increased investment in Jordan and Egypt. The domestic environments in Iraq, Libya and Syria continued to be hindered by violent conflicts, and spillovers from the Syrian crisis negatively affected activity, particularly in Lebanon and Jordan. The capture of large swaths of territory in Iraq and Syria by the Islamic State militant group

raised security risks in an already fragile region. Real GDP growth of oil-importing Arab economies was 2.5% in 2014 compared to 2.7% in 2013, well below the historical average growth rate of about 5%. The subdued level of economic activity was mainly due to political uncertainty and security challenges that weighed on key growth drivers.

In parallel, real GDP growth in the economies of the GCC was 3.6% in 2014, unchanged from 2013. Hydrocarbon output grew by 0.8% in 2014 relative to a growth rate of 0.5% in 2013. Activity in the non-hydrocarbon sector expanded by 5.7% in 2014, down from 6.5% in 2013 but still supported by strong private sector activity. Further, economic activity in the region's non-GCC oil exporters grew by 1% in 2014, compared to a growth rate of 0.5% in 2013, as oil production stopped contracting.

Economic growth in SSA was robust at 5% in 2014 relative to 5.2% in 2013, driven by strong private consumption, and by solid investment in mining and infrastructure. Real GDP growth was down slightly from 2013 as SSA's oil exporters began to adjust to the lower global oil prices. Economic activity in Guinea, Liberia, and Sierra Leone declined substantially in 2014 due to the Ebola epidemic, which caused severe disruptions in agriculture and services, and the postponement of mining development projects.

Real GDP growth in SSA's oil exporters accelerated to 5.8% in 2014 from 5.7% in 2013, while activity in oil-importing countries decelerated to 4.4% last year from 4.8% in 2013. Also, the region's low-income countries grew by 6.8% last year relative to 6.6% in 2013, while growth in middle-income economies slowed to 2.7% in 2014 from 3.6% in the preceding year. Most SSA countries have seen their exchange rates depreciate against the US Dollar since August 2014, in line with other emerging markets and developing countries.