

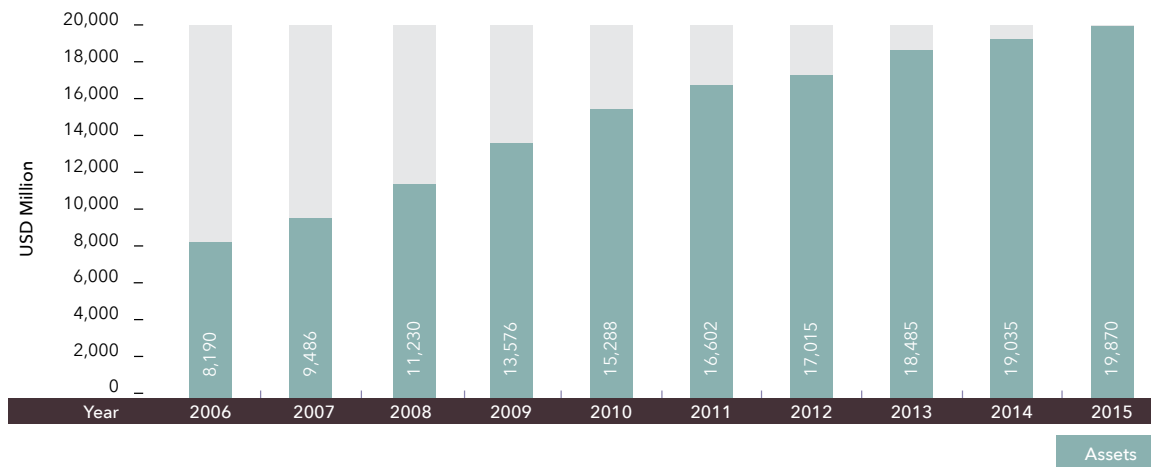
# THE YEAR IN BROAD STROKES



# FINANCIAL HIGHLIGHTS

## TOTAL ASSETS

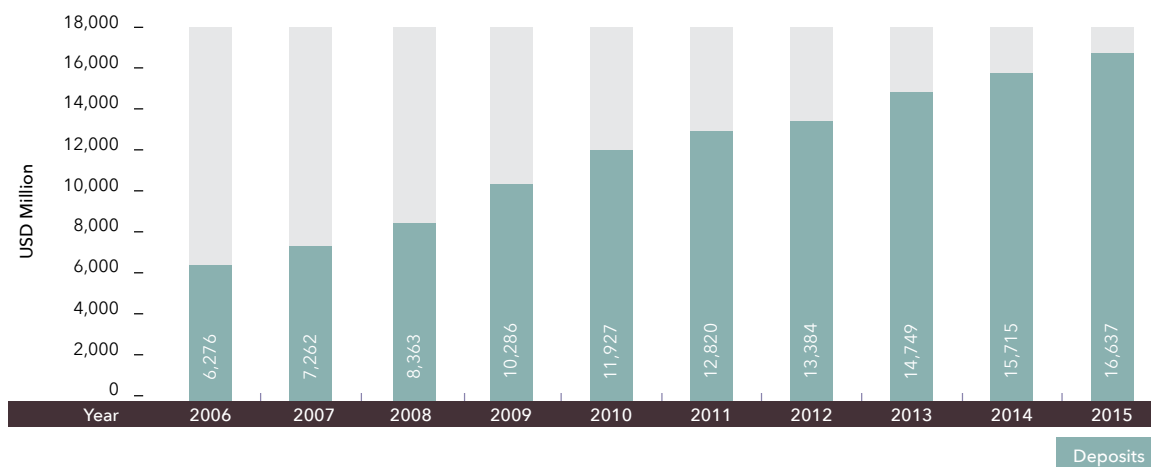
Evolution of Total Assets During Last Ten Years



**CAGR**  
**10.35%**  
for the last ten years

## CUSTOMERS' DEPOSITS

Evolution of Customers' Deposits During Last Ten Years

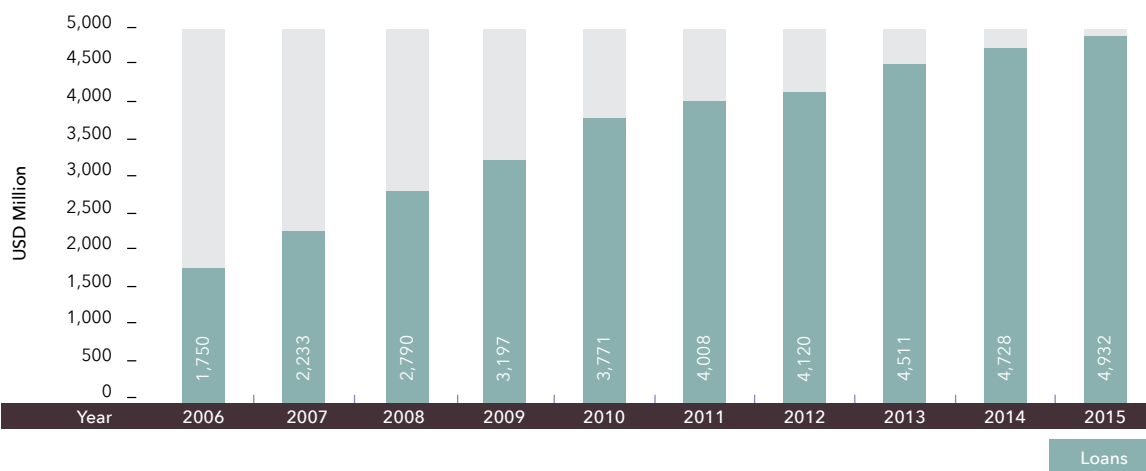


**CAGR**  
**11.44%**  
for the last ten years



### NET CUSTOMERS' LOANS

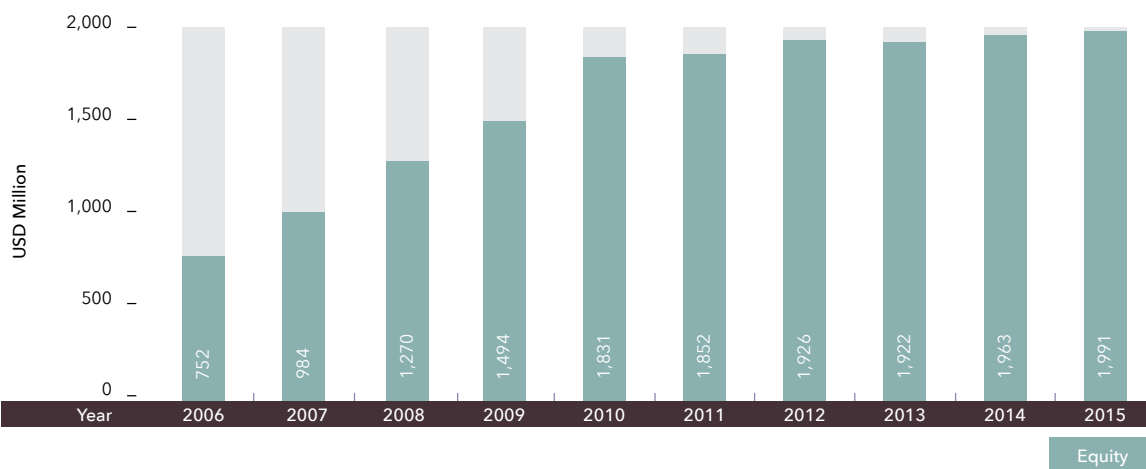
Evolution of Customers' Loans During Last Ten Years



**CAGR**  
**12.20%**  
for the last  
ten years

### TOTAL EQUITY

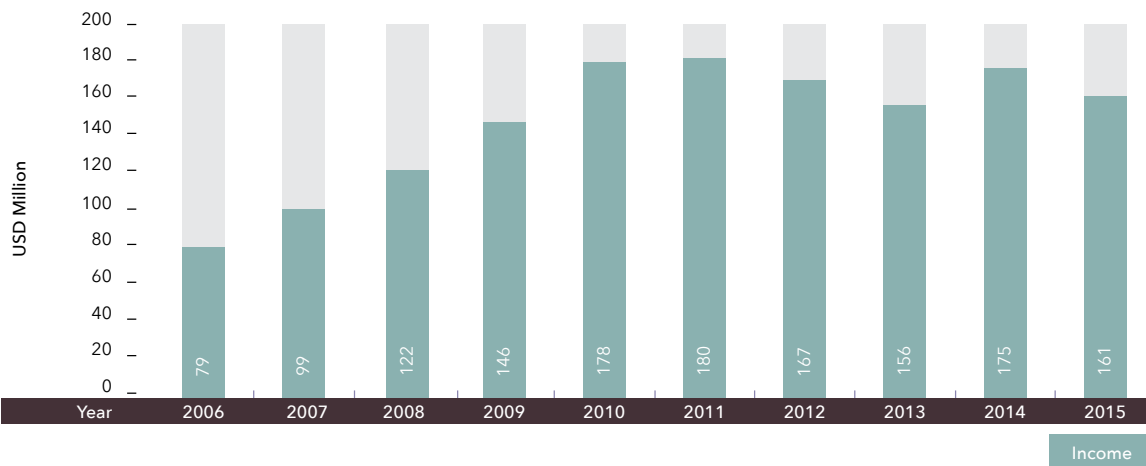
Evolution of Total Equity During Last Ten Years



**CAGR**  
**11.42%**  
for the last  
ten years

### NET INCOME

Evolution of Net Income During Last Ten Years



**CAGR**  
**8.31%**  
for the last  
ten years



## A MESSAGE FROM THE CHAIRMAN



### Dear Stakeholders,

Byblos Bank achieved adequate results in 2015. Even though lower than originally budgeted, these results reflect an intensification of our traditional risk-averse approach, a strategy backed up directly by the Board of Directors in order to further bolster the Bank's financial strength in an unstable environment. This led to the maintenance of immediate foreign currency liquidity, in the form of short-term placements with investment and above-investment-grade institutions, at levels exceeding both internal and international benchmarks. Indeed, Byblos Bank posted a Basel III Capital Adequacy Ratio of 17.7% at end-2015, versus a regulatory requirement of just 12%. The Bank also has been successful in maintaining loan quality and ensuring adequate provisioning levels, as well as strengthening the risk culture throughout the organization.

As a result of these and other measures, customers' loans and customers' deposits grew 4.3% and 5.9%, respectively, to USD 4.9 billion and USD 16.6 billion, while the Bank maintained a low loans-to-assets ratio of 24.8% and improved its net interest margin from 1.36% to 1.40%. Nonetheless, return on common equity stood at 9.42%, lower than the 11.07% recorded a year earlier, while our cost-to-income ratio remained at a good level, below 47% as in previous years.

Most of Byblos Bank's international operations are conducted in emerging markets, several of which have been destabilized to varying degrees by the "Arab Spring" that started at the close of 2010. As a result, the contribution of the international bank subsidiaries and branches to net income has been dropping steadily, from 11% that year to 4% in 2015, while the share of assets fell from 16% to 8% over the same period. Many of these countries are heavily dependent on commodity exports, so slumping prices have led to a variety of negative trends, including lower overall revenues, as well as significant currency devaluations and/or widespread socioeconomic disruption in certain cases.

Nevertheless, thanks to prudent risk management, close relationships with our clients, and in-depth knowledge of the markets in which we operate, the Bank has continued to find opportunities on a selective basis in these countries, a stance that will keep us ready to scale up when conditions improve.



## A MESSAGE FROM THE CHAIRMAN

Looking forward, we do not expect 2016 to bring significant improvements to the economic and political situation in Lebanon, or to the overall environments in other markets where we operate. We anticipate, however, at least a partial recovery in international commodity prices, which would help alleviate socioeconomic disruptions in many of these countries. Byblos Bank has not been idle during the past few years of political instability and slow economic growth in the MENA region; on the contrary, we have embarked on numerous internal projects to drive improvements in business and human productivity, steps that will ensure an even stronger base when economic activity picks up.

In closing, it should be noted that our relatively good results amid challenging conditions in 2015 were made possible by an engaged Board of Directors, diligent management, and dedicated employees at every level of the Group. Their combined efforts allowed Byblos Bank to protect the interests of its shareholders by strengthening its assets and capital base in an unstable environment, all while maintaining a fairly compensated and adequately sized workforce, and continuing to act on the Bank's commitment to building the communities that it calls home.

These accomplishments follow a long tradition of setting clear priorities, meticulous planning, and professional implementation, all guided by the principles and vision that keep Byblos Bank on the right track despite temporary or even sustained headwinds. Those responsible for this performance - and therefore for the advantage it will give the Bank when markets recover - deserve both our admiration and our gratitude.

Sincerely,

A handwritten signature in black ink, appearing to read 'Semaan Bassil'.

**Semaan F. Bassil**

Chairman and General Manager  
Byblos Bank S.A.L.



# THE LEBANESE ECONOMY IN 2015

## ECONOMIC ACTIVITY

Economic activity in Lebanon remained below potential in 2015, in line with the previous four years. The ongoing economic slowdown was due to lower private consumption, subdued investor sentiment and consumer confidence, the political deadlock and high level of political polarization, the presidential vacuum, paralyzed decision-making processes within public institutions, and random demonstrations and social unrest, in addition to 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 continued burden of the public sector on the private sector took their toll on economic activity.

The Lebanese economy benefited from the Central Bank's USD 1 billion stimulus package for 2015, as it supported activity in several key sectors. Also, the inflows of USD 7.5 billion in remittances from Lebanese expatriates in 2015, equivalent to 14.7% of GDP, sustained household spending for day-to-day needs. In addition, the pass-through effects of the steep drop in global oil prices and the muted inflationary environment raised the disposable incomes of households and supported economic activity during the year.

Still, the economy performed at a sub-par level in 2015, as private consumption grew by a real rate of 2.3%, public consumption expanded by 9.6%, and gross fixed capital contracted by 2.2% during the year. Also, exports of goods and services increased by 1.5%, while imports of goods and services grew by 3.5% in 2015. At the same time, capital inflows to Lebanon declined by 34% to USD 8.56 billion during the year. As such, the economy expanded by 1.4% in real terms in 2015 compared to a real GDP growth rate of 1.7% in 2014.

## REAL SECTORS

The Central Bank's Coincident Indicator, a proxy for overall economic activity in Lebanon, averaged 278.6 in 2015 compared to 273.2 in 2014, and increased by 2% year-on-year, which reflects slow economic activity.

The Byblos Bank/AUB Consumer Confidence Index averaged 38.4 in 2015, reflecting a rise of 12.4% annually and constituting the second annual rise since 2009. The increase in consumer sentiment in 2015 is due in part to low-base effects and does not denote a reversal of trends, as the level of consumer sentiment in 2015 constitutes a decline of 60.3% from the Index's peak year of 2009 and a decrease of 30.5% from the Index's trend monthly average since July 2007. Indeed, the full-year results constituted the Index's fourth lowest annual 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 repeated failure of the Lebanese Parliament to elect a President and the paralyzed decision-making processes within public institutions maintained household confidence at low levels. On the socioeconomic level, the outbreak of the waste management crisis in July 2015 had a significant impact on consumer sentiment, as it highlighted the inability of the government and political parties to properly manage and deliver basic public services.

In contrast, generally stable security conditions across the country, the ongoing nationwide crackdown on suspected terrorists by security forces, and the continued dialogue among various political parties supported sentiment during 2015. Also, the positive impact on households' budgets from the more than 30% drop in local retail gasoline prices and the fading away of imported inflation, as well as the acceleration of the Ministry of Public Health's food safety campaign, gave some respite to wary consumers.

The Byblos Bank/AUB Expectations Index posted higher values than the Present Situation Index in each month of 2015. The results do not reflect a reversal of trends or a shift in households' attitudes, however, as only 7.6% of Lebanese polled in the fourth quarter of 2015 expected their financial conditions to improve in the coming six months, while 69% of them believed that their financial situation would deteriorate. Political uncertainties 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. In real terms, the number of property sales decreased by 10.5% in 2015, construction permits contracted by 8.8%, cement deliveries regressed by 8.6%, and the value of property sales declined by 7.5%, pointing to anemic activity in the sector. Also, housing loans reached USD10.7 billion at the end of 2015 and grew by 9.6% in 2015, constituting the slowest yearly growth rate since 2004.

The Byblos Bank Real Estate Demand Index posted an average monthly value of 43.3 points in 2015, constituting a decline of 60% from the peak of 108 registered in 2010. It was also 33.1% lower than the trend monthly average score of 64.7 since the Index's inception in July 2007. In addition, the Index reached its lowest monthly level on record in the first two months of 2015. The current real estate trend is part of a deep stagnation



# THE LEBANESE ECONOMY IN 2015

period in the market that started in January 2014 and that is still ongoing. Overall, the Byblos Bank Real Estate Demand Index fell by 60% between the boom period, which stretched from May 2008 to August 2010, and the period of deep stagnation.

## TOURISM SECTOR

The tourism sector, a main driver of economic activity in the country, recovered slightly in 2015. The number of incoming visitors to Lebanon totaled 1.52 million in 2015, reflecting an increase of 12.1% from about 1.35 million tourists in 2014, but it still constituted a decline of 30% from the peak of 2.17 million visitors in 2010. The increase in 2015 was mainly due to low-base effects and to Iraqi nationals escaping deteriorating security conditions in their country.

European tourists accounted for 33.3% of total visitors in 2015, followed by visitors from Arab countries (31.7%), the Americas (17.4%), Asia (8.1%), Africa (5.6%), and Oceania (3.9%). Also, visitors from Iraq accounted for 12.6% of total visitors in 2015, followed by visitors from the United States (8.9%), France (8.8%), Canada (6%), Jordan (5.1%), Egypt (5%), and Germany (4.9%). Further, incoming visitors from the six countries of the Gulf Cooperation Council (GCC) accounted for 6.9% of Lebanon's total tourist arrivals in 2015, down from 17.7% in 2010.

The number of visitors from African countries increased by 53.2% in 2015, followed by visitors from the Americas (+17.5%), Oceania (+17.3%), Europe (+12.9%), Asia (+7.7%), and the Arab region (+4.3%). In parallel, the number of incoming visitors from the GCC region reached 104,551 in 2015, up by 6.8% from 2014 but down by 72.7% from 383,983 GCC tourists in 2010. On a country basis, the number of tourists from Turkey surged by 30.4% in 2015, followed by visitors from the United States (+19%), England (+17.1%), Canada (+16.5%), Brazil (+12.8%), France (+11.2%) and Germany (+10.1%).

The hospitality sector continued to be affected by the modest tourism activity. The average occupancy rate at hotels in Beirut was 56% in 2015, compared to 52% in 2014 and to an average rate of 62.7% in 14 main Arab markets. The average occupancy rate at Beirut hotels was, along with Amman's, the fifth lowest in the region in 2015, while it was the fourth lowest in 2014. The average rate per room at Beirut hotels was USD 175 in 2015, ranking the capital's hotels as the fifth least expensive in the region. The average rate per room at Beirut hotels rose by 1.1% year-on-year and posted the seventh highest growth rate among all markets in the region. Further, revenues per available room reached USD 99 in Beirut in 2015 and increased by 8.8% year-on-year, the fifth highest increase among Arab markets.

Total spending by tourists in Lebanon increased by 2% in 2015. Visitors from Saudi Arabia accounted for 15% of total tourist expenditures in 2015, followed by visitors from the UAE with

14%, Kuwait and Egypt with 6% each, Jordan and France with 5% each, Qatar, Syria and the United States with 4% each, and Iraq and Nigeria with 3% each. Spending by visitors from Qatar increased by 21% in 2015, followed by those from the United States (+18%), Jordan (+14%), the UAE (+12%), and Saudi Arabia (+5%), while spending by visitors from Syria contracted by 23%, followed by those from Kuwait (-16%), Nigeria (-9%), Egypt (-4%), France (-3%) and Iraq (-1%).

## INFLATION

The Consumer Price Index contracted by 3.7% in 2015 compared to an average inflation rate of 1.9% in 2014, according to the Central Administration of Statistics. The CPI regressed by 1.9% in 2015 when excluding telecommunication and transportation costs. The contraction in the CPI is mainly attributed to the local transmission of the drop in global oil prices, declines in the prices of base metals, the strengthening of the US Dollar, the decrease in telecom tariffs, and a slowdown in local demand for goods and services. Also, the figures denote the waning impact of imported inflation.

## EXTERNAL SECTOR

The balance of payments posted a deficit of USD 3.35 billion in 2015, constituting the fifth consecutive annual deficit. The 2015 deficit was caused by a deficit of USD 2.88 billion in the net foreign assets of banks and financial institutions, and a deficit of USD 473.4 million in those of the Central Bank. The persistent deficit in the balance of payments reflects slowing capital inflows, due mainly to a decline in tourism, FDI and exports receipts. Also, the current account deficit narrowed from 26.2% of GDP in 2014 to 16.8% in 2015.

The trade deficit reached USD 15.1 billion in 2015 and narrowed by 12% year-on-year, as the value of imported goods decreased by 11.8% to USD 18.1 billion and the value of exported products fell by 11% to USD 3 billion. Imports declined due to subdued domestic demand, lower commodity prices, and a stronger US Dollar that reduced the import bill from the Eurozone and from other countries whose currencies weakened against the dollar. The value of imported oil and mineral fuels declined by USD 1.45 billion, or 29.6%, year-on-year, to USD 3.4 billion, while non-hydrocarbon imports regressed by 6.3% to USD 14.6 billion. Also, the value of imported base metals fell by USD 340.7 million, or 22.7%, to USD 1.16 billion in 2015, and those of machinery and mechanical appliances regressed by USD 195 million, or 8.9%, to USD 2 billion. The value of oil and mineral fuels accounted for 19% of total imports in 2015 compared to a share of 23.8% in 2014.



# THE LEBANESE ECONOMY IN 2015

## FISCAL SITUATION

Lebanon's public finance imbalances persisted in 2015, with the fiscal deficit widening to 7.8% of GDP from 6.2% in 2014. Public revenues regressed from 22.1% of GDP in 2014 to 18.8% of GDP in 2015. Tax revenues were equivalent to 13.5% of GDP last year, down from 14% in 2014, while non-tax revenues represented 4.3% of GDP in 2015 relative to 5.9% in the preceding year. Moreover, public expenditures decreased from 28.3% of GDP in 2014 to 26.6% of GDP in 2015, with salaries, wages and pensions accounting for 9.3% of GDP, debt servicing for 9.2% of GDP, transfers to the money-losing Electricité du Liban for 2.2% of GDP, and capital spending for 1.4% of GDP.

In parallel, Lebanon's public debt level grew from 134.8% of GDP in 2014 to 138.2% in 2015, constituting the ratio's fourth consecutive annual increase. The gross public debt reached USD 70.3 billion at the end of 2015, reflecting an increase of 5.6% from end-2014 and compared to increases of 4.9% in 2014 and 10% in 2013. The gross public debt grew by USD 3.7 billion in 2015 relative to increases of USD 3.1 billion in 2014 and USD 5.8 billion in 2013. Debt denominated in local currency rose by 5.6% to the equivalent of USD 43.2 billion, while debt in foreign currency grew by 5.7% to USD 27.1 billion at the end of the year. Foreign currency-denominated debt represented 38.5% of gross public debt at the end of 2015, unchanged from a year earlier.

Commercial banks held 54.4% of the total public debt at the end of 2015, down from 57% at end-2014. Commercial banks accounted for 45.8% of the Lebanese Pound-denominated public debt at the end of 2015 compared to 51% a year earlier. They were followed by the Central Bank with 37.3%, up from 32.2% at end-2014, while public agencies, financial institutions and the public held 17%. Also, Eurobond holders and special Treasury bills in foreign currencies accounted for 92.3% of the foreign-currency denominated debt, followed by foreign governments with 3.8% and multilateral institutions with 3.7%. In addition, commercial banks held 72.1% of total Eurobonds at the end of 2015, nearly unchanged from a year earlier. In parallel, 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. Total trading volume on the Beirut Stock Exchange reached 74.6 million shares in 2015, constituting a decrease of 23% from 96.8 million shares in 2014, while aggregate turnover amounted to USD 629 million, down by 5% from a turnover of USD 661.4 million in the preceding year. As such, the Capital Markets Authority Market Value-Weighted Index regressed by 1.5% in 2015. Market capitalization was nearly unchanged from end-2014 at USD 11.2 billion, of which 80.6% was in banking stocks and 16.3% in real estate stocks. The market liquidity ratio was 5.6% compared to 5.9% in 2014. Further, market capitalization was equivalent to 23% of GDP, fifth lowest among 14 Arab markets, and accounted for about 1% of the aggregate market capitalization of Arab equity markets.

Bank stocks accounted for 89.1% of the aggregate trading volume in 2015, followed by real estate equities with 10.4%. Also, banking stocks accounted for 85.8% of the aggregate value of shares traded, followed by real estate stocks with 13.4%. The average daily traded volume for 2015 was 309,697 shares for an average daily value of USD 2.6 million. The figures reflect decreases of 21.3% in volume and 2.9% in value year-on-year. In parallel, the Capital Markets Authority Banks Market Value-Weighted Index increased by 1.3% last year.

### FIXED INCOME

Lebanon's external debt posted a return of 2.91% in 2015, constituting the 11<sup>th</sup> highest return among 41 markets in the Central and Eastern Europe, Middle East and Africa (CEEMEA) region, as well as the 21<sup>st</sup> highest return among 73 emerging markets, according to the Merrill Lynch External Debt EM Sovereign Bond Index. Lebanon outperformed the overall emerging markets return of 0.84% during 2015 and posted the second highest return among 24 countries in the Middle East and Africa region.

In February 2015, the Lebanese Republic issued a USD 2.2 billion dual-tranche Eurobond under the Republic of Lebanon's Global Medium Term Note Program to cover part of the government's operating expenditures and debt service payments for the year. The first series consisted of a 15-year USD 1.4 billion Eurobond that matures in February 2030 and that carries an annual coupon rate of 6.65%, while the second series consisted of a 10-year USD 800 million Eurobond that matures in February 2025 and that carries an annual coupon rate of 6.2%. Commercial banks subscribed to about 64% of the issued amount, the Central Bank and non-bank local institutions subscribed to about 21%, and foreign investors acquired the remaining 15%.



# THE LEBANESE ECONOMY IN 2015

Also, in November 2015 the Lebanese Republic issued a USD 1.6 billion triple-tranche Eurobond, also under the Republic of Lebanon's Global Medium Term Note Program. The new issuance consists of USD 1.28 billion in new cash to cover the government's debt service payments in foreign currencies for the second half of 2015, and USD 318 million in voluntary debt exchange of the USD 750 million Eurobond that matured on 19 January 2016. The first series consisted of a nine-year USD 500 million Eurobond that matures in November 2024 and carries an annual coupon rate of 6.25%. The second series was a 13-year USD 500 million Eurobond that matures in November 2028 and carries an annual coupon rate of 6.65%, while the third series consisted of a 20-year USD 600 million Eurobond that matures in November 2035 and that carries an annual coupon rate of 7.05%. In parallel, in November 2015 the Lebanese Parliament ratified a law that allows the government to issue up to USD 3 billion in foreign-currency debt to finance upcoming debt maturities in 2016.

## RISK METRICS

Spreads on five-year credit default swaps (CDS) for Lebanon ended 2015 at 411 basis points (bps), up by 12.8% from 364.2 bps at the end of 2014. The spreads were stable during the first nine months of 2015, as they averaged 363.8 bps in the first quarter, 361 bps in the second quarter, and 364.5 bps in the third quarter of the year. However, Lebanon's CDS spreads widened significantly to an average of 410 bps during the fourth quarter of 2015.

Rating agencies expressed concern during the year about persisting political risks and fiscal imbalances, but they remained confident in the strength of the banking sector. On 11 December 2015, 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 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 indicated that Lebanon's sovereign ratings are constrained by political risks, as well as by the country's weak public finances and low economic performance. In contrast, it pointed out that the ratings are supported by Lebanon's strong external liquidity, resilient banking sector, and other structural strengths, such as the high income levels and human development indicators.

On 30 October 2015, Capital Intelligence affirmed at 'B' Lebanon's long- and short-term foreign and local currency sovereign ratings, and revised from 'stable' to 'negative' the outlook on the country's long-term ratings. It attributed the outlook revision to the country's deteriorating economic performance and weakening fiscal position, as well as to the difficult domestic and external political environments.

On 11 September 2015, Standard & Poor's affirmed Lebanon's long- and short-term foreign and local currency sovereign credit ratings at 'B-/B' and revised the outlook on the long-term ratings to 'negative' from 'stable'. It attributed the change in outlook to the negative impact on growth from domestic political uncertainties and regional instability. It added that the protracted political instability could further limit the ability of policymakers to implement medium- and long-term macroeconomic reforms. The agency did not expect the government to utilize the lower oil price environment, and the resulting fiscal space, to implement the structural reforms that would reduce fiscal vulnerabilities and promote longer-term economic growth.

## MONETARY SITUATION

The Central Bank's gross foreign currency reserves reached USD 30.64 billion at the end of 2015, constituting a decrease of USD 1.77 billion, or 5.4%, from USD 32.4 billion a year earlier. They were equivalent to 58.7% of money supply (M2) and to about 14 months' worth of next year's imports, well above the four-month reference for emerging markets. In addition, the Central Bank's overall assets in foreign currency regressed by USD 1.1 billion in 2015 to reach USD 37.1 billion at the end of the year. The value of the Central Bank's gold reserves reached USD 9.85 billion at the end of 2015, constituting a decrease of 10.1% from end-2014 due to lower global gold prices. The Central Bank's combined assets in gold and foreign currencies were equivalent to about 92% of GDP at the end of 2015.

In parallel, broad money supply (M3) grew by 5.1% in 2015, decelerating from a growth rate of 5.9% in 2014 and from 7% in each of 2012 and 2013, while money supply (M2) increased by 7.1% year-on-year, accelerating from rises of 5.6% in 2013 and 6.8% in 2014. Also, the interbank rate in Lebanese Pounds increased from 2.75% at the end of 2014 to 3.25% at the end of 2015, while the repo rate was unchanged at 10% throughout the year.



# THE LEBANESE ECONOMY IN 2015

## BANKING SECTOR

The banking sector continued to face a challenging operating environment in 2015 due to several converging factors that included the slow economic activity in Lebanon, domestic and regional political uncertainties, the Syrian crisis and its direct spillovers onto Lebanon, tighter margins, fewer lending opportunities domestically and abroad, historic-low global interest rates, and the still-elevated borrowing needs of the Lebanese government.

The aggregate assets of commercial banks reached USD 186 billion at the end of 2015, constituting an increase of 5.9% from end-2014 and relative to increases of 6.6% in 2014 and 8.5% in 2013. The sector's assets were equivalent to 365.6% 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.

Loans to the private sector totaled USD 54.2 billion at the end of 2015 and increased by USD 3.33 billion, or 6.5% of GDP, from end-2014 relative to a rise of USD 3.5 billion, or 7.4%, in 2014. Lending to the resident private sector grew by USD 2.67 billion in 2015 relative to USD 3.86 billion in 2014, while credit to the non-resident private sector increased by USD 648.1 million last year compared to a decrease of USD 346.9 million in 2014.

As such, credit to the resident private sector was equivalent to 92.6% of GDP in 2015. The dollarization rate in private sector lending reached 74.8% at end-2015, down from 75.6% a year earlier. The average lending rate in Lebanese Pounds was 7.45% in December 2015 compared to 7.49% a year earlier. The same rate in US Dollars averaged 7.06% in December 2015 relative to a rate of 6.97% in December 2014. Claims on the public sector stood at USD 37.8 billion, up by 1.2% year-on-year, and accounted for about 20% of the banking sector's total assets. Also, commercial banks' deposits at the Central Bank totaled USD 70.5 billion at end-2015, reflecting an increase of 11.1% from a year earlier, and accounted for about 38% of the sector's aggregate assets. 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.

Deposits of the private non-financial sector totaled USD 151.6 billion at the end of 2015, rising by USD 7.2 billion, or 5%, from end-2014, relative to an increase of USD 8.2 billion, or 6%, in 2014. Private sector deposits were equivalent to 298%

of GDP, one of the highest such ratios in the world. Deposits in Lebanese Pounds reached USD 53.2 billion, up 7.5% from end-2014 and compared to an increase of 7.4% in 2014, while deposits in foreign currencies totaled USD 98.3 billion, a rise of 3.6% from end-2014 and relative to an increase of 5.4% in 2014. Non-resident foreign currency deposits totaled USD 27.4 billion at end-2015, increasing by 3.7% from end-2014 relative to a rise of 5.3% in 2014. The dollarization rate of deposits reached 64.9% at end-2015, down from 65.7% a year earlier. The average deposit rate in Lebanese Pounds was 5.56% in December 2015, unchanged from December 2014. The same rate in US Dollars averaged 3.17% in December 2015 compared to 3.07% a year earlier. In parallel, deposits of non-resident banks reached USD 6.5 billion, and rose 12.2% from end-2014.

The ratio of private sector loans to deposits in foreign currencies stood at 41.3% at end-2015, 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 25.6%, up from 25.1% at end-2014. The ratio of total private sector loans to deposits was 35.8% at the end of 2015, up from 35.2% a year earlier. The banks' capital base stood at USD 16.67 billion at the end of 2015, up by 6% from a year earlier, with core capital growing by 6.1% to USD 15.45 billion.

The aggregate net income of commercial banks operating in Lebanon was USD 1.88 billion in 2015, up by 11.2% from USD 1.69 billion in 2014. The banks' return on average assets was 1.04% in 2015 relative to 0.99% in 2014. In parallel, the sector's capital adequacy ratio stood at 14.43% as at June 2015, according to the latest available figures from the Central Bank, compared to 14.93% at end-2014. Also, the banks' consolidated doubtful loans reached 3.64% of total loans in 2015, relative to 3.6% in 2014, one of the lowest such ratios in the Middle East.

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, profitable, 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 2015

Global economic activity was subdued in 2015 due to the economic slowdown in emerging and developing economies, while advanced economies continued their slow recovery. The global economy grew by a real rate of 3.1% in 2015 relative to 3.4% in 2014. Emerging markets and developing economies posted a real GDP growth rate of 4% in 2015 relative to a rate of 4.6% in 2014 due to low commodity prices, the slowdown and rebalancing of the Chinese economy, slower capital inflows, subdued global trade, pressure on certain currencies, and an increase in global financial market volatility.

Economic growth in advanced economies improved slightly to 1.9% last year from 1.8% in 2014, partly driven by lower oil prices and accommodative monetary policy. Most central banks in advanced countries, with the exception of the US Federal Reserve and the Bank of England, maintained their highly accommodative monetary policies. This divergence in monetary policy led to the strong appreciation of the US Dollar relative to other currencies, as the US Dollar Index appreciated by 9.3% in 2015.

The economies of the Middle East and North Africa (MENA) and Sub-Saharan Africa (SSA) regions are of particular significance to the Lebanese economy. This is due to Lebanon's strong trade and financial links with Gulf Arab markets in particular, as well as to the country's dependence on capital inflows from expatriates and the activity of Lebanese banks in the MENA and SSA regions. The drop in global oil prices and currency volatility had a material impact on economic activity and public finances in the two regions. Indeed, oil exporters in the MENA region lost more than USD 340 billion in oil revenues in 2015, equivalent to about 20% of their aggregate GDP, due to the 46% drop in global oil prices during the year. The drop in oil prices weighed on the public finances of oil exporters and somewhat alleviated pressure on the public finances of oil-importing economies.

Economic growth in the MENA region was moderate at 2.3% in 2015 amid declining oil prices, intensifying conflicts, and continued policy uncertainty. Economic activity in oil-exporting Arab countries decelerated from a real growth rate of 2.6% in 2014 to 1.8% in 2015, while the real GDP growth rate of oil-importing Arab economies was 3.8% in 2015 compared to 2.4% in 2014, but was still well below the historical average growth rate of about 5%. Further, the economies of the Gulf Cooperation Council (GCC) posted a real GDP growth rate of 3.3% in 2015 relative to a growth rate of 3.4% in 2014. Their hydrocarbon output grew by 2.9% in 2015 compared to a growth rate of 1.3% in the preceding year, while activity in the non-hydrocarbon sector expanded by 3.8% last year, down from 5.5% in 2014. Also, economic activity in the MENA region's non-GCC oil exporters such as Algeria, Iran, Iraq, Libya and Yemen, was nearly flat in 2015, compared to a growth rate of 1.7% in 2014, amid the steep drop in oil prices.

The drop in oil prices also weakened the external and fiscal balances of the MENA region's oil exporters. Indeed, the aggregate fiscal deficit of the region's oil exporters widened from 0.8% of GDP in 2014 to 12.7% of GDP in 2015, while their aggregate current account balance shifted from a surplus of 6.1% of GDP to a deficit of 4% of GDP last year. In particular, the fiscal balance of GCC countries shifted from a surplus of 2.9% of GDP in 2014 to a deficit of 13.2% of GDP in 2015, and their current account balance shifted from a surplus of 14.8% of GDP to a deficit of 0.2% of GDP in 2015. In parallel, the aggregate gross foreign currency reserves of GCC countries regressed from USD 900.7 billion at the end of 2014 to USD 815.6 billion at the end of 2015. In contrast, the sharp drop in oil prices provided relief for the region's oil importers, as their fiscal deficit narrowed from 9.7% of GDP in 2014 to 8.6% of GDP last year, while their current account deficit widened slightly from 5.7% of GDP to 5.9% of GDP in 2015.

In parallel, economic growth in Sub-Saharan Africa decelerated from 5% in 2014 to 3.5% in 2015, the lowest growth rate since 2009, due to low commodity prices, domestic challenges, and infrastructure constraints. The region's eight oil-exporting countries, especially Nigeria and Angola, were affected significantly by the continued weakness in oil prices. Aggregate real GDP growth in SSA oil exporters decelerated to 3.6% in 2015 from 5.9% in 2014, while growth in oil-importing countries slowed to 4% last year from 4.4% in 2014. Also, the region's low-income countries grew by 5.9% last year relative to 6.9% in 2014, while growth in middle-income economies slowed to 2.6% in 2015 from 2.7% in the preceding year.

The fiscal deficit, including grants, of SSA countries widened from 3.5% of GDP in 2014 to about 4.3% of GDP in 2015, and their current account deficit widened from 4.1% of GDP to about 5.7% of GDP in 2015. Also, foreign currency reserves of SSA economies decreased from 5.4 months of imports of goods and services in 2014 to about 4.8 months of import coverage in 2015.

Most SSA countries have seen their currencies depreciate against the US Dollar since October 2014, given the large terms-of-trade shocks and the appreciation of the dollar, in line with other emerging market and developing countries. This trend was most prevalent among oil exporters, as the Angolan Kwanza and the Nigerian Naira depreciated on the official market by 31.5% and 8.8%, respectively, against the US Dollar in 2015, and by about 23% and 39%, respectively, since oil prices began to drop in the middle of 2014. But exchange rate movements have not been limited to commodity-dependent countries. In fact, Ghana, South Africa, Tanzania, Uganda and Zambia have also experienced currency depreciations due to domestic vulnerabilities and the increasing risk aversion of foreign investors.