

Lebanon's Banking Sector 2000–2023: Resilience, Adaptation, and Challenges in Economic, Political, and Regional Landscapes

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ABSTRACT:

Banks have always been a vital player in the Lebanese economy. In this report, a detailed overview of the Lebanese banking sector's (LBS) performance extending 23 years, between 2000 and 2023, will be discussed, addressing a significant gap in the literature. Previous research has focused on specific timeframes or isolated aspects of the sector, such as its post-war recovery or short-term performance. No one has systematically examined its evolution over this extended period. By leveraging extensive data from Bilanbanques reports and other sources, this study captures the sector's trajectory through critical political, economic, and regulatory transformations. The findings reveal how the LBS navigated recurring crises, including the 2019 financial collapse, declining depositor confidence, and the prolonged impact of political instability and fiscal mismanagement. Despite temporary stability achieved through regulatory measures, the sector remains burdened by liquidity challenges and structural inefficiencies. This paper's significance lies in its holistic approach to understanding the interplay between governance, economic resilience, and financial performance, offering valuable insights for policymakers and developing economies.

Keywords: *Lebanese Banking Sector (LBS); Challenges; Resilience; Liquidity; Crisis; Stability*

INTRODUCTION

Limited research has looked into the Lebanese banking sector's (LBS) performance over a prolonged timeframe. Research on the Lebanese banking sector's (LBS) performance over extended periods has been limited. Previous studies, such as Peters et al. (2004), examined the post-war era from 1993 to 2000, revealing that while Lebanese banks achieved moderate success, their profitability lagged behind other Middle Eastern counterparts. Similarly, Khatib (2020) analyzed the sector from 1990 to 2004, providing valuable insights into its short-term performance. However, no study has comprehensively

assessed the LBS over a multi-decade period that captures its full evolution through periods of stability and crisis.

This paper addresses this significant gap by offering an in-depth examination of the LBS's performance from 2000 to 2023. Spanning 23 years, this analysis encompasses critical political, economic, and regulatory milestones that have shaped the sector. Drawing from Bilanbanques reports and other primary sources, the study investigates technological, legal, and economic dynamics, as well as the opportunities and challenges faced by the sector. It also evaluates the

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trends, policies, and reforms that have redefined the LBS's role within the local and regional financial landscape.

The selected timeframe is particularly significant, as it includes key events such as shifts in political leadership, financial crises, regional conflicts, and structural adjustments. By contextualizing the LBS within these developments, the study explores how Lebanese banks have demonstrated adaptability and resilience while contending with systemic vulnerabilities. The outcomes provide a deeper knowledge of the evolution of the LBS and a theoretical and empirical basis for examining banking systems in developing economies. This paper seeks to fill a critical void in the literature and advance scholarly discussions on long-term banking sector performance in volatile environments. Thus, it is valuable for policymakers, economists, researchers, banking professionals, and financial institutions interested in long-term sectoral performance insights.

Lebanese Banking Sector (2000-2023): A Journey of Resilience, Transformation, and Turmoil Resilience and Reform: Analyzing LBS in 2000

The LBS experienced significant challenges in 2000, largely due to the persistent sluggishness of aggregate demand. Stagnant consumption and investment negatively impacted banking activity, resulting in slower growth and narrowing profit margins. In response, the governor administration in Lebanon, formed in late 2000, introduced a corrective economic program on a macroscale aimed at maintaining stability, achieving sustainable economic growth, and implementing reforms to address imbalances. While these procedures contributed to modest real output growth in the initial half of 2001, their success required an improved political environment both domestically and regionally.

Amid these challenges, banks focused on meeting essential financial stability criteria, even at the expense of profitability. A review of risks facing the sector revealed a balanced liquidity risk, mitigating fears of a certain dilemma. LB's short-term investments (NLA) reported 72.9% of savings during this year, significantly exceeding the regional (44.2%) and global (36.7%) averages. Conservative lending practices resulted in a low loan-to-deposits ratio of 37.4%.

Similarly, foreign exchange risk was effectively managed within a strict regulatory framework, with the unified position of the adjusted foreign exchange limited to 23% of the

stockholder's equity by the end of this year. However, efficiency in the sector saw a relative decline during this period. Due to increasing competition, combined with investments in technology, human resources, and product diversification, the ratio of cost over income (CIR) marked an increase from 62.4% to 67.7% between 1999 and 2000. The quality of borrowings deteriorated slightly, with an increase of 18.4% of total loans from past due and risky loans, up from 15.5% in 1999, due to recessionary conditions. At the end of 2000, risk coverage improved, with funding rising to 59% of past due and risky loans, a 4% increase from the previous year.

Several legislative and regulatory measures were enacted to strengthen the LBS and enhance its risk profile. Banks were enforced by BDL to increase the capital adequacy ratios (CAR) to 10% and 12% at the end of 2000 and 2001 respectively, with an average ratio of 19% by December 2000 achieved by the sector. Additionally, the Lebanese Parliament passed a law on March 20, 2001, unifying bank share categories, enabling capital increases, and permitting the release of priority stocks and share options. In April 2001, a law on combating money laundering was ratified and it established a committee with extensive powers to investigate money laundering and monitor compliance. Furthermore, Lebanon repealed legislation permitting offshore banking activities to eliminate doubts regarding improper transactions. The regulation of intermediary services and the implementation of laws on decision-making and internal auditing are other key legal reforms. Simultaneously, banks undertook initiatives to upgrade their infrastructure, focusing on IT advancements, electronic banking platforms, service diversification, and human capital development. While these measures increased costs, they provided significant competitive advantages, strengthening the sector's resilience and market position. Operating below their full capacity, Lebanese banks were well-positioned to capitalize on a potential recovery in domestic demand. They also held considerable cross-border expansion potential, with opportunities to bridge gaps in neighboring markets undergoing reforms.

Resilient and Prudent: Examining the LBS in 2001 in Terms of Stability, Profitability, and Economic Growth

During this year, LBs continued to operate prudently and efficiently, adhering to sound banking practices aligned with the best international practices and standards. These included compliance with international guidelines on CAR, loan categorization and reserving, internal control assessment audit, and accounting. LBS's stability was reflected in the CAR, which reached a remarkable 19.2%. Moreover, due to an increase from 0.71 to 0.74% in the return on average assets (ROAA), the banks have demonstrated improved asset management.

Despite the persistent sluggishness of the economy in 2001, the banking sector showed resilience. Asset growth decelerated, rising by 6.5% compared to 11.3% in 2000, yet profitability improved due to reduced allocations for provisions on doubtful debts and financial fixed assets, as well as lower general operating expenses and income taxes. Total deposits increased by 6.2%, while claims in the reserved and shared sectors grew by 0.5%. However, challenges persisted. A proportion of gross loans slightly increased from 18.6%, in 2000, to 19.4%, in 2001, including doubtful and substandard loans. An increase in the loan loss provisions was marked from 12.15% to 12.17%, while in contrast, a decrease in the provisions for dubious loans related to such lending was marked from 74.5% to 71.4%. The ratio of foreign currency loans to FC deposits has decreased from 50.3%, in 2000, to 43.5%, in 2001, in addition to an improvement made by the banks to their reserves of liquid assets. A more restricted interest margin was a result of these advancements, which decreased from 2.54%, in 2000, to 2.25%, in 2001. However, a decrease in the CIR from 67.4% to 65.3% between 2000 and 2001 respectively was an offset for this decline, as they have improved their cost efficiency. Consequently, there was growth from 10.44% to 11.03% in the net return on average equity (ROAE), and profitability has improved (Elia et al., 2023).

As part of their ongoing restructuring and modernization efforts, Lebanese banks focused on advocating for monetary and fiscal prosperity. Achieving these objectives required a continued commitment to sound banking practices,

enhanced information disclosure, and efficient integration of attempts via the Association of Banks in Lebanon (ABL). Additionally, competent collaboration with policy-driven and managerial executives was essential to support the sector's stability and growth.

Banking Industry in Lebanon: Flourishing in 2002 – Resilience, Modernization, and Strategic Partnerships

In this year, the financing needs of the economy system were met due to the intervention of LBS, while delivering high-quality services to clients both domestically and internationally. Responding to increasing client demands for efficient and cost-effective financial solutions, Lebanese banks adapted to global competition and the local market's historical openness by undergoing constant institutional and organizational transformations. This evolution included the modernization of financial services and operations, supported by the integration of advanced technology and information systems into daily activities. While these investments raised operational costs relative to income, they positioned banks effectively for domestic and regional business opportunities.

The regulatory framework in 2002 remained robust, with close cooperation between BDL, the Banking Control Commission, and the ABL. This collaboration ensured the implementation of stringent regulatory and supervisory measures, enabling the sector to maintain performance in line with international best procedures. A prompt growth of the total assets related to the banks was marked in comparison with the GDP, and the total banking assets to GDP ratio has attained around 300%. The ratio of average return on equity and assets remained at 8.4% and 0.6%, respectively. In terms of lending-to-deposits ratio, liquidity was around 30%, although solvency ratios, founded on Basel Committee standards, exceeded 20%. These levels were comparable to those of the top 100 foreign banks, excluding the higher convertibility noticed at LBs, caused by the prevailing market environment. The LBS's CAR also exceeded the minimum rate set by the Basel Committee and the monetary authority of Lebanon by 8% and 12% respectively, highlighting the strong capacity of the bank with the management of credit and market risks.

In 2002, the LBS fulfilled key roles essential to fostering a modern, dynamic, and efficient financial ecosystem. In fulfilling these roles, the LBS continued to fortify its rank as a vital supporter of the country's economic stability and development, reinforcing investor confidence and encouraging growth within a challenging economic environment. These roles included:

- **Financier:** As the primary source of financing for the Lebanese economy, the sector leveraged its access to international financial markets to facilitate funding.

- **Catalyst:** Through its active involvement in economic financing operations, the banking sector encouraged both domestic and foreign investment.

- **Consultant:** Banks provided accurate and reliable assessments of investment opportunities in the country, offering valuable knowledge on economic soundness, and focusing on the capability of local co-investors to domestic and international investors.

- **Partner:** With capital structures open to external investment—either directly or through shares listed on local and foreign markets—the sector fostered collaboration and partnership opportunities.

Thriving Resilience: The Growth of the LBS in 2003

This year, the LBS benefited from a more favorable operating environment, marked by improved economic activity, compared with last year. The main reason for the positive shift was the successful outcome of the conference Paris II marked in 2002, in which the foreign donors pledged USD 4.3 billion to support Lebanon's public debt restructuring and address fiscal imbalances. This external financial support was supplemented by Lebanese banks, where an agreement against the public sector was made to let go of interest on USD 3.6 billion, through cash held at BDL or government securities. Furthermore, under the Code of Money and Credit Article 115, BDL facilitated financial relief by writing off certain governments, accepting reduced yields on government bonds, and endorsing additional government debt. These actions contributed to a constructive fiscal atmosphere and restored confidence in the Lebanese economy. As a result, limited period effects included a significant interest rate reduction, and a fortification of the Lebanese

Pound (LBP), as many deposits were converted into the national currency. Regional developments, coupled with a low international interest rate environment, further supported Lebanon's economic stability.

In this context, the LBS performed notably well in 2003, surpassing the performance of the previous year. Banks operate in a prudent, sound, and efficient manner, adhering to an ample block of rulings that are aligned with international best practices. According to data from Bilanbanques, total assets across all banks increased by 13.3%, while net profit after taxes surged by 50.8%. The ROAE improved from 8.28% in 2002 to 11.17% in 2003, additionally to an increase in the net ROAA from 0.55% to 0.75%. The CIR ratio saw a significant decrease, from 71.28% in 2002 to 64.66% in 2003. Liquidity, measured by the ratio of NLA to deposits, increased to 82.52%, compared to 78.01% the previous year. Influenced by the BIS risk asset indicator, the CAR remained at 23.10%, compared with 2002 in which the rate was 20.08%, reflecting an improved financial position.

The ongoing process of restructuring and modernization continued as Lebanese banks had a crucial impact on the private and public sectors in financing their demands and offering high-quality services to local and international customers. However, the sector recognized that ongoing efforts were essential to be sustainable. The continued success of the banking sector was attributed to strong corporate governance, efficient coordination between banks through the ABL, and cooperation with supervisory and regulatory authorities.

Thriving Through Transformation: The Success of the LBS in 2004

In 2004, the fiscal atmosphere on a macro scale for Lebanon's banking sector saw significant improvement, with the economy experiencing a real output growth rate of 4% to 5%, compared to an estimated 3% in 2003. This hastening in monetary actions was driven by earlier fiscal and economic measures that boosted tax collection and government revenues. However, primary expenditure also grew rapidly, exceeding budget expectations. Opportunely, the enhancement of expenditure was caused by a substantial reduction in the amount owed servicing, mostly due to the various stakeholder's

financial support, particularly banks, following the successful Paris II conference. This results in a general deficit, caused by a significant decrease in a portion of the total public expenditure. A decrease in interest rates on the debts and LBP-denominated deposits was marked by 84 basis points (bps) and 80 bps, respectively, while USD-denominated deposit rates saw a more moderate decline, with USD-denominated loan rates experiencing a larger drop. A thinner spread was remarkable between loaning and deposit interest rates in USD. This led to a narrower spread between the interest rates related to lending and deposits in USD. Additionally, most government debt maturing during the year was refinanced at extended maturities and decreased interest rates.

LBS quickly adapted to these market shifts, maintaining its prudent and professional operations in line with universal top approaches and regulations. The formation of bank assets, returns, and funding costs reflected these broader economic developments, alongside the banks' substantial exposure to the central government and BDL.

According to Bilanbanques, the banking sector's performance in 2004 showed notable improvement, with a marked improvement in asset quality. Liquidity and CAR levels remained robust, and the net doubtful loans to equity ratio dropped. The liquidity rose to 83.81%, up from 82.52% the previous year, evaluated by the NLA to deposits ratio. Based on the BIS risk asset measure, CAR saw a slight decline from 23.00% in 2003 to 21.03% in 2004. However, the banking sector experienced a slight dip in profitability and cost efficiency. While for the majority of reporting banks, the net profits after taxes and total assets increased to 4.7% and 14.5%, respectively, a decrease from 11.14% to 10.42% was marked to the ROAE, additionally to a decrease from 0.75% to 0.69% for the net ROAA. Moreover, the CIR saw a marginal increase, rising from 64.52% in 2003 to 64.96% in 2004.

Both Resilient and Resurgent: LBS Overcomes Challenges in 2005

In 2005, Lebanon's banking sector faced a challenging year marked by significant political and economic turbulence. Economic growth sharply decelerated, and the macroeconomic environment deteriorated following the tragic assassination of Prime Minister Rafik Hariri. The

immediate aftermath saw financial turbulence, market instability, and a decline in investor confidence, exacerbated by political assassinations and explosions. These events caused considerable financial shocks. However, the banking sector swiftly absorbed these shocks, aided by high international reserves and coordinated actions between the BDL and the LBS, including swap operations and the issuance of dollar-denominated certificates of deposit (CDs). These measures were crucial in stabilizing the financial market and gradually restoring confidence. As the situation stabilized, the LBS saw a recovery in the deposit base after an initial shrinkage. This improvement was supported by Syrian troops' drawing, the parliamentary elections held in June later that year, the incrementation of interest rates on LBP bank deposits, and the potential for international financial support for a novel economic restructuring program, although the program's adoption was delayed.

The aforementioned reasons influenced the extension of assets as well as their form, alongside the liquidity, creditworthiness, and profit of banks. Despite the challenging environment in early 2005, the banking sector managed to recover, with total assets increasing by around 6.8% for the year. Accusations on the Lebanese administration and BDL reported for roughly 54% of total assets at year-end. The bank's high liquidity and solvency were stable, with the NLA to deposits ratio attaining 85.19%, in comparison with the 84.23% reached last year. The CAR, as measured by the BIS risk asset ratio of BDL, rose from 21.35% to 23.41% in 2004, indicating an increased capital accumulation and an extended holding of low-risk-weighted assets. A growth of 10.4% for the capital accounts was marked in 2005, additionally to the banks raising capital through Gulf region liquidity. This capital raised enhanced confidence in Lebanese banks, supported regional expansion, and prepared the sector for the implementation of Basel II standards in 2008. The increase in profitability, which grew by 25% in 2005, was primarily driven by cash premiums from the rollover of maturing treasury bills and bonds. This contributed to an increase in the ROAE from 10.22% in 2004 to 10.70% in 2005 and a rise in the ratio of net ROAA between 0.68% and 0.77%. Furthermore, an improvement in the CIR was made in the

banking sector, which decreased the ratio to 61.93% from 65.25% in the last year. As well, the improvement was reflected by the asset quality, with a decrease from 26.11% to 24.05% in the doubtful and substandard loans to gross loans ratio.

In this vein, despite the political and economic challenges of 2005, Lebanon's banking sector demonstrated its resilience and ability to adapt to changes. The sector's stability was supported by sound practices, regulations, and the confidence of depositors and investors, who continued to trust in the sector's ability to weather financial and political storms.

The Economic Turmoil of Lebanon from Promise to Peril: in 2006

In 2006, Lebanon's banking sector experienced a mixed performance, characterized by strong economic recovery in the first half of the year, followed by a severe setback due to the July hostilities and subsequent political tensions. The first quarter of the year saw the Lebanese economic sectors profiting from elevated prices of oil, plentiful liquidity in the sector, and strong influges of capital. Imported direct capital spending, transfers, and a thriving tourism sector bolstered the economy, and the financial sector created a favorable financial and fiscal environment. However, the outbreak of hostilities in July, along with the ensuing blockades and political instability, severely hampered the country's economic performance. The conflict led to significant economic and social damage, and the real GDP growth was flat for the year, compared to the projected 6% growth before the war. Inflation also surged due to supply shortages. Despite these setbacks, the LBS demonstrated remarkable resilience.

Financial markets, including the banking system, maintained stability, and confidence was quickly restored. The BDL, along with Lebanese banks, effectively managed the crisis through strong liquidity positions and timely foreign financial assistance, including Kuwait and Saudi Arabia USD 1.5 billion in deposits. This support helped protect foreign exchange reserves and ensure that deposit outflows were minimal, not surpassing 5% of the deposit pool. These outflows were recouped, demonstrating strong confidence in the LBS.

Despite the challenges, banks performed well in 2006. This success was largely due to the robust performance in the first half of the year, regional expansion, income diversification, and expense management. There was a 12.3% increase in the deposits of customers and a rise in investment capital of 18.5%, partially in contribution to the implementation of Basel II. A growth of 16% in loans and advances was remarkable, while an increase of 12.4% was marked in liquid assets. Net profit after taxes for 2006 reached nearly USD 758 million, a 30.5% year-on-year increase. This resulted in improved profitability, with the ROAE rising from 10.71% in 2005 to 11.06% in 2006, and the ratio of net ROAA increasing from 0.77% to 0.92%. The CAR, measured by the BIS risk asset ratio of the Central Bank (BDL), increased from 23.55% to 25.34% in one year.

Banks maintained a stable liquidity position, with NLA deposits at 85.13%. An improvement of the CIR was significant, falling from 57.24% to 55.09% in 2005, and the doubtful loans to gross loans ratio declined from 24.24% to 21.14% with an asset quality improvement. In conclusion, the LBS proved resilient in 2006, successfully navigating a challenging environment. The sector's strong liquidity, capital adequacy, and profitability, combined with its ability to adapt to both domestic and regional changes, allowed it to weather political and economic turbulence and maintain confidence in the financial system.

Lebanon's Resilient Economy and Strong LBS Conversely to the Odds in 2007

In 2007, Lebanon faced another challenging year due to ongoing political instability, security concerns, and the aftermath of the 2006 war. The political situation remained volatile, with tensions exacerbated by a military conflict in the north between extremist rebels and the Lebanese Army. The absence of significant government policy initiatives and an idle legislative body further impeded economic activity. Despite these challenges, the Lebanese economy performed better than expected, with real GDP growth estimated at around 4%, primarily driven by the services and construction sectors. These sectors benefitted from regional oil revenue increases, abundant liquidity, foreign inflows, and the stimulus from post-war reconstruction efforts. However, inflation rose due to higher

international prices and a depreciating US dollar, and the current account deficit widened.

Despite the difficult political and economic conditions, the Lebanese financial markets showed resilience, with the banking system maintaining stability. The disbursement of Paris III pledges was slower than anticipated, with only around USD 1 billion out of the promised USD 7.6 billion disbursed in 2007. However, Lebanon's banking sector weathered external shocks, largely due to strong foreign currency liquidity, robust deposit inflows, and effective management by BDL and local banks. No significant pressures were remarkable on the LBP, with a stability of the international reserves, and a consistency of the nominal interest rates. Notably, there was no impact on LBs from the risk of the US crisis, as they were not exposed to complex structured financial instruments and had minimal reliance on international money markets. In 2007, the LBS demonstrated exceptional growth and resilience.

Conversely to the political and economic uncertainties, banks posted impressive results, with consolidated assets growing by 15.1% and consolidated net profits rising by 27.5%. This success was largely attributed to regional expansion efforts, substantial profits from cross-border operations, a more diversified range of business lines, and improved cost control. The total unified balance sheet of Lebanese banks attained at the end of 2007 was around USD 101 billion. The growth was influenced by the rise of 16.1% in customer deposits, and from the increase in investment capital by 8.8%, in addition to a notable expansion in loans and advances by 30.7%. The latter reflected increased financing by Lebanese companies for foreign investments, in addition to lending to corporate sectors for foreign currency in surrounding countries and refunding strategies for businesses affected by the 2006 war. An increase in liquid assets by 11.6% was remarkable.

Net profits for the year reached around USD 961 million, marking a significant 27.5% year-on-year increase. This translated into improved profitability ratios, with ROAE rising from 10.98% in 2006 to 11.83% in 2007. In addition to that an increase in net ROAA from 0.91% to 1.02% was remarkable. Capital adequacy remained strong, with BDL's BIS risk asset ratio standing at a healthy 22.21%. Due to the rapid

expansion in loans, the NLA to deposits ratio barely fell back to 81.37%, primarily due to the aggressive expansion in loans. The CIR improved to 54% from 57.24% in 2006, indicating better efficiency in managing expenses relative to income. A consistent asset quality improvement was remarkable, and additionally, the net doubtful loans ratio declined from 7.2% to 4.6% in 2006. Additionally, loan portfolios became better prepared and secured. 84.14% of doubtful loans were covered by loan loss provisions. In summary, the LBS in 2007 demonstrated resilience and solid performance despite the volatile political and economic conditions. The sector's ability to grow its assets, improve profitability, manage risks effectively, and maintain high liquidity and capital adequacy further solidified the confidence in Lebanon's banking system. The sector continued to adhere to international best practices and demonstrated an ability to adapt and navigate through significant challenges.

Lebanon's Economic Victory: Overcoming Challenges and Reaching New Heights in 2008

In 2008, Lebanon's economy defied earlier projections by achieving remarkable growth of 8.5% in real terms. This growth was driven by several factors, most notably the political steadiness after the Doha agreement in May, which led to a new president being elected, the establishment of a national unity government, and the restoration of legislative procedures. A radical improvement in the political and security situation in Lebanon was remarkable due to the agreement and its aftermath, which helped restore confidence among businesses and market participants, thereby reducing economic uncertainties. The main reason for the strong economic growth was the high aggregate demand, with notable contributions from buoyant tourism and construction sectors. The advantageous circumstances in the region had positively influenced these sectors, which were experiencing expansion even before the beginning of the global financial crisis, an expansion. Lebanon's financial sector, particularly its banking system, demonstrated exceptional resilience in 2008, despite the global financial turmoil. Contrary to initial expectations, Lebanon was able to mitigate the potential impacts of the crisis effectively, maintaining

financial stability with minimal disruption. The banking system was highly liquid and well-capitalized, largely due to the skillful management of local banks and regulatory authorities.

Within this realm, banks in Lebanon had a traditional dependence on deposits as their primary provider of funds, rather than on wholesale international funding markets, which shielded them from the severe repercussions of the global credit crisis. In addition to the limited exposure of the Lebanese banks to unsuccessful worldwide banking institutions or complicated formed financial instruments, local regulations, and supervision discouraged such risky activities. As a result, there was no need for emergency liquidity measures or public interventions, a stark contrast to many other countries.

The LBS not only weathered the global financial storm but also experienced significant growth in 2008 and improved profitability. An increase of 12.9% in the unified balance sheet of all reporting banks was remarkable, reaching at the end of the year approximately USD 114 billion. In addition, there was an increase of 26.7% to USD 1.22 billion marked in net profits, with a remarkable portion of these earnings coming from international banking operations. An increase in the ROAA from 1.02% to 1.13% in 2007, additionally to an increase in the ROAE from 11.79% to 13.20% was remarkable due to this growth. Furthermore, the CIR improved, decreasing from 54.02% to 52.64%, reflecting better control over operating expenses.

Regarding asset quality and capital adequacy, the banking sector remained in a strong position. CAR was 22.39% in 2008, maintaining a solid buffer against potential risks. Liquidity stayed stable at a liquid asset to foreign currency deposits ratio of 54.25%, though slightly less than the previous year due to aggressive loan expansion. Also, there was an improvement in asset quality, with a decrease from 3.88% to 2.47% in 2007 and 2008 respectively in the net doubtful loans to net loans ratio. Furthermore, loan portfolios were better supplied and secured. An increase from 84.7% to 87.4% in 2007 and 2008 respectively in the loan loss provisions to doubtful loans ratio was remarkable, while a decrease from 2.4% to 1.5% in the net doubtful loans to net loans ratio was significant. Hence, the banking sector in Lebanon performed

exceptionally well in 2008, navigating both regional challenges and the global financial crisis with resilience. Strong growth, profitability, high capital adequacy, and excellent asset quality were key factors contributing to the sector's success. The banking system's conservative approach to risk management, reliance on local deposits, and adherence to robust regulatory standards enabled it to weather the global financial storm and continue to thrive.

LBS Resilience in 2009: Exceeding Outlooks, Overcoming Obstacles, and Setting the Stage for Progress

In 2009, the Lebanese economy defied global trends and achieved exceptional performance for the third consecutive year, posting a real GDP growth rate of 9%. This strong growth occurred in the context of limited inflationary pressures, which were largely controlled. The country's economic performance was driven by rising confidence among Lebanese residents, foreign investors, and non-resident Lebanese, influenced by the country's political stability and security environment, as well as enhanced macroeconomic management. Key sectors such as construction, tourism, trade, and financial services were pivotal in driving aggregate demand. A distinctive feature of the Lebanese economy in 2009 was the influx of large financial inflows. These inflows were supported by a relatively favorable domestic interest rate environment, which led to an outstanding surplus in the payments balance, rapid deposit growth at Lebanese banks, and an increase in foreign reserves at BDL. This increased liquidity allowed Lebanon to achieve a superior essential fiscal surplus, contributing to a reduction in the public debt-to-GDP ratio, although vulnerabilities remained high.

Due to its conservative asset/liabilities structure and careful regulatory approach, the LBS had successfully survived the global financial crisis, but it faced new challenges in 2009. There were narrowing net interest rate margins, which put pressure on bank profitability. A favorable environment was created for banks to extend credit and explore expansion opportunities through international functions and institutions due to the large inflows of funds, increase in currency exchange into LBP, and high liquidity in the local currency. Regulatory measures,

including exemptions to reserve requirements, further encouraged this trend.

Despite these challenges, the LBS performed exceptionally well in 2009. Growth in the unified balance sheet by 21.6% to attain approximately USD 138.6 billion. Net profits increased by 17.4% for the sector, totaling USD 1.43 billion, with a remarkable part of the profits derived from subsidiaries, affiliated companies, and cross-border branches. Although the sector faced declining spreads, it managed to stabilize the ROAA at 1.13%. However, a slight decrease in the ROAE from 13.19% to 12.95% in 2008 and 2009 respectively was caused by the higher equity growth in comparison to liabilities expansion. Further, there was an improvement in the CIR, decreasing from 52.98% to 51.79%.

In 2009, LBS showed continuous improvement in terms of asset quality, capital adequacy, and liquidity. Equity, a portion of total assets, increased to 8.79%, and as well-defined by Basel II the CAR surpassed 12%. An increase from 53.83% to 54.29% in the liquid assets to foreign currency deposits ratio reflected an increase in liquidity. The sector's asset quality also improved significantly, with a decrease from 2.44% to 1.88% in 2008 and 2009 respectively in the net doubtful loans to net loans ratio. Additionally, the loan loss provisions ratio increased, with growth from 87.66% to 88.88% in 2008 and 2009 respectively in the provision-to-doubtful loan ratio. Furthermore, a decrease from 1.46% to 1.15% in the net doubtful loans to total loans ratio was significant.

Contrary to the Likelihoods: LBS in 2010

In 2010, combatting amplified conflicts in the last quarter, the economy of Lebanon contended impressive resilience, achieving a real GDP growth rate of around 8%. This growth occurred within a relatively stable and manageable political environment, which was coupled with prudent macroeconomic management. The economy benefited from solid confidence and substantial capital inflows, which, while lower than the previous year, continued to support strong activity across key sectors such as tourism, financial services, construction, and commerce. As a result, the economy of Lebanon outperformed expectations, showing remarkable excesses with both the primary fiscal balance and the balance of payments. BDL's foreign exchange

reserves reached unprecedented levels, contributing to further improvements in Lebanon's fiscal health. The public debt relative to the GDP decreased to 133%, reflecting a helpful fiscal situation and lower interest rates, signaling a decrease in short-term risks and the public debt pressure. The LBS played a key role in supporting this robust economic performance.

Despite challenges stemming from low international interest rates and global financial instability, Lebanese banks were able to meet increasing domestic demand. They achieved this by satisfying financing needs on competitive terms, which helped stimulate output and economic growth. Additionally, banks continued to focus on expanding credit to the private sector and increasing their non-interest income sources. Government incentive schemes, which discharged banks from certain reserve requirements, further encouraged banks to seize business opportunities through international operations and entities.

The LBS continued its impressive track record of growth and stability in 2010, balancing the trade-off between risk-taking and profitability while adhering to international best practices and standards. The sector achieved a 27.4% increase in net profits, which by the end of the year reached USD 1.821 billion. A remarkable part of these gains came from subsidiaries, affiliated businesses, and cross-border branches. An increase of 11.7% to reach nearly USD 155.1 billion in the consolidated balance sheet of all banks was remarkable. As an output, the ROA sector increased from 1.13% in 2009 to 1.24% in 2010, and the ROE rose from 12.93% to 13.90% over the same period. The operational efficiency also improved, as the CIR decreased from 51.87% to 48.72% in 2009 and 2010 respectively, indicating better control over operating costs.

The banking sector continued to build on its strong foundation, in terms of asset quality and capital adequacy. An increase from 8.81% to 9.01% between 2009 and 2010 in equity, a percentage of total assets, was remarkable, and capital adequacy, as defined by Basel II, remained well above 13%. The ratio of liquid assets divided by foreign currency deposits reached 51.53%, with liquidity levels being strong. The asset quality improved, as evidenced by a reduction from 1.88% to 1.33% between 2009 and 2010 in the net doubtful loans to net loans ratio. This

advancement was influenced by the continued practice of maintaining highly supplied and secure loan portfolios. An increase from 88.76% to 92.54% between 2009 and 2010 in the loan loss provisions ratio was remarkable, reflecting a prudent approach to risk management.

Overall, LBS in 2010 showed its resilience, profitability, and ability to manage risks effectively while adhering to international banking standards. The sector's growth, strong capital position, and improved asset quality reinforced its capacity to navigate both domestic and global challenges, further contributing to Lebanon's positive economic performance.

How Lebanon's Banking and Economic Navigate Turbulent Waters in 2011

The economy of Lebanon experienced a slowdown, after four sequential years of robust economic expansion with an average of 8.25%, in 2011. A decrease to 5.2% was remarkable in the real GDP growth rate, as stated by official national data, although other reputable international institutions estimated even lower figures. The deceleration was mainly attributed to domestic political instability, including the collapse of the unified government and the prolonged postponement of forming a new administration, as well as security turmoil and local politics, especially in neighboring Syria. These factors created an environment of heightened uncertainty, which hindered key economic drivers such as real estate, tourism, and trade, contributing to the decline in growth. Despite this cooling, Lebanon's performance was still relatively strong compared to many other countries in the MENA region. However, the enlarging trade deficit—influenced by raw material prices and rising fuel—coupled with balancing financial inflows, caused in the balance of payments a notable deficit, the initial such deficit since the year 2002. On a positive note, Lebanon maintained a high level of foreign exchange reserves, in addition to a slight stability of the fiscal situation, with a significant primary fiscal balance. These factors helped reduce the debt-to-GDP ratio to 134.8%, which, while still high, indicated a reduction in vulnerabilities and core risks.

In response to the challenging operating environment, the LBS adopted a cautious approach, focusing on strengthening its risk

profile. Banks took preventative measures, including increasing collective provisions by 44%, to safeguard against potential spillover effects from security turmoil and local politics, specifically in Syria. Conversely, to the challenging conditions, the LBS was able to maintain a strong financial position and, while not achieving an equal performance as in past years, still delivered favorable results relative to many global peers.

The banking sector's consolidated total assets grew moderately by 7.7% in 2011, reaching USD 167.2 billion by the end of the year, compared to a more robust 11.9% growth in 2010. Net profits, however, reached 5.1% to around USD 1.7 billion, reflecting higher operating expenses and pressure on net operating income due to reduced interest rates and margins. Consequently, key financial ratios showed some decline: a decrease to 1.08% from 1.25% in 2010 was remarkable in the ROAA, and a drop to 12.31% from 13.92% in 2010 in the ROAE was also significant. In addition to that, there was a slight increase reaching from 48.29% to 49.85% in the CIR. Despite these challenges, the banking sector continued to show resilience. Deposits from customers grew by 7.5%, albeit slower than the 12.3% growth in 2010. Loans to customers also expanded by 14%, a marked slowdown from the 25.2% growth in 2010, but still sufficient to meet domestic financing needs. The sector maintained strong measures of capital adequacy and liquidity. As stated by Basel II standards, the CAR was near 12%, surpassing international regulatory requirements, with nearly all capital consisting of Tier 1 capital. The ratio of primary liquidity to deposits stood at approximately 29%, significantly higher than regional and global benchmarks.

In terms of asset quality, the banking sector continued to improve. A decrease from 2.07% in 2010 to 1.96% in the net doubtful loans ratio was remarkable. However, a slight decline from 83.2% to 81.59% in the loan loss reserves on doubtful loans ratio was remarkable, indicating a small decline in coverage.

How Lebanon's Banking and Economic Navigate Turmoil in 2012

In 2012, the Lebanese economy continued to face significant challenges stemming from a combination of domestic political instability, the

lack of necessary reforms, and the regional spillover effects of the Syrian crisis, which contributed to a broader economic downturn. A forecast of GDP growth was made to range between 0.6% and 1.5%, a sharp decline from the prior year's rate of 5.2%. Key economic indicators, including commerce, capital flows, tourism, consumption, and construction, all reflected weak activity during the year, signaling a broad-based slowdown in the economy. The fiscal position also deteriorated in 2012, with an increase in the deficit in the budget (6% to 9.4% of GDP). This increase was largely driven by higher payments to *Electricité du Liban* and rising staff costs. The public sector's finances suffered further. The primary fiscal balance shifted from an excess of 4.26% of GDP in the previous year to a shortage of 0.26% this year, with the public sector's finances suffering the first primary deficit ever since 2006. Consequently, Lebanon's public debt-to-GDP ratio increased from 137.4% in the previous year to approximately 140% in 2012, reversing the downward trajectory observed in the past few years. On the external front, Lebanon's current account deficit also worsened (12.1% to 16.5% of GDP). The deficit in the balance of payments slightly improved (\$2 to \$1.54 billion).

BDL managed to maintain substantial foreign reserves, with gross foreign exchange reserves at \$30 billion, though this marked a slight decline of 2.7% from the previous year. Banque du Liban's gold reserves, however, increased by 6.3%, reaching \$15.3 billion, contributing to overall reserves which represented 108.5% of GDP by year's end.

LBS, which had been resilient in previous years, adopted a more conservative approach in 2012 in response to the deteriorating economic conditions. Banks focused on strengthening risk management practices and enhancing provisions for doubtful loans. As a result, an increase of 74% in special provisions for doubtful loans was remarkable in 2012. This proactive approach, along with the regulatory measures enacted by banking authorities, helped maintain the sector's resilience.

In terms of financial performance, the LBS saw total consolidated assets reach \$181.3 billion at the end of 2012, marking an 8.4% growth compared to 7.7% in 2011. This expansion was influenced by a 9.3% rise in customer deposits

and a 12.5% rise in loans and advances to customers. Although the growth rate in deposits and loans was slightly slower in comparison to last year, the banking sector was capable of meeting domestic financing needs effectively. Net profits in 2012 amounted to \$1.9 billion, a 7.4% increase year-on-year, reversing the 5.1% decline observed in 2011. However, a slight decrease from 1.08% in 2011 to 1.06% in 2012 was remarkable in the ROAA, and stability in the ROAE was significant at 12.27%. In addition to that, a marginal increase in the CIR was marked (49.77% to 50.11%).

Measures related to liquidity and capital adequacy stayed robust, with the CAR according to Basel II rising from 11.75% in 2011 to 12.91% in 2012, reflecting the sector's solid financial standing. The Tier 1 capital ratio stood at 9.09%, well above international regulatory standards. Liquidity also improved, with an increase from 29.3% in 2011 to 31.42% in 2012 in the net primary liquidity-to-deposits ratio. Asset quality showed slight deterioration, with an increase from 1.97%, in 2011, to 2.1% in the net doubtful loans to total net loans ratio. In addition to that, an increase from 7.66%, in 2011, to 7.71% in doubtful gross loans to total gross loans ratio was remarkable. Furthermore, a decline from 81.79% in 2011 to 79.45% in 2012 in the loan-loss reserves on doubtful loans ratio was remarkable.

Steering Challenges: The Endurance of the LBS in 2013

In 2013, the Lebanese economy continued to face significant challenges stemming from both domestic and regional factors. The economy grew at a slower pace of between 1.5% and 2% for the third consecutive year, primarily due to weakened local security, increasing political tensions, and the unparalleled influx of Syrian refugees. These factors heightened uncertainty, discouraged investment, and directly impacted key economic drivers, particularly construction and tourism. The fiscal situation also worsened, with the primary fiscal budget deteriorating, and the fiscal deficit widening around 9% of GDP. Additionally, the external account deficit remained substantial, accounting for approximately 16% of GDP. Nevertheless, the LBS remained resilient and continued to support financial stability. The BDL maintained substantial foreign exchange reserves, ensuring

financial stability in the face of broader economic challenges.

Against this backdrop, Lebanese banks also played a vital role in stimulating economic operations by providing funding to both the public and private sectors under favorable conditions. The LBS focused on maintaining a robust depositor-based funding structure, sound capital adequacy, and solid liquidity buffers. At the same time, banks remained committed to managing risk prudently, taking necessary provisions, and adhering to international regulations, especially those linked to Countering the Financing of Terrorism (CFT) and Anti-Money Laundering (AML).

In terms of financial performance, LBS saw positive asset growth, but profitability measures showed signs of retreating, reflecting the tough operating environment. Unified total assets for all banks grew by 9.7% in 2013, up from 8.4% in 2012, reaching approximately \$199 billion. This growth was mainly influenced by a 9.5% increase in customer deposits (up from 8.8% in 2012) and a 15.2% increase in credit (compared to 11.4% in the previous year). Debt instruments, particularly government debt, also grew by 7.4% (up from 3.2% in 2012). However, net profits saw only a marginal increase of 0.5%, totaling around \$1.9 billion, as the growth in operating expenses (up 8.4% year-on-year) outpaced the increase in operating income (which rose by 3.9%). This pressure on profitability led to a decrease in key profitability metrics: the ROAA fell to 1.00% from 1.07% in 2012, and the ROAE dropped to 11.09% from 12.08%. The CIR also increased to 51.82% from 49.65%, indicating rising operational costs relative to income.

On the front of capital adequacy and liquidity, the sector continued to show strength. As stated by Basel II guidelines, an increase from 13.86% in 2012 to 14.31% in 2013 was remarkable for the CAR. The ratio of primary liquidity to deposits slightly decreased from 31.55 to 30.71%, but is still well above international benchmarks. Asset quality saw only a modest decline, with an increase from 2.12%, in 2012, to 2.47% in the ratio of net doubtful loans. A slight decline from 79.61%, in 2012, to 77.69% in the loan loss reserves on doubtful loans ratio was remarkable, indicating slightly less coverage of potential loan losses.

Defying Challenges Amid Regional Chaos: The LBS's Resilience in 2014

In 2014, the LBS demonstrated remarkable resilience in the face of persistent regional instability, domestic security concerns, and a challenging political climate. The protracted crisis in Syria, along with political gridlock and economic stagnation in Lebanon, continued to exert pressure on the economy. However, the banking sector remained a key pillar of stability, maintaining investor confidence and posting strong profits. The unified balance sheet showed a healthy growth of 9.3% in total assets, which reached \$217.5 billion by the end of 2014. This growth was largely influenced by an 8.5% increase in customer deposits, which continued to make up a significant 83% of total assets. Shareholders' equity also grew by 10.8%, contributing 9.1% to the total balance sheet. The increase in deposits was accompanied by an increase in advances to customers and net loans, which grew by 11%, and an increase of 1.6% in debt instruments (primarily government securities). Balances with BDL surged by 22.2%, reflecting heightened caution and increased liquidity management.

In this context of realities and challenges, the LBS continued to adopt a conservative risk management strategy, ensuring financial stability and strengthening its risk profile. This prudent approach allowed banks to navigate the regional challenges while maintaining robust financial results. The sector saw a 9.7% increase in net profits, which equaled approximately \$2.1 billion for the year. This growth was driven by a 9.3% rise in net operating income, which outpaced the 8.6% increase in operating expenses. The composition of operating income remained stable, with net interest income accounting for 63% of total operating income, while fees and commissions contributed 16.9%, and other sources, such as foreign exchange operations and net gains on financial investments, made up 20.1%.

Key profitability indicators remained relatively stable, with the ROAA at 0.99% and the ROAE at 11.04%. Interest margin remained stable at 2.0%. A decrease from 51.82% to 51.57% in the CIR was remarkable, indicating a slight improvement. The banking sector's capital adequacy and liquidity ratios showed improvement, signaling a strong and optimistic

outlook. The overall CAR, as per Basel II guidelines, reached 14.61%, with a Tier 1 ratio of 13.48%, exceeding international regulatory requirements. An increase from 30.81%, in 2013, to 32.11% in the net primary liquidity-to-deposits ratio was remarkable, significantly surpassing regional and global benchmarks. Asset quality also showed some improvement. The ratio of net doubtful loans declined to 1.48%. Furthermore, a slight decrease from 78.34% to 77.45% was remarkable in loan loss reserves on doubtful loans ratio, reflecting a more conservative approach to provisioning. Moreover, a decrease from 1.07% to 0.99% in collective provisions to net loans was significant.

Lebanon's GDP growth in 2014 was modest, at only 2%, well below the estimated potential growth rate of 4%. The traditional growth sectors of tourism and construction continued to be adversely affected by the Syrian crisis, the ongoing refugee influx, and political instability. Investor and consumer confidence remained low due to the lack of political consensus and the prolonged vacancy of the presidency, which persisted since May 2014. The external account deficit remained large, accounting for approximately 25% of GDP, and the overall balance of payments showed a substantial deficit of around \$1.4 billion. However, Lebanon's foreign exchange reserves remained strong and continued to improve, underlining the effectiveness of BDL's policy in ensuring stability. On the fiscal side, a decline from 8.9%, in 2013, to 6.2% in the public deficit-to-GDP ratio was remarkable, with the positive development that Lebanon has experienced. This improvement helped to maintain the stability at 134.5% in the ratio of debt to GDP, a key factor in maintaining Lebanon's fiscal resilience despite ongoing regional and domestic challenges.

The Robust Performance of the LBS Crossing Confront with Resilience in 2015

In 2015, the LBS, encompassing both domestic institutions and international subsidiaries and branches, demonstrated resilience and stability despite facing a challenging operating environment locally, regionally, and globally. Domestically, the negative economic impacts of the Syrian turbulence, coupled with the political circumstances, were particularly pronounced,

contributing to a slowdown in real GDP growth, which fell below 1 percent. This downturn inevitably resulted in reduced banking activity. Additionally, the economies in which Lebanese bank subsidiaries and branches operate were also grappling with their own economic and security challenges, further dampening output growth. Given these circumstances, the LBS faced the dual challenge of effectively managing both traditional and emerging risks while maintaining sound financial health. At the same time, it sought to bolster investor and depositor confidence and assure conformance with worldwide regulations, particularly in areas such as Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), sanctions, and tax evasion, to safeguard the reputation and stability of the LBS and the country as a whole.

The unified balance sheet represented these macroeconomic dynamics, revealing a significant deceleration in the growth of total assets. Asset growth slowed to 4.8% in 2015, compared to 9.3% in 2014 and 9.6% in 2013. Nevertheless, the continued but moderate expansion resulted in a total asset base of approximately USD 227.8 billion by year-end. This was accompanied by a 4.5% increase in customer deposits (down from 8.5% in 2014), which accounted for roughly 80% of the total balance sheet, and a 6.8% rise in shareholders' equity (down from 10.8% in 2014), which constituted nearly 9.2% of total assets. Although the pace of growth in funding sources slowed, there was a reasonable increase of 5.6% in 2015 in loans to customers, (compared to 11% in 2014), as well as an 8% rise in investments in debt instruments, primarily government securities. Balances with BDL also rose by 4.4%.

The consolidated income statement showed satisfactory net profit growth of 7% in 2015 (down from 9.1% in 2014), totaling almost USD 2.2 billion. The 5.7% increase in net operating income and the 5% increase in total operating expenses was remarkable. Further, there was stability at 63% in the share of net interest income in total operating income, with net fees and commissions contributing 16.2%, and other operating income, including foreign exchange profits, making up 20.8%.

Conversely, due to the slower pace of banking activity in 2015, performance indicators remained largely stable or improved, reflecting effective management and the sector's adaptability in a

challenging environment. Profitability measures showed stability at around 1% in the ROAA, while a slight decrease in ROAE from 11%, in 2014, to 10.83% was remarkable. The interest margin remained steady at 2.0% and the spread at 1.92%, while the CIR improved slightly to 50.81%, compared to 51.51% in 2014.

CAR showed improvement over the previous year, with the total CAR under Basel II increasing from 14.60%, in 2014, to 15.03%. The Tier 1 capital ratio also exceeded international regulatory requirements, reaching 13.72%. Furthermore, although the ratio of primary liquidity over deposits, although slightly decreased (32.1% to 30.7%), it has remained well above benchmarks. However, asset quality showed slight deterioration, with an increase from 1.49%, in 2014, to 1.56% in the ratio of net doubtful loans. Meanwhile, a decrease from 77.31% to 75.56% in the loan loss reserves ratio was remarkable, but collective provisions as a percentage of net loans rose to 1.09% from 0.99%, reflecting the evolving operating environment.

Compensated Toughness: The LBS's Growth Amidst Adversity in 2016

Despite the challenging operating conditions over an extended period, LBS exhibited improvement in 2016, driven by two key factors. Firstly, the BDL collaborated closely with commercial banks to mitigate susceptibilities and uphold steadiness. Secondly, a political resolution was achieved in the last quarter, resulting in the selection of a new president and the commitment to addressing long-standing economic challenges, particularly low growth. Despite the continued strain of the Syrian crisis on economic activity, and a marked slowdown in financial inflows during the first half of the year due to constrained regional monetary circumstances, BDL took proactive measures to counteract declines in official reserves, a growing balance of payments deficit, and the stagnation of deposit growth. BDL's swap operations, conducted under exceptional circumstances and heightened political uncertainty, occurred before the political settlement, which gradually restored consumer and investor confidence, and stimulated the economy.

A rise of 5.9% in the total unified assets of all banks was remarkable in 2016, reaching USD

241.4 billion, up from a 4.8% increase in the previous year. This growth was primarily driven by a 3.6% rise in customer deposits, which accounted for over 78% of the total balance sheet (compared to 4.5% growth in 2015), and an increase of 10% in shareholders' equity. Other funds' sources also played a significant part in asset growth, increasing by nearly 19%. The increase in total liabilities and equity was largely linked to a 26% rise in balances with BDL, while the growth was modest at 2% in advances to customers and net loans (compared to 5.6% in 2015). A decline of 0.3% in the value of debt instruments, primarily government securities, was significant.

The unified net profits reached USD 2.5 billion in 2016, reflecting a 12.6% increase from the previous year (compared to 7% growth in 2015). This improvement was mainly attributed to a substantial 24.1% increase in net operating income, driven by significant gains from financial assets and investments, which outpaced the 16.3% increase in total operating expenses. Within net interest income, operating income constituted 49.1%, a slight reduction from the previous year, while net fees and commission income accounted for 19.7%, and other operating income, including profits from foreign exchange operations, represented 31.2%. An increase from 18.4%, in 2015, to 23.6% of profit before tax in the income tax rate was remarkable.

In the context of profitability, an increase from 0.99%, in 2015, to 1.06%, in 2016, in the ROAA was significant, while a rise from 10.82%, in the previous year, to 11.23% in the ROAE is remarkable. Further, there was a slight increase to 2.02% and 1.94%, respectively, (compared to 2.00% and 1.92% in 2015) in both the interest margin and the spread, while an improvement from 50.33% to 44.36% in the CIR was significant. An increase from 15.06%, in 2015, to 16.51% in the total CAR was remarkable, and stability at 14.72% in Tier 1 ratio was significant, surpassing international regulatory requirements. Furthermore, an increase from 30.70%, in the previous year, to 35.15%, in 2016 in net primary liquidity to deposits, maintaining levels well above regional and international benchmarks. A slight deterioration was shown by the asset quality showed a slight deterioration, with an increase from 2.3%, in the previous year, to 2.83% in the ratio of net doubtful and substandard

loans to gross loans was remarkable. However, a marginal increase from 75.44% to 75.52% in the ratio of loan loss reserves was significant, and the provisions ratio rose to 1.55%, up from 1.09%, reflecting the enhanced provisions under the current economic conditions.

Resilience Amid Adversity: LBS Fosters Stability and Growth in 2017

In 2017, LBS again demonstrated its resilience in the face of a prolonged and challenging operating environment, effectively absorbing shocks and sustaining performance despite the ongoing adversities. The sector's continued strength can be attributed to two main factors. First, the asset-liability management practices, which enabled banks to adjust to changing conditions while maintaining a solid risk profile; and second, the proactive and prudent strategies applied by regulatory authorities to preserve and enhance financial balance amid unfavorable economic conditions and higher uncertainty. Economic activities both locally and regionally stayed mostly stagnant, with Lebanon's GDP growth expected close to 2 percent. This growth was constrained by the regional impact of the Syrian conflict and a deficiency of progress in enacting policies and reforms necessary to address external and internal instabilities, as well as to boost consumer and investor trust. Additionally, the ratio of public debt divided by GDP continued to rise, and capital inflows slowed, significantly influenced by a short-lived political crisis in November. New monetary and financial interventions, including increased interest rates, were prompted by this political uncertainty. Nonetheless, the LBS remained committed to supporting BDL initiatives aimed at boosting the economy and fortifying financial stability.

Financial statements published in Bilanbanques for 2017 reflect the broader developments in the Lebanese economy, highlighting both positive and challenging factors. Among the positives were improvements in the security situation, the passing of Lebanon's first national budget in over 12 years, and the approval of an additional electoral law. Notably, in 2017, the total consolidated assets increased by 6.9%, reaching a high of USD 257.8 billion, compared to 5.9% growth in the previous year. This asset expansion was driven by a 3.3%

increase in customer deposits, which accounted for approximately 77% of total assets, and a 6.6% rise in owner's equity, which totals around 9% of net assets. Other funding sources, particularly interbank deposits (around 15% of the net), played a significant role, rising by 26.4%. The increase in liabilities and shareholders' equity was primarily linked to a 28.8% rise in balances with BDL, while net loans and advances to customers grew at a slower rate of 2.3% (in comparison to 2016's 2.0%). Sovereign debt tools, however, declined 8.9%.

The total consolidated profits (after tax) reached 2.6 billion USD (2017), reflecting a 4.4% increase compared to the previous year, although this growth was modest compared to the 12.6% growth in 2016. The slight positive growth was largely due to discontinued operations, as profits from core operations fell by 6%. Total operating income declined by 18.3%, primarily due to a decrease in the total fees charged and the commission revenue generated and lower total returns on financial investments and assets, following the significant financing engineering operations in 2016. Net operating income, however, fell by 9.3%, a considerably smaller margin, which was spurred by a drastic decrease in provisions for credit losses, falling 61.4%. Operating expenses also decreased by 5.5%, with a 2% reduction in staff costs. The total income from interest-bearing instruments represented 65% of operating revenues, while net fees and commissions represented 15%, and other income, including gains from foreign exchange operations, contributed 20%. Income tax amounted to 18.8% of net profits before taxation.

Concerning profitability, the ROAA fell faintly in 2017 to 1.04%, down from 1.06% (2016), while the ROAE fell from 11.23% in 2016 to 10.84% in 2017. Both the margin and spread of interest had increased marginally, reaching 2.03% and 1.94%, respectively, up from 2.01% and 1.92% in 2016. The expense-to-revenue ratio rebounded to 49.06%, in comparison to the previous year's 44.30%.

The total CAR was enhanced to 16.82% in 2017 from 16.49% in the previous year, surpassing global regulatory specifications. The ratio of total primary liquidity divided by deposits surged from 35.15% in 2016 to 39.75% in 2017, stabilizing well more than regional and global guidelines.

The quality of assets showed slight deterioration as the ratio of doubtful debts to gross debts increased from 2.91% (2016) to 3.24% (2017). However, the ratio of loan loss reserves to doubtful debts maintained a stability of 76% and the net provisions to total loans remained roughly 1.6%.

Combining Strength and Conformity: LBS's Path Throughout Challenging Times in 2018

In 2018, LBS continued to strengthen its adherence to international laws, specifically in the domain of sanctions compliance, opposing the financing of terrorism (CFT) and implementing anti-money laundering (AML) procedures. These efforts were aimed at preserving the system's reputation and credibility, ensuring continued access to international financial markets for stakeholders such as shareholders, creditors, clients, and the general business community throughout Lebanon. The industry also backed BDL's proactive and early strategies designed to maintain financial stability amid a challenging environment marked by dwindling economic growth, diminishing confidence in both consumers and investors and general financial unreliability. These conditions were exacerbated by surges of geopolitical unease, reduced monetary inflows, rising taxation, and the reluctance to implement the necessary economic and regulatory changes. While the prosperous conclusion of national elections, the passing of 2018 budgetary guidelines, and the positive outcomes in Paris of the CEDRE conference generated optimism, other negative developments overshadowed these achievements. These included (i) an over eight-month delay in forming a new government capable of implementing fiscal reforms and infrastructure investment initiatives, and (ii) severely adverse fiscal circumstances emerging whilst economic confidence had been more hopeful. Nevertheless, LBS once again demonstrated its resilience, successfully absorbing these shocks and maintaining activity and performance, as evidenced by the evidence within the latest Bilanbanques release.

In 2018, the net consolidated assets of the LBS grew by a significant 10.6%, reaching USD 285.2 billion by December, up from a 6.8% increase the previous year. This expansion was primarily driven by significant interbank

transactions with BDL, which surged by approximately 97.3%, accounting for about 16% of total assets. While the increase in customer deposits (which represented around 71.4% of total assets) was modest at 2.0% (falling from 2017's 3.3%), the owner's equity (comprising approximately 8.7% of the net assets) grew by a marginal 0.4% (a decrease from 6.6% growth throughout 2017). Such overall changes in owners' equity and liabilities would mainly have been driven by a 33.8% increase in balances with BDL, while sovereign debt instruments decreased by roughly 2%. The net customer advance experienced a decline of 3.8% in 2018, reversing the growth of 2.3% that was observed throughout 2017.

The consolidated total profits amounted to USD 2.5 billion (2018), representing a distinct 5% fall in comparison to 2017. The decline was sparked by a reduction in operating income, specifically, from lower total returns on financial investments and a decline in non-interest revenues. Additionally, profits from discontinued operations, which had contributed to the previous year's results, were not replicated. A key factor in the profit decline was the removal of the necessary set-off for tax withholdings and the rise in the rate of corporate taxation, which collectively resulted in an 87.6% increase in taxes, reaching around USD 1.2 billion in total tax liabilities. The net gain on average assets fell to 0.9% (2018), down from 1.04% (2017). Moreover, the gain on average shareholder equity fell from 10.83% in the year before to 9.95%. Both the spread and margin of interest also declined to 1.87% and 1.97% respectively (down from 1.93% and 2.02% in the previous year), while the expense divided by income increased from 48.3% to 50.38%.

The LBS consolidated statements showed a boost to the CAR, having risen from 16.9% (2017) to 17.79% (2018). Both Tier 1 and Common Tier ratios surpassed their global lawful requirements, respectively reaching 15.47% and 12.65%. The total liquidity to deposits rose from 44.93% (2017) to 56.54% (2018), remaining well above international benchmarks. However, asset quality showed some deterioration as the total credit-deficient debts to gross debts ratio rose to 3.98% from 3.25% (2017). Moreover, the allowances for expected credit losses to total loans increased to 1.58% (up from 1.525 in 2017).

LBS in 2019: A Year of Turmoil and Transition

The LBS in 2019 experienced one of its most challenging periods, marked by a confluence of economic, financial, and political crises. This year served as a turning point for the sector, highlighting deep structural weaknesses that had long been overlooked.

2019 saw Lebanon grappling with mounting public debt, stagnant economic growth, and dwindling foreign currency reserves. The economy, heavily reliant on remittances and external financial inflows, faced severe pressure as these sources began to dry up. The nation's public debt surpassed 150% of GDP, making it one of the highest globally, while economic growth contracted significantly.

The banking sector, a cornerstone of the Lebanese economy, was particularly vulnerable to these developments. Banks were major holders of government debt and had long played a central role in financing the state's budget deficits. However, the unsustainable fiscal model became evident as confidence in the system eroded.

A severe liquidity crunch emerged as depositors rushed to withdraw their funds amidst growing fears of financial collapse. Banks imposed informal capital controls, limiting withdrawals and transfers, which further eroded public trust.

The LBP, long pegged to the US dollar, faced immense pressure. A parallel exchange rate emerged, with the pound losing significant value against the dollar. This dual-rate system exacerbated economic instability.

The October 2019 protests, triggered by proposed austerity measures and long-standing corruption, intensified the crisis. Political instability deterred foreign investment and inflows, further straining the financial system.

Public trust in the banking system plummeted due to opaque practices, lack of transparency, and allegations of mismanagement. This distrust fueled a cycle of withdrawals and further restricted liquidity.

International financial institutions and diaspora investors, who were critical to Lebanon's economic stability, reduced their engagement. This withdrawal highlighted the sector's overdependence on external support.

The events of 2019 left LBS in a precarious state. The imposition of capital controls and restrictions on dollar withdrawals created a quasi-

official capital control regime, further limiting economic activity. The depreciation of the LBP reduced the purchasing power of citizens, leading to widespread economic hardship.

Moreover, the sector's credibility was severely damaged, with long-term implications for its ability to attract deposits and investors. Calls for structural reforms, including reducing the banking sector's exposure to government debt and increasing transparency, became louder.

2019 underscored the urgent need for comprehensive reforms in Lebanon's banking sector and broader economic policies. Restoring trust, implementing fiscal discipline, and diversifying the economy emerged as critical steps to stabilize the system. The year's crises served as a stark warning of the unsustainability of Lebanon's economic and financial model (ABL, 2020).

LBS in 2020: Challenges and Prospects

The LBS faced significant setbacks in 2020, a year that underscored its systemic vulnerabilities. Decades of economic mismanagement and political turmoil culminated in a crisis that pushed the sector into unprecedented challenges.

Despite maintaining financial stability for years, Lebanese banks found themselves at the center of a storm. Factors contributing to the crisis included the government's Eurobond default, currency depreciation, declining foreign reserves, and the impact of the COVID-19 pandemic. These are combined to erode public trust, causing deposits and loans to shrink rapidly while interest rates declined.

Lebanon's commercial banking network remained extensive, with 47 banks and 1,032 local branches as of 2020. However, international branches stood at 73, with expectations of reductions due to foreign subsidiary sales. The crisis also led to a contraction in employment, with around 2,000 banking staff laid off.

The consolidated balance sheet of Lebanese banks dropped by 13.26% in 2020, declining from \$216.78 billion to \$188.04 billion. The sector's assets were concentrated heavily in sovereign exposure and placements with BDL, which constituted over 70% of total assets. However, deposits with BDL fell by 6.19%, standing at \$110.43 billion, while exposure to Lebanese sovereign Eurobonds dropped by over \$4 billion.

On the liabilities side, customer deposits—a crucial funding source—declined by 12.63% to \$137.58 billion. LBP deposits experienced a sharp 29.05% reduction, while dollar deposits fell by 7.48%, raising the dollarization ratio to 80.37% by year-end.

Loan activity also contracted, with total loans to customers shrinking by 27.60% year-over-year to \$41.09 billion. Loans to residents fell to \$32.45 billion, and those to non-residents dropped to \$8.85 billion. The loans-to-deposits ratio declined to 26.09% by December 2020, reflecting the cessation of new lending and early loan settlements.

In response to the crisis, Lebanese banks complied with BDL directives to bolster their solvency, increasing their capital by 20%. Despite these efforts, capital levels fell slightly due to provisioning for rising non-performing loans and losses from defaulted Eurobonds. Cost-cutting measures included delisting global depository receipts and focusing on domestic operations.

The sector's future hinges on addressing longstanding issues. Implementing formal capital controls, enacting economic reforms, and attracting foreign aid are critical steps toward stabilization. Restructuring through mergers and acquisitions, along with deposit adjustments, may also help alleviate pressures.

Lebanon's recovery depends on a resilient banking sector capable of supporting the economy. However, restoring confidence and recalibrating risk strategies will be essential to building a new era for the nation's financial system (BLOMINVEST Bank, 2021).

LBS in 2021: Struggling for Stability

The LBS continued to face significant challenges in 2021, stemming from the compounded effects of political instability, economic downturn, and financial mismanagement. The sector's contraction reflected the persistence of a national crisis that hindered its recovery and role in economic development.

At the end of 2021, the total assets of commercial banks operating in Lebanon stood at LBP 263,717 billion (USD 174.9 billion at the official exchange rate), marking a 7% decline from the previous year. This reduction followed similar decreases of 13.3% in 2020 and 13.1% in 2019. The drop-in banking activity highlighted the diminishing trust in the sector, exacerbated by

withdrawals and rationing policies dictated by Banque du Liban (BDL) circulars.

Private sector deposits declined by 7% in 2021, amounting to LBP 202,712 billion (USD 134.5 billion), driven by limited inflows, restricted transfers, and loan repayments. The dollarization rate of deposits decreased slightly to 79.4%, compared to 80.4% in 2020. However, disparities remained stark, with 0.3% of deposit accounts holding over 31% of total deposit values, underlining the concentration of wealth in the system.

Loans to the private sector also plummeted, falling 23.4% to LBP 41,776 billion, reflecting the broader economic stagnation and banking liquidity crisis. The dollarization rate of loans dropped to 56.3%, influenced by a sharp decline in loans issued in foreign currencies. The average lending rates for USD and LBP loans fell to 6.01% and 7.14%, respectively, underscoring restricted credit availability.

The sector's solvency remained under pressure as banks' capital accounts decreased by 11%, largely due to losses from sovereign debt exposure and non-performing loans, which rose to 18.8% of total loans. Compliance with regulatory measures, such as BDL Circular 154, required banks to increase capital, reduce costs, and manage liquidity crises. Nonetheless, provisions to cover doubtful loans and exchange rate differences continued to erode capital.

A drop by 19% to LBP 25,713 billion in the public sector was significant, as banks reduced exposure to Eurobonds and other government securities. Meanwhile, placements with BDL remained significant, comprising over 62% of total banking sector assets, yet they represented a major portion of banks' losses, accounting for approximately 80% of customer deposits.

Despite implementing measures to stabilize the sector, such as Circulars 148, 151, and 158, aimed at managing small deposit withdrawals and easing liquidity constraints, these steps proved insufficient to address systemic issues. The banking sector's reliance on public sector deposits, dwindling foreign placements, and increasing non-performing loans continued to impede recovery efforts.

Lebanon's banking sector faces an arduous path to recovery, requiring substantial reforms, enhanced governance, and restructuring initiatives. Restoring confidence and fostering a

resilient financial system will be critical for reviving its pivotal role in the country's economic stability and growth (ABL, 2022).

LBS in 2022: Adapting Amid Prolonged Crisis

In 2022, LBS continued its struggle to adapt to the ongoing economic and financial crisis that showed no signs of resolution. Despite efforts to stabilize, the sector faced significant challenges, from asset declines to shifts in regulatory frameworks.

The sector's total assets dropped by 3% to \$169.1 billion, and deposits decreased to \$125.7 billion, maintaining a dollarization rate of 76%. Loans witnessed the steepest decline, falling by 28% to \$19.9 billion, with the dollarization rate reducing to 50%. However, shareholders' equity slightly grew by 3% to \$18.3 billion, reflecting minimal stabilization efforts amid significant turmoil.

Since the beginning of the crisis in 2019, informal capital controls have restricted depositors' access to their funds. In 2022, the number of bank branches further declined to 801, a sharp decrease from 1,058 in 2019, as banks reduced operations both locally and abroad. Similarly, employee numbers fell significantly due to operational downsizing.

New regulations, including Intermediate Circulars 13495 and 646, reshaped banking operations. Circular 13495 halved interest rates on long-term USD deposits and investments in BDL-issued certificates of deposit. Circular 646 allowed clients to make advance payments on certain loans, reflecting efforts to adapt to changing economic realities.

The sector's balance sheet highlighted its vulnerabilities. Claims on the public sector dropped sharply by 46.67% for Treasury bills and 75.96% for Eurobonds compared to 2019. Deposits at the BDL, comprising a significant portion of assets, decreased by 10.42% since 2019, further underscoring the sector's dependence on public and sovereign investments.

Banking sector deposits also declined. Resident deposits fell by 19.89% since 2019, reaching \$100.16 billion by the end of 2022, while non-resident deposits declined by 27.9% during the same period. Loans to both resident and non-resident customers experienced dramatic reductions, falling by 59.39% and 63.35% respectively since 2019.

Lebanon's financial turmoil led to increased social unrest, with depositors resorting to drastic measures to access their funds, further straining banking operations. Banks closed temporarily in response to heightened security concerns and resumed operations with tighter restrictions.

To rebuild, the banking sector requires formal capital control laws, economic reforms, and a resolution to the financial gap, estimated at \$60 billion. Reviving trust and ensuring a resilient banking system is essential to the country's economic recovery, as Lebanon cannot progress without a functioning financial sector (BLOMINVEST Bank, 2023).

LBS in 2023: A Year of Decline

The LBS faced unprecedented challenges in 2023, grappling with deepening economic turmoil, political instability, and external pressures. The year marked significant declines across key financial metrics, exposing systemic vulnerabilities.

The sector's total assets fell by 31.85% to \$115.2 billion, while deposits decreased by 24.62% to \$94.75 billion. Loans experienced the steepest drop, plunging by 59.12% to \$8.1 billion, with the dollarization rate soaring to 91%. Shareholders' equity dropped sharply by 72.18% to \$5.1 billion, reflecting the severe strain on the financial system. These declines were influenced by the implementation of a new official exchange rate of LBP 15,000 per USD, compared to the previous rate of LBP 1,507.5 per USD, while the parallel market rate exceeded LBP 89,700 per USD by the end of 2023.

The year also saw a continuation of branch closures and workforce reductions. The number of branches within Lebanon declined to 744 from 1,058 in 2019, and foreign branches decreased to 49 from 73 over the same period. Similarly, bank employees dwindled to 18,815 by 2021, further reflecting the sector's contraction.

Key regulatory changes included updates to several BDL circulars. Among these, Circular 673 extended monthly USD withdrawals at the official rate, while Circular 674 reduced eligible cash withdrawals under designated accounts. Circular 679 advised banks to regulate customer commissions, and Circular 165 focused on electronic settlement operations. Meanwhile, Circular 677 suspended certain regulations related to foreign exchange positions, adding complexity to the banking environment.

LBS's balance sheet remained dominated by sovereign exposure and placements at BDL, accounting for 75.12% of total assets by December 2023. Deposits at the BDL fell by 20.71% year-over-year to \$83.62 billion, reflecting diminishing confidence. Similarly, claims on non-resident financial sectors increased slightly by 6.18% year-over-year but showed a 34.09% decline compared to 2019. Claims on resident and non-resident customers plummeted by 59.88% and 51.96% year-over-year, respectively, highlighting the sector's inability to provide new credit or retain existing loans.

The political and economic landscape exacerbated the sector's woes. The transition of Banque du Liban's governorship from Riad Salameh to Wassim Mansouri in mid-2023 brought hope for reforms but had limited immediate impact. Amid public unrest, some depositors resorted to drastic measures to retrieve their funds, prompting temporary bank closures and stricter security protocols upon reopening.

The LBS's challenges underscore the vital need for structural reforms. Implementing a formal capital control law, addressing liquidity shortages, and resolving the financial gap estimated at \$60 billion is critical to stabilizing the system. Without comprehensive reforms, the sector's decline threatens Lebanon's broader economic recovery and long-term prospects (BLOMINVEST Bank, 2024).

ANALYSIS AND DISCUSSION

The Performance of LBS Pre- and Post-Crisis

This report provides an extensive examination of the LBS from 2000 to 2023, addressing a critical gap in existing research. The overview is summarized in Figure 1. Analyzing the sector's evolution through periods of stability, growth, and unprecedented crises, highlights the resilience, adaptability, and systemic vulnerabilities of Lebanese banks. The findings reveal that while the LBS has demonstrated remarkable resilience during political instability, economic downturns, and financial crises, it remains burdened by liquidity challenges, declining depositor confidence, and overexposure to sovereign debt.

Over the past two decades, LBS has faced a lot of changes with the 2019 crisis being a critical turning point. It is worth comparing the financial

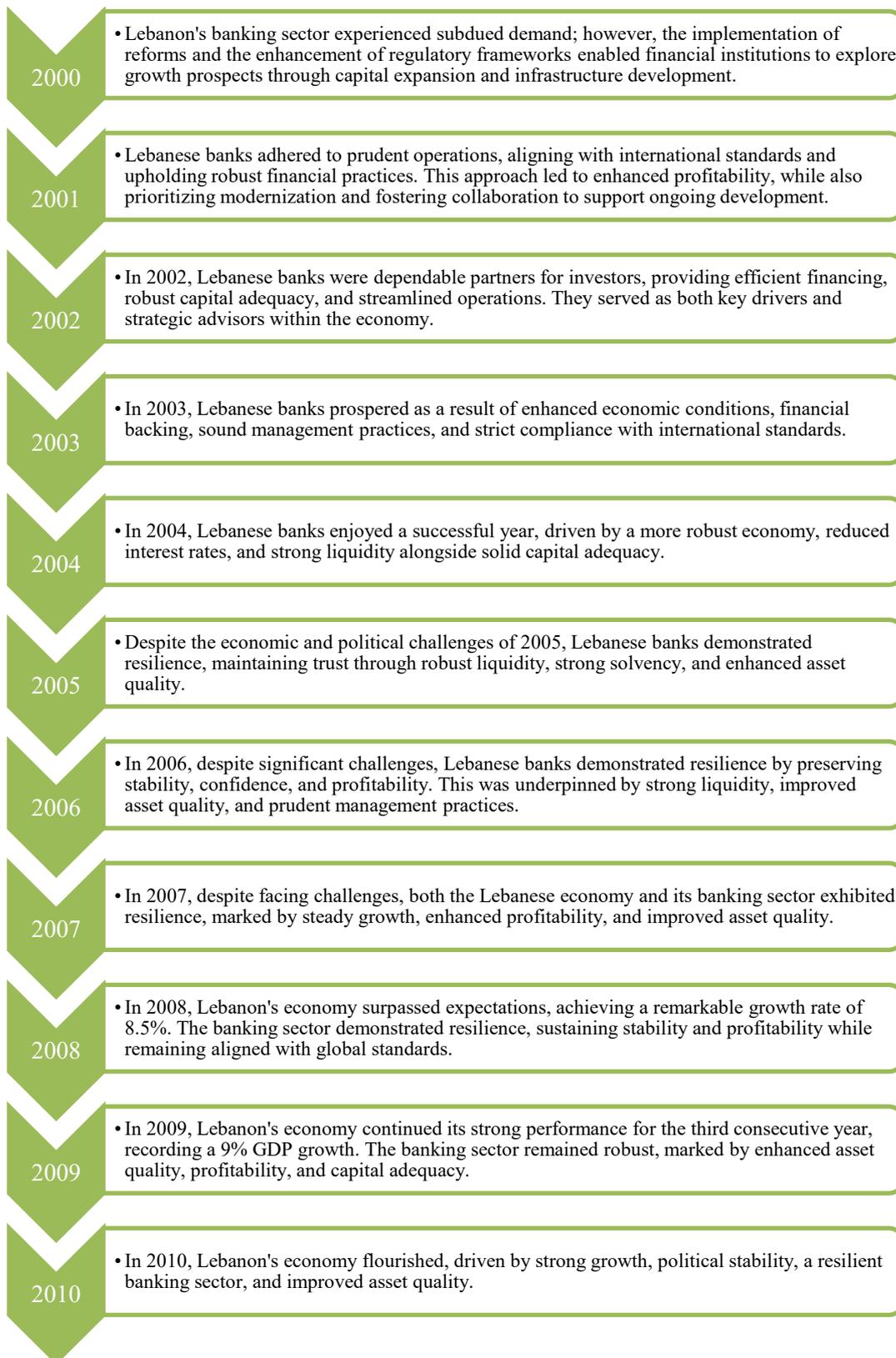
indicators between the pre-crisis period which is between the years 2000 and 2018 and the post-crisis period which is between the years 2019 and 2023. The methodology is based on historical financial data which was taken from Bilanbanques reports to examine key ratios such as Total Assets Growth, Deposits Growth, Loans-to-Deposits Ratio, ROAA, ROAE, CAR, and CIR. A comparison of these matrices before and after the crisis will be done to evaluate the impact of the crisis on the LBS as shown in Table 1 and explained afterwards.

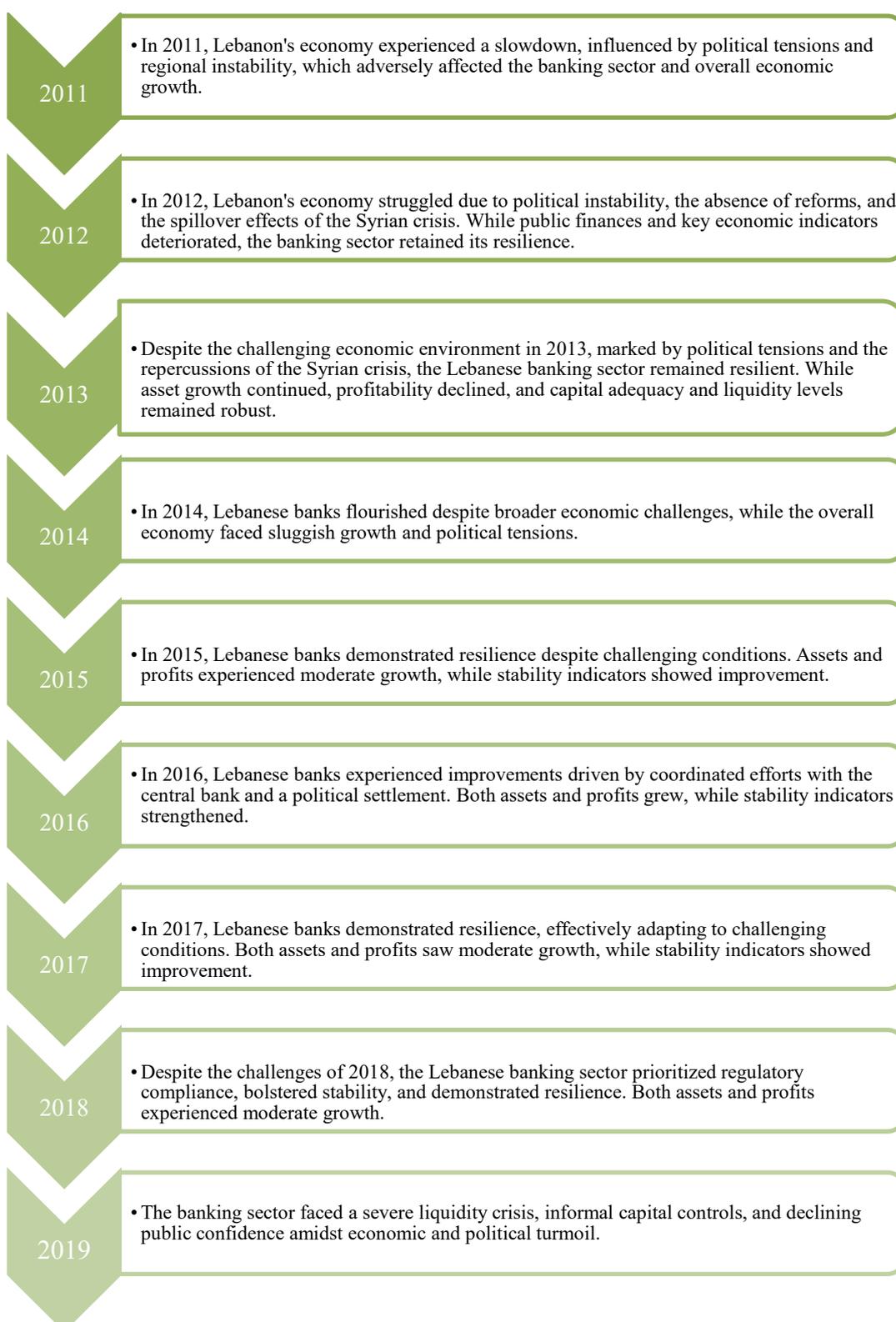
First, regarding growth rates, before 2019, LBS showed steady growth. The total assets growth averaged 10.6% to 14.5% yearly before the crisis. However, after the crisis, Total Assets Growth declined by 1.2% reaching a decline of 5%. For deposit growth, it maintained an annual increase before the crisis ranging between a rise of 6.2% and 13.8%. However, after the crisis, deposits decreased with a range of 3.5% to 8.3%. The Loans-to-Deposits Ratio decreased by approximately 30% to 37% before the crisis and by approximately 22% to 25% after the crisis showing severe liquidity constraints and reduced lending activity.

Second, from the previous discussion, it can be noted that the profitability of LBS has severely eroded. ROAA declined from 0.71% to 1.24% pre-crisis to 0.55% to 0.75% post-crisis, reflecting weaker earnings. Also, ROAE dropped from 10 to 13.9% pre-crisis to 5% to 7.9% post-crisis, indicating reduced shareholder profitability. The contraction in profits is linked to declining deposits, rising non-performing loans, and capital controls that limited banking operations.

Third, based on the discussion, it can be noted that the CAR has weakened since it averages 15% to 23% pre-crisis but dropped to between 9% to 10.4% post-crisis, signaling reduced shock absorption capacity. LBS's high exposure to sovereign debt and liquidity shortages contributed to this deterioration.

Fourth, LBS has faced a rise in operational costs which is reflected in the CIR which increased from approximately 48% to 67% pre-crisis to 59.1% to 65.4% post-crisis. This shows that LBS faced operational inefficiencies and decreasing revenue streams. LBS has struggled to maintain profitability while facing increased expenses and economic constraints.







Source: Done by the Authors

Figure 1: A Chronological Overview of the Lebanese Banking Sector

Table 1: Comparative Financial Performance of the LBS: Pre-Crisis (2000-2018) vs. Post-Crisis (2019-2023)

Ratio	Pre-Crisis Period (2000-2018)	Post-Crisis Period (2019-2023)
Total Assets Growth (%)	10.6%-14.5%	-1.2% to -5.0%
Deposits Growth (%)	6.2%-13.8%	-3.5% to -8.3%
Loans-to-Deposits Ratio (%)	30%-37%	22%-25%
ROA (%)	0.71%-1.24%	0.55%-0.75%
ROE (%)	10%-13.9%	5%-7.9%
CAR (%)	15%-23%	9%-10.4%
CIR (%)	48%-67%	59.1%-65.4%

Policy Implications

The analysis shows that LBS, which was once known to be a pillar of economic stability has suffered severe contractions due to the 2019 crisis reflected by the decline in profitability, growth, and capital adequacy and the increase in operational inefficiencies. This shows that the sector is vulnerable and needs urgent structural reforms. Thus, based on the analysis, several policy implications and recommendations can be suggested to regain stability and resilience.

First, restoring depositors' trust and enhancing liquidity are vital. The sector should implement policies that are transparent to the public to ease capital controls, restore the trust of the depositors, and attract new capital inflows. Without clear and transparent policies, trust will not be regained.

Second, capital adequacy is a significant indicator of resilience and stability. Lebanese banks should strengthen their capital adequacy by increasing their reserves and working on diversifying their assets. Diversification will lead to a reduction in the sector's reliance on government debt which was initially a major cause of the turmoil. The sector should have risk-based regulations and policies to ensure its long-term financial sustainability and resilience.

Third, it was noted that due to the crisis, the banks faced an increase in operational inefficiency. Thus, Lebanese banks should enhance their cost-efficiency and decrease their expenses. This can be done through restructuring of the banking sector such as mergers and acquisitions. Further, based on the historical data and the reasons that led to the crisis, it is vital to implement stricter corporate governance and anti-corruption policies to enhance the sector's credibility and attract capital inflows.

Thus, post-crisis, the LBS has shown significant weaknesses and challenges reflected by the decline in the growth in assets, deposits, profitability, and capital adequacy. All this necessitates immediate reforms to stabilize the LBS and ensure its role as a driver of economic growth in Lebanon. By adopting policy measures aimed at restoring trust, enhancing liquidity, and improving governance, the LBS can gradually recover and regain its historical stability.

In conclusion, the review underscores the urgent need for structural reforms, including enhanced governance, formal capital controls, and

diversification to stabilize the sector and restore public trust. These measures are vital for ensuring the sector's pivotal role in Lebanon's economic recovery and sustainable growth. This study not only fills a significant void in the literature but also offers valuable insights for policymakers, researchers, and practitioners in similar volatile economic environments.

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