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For Lebanon's economy in general and for the banking sector in particular, 2015 represents the fifth year during which the Syrian spillovers and the political deadlock take a heavy toll. In good times and bad times, economists seek to assess key parameters in the core sector of banking, which contributes to 7% of GDP¹, whose assets are 3.5 times the GDP² and which acts as the main financier of the treasury.

The performance of the Alpha Group or the top 14 Lebanese banks with deposits exceeding \$2B, is highly reflective of the overall status of the banking sector. The Alpha Group Report issued by Bankdata Financial Services reveals that in spite of persistent regional turmoil and local deadlock, alpha banks were able to maintain sound year-on year growth rates in the first quarter of 2015 (Q1 2015).

Alpha Group's Main Financial Highlights, In USD

	Mar-14	Mar-15	% Change
Total Assets	179,041,263,682	194,034,618,905	8%
Loans and Advances to Customers	55,267,351,907	59,258,863,018	7%
Customer Deposits	148,875,958,872	160,394,033,831	8%
Shareholders' Equity	15,705,156,219	17,485,338,640	11%
Net Profit	428,949,254	479,055,390	12%

Ranking of Alpha Banks by Return on Average Assets (ROAA)

Rank	Bank	ROAA
1	BLOM Bank Sal	1.3
2	Banque Libano-Francaise Sal	1.25
3	IBL Bank Sal	1.16
4	Bank of Beirut Sal	1.1
5	Societe Generale de Banque au Liban Sal	1.07
6	Bank Audi Sal	0.96
7	Creditbank Sal	0.94
8	Fransabank Sal	0.91
9	BankMed Sal	0.83
10	Lebanon and Gulf Bank Sal	0.81
11	First National Bank Sal	0.78
12	BBAC Sal	0.77
13	Credit Libanais Sal	0.74
14	Byblos Bank Sal	0.69

Source: Bank Data Alpha Report

¹ According to 2012-2013 national accounts² As at March 2015, share in 2015 estimated GDP

The Alpha Banks' total assets amounted to \$194B at end March 2015, growing by 8.4% year-on-year (y-o-y). In fact, loans and advances to customers progressed by 7.22% y-o-y to \$59.3B in Q1 2015, as commercial banks continue to fuel domestic consumption in the form of various retail loans and to promote access to home ownership through housing loans.

Confidence in the sector remains a main lever of growth and resistance as shown by the sustained growth in deposits. As the backbone of the banking sector, customer deposits rose by 7.7% y-o-y to \$160.4B in Q1 2015 and constituted 82.7% of Alpha Banks' total assets. With a dollarization ratio of 70% at end March 2015, customer deposits in foreign currency grew by 7.99% y-o-y to reach \$112.4B while customer deposits in local currency grew at a slower rate of 7.14% to \$48B.

Despite the sentiments of confidence and resilience, the banking sector continues to adopt a conservative operating scheme. The low loans-to-deposits ratio stands testimony to that as it registered 36.95% at end March 2015, little changed from the loans to deposits ratio of 37.12% at end March 2014. Net provisions for credit losses, acting as security buffers for Alpha Banks, grew by \$93M from \$59.6M at end March 2014 to \$152.9M at end March 2015.

Indicators point to a higher asset quality amongst Alpha Banks. The ratio of net doubtful and substandard loans to gross loans declined from 2.02% in March 2014 to 1.86% in March 2015. The capitalization of Alpha banks has also been enhanced with equity to assets advancing from 8.77% in March 2014 to 9.01% in March 2015.

Liquidity of Alpha Banks, another main pillar of financial soundness, has also shown signs of improvement in the first quarter of 2015. The ratio of net primary liquidity to customer deposits increased from 30.57% in March 2014 to 32.53% in March 2015. In terms of the net primary liquidity to customer deposits ratio, BLOM Bank ranked first with a ratio of 45.32%, followed by Byblos Bank with 40.73% and IBL Bank with 36.99%.

The Bank Data report highlights that in spite of the strong subscriptions of banks to the \$2.2B Eurobonds issue in February, their exposure to the foreign-currency denominated public debt decreased. The ratio of Alpha banks' holdings of Lebanese sovereign Eurobonds to foreign currency deposits declined from 15.39% in March 2014 to 14.84% in March 2015.

According to Bank data, return ratios remained relatively stable after contractions in the past few years. The Return on Average Assets (ROAA) remained barely unchanged at 0.99% while the Return on Average Equity (ROAE) stood still at 11.06%. BLOM Bank ranked first amongst Alpha banks with the highest ROAA of 1.30% followed by Banque Libano - Francaise with 1.25% and IBL Bank with an ROAA of 1.16%.

Profitability of Alpha banks remained robust with the group's net profit posting a double-digit y-o-y growth of 12% to \$479.1M. The 8% y-o-y upturn in the net interest income to \$843M compensated for the 5% decline in the net fee and commission income to \$194M.

Amidst tough operating conditions, Alpha banks have turned to optimization strategies. Cost control efforts are revealed by the contraction of the cost to income ratio from 51.64% in Q1 2014 to 47.47% in Q1 2015. In fact the 8% y-o-y increase in staff expenses, which represent 56% of total operating expenses, was outpaced by a 12% y-o-y rise in net operating income.

The increase in staff expenses as well as in the number of bank branches points to the Alpha group's continued expansion efforts. The number of branches totaled 1,214 in March 2015 up by 6.3% from 1,142 branches in March 2014. The number of staff employed reached 29,857 in March 2015, up from 28,712 in March 2014. It is worth mentioning that 68% of the staff is located in Lebanon while 32% is located abroad.

Overall, although the year 2015 presents various challenges to the banking sector, key parameters, be it in terms of provisions, profitability or returns, indicate that the sector is robust and capable of weathering the tough operating environment.

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