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Contact Information

Research Assistant: Riwa Daou

riwa.daou@blominvestbank.com

Head of Research: Marwan Mikhael

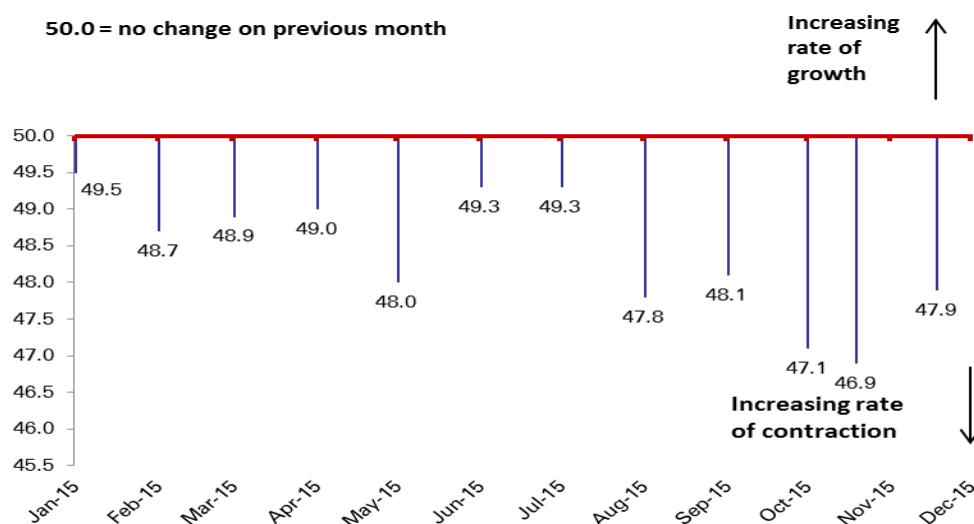
marwan.mikhael@blominvestbank.com

Research Department

Tel: +961 1 991 784

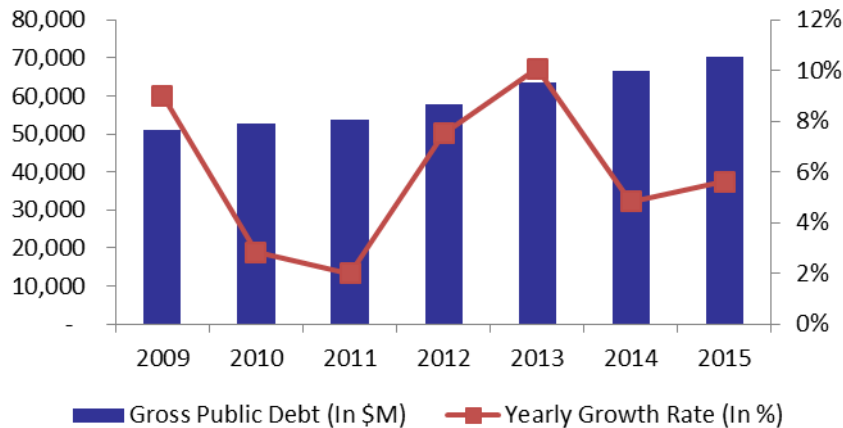
The year 2015 proved to be another challenging year for Lebanon. The private and public sectors, for which Lebanese banks are the main financiers, had a tough run. According to the BLOM Lebanon PMI, the activity of the private sector receded in 2015: Not only is the PMI below the 50 points mark separating economic expansion from economic recession but it drifted further away from that mark during the year going from 49.5 in January to 47.9 in December. The fiscal deficit for the first 11 months of 2015, widened by 7.17% year-on-year (y-o-y) to \$3.24B and gross public debt grew by 5.63% y-o-y to \$70.3B in 2015.

Performance of the BLOM Lebanon PMI in 2015



Source: Markit

Evolution of Gross Public Debt



Source: Association of Lebanese Banks

Amidst these tough operating conditions, Alpha banks showed resilience and strong adaptive skills. The banks retained healthy asset quality and liquidity ratios and pursued their long tradition of conservative banking by accumulating provisions for credit losses despite the low levels of doubtful loans. Alpha banks also benefitted from the loyal depositor base to weather the challenging environment. The balance sheet and income statement of Alpha banks all reveal healthy but **slower** growth rates in 2015.

Assets of Alpha Banks: Slower Growth Rates but Robust Quality

According to Bank Data, the assets¹ of Alpha Banks, designed as those with deposits exceeding 2 billion dollars, rose by a yearly 4.8% to \$203.76B in 2015. However, this pace was the least marked since 2013 where the growth rate registered 10.1% and 2014 when the growth rate reached 10.3%. Net loans and advances to customers also increased by 5% annually to \$62.95B albeit at slower pace when compared to the 17% and 12% growth rates recorded back in 2013 and 2014.

¹ The assets referred to here are the combination of domestic assets and assets of the banks' foreign subsidiaries

80% of Alpha Banks' assets are domestic while the remaining 20% are foreign assets. For the past three years, the operating environment has been challenging both at home and abroad and that translated into a slower upturn in domestic and foreign assets. The annual growth rate of domestic assets slid from 8.6% in 2014 to 5.1% in 2015 while that of foreign assets was slashed from 17.7% in 2014 to 3.3% in 2015. Alpha Banks however sustained their asset quality: In 2014, net doubtful loans represented 1.38% of total gross loans but accounted for only 1.35% of total gross loans in 2015.

Loyal Depositor Base Still Intact

Customer deposits grew in 2015 by an annual rate of 4.6% to reach \$164.55B. In particular, domestic deposits grew by 5.1% year-on-year to reach \$162.72B in 2015. In absolute terms, deposits denominated in foreign currency are still grasping the lion's share of total deposits, accounting for 60% of the total while deposits denominated in Lebanese Pounds represent the remaining 40%. Foreign currency deposits grew by 4% annually in 2015 to \$98.12B compared to 7% in 2014 while local currency deposits rose by a yearly 7% to \$64.60B. The dollarization rate of domestic deposits is however on a declining trend sliding from 61.78% in 2013 to 60.91% in 2014 and to 60.30% in 2015.

Alpha Banks Maintained a High Solvency

Alpha banks in Lebanon are very well able to meet their financial commitments. Solvency of Alpha banks improved in 2015 with the ratio of net primary liquidity to deposits rising from 33.01% in 2014 to 31.45% in 2015. Alpha banks are also endowed with a low leverage which leaves them with enough financial flexibility and room to maneuver good and bad times. The low loans to deposits ratio also allows the banks to act as financiers of both the private and public sectors. In fact, the loans to deposits ratio is low by regional and global standards standing at 37.87% in 2015 compared to around respective ratios of 70% and 80% regionally and globally.

Alpha Banks and Sovereign Exposure

Lebanese banks are still essential financiers for the government. In 2015, banks subscribed to the largest ever Eurobonds issuance conducted in Lebanon with a total value of \$2.2B and to another issuance of \$1.6B conducted in November. This explains the 8.47% yearly upturn in the value of Lebanese sovereign Eurobonds in FC held by Alpha banks to \$16.26B. However, Alpha banks reduced their holdings of Lebanese treasury bills from \$18.30B in 2014 to \$17.51B in 2015. Accordingly, the ratio of treasury bills to deposits in local currency dropped from 38.78% in 2014 to 34.72% in 2015.

Profitability of Alpha Banks

Alpha banks sustained their high profitability in 2015. The net profit of Alpha banks increased by an annual 8.6% to reach \$2.04B in 2015 compared to a faster growth rate of 9.13% back in 2014. The net interest income grew by 5.9% annually in 2015 to reach \$3.5B while the net fees and commissions income ticked up by a yearly 2% to \$886M in 2015. Around 80% of the total net profit is generated from domestic activity and interestingly the domestic net profit rose at rate of 6% in 2015 to \$1.57B doubling from 2014's rate of 3% and the value of \$1.53B.

Return Ratios and Buffers against Credit Risk

The return ratios of Alpha banks remained somewhat stable in 2015. The Return on Average Assets (ROAA) has been stable since 2013 barely rising from 1.01% in 2014 to 1.02% in 2015. Meanwhile, the Return on Average Equity (ROAE) went from 11.55% in 2014 to 11.50% in 2015.

Alpha Banks maintained their conservative approach as shown by the accumulation of net provisions for credit losses over the past three years. In 2015, these provisions were upped by a yearly 15% to reach \$425.75M in 2015.

For your Queries:

BLOMINVEST BANK s.a.l.

Research Department
Bab Idriss, Weygand Str.
POBOX 11-1540 Riad El Soloh
Beirut 1107 2080 Lebanon

Riwa Daou, Research Assistant

Tel: +961 1 991 784

riwa.daou@blominvestbank.com

Marwan Mikhael, Head of Research

marwan.mikhael@blominvestbank.com

+961 1 991 782

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