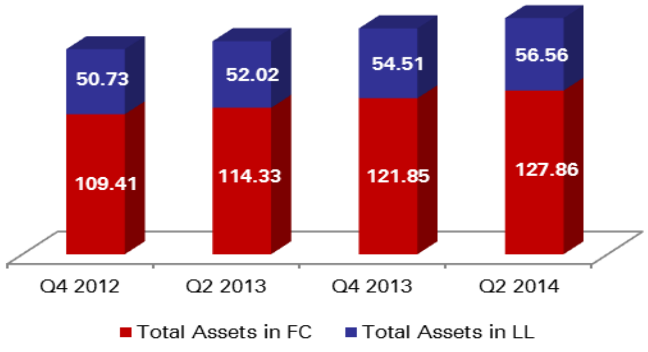
Top Lebanese Banks in H1 2014: Surviving the Governing Chaos with Confidence

BLOMINVEST BANK

Total Assets Breakdown in terms of Currency



Source: Alpha Banks Report June-2014

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Alpha Banks Ranking by ROAA

Rank	Bank Name	H1 2013	H1 2014	Change
1	BLOM Bank	1.40%	1.34%	↓
2	SGBL	1.04%	1.20%	↑
3	IBL Bank	1.09%	1.13%	↑
4	Bank of Beirut	1.18%	1.13%	↓
5	Lebanon and Gulf Bank	0.91%	1.01%	↑
6	Bank Audi	1.16%	1.01%	↓
7	Bank Med	1.06%	1.00%	↓
8	Banque Libano-Francaise	1.06%	0.95%	↓
9	BBAC	1.06%	0.91%	↓
10	Fransabank	0.91%	0.86%	↓
11	Creditbank	0.70%	0.82%	↑
12	Byblos Bank	0.88%	0.75%	↓
13	First National Bank	0.77%	0.74%	↓
14	Crédit Libanais	0.85%	0.64%	↓

Source: Alpha Banks Report June-2014

Recognized for its capacity to defeat tough economic conditions, the Lebanese banking sector witnessed in the first half of 2014 another episode of economic and political challenges. Solvency and reliability that branded the sector turned it into a backbone of the Lebanese economy, well known for its pledge to combat money laundering and respect all international banking requirements. In 2013, Lebanon ranked 7th in the Financial Secrecy Index[1] following USA and Singapore and outpacing Germany, Jersey and Japan.

Lebanese banks are considered the boosters of economic growth in a country characterized by waves of violence, political deadlocks and a regional turmoil with numerous spillovers. With a 7% direct contribution to GDP[2], total assets at the banking sector floated around 3.7 times the GDP at end June 2014.

1 According to Tax Justice Network
2 According to 2011's national accounts

Banks are considered one of the main pillars in financing public debt. With a gross public debt reaching $65.70B in June 2014, local currency debt grasped a 60.3% share of the total and was mainly held by banks (52.7%), Banque du Liban (BdL) with 29.9% and the remaining 17.4% by the non-banking sector. In this context, and thanks to the high liquidity and support of the domestic commercial banks, the Lebanese government is capable of meeting its obligations without difficulties.

Constituting more than 93% of total assets at commercial banks[3], Alpha banks are the core barometer of performance within the sector. According to the latest BANKDATA report, Alpha banks are 14 Lebanese commercial banks with deposits in excess of $2B. Total assets at the aforementioned banks grew by 10.9% from $166.34B in June 2013 to $184.42B by the end of June this year. Since the report provides additional data on Lebanon's top banks, a clearer view on the global performance of the banking sector could be determined when analyzing those specific banks.

The existing confidence in the banking sector positively impacted 2014's deposits[4] at Alpha banks. This was translated by a 10.0% year-on-year (y-o-y) uptick in total customers' deposits at Alpha banks to $153.86B. Besides a dollarization rate touching the 71% in June 2014, total deposits in LL rose by 5.2% from June 2013 to $45.23B and were outpaced by the 12.1% yearly uptick in Foreign Currency (FC) deposits to 108.63B.

Albeit banking suffered instability during the first half of 2014, customers continued to highly depend and rely on the trustworthy institutions of the sector. This was disclosed by the 16.5% yearly jump in loans and advances at Lebanon's Alpha banks to $57.75B by the end of June 2014. In this context, loans to the private sector over GDP ratio hit the 127% revealing the importance of Lebanon's banking activity in supporting the economy and domestic consumption.

On another note, loans-to-deposits ratio reached 37.53% in June 2014, up from 36.74% in December 2013 and 35.43% by the end of June 2013. This could give an indication on the persisting conservative approach adopted by most of Lebanon's top banks regarding their credit policies.

Accordingly, high provisions and a low non-performing portfolio continued to brand the Lebanese Alpha banks, yet to a lesser extent than previous years. 76.33% of doubtful loans were covered by loan loss provisions up to June 2014 compared to 82.31% in parallel period of 2012 and 76.81% as of the end of 2013. Similarly, the average ratio of net doubtful loans to gross loans inched down to 1.30% in H1 2014 compared to 1.38% at the end of 2013 but remained higher than the 1.04% recorded in H1 2013.

The absence of political stability and the persistence of security uprisings failed to hit the topnotch Lebanese banks in H1 2014. Total net profit at Alpha banks[5] in Lebanon saw a 4.8% y-o-y rise by June 2014 to settle at $910.48M. When comparing to H1 2013, the net operating income edged up by 7.5% in the past six months to $2.39B on higher interests, fees and commissions income.

Maintaining a positive performance remained the core objective of actors in the Lebanese banking sector revealing tenacity and perseverance to embrace arising risks and uncertainties. Over the past four quarters, Lebanon's Alpha banks maintained a positive profitability as disclosed by the positive Return on Average Assets (ROAA) that averaged 1.01% in Q2 2014, slightly below the 1.02% recorded by the end Q4 2013 and the 1.06% during Q2 2013. BLOM stood first with a 1.34% ROAA and was followed by Société Générale de Banque au Liban (SGBL) at 1.20% and Intercontinental Bank of Lebanon (IBL) at 1.13%. As for Return on Average Equity (ROAE), the rate of return on shareholders' equity stood in June 2014 at 11.46% on average. IBL Bank came first at 15.85% and was followed by SGBL and BLOM Bank with respective 14.89% and 14.47%.

Still, total operating expenses increased at faster pace of 10.3% y-o-y to $1.29B in H1 2014. Worth mentioning that the cost-to-income ratio rose to 50.98% in H1 2014 compared to 47.14% in the same period of 2013. In details, staff costs, that constitute 57% of total operating expenses, witnessed a 12.8% yearly rise to $732.49M in June 2014. However, the total number of

3 According to 2012's consolidated balance sheet of Alpha group – Bilanbanques 2013
4 Consolidated with their subsidiaries
5 According to the latest Alpha banks (14 banks with deposits in excess of $2B each)

staff employed (domestic and foreign) saw a 5.1% y-o-y growth to 28,525 alluding to the fact that the rise was mainly in the salaries of banks' employees and not in their numbers. IBL bank ranked the first with a cost-to-income ratio of 36.93%, followed by BLOM bank (39.75%) and SGBL (41.67%).

The sturdiness and resiliency of the banking sector to external shocks was once again proved in 2014. Lebanese banks have high liquidity shield with a net primary liquidity/deposits ratio standing at 32.02% in the first six months of 2014 and a loans[6]-to-deposits ratio hovering around 37.53%. BLOM (47.22%), Byblos (37.90%) and IBL (32.20%) banks were the top performers in terms of net primary liquidity/deposits ratio, while Credit Bank, Bank Audi and Lebanon and Gulf Bank showed the highest ratios of loans-to-deposits at 61.71%, 47.26% and 45.21%, respectively.

Lebanese banks also upheld their expansionary strategies on both local and international fronts sending the total numbers of branches to 1,166 in June 2014 compared to 1,131 in December 2013 and 1,085 in December 2012.

Furthermore, BdL remained the turbine of banking in Lebanon. BdL remained true to the objectives it has set upon itself: boosting economic growth, preserving exchange rate stability and maintaining the soundness of the financial system. The Central bank also encouraged consolidation in the banking sector. During the second quarter, Fransabank acquired the Jordanian Ahli bank, talks of mergers occurred between BIT and NECB banks, and CedrusInvest Bank planned to acquire Standard Chartered Bank.

Despite the local and regional turbulences that severely impacted Lebanon's economic sectors, activity within the banking sector managed to progress during the first half of 2014.The sharp deterioration of tourism, real estate and trade activities in Lebanon as well as the structural fiscal and external deficits will remain partly offset by the strong performance of the banking system. However, the ongoing conflict in Syria, the political deadlock and the presidential vacuum painting the country will keep on weighing over the banking sector in the coming period. On the short to medium term, we expect that the sovereign creditworthiness and the economy's history in weathering internal and external shocks will allow banks to outstrip the challenging conditions, even if it took some time.

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[6] To the resident private and public sectors combined