Lebanese Banks' Performance in 2016

BLOMINVEST BANK

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BANKDATA Division of Lebanese Banks

Category	Size
Alpha	> $2B in Customer Deposits
Beta	$500M < Customer Deposits < $2B
Gamma	$200M < Customer Deposits < $500M
Delta	Customer Deposits < $200M

Source: BANKDATA

Total Banks' Assets by Country (in $B)

Rankings	Country	Dec-15	Dec-16	% change
1	United Arab Emirates	674	710.9	5.47%
2	Saudi Arabia	589	601.7	2.16%
3	Qatar	305.7	346.9	13.48%
4	Lebanon	227.9	241.4	5.92%
5	Egypt	317.4	218.7	-31.10%
6	Kuwait	193.1	197.8	2.43%
7	Morocco	126.4	128.7	1.82%
8	Algeria	116.3	118.1	1.55%
9	Bahrain	82	82.8	0.98%
10	Libya	64.3	72	11.98%
11	Oman	73.2	70.3	-3.96%
12	Jordan	66.5	68.2	2.56%
13	Tunisia	43.8	42.7	-2.51%
14	Sudan	17.9	20.1	12.29%

Source: BANKDATA

Once again, the newly released BilanBanques report for 2016 shed the light on the robustness of the Lebanese banking sector and its continuous ability to support the economy in hard time. In reality, the global economy was struggling, as a series of unexpected events unveiled. In fact, as a result of the UK's decision to exit the EU in addition to the unanticipated Trump victory, global growth stood at 3.2% in 2016, compared to 3.4% in the previous year. Such events impacted major central banks monetary decisions, where the European Central Bank (ECB) announced additional rounds of quantitative easing (QE) and the Fed slightly increased its interest rates.

Moreover, geopolitical events in addition to the decline in oil prices dominated the MENA economic scene. Oil exporting countries, the GCC, witnessed a plunge in real GDP growth from 3.8% in 2015 to 2% in 2016, and oil importing countries' real GDP growth fell by 20 basis points (bps) to 3.7%. In Egypt, the depreciation of the pound, a result of floating the currency, weighed down severely on the banking sector, where assets and deposits held by Egyptian banks were slashed 31.10% and 37.66% y-o-y to $219B and $152B in 2016, respectively, and loans plunged by 29% y-o-y to $71.8B.

Back to Lebanon, the economy has been slightly expanding at a higher pace in the last couple of years. In fact, the BDL coincident indicator, a metric which shows the current state of economic activity, grew by 3.9% in 2016, compared to 2% in 2015, and 3.2% in 2014.

The main booster in the Lebanese economy for the year was the large improvement in foreign financial inflows due to the BDL's financial engineering operations. As a result of the swap in 2016, the cash and balances with the central bank grew by 26% to $63.95B, and the balance of payments (BoP) generated a surplus of $1.2B in 2016, compared to a deficit for the past half-decade. The swap consisted of Lebanese banks depositing their returns in Lebanese pounds and allocating their foreign currency (FX) liquidity towards purchasing Eurobonds and CDS from the Central Bank. The Central Bank offered banks substantial incentives in exchange for their FX liquidity; that's what compelled Lebanese banks to gather additional FX liquidity through sales of Eurobonds and through the introduction of new high-yielding products, to attract foreign deposits.

The Lebanese banking sector remained resilient amid global and regional economic woes. According to BANKDATA, consolidated assets of banks in Lebanon registered a 5.9% annual growth to $241.39B, ranking 4th in the MENA region. However, domestic branches' activity ameliorated on the back of a weaker foreign activity due to the depreciation of both the Egyptian pound as well as the Turkish Lira. In details, assets in local branches constituted 84.8% of total assets, while those abroad grasped a share of 15.2% of the total, compared to 18.1% in 2015. Net loans and advances to customers increased by a yearly 2% to reach $74.13B, where loans in domestic branches comprised 74.2% of the total compared to 25.8% for loans in foreign branches.

Breakdown of loans and advances to customers

Loan	Share of Total Loans
Corporate	40%
SMEs	16%
Housing	16%
Retail	11%
Secured by Commercial Real Estate	9%
Other Loans	8%
Public Sector	1%

Source: BANKDATA

Deposits in Lebanese banks advanced during 2016, yet with more confidence in the foreign currencies. Deposits in foreign currencies grew at a faster pace than deposits denominated in LBP with an annual rise of 8.2% compared to 4.2%, respectively, as a direct consequence of the BDL swap operation.

In terms of solvency, Lebanese banks recorded a rise on the back of the BDL's financial engineering scheme, where net primary liquidity-to-deposits increased from 30.70% in 2015 to 35.15% in 2016. Alpha Banks ranked first with a ratio of 36.5, followed by the Beta and Gamma Banks with 26.4% and 9.6%, respectively.

In addition, banks have been following a conservative approach regarding their credit policies. In fact, Lebanon's loans-to-deposits ratio of 38.4% is lowest compared to the average of the MENA region as well as both the emerging markets and world averages. Also, the ratio of net doubtful loans to gross loans steadied at 1.6% in both 2015 and 2016.

As for profitability, the outcome of the swap in the second half of the year alleviated the banks' capital gains throughout the year. The banks' net profits rose from $2.2B in 2015 to $2.5B in 2016. In details, net interest income and net fees and commission income grew by 6.9% and 66.8% to $4.24B and $1.70B, respectively.

Consequently, the return ratios witnessed the same trend as net profits. The return on average assets (ROAA) increased from 0.99% in 2015 to 1.06% in 2016, and the return on average equity (ROAE) escalated from 10.82% to 11.23%, during the same period. Delta Banks registered the highest ROAA of 1.20%, Alpha and Beta Banks followed with 1.08% and 0.90%, respectively. In terms of ROAE, Alpha Banks ranked first with 11.74%, tracked by Beta and Gamma Banks with 9.85% and 3.42%, respectively.

In light of what was mentioned earlier, Lebanese Banks' performance in 2016 proved the strength of the Lebanese financial sector as a whole. However, sustained earnings and increasing profit, in the future, will be largely triggered by both the monetary and fiscal policies as well as political stability.

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