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BANKDATA Division of Lebanese Banks

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

Source: BANKDATA

Economic activity in both advanced markets and emerging markets accelerated during 2017. The year could be depicted as a recovery from the geopolitical shocks the world absorbed in 2016. As such, global growth stood at 3.8% in 2017, compared to 3.2% and 3.5%, in 2016 and 2015, respectively.

In the MENA region, low oil prices and regional conflicts dominated the economic scene. With the OPEC's decision to reduce oil production, the GCC region failed to promptly adjust and hence recorded a -0.2% growth during 2017. As for oil importing countries in the region, overall growth was at 4.2% in 2017, compared to 3.7% in 2016. In Egypt, specifically, the banking sector is recuperating to pre-currency crisis levels. As such, both Egyptian commercial banks' assets and deposits surged by a yearly 52.3% and 35.1% to $271B and $187.5B, respectively.

As for Lebanon, the political scene remains on being the main driver of the economy. A mere 1.2% growth, depicted by the PMI, suggested slow economic activity during the year in the aftermath of the presidential elections and cabinet formation. As such, the banking sector wasn't excluded from this environment and has witnessed a slowdown of growth during the year.

Despite its subdued performance in the year, the Lebanese banking sector remains on being the backbone of the economy, with good financial standing. Consolidated assets of banks registered a 6.9% annual growth to $257.8B, ranking 5th in the MENA region.

However, commercial banks' foreign activity has weakened in 2017, mainly as a result of low oil prices and depreciating currencies in some of the banks' main foreign hubs (Turkey and Egypt). Assets in local branches constituted 85.7% of total assets, while those abroad grasped a share of 14.3% of the total, compared to 15.2% in 2016 and 18.1% in 2015.

In details, net loans and advances to customers increased by a yearly 2.7% $75.03B, where loans in domestic branches comprised 77.1% of the total compared to 22.1% for loans in foreign branches. Total loans of Delta banks grasped 58.7% of the mentioned banks' total assets. This can be justified by the fact that Banque de L'Habitat is considered one of the Delta banks.

Breakdown of Loans

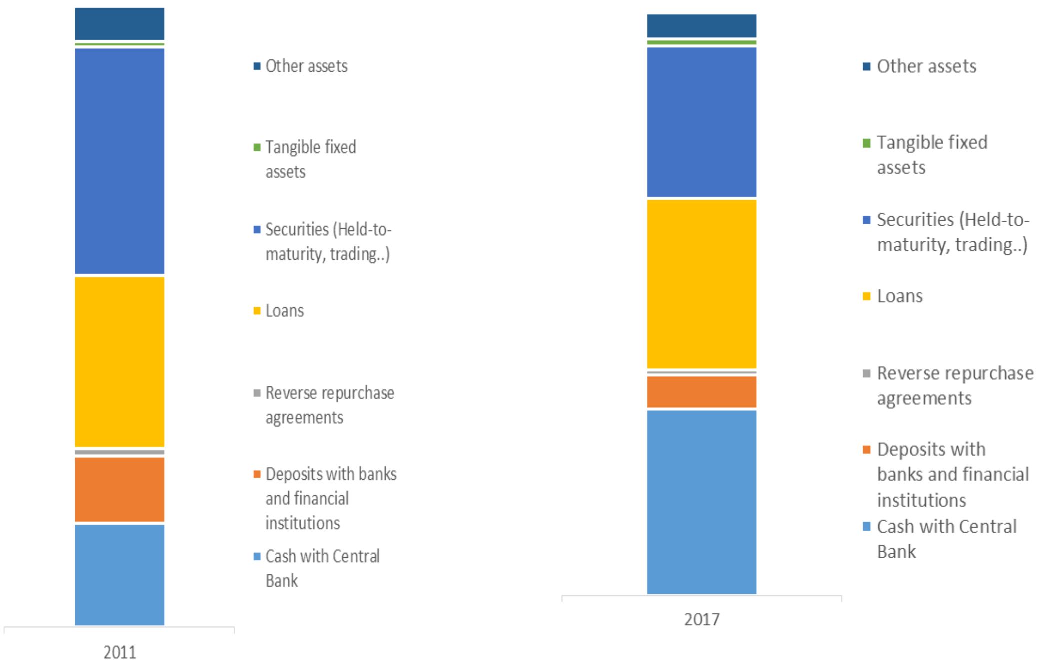
	All Banks	Alpha	Beta	Gamma	Delta
Corporate	38%	37%	42%	46%	42%
SMEs	17%	16%	24%	31%	1%
Housing	17%	17%	11%	5%	48%
Retail	11%	11%	6%	9%	1%
Secured by commercial real estate	9%	9%	14%	4%	0%
Public sector	1%	1%	0%	0%	0%
Other loans	8%	9%	2%	5%	7%

Source: BANKDATA

Given the attractive financial engineering operations conducted by BDL, commercial banks' placements in the central bank have been on the rise. With more incentive to deposit cash with the central bank, commercial banks have dumped some of their securities portfolios. This reality has changed the asset composition of commercial banks over the years. In fact, Lebanese sovereign Eurobonds fell by a yearly 7.9% to stand at $14.89B in 2017, compared to $16.17B, in 2016.

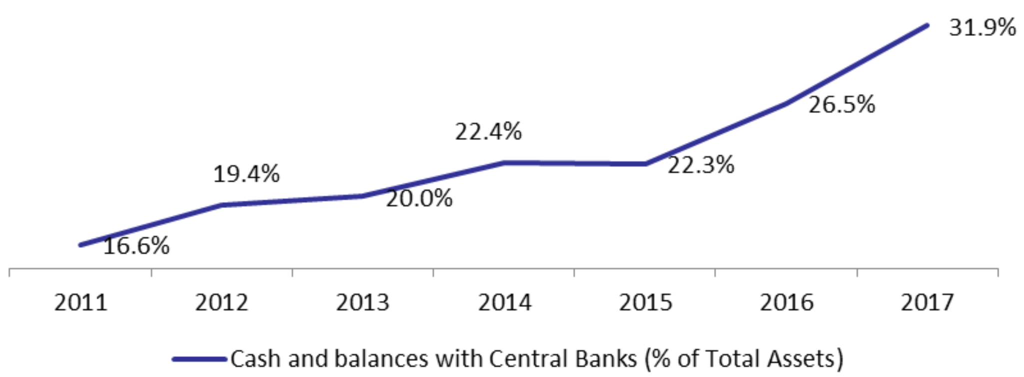
Consequently, cash and balances with central banks have increased by a yearly 28.8% to reach $82.31B in 2017. As such, Net primary liquidity-to-deposits increased from 35.15% to 39.75%, and the ratio of liquidity to assets in the Central Bank rose from 26.49% in 2016 to 31.93% in 2017.

Composition of Total Assets



When compared to pre-Syrian crisis asset composition, one can notice a significant change in dynamics. Loans and advances to customers have been stable throughout the years (around 28% -29%); however, the banks' holding of securities have diminished noticeably. This can be directly linked to the fact that banks' are increasing their deposits at the central bank for attractive interest rates. In details, in 2011, securities and deposits with the central bank grasped around 37% and 17% of total assets, respectively; however, in 2017, there has been a major shift with securities and deposits with the central bank taking 26% and 32% of total assets, respectively.

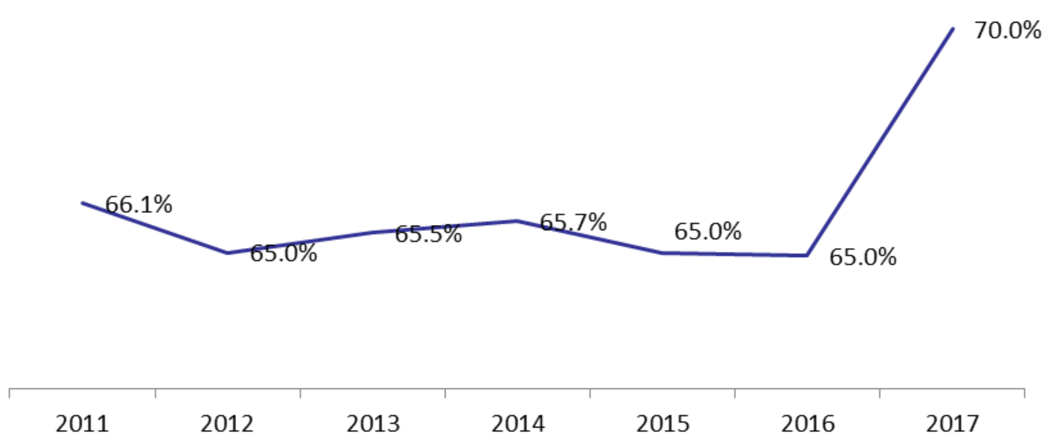
Cash in Central Bank as % of total assets



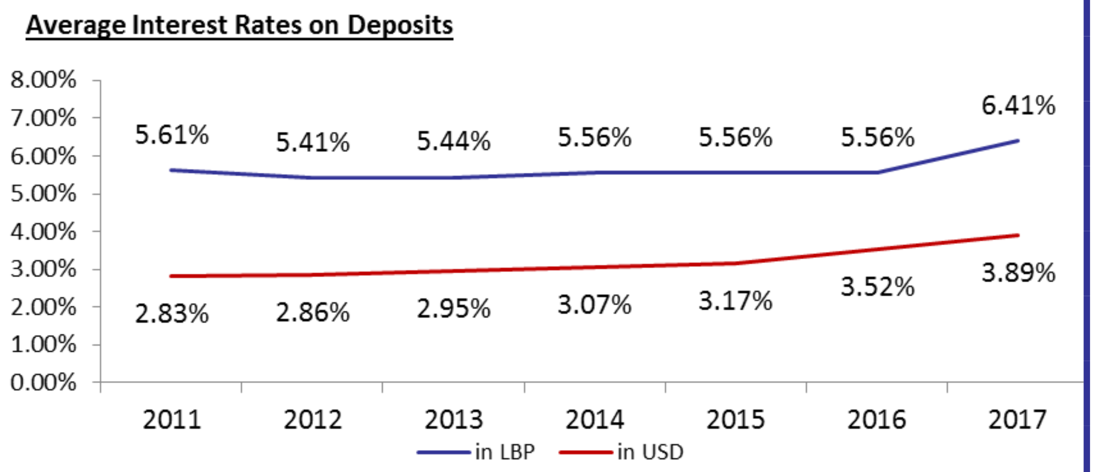
Source: BANKDATA

On the liabilities side, the end of year political crisis debilitated confidence in the domestic currency; however, raising interest rates on LBP accounts recouped some of the losses. During 2017, LBP deposits fell $2.2B, while foreign currency deposits surged by $8.6B. As such, the dollarization ratio of deposits rose from 69.4% in 2016 to 71.5% in 2017.

Deposits Dollarization Rate



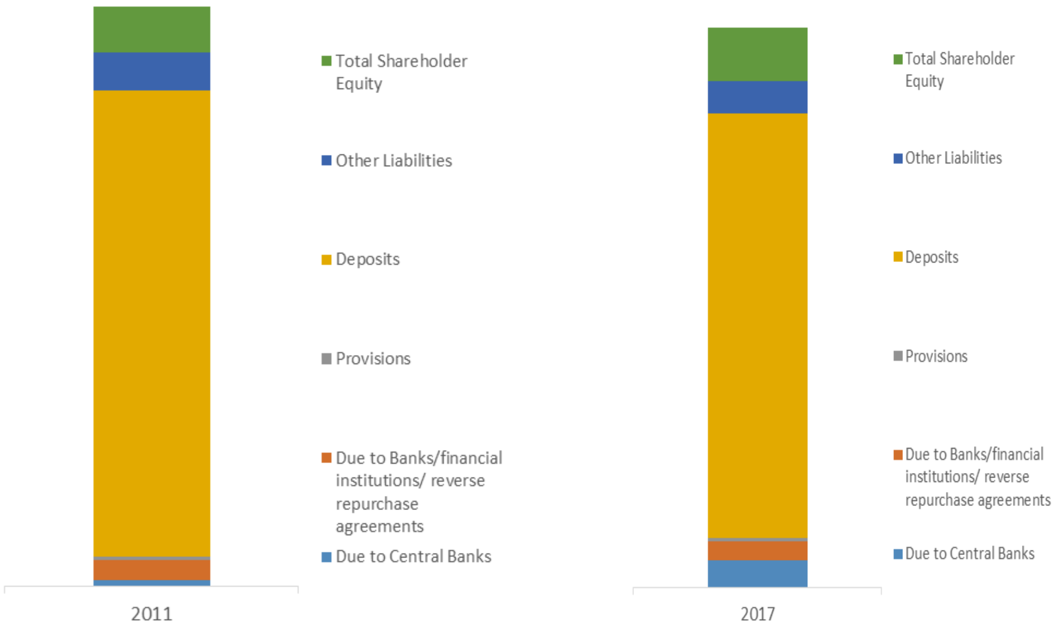
Source: BDL



Source: BDL

Worth mentioning, with stricter capital requirements, deposits grasped around 81% of total liabilities and equity in 2011, compared to 76% in 2017. This can also be justified by the continuous low interest rate packages offered by BDL to commercial banks, which led to the increase in loans from the central bank.

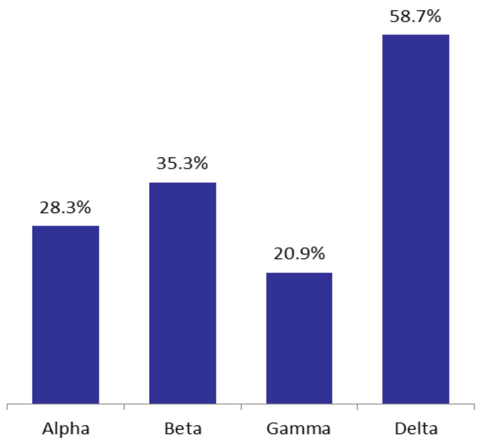
Liabilities and equity composition



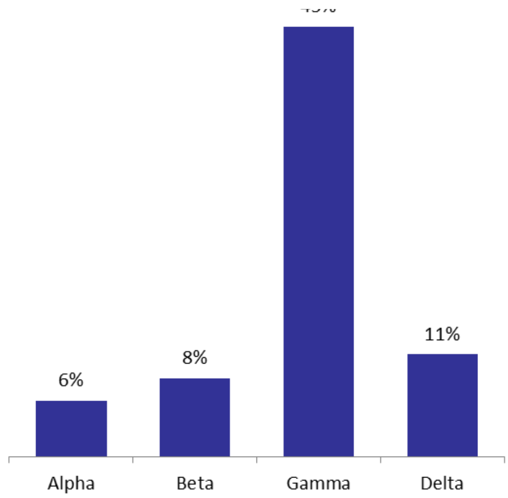
Moreover, as a result of the strenuous economic situation, Lebanese banks remain on following a conservative approach regarding their credit policies. The loans-to-deposits ratio of 38% is lowest compared to the average of the MENA region (70.6%) as well as both the emerging markets (79%) and world averages (85.3%). This can be explained by a very large deposit base when compared to emerging markets. In fact, the deposits to GDP ratio of Lebanon of 380%, which is among the highest in the world.

In terms of asset quality, the ratio of net doubtful loans to gross loans steadied at 1.6% in both 2016 and 2017. Worth mentioning, in terms of asset quality among banks' divisions, 45% of total Gamma loans are considered to be doubtful; however, this is justified by NACB (North Africa Commercial Bank) being an outlier with more than 98% of its loans being doubtful.

Total Loans/ Total Assets



Gross Doubtful Loans/ Total Loans by Bank Division

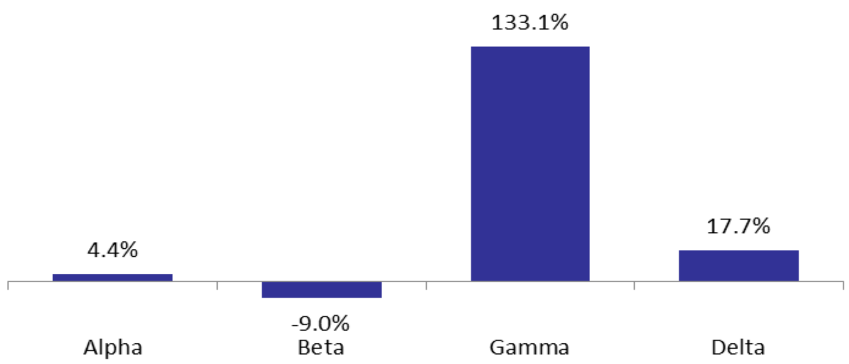


Source: BANKDATA

In terms of optimal investment decisions, Delta banks ranked first with the highest Net Interest Margin (NIM). Delta Banks recorded a NIM of 3.21%, followed by Gamma Banks (2.22%), Alpha Banks (1.82%), and Beta Banks (1.74%).

As for profitability, growth was less pronounced than in previous years. The banks' net profits rose by a yearly 4.4% in 2017, compared to an increase of 12.6% in 2016 and 13.6% in 2015. Net profits reached $2.59B in 2017, with net interest income increasing by 8.1% to $4.58B and net fee and commission income falling from $1.70B to $1.04B.

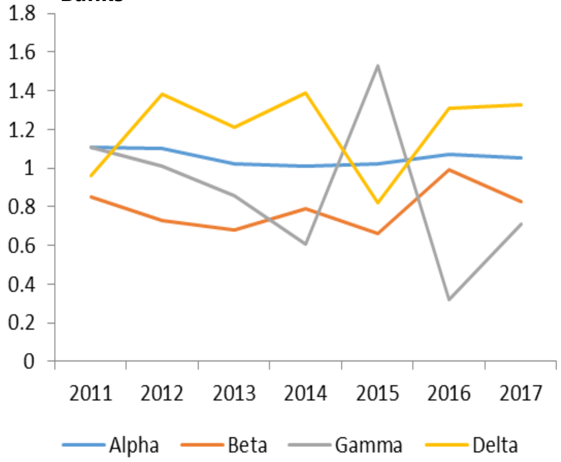
In the 2016 BDL financial engineering scheme, most banks were able to create significant profits. As such, this has made it difficult for the banks to keep up the growth trend with the large increase in income. This can partly justify the 9% drop in Beta banks' net profit, as these banks witnessed a 35% growth in profit in 2016.



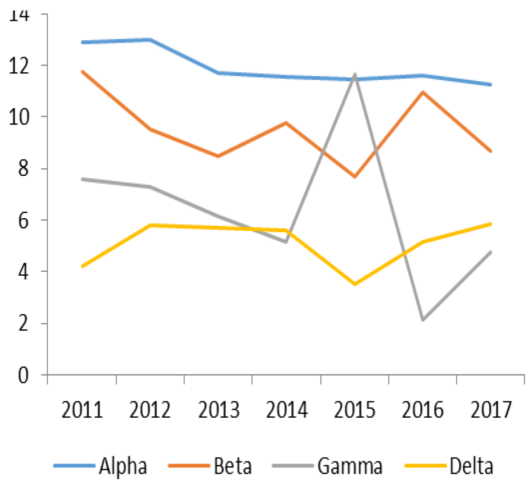
Source: BANKDATA

Consequently, the return ratios retreated during the year. The return on average assets (ROAA) fell from 1.06% in 2016 to 1.04% in 2017, and the return on average equity (ROAE) dropped from 11.23% to 10.84%, during the same period. Delta Banks registered the highest ROAA of 1.33%, Alpha and Beta Banks followed with 1.05% and 0.83%, respectively. In terms of ROAE, Alpha Banks ranked first with 11.27%, tracked by Beta and Delta Banks with 8.70% and 5.84%, respectively. In fact, Alpha banks tend to have relatively stable ROAA and ROAE unlike the others. Gamma banks recorded the best return ratios in 2015, while the large plunge in 2016 can be justified by the fact that most Gamma banks, which are mainly international banks, didn't actively participate in the BDL 2016 swap. Mainly, international banks have a policy to limit their overexposed to the sovereign.

Return on Average Assets among Lebanese Banks



Return on Average Equity among Lebanese Banks



The Lebanese banking sector proved once again its ability to sustain political shocks and worsening economic growth. Given the tough operating environment, provisions for risk and charges have increased by 8.3% to $1.48B. Hence, with the struggling real estate sector and timid improvements in other sectors, provisions are expected to increase in the near future. However, the formation of a new government coupled with the implementation of the capital investment program will bolster the banking sector and increase inflows to Lebanon.

For your Queries:

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