Lebanese Alpha Banks' Performance in 2018

BLOMINVEST BANK

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The Alpha Group's (Top Lebanese Banks with more than $2B in deposits) total assets registered an increase in 2018, in large part due to higher domestic assets. According to Bank Data, the Alpha Group's total assets rose by 11.29% year-on-year (y-o-y) to $261.54B in 2018. Domestic assets, which constitute 86% of total assets, registered a 13.40% annual upturn to $224.90B while foreign assets, representing 14% of total assets, registered a 0.04% yearly decrease to $36.64B.

Alpha Banks' Assets			
In Millions of USD	Dec-17	Dec-18	YOY
Total Assets	235,015	261,542	11.29%
of which domestic assets	198,337	224,905	13.40%
In LL	77,043	97,180	26.14%
In FC	121,294	127,725	5.30%
Foreign Assets	36,678	36,637	-0.11%

The changes in many accounts on the Alpha Banks' 2018 report can be attributed to the swap operation undertaken by the Lebanese banks and the Central Bank in May 2018. 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. As a result of the swap in 2018, the cash and balances with the central bank (grasping 39.58% of the total assets) grew by 34.35% to $103.51B in 2018.

The stagnating Lebanese economy in 2018 was reflected by the decline in lending activity of Alpha Banks. In fact, total loans declined by an annual 4.64% in 2018 to $63.89B. In details, domestic loans (constituting 75.26% of the total loans) decreased by an annual 3.18% to $48.08B. Moreover, foreign loans (constituting 24.74% of the total loans) dropped by a yearly 8.89% to $15.80B in 2018 on account of tough operating conditions in the foreign countries where Alpha banks are present.

Alpha Banks' Loans to Customers			
In millions of USD	Dec-17	Dec-18	YOY
Total Loans	66,999	63,890	-4.64%
of which domestic	49,662	48,084	-3.18%
in LL	14,909	14,062	-5.68%
in FC	34,753	34,021	-2.10%
of which foreign loans	17,337	15,806	-8.83%

Customer deposits grew in 2018 but at a slower rate compared to 2017. In fact, while customer deposits registered a 3.5% y-o-y uptick in 2017, they rose by a slightly lower rate of 2.13% in 2018 to reach $188.40B. The increase in overall customer deposits was solely due to the yearly 2.78% rise in domestic deposits (grasping 86.57% of total deposits) to $163.08B in 2018 while foreign deposits (grasping 13.43% of total deposits) fell by an annual 1.86% to $25.31B in 2018. Worth mentioning that the political and economic uncertainties witnessed in 2018 led to higher demand on the dollar which translated into a 3.05% annual decrease in customer deposits denominated in local currency to $50.26B in 2018. In parallel, customer deposits in foreign currencies registered an annual growth of 5.61% to $112.82B in 2018.

Alpha Banks' Customer Deposits			
In millions of USD	Dec-17	Dec-18	YOY
Total Customer Deposits	184,463	188,395	2.13%
of which domestic	158,674	163,085	2.78%
in LL	51,846	50,263	-3.05%
in FC	106,828	112,822	5.61%
of which foreign deposits	25,789	25,309	-1.86%

Since the growth in deposits outpaced the growth in loans, the Loans to Deposits ratio declined. According to the Alpha report, the loans to deposits ratio fell from 36.32% in 2017 to 33.91% in 2018. As the Lebanese economy is highly dollarized, the loans to deposits ratio in LBP is lower than the loans to deposits ratio in FC. The LBP loans to deposits ratio marginally declined from 28.76% in 2017 to 27.98% in 2018 while the FC loans to deposits ratio decreased from 39.28% in 2017 to 36.07% in 2018. Worth mentioning that Creditbank recorded the highest loans-to- deposits ratio of 58.47%, followed by Bank of Beirut with 42.78% and Bank Audi with 41.59.%.

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 46.83% in 2017 to 58.43% in 2018. BLOM Bank ranked first in net primary liquidity-to-deposits ratio with a reading of 75.84%, followed by Byblos Bank with 71.10%, and Lebanon and Gulf Bank with 62.17%.

The total number of Alpha Banks' branches recorded a marginal increase in 2018 to reach 1,223 branches compared to 1,216 in 2017. While the number of domestic branches rose from 885 in 2017 to 898 in 2019, the number of branches abroad declined from 331 in 2017 to 325 in 2018 due to the challenging operating conditions in foreign countries. With the closure of branches abroad, it is obvious for the number of staff employed abroad declined from 8,073 in 2017 to 8,006 in 2018.

In terms of profitability, the Alpha Group registered a decrease in profits for the first time in more than 5 years. In fact, the group's net profit dropped by 5.52% y-o-y to reach $2.26B in 2018. Although net interest income grew by 10.45% to $4.51B, the group's total operating profit actually dropped by a yearly 4.51% to $6B mainly on account of decline in net fees and commission income by 0.49% to $906.86M and substantial drops in net gains on financial investments. Worth mentioning that the domestic net profit declined yearly by 5.52% to reach $2.04B in 2018.

In the same context, return ratios recorded downticks, with the return on average assets (ROAA) declining from 1.05% in 2017 to 0.91% in 2018 and the return on average equity (ROAE) slipped from 11.26% to 10.31% in 2018. BLOM Bank registered the highest ROAA of 1.47%, IBL Bank and Bank of Beirut SAL followed with 1.44% and 1.13%, respectively. In terms of ROAE, IBL ranked first with 18.47%, tracked by BLOM Bank and Bank Audi with 16.27% and 12.40%, respectively.

Although the banking sector is considered to be resilient and the backbone of the Lebanese economy, **it's performance was affected in 2018.** This was to the political instability, economic deterioration in major sectors and turbulence in key foreign markets. As such, Banks need to attract deposits and find new lending opportunities, in the future, which can be triggered by both the monetary and fiscal policies and new investment projects.

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