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Financial Highlights of Alpha Banks in H1 2019 (in \$B)

	Dec-18	Jun-19	Change
Total Assets	259.77	263.95	1.61%
Loans & Advances to Customers	64.05	60.04	-6.26%
Customers' Deposits	188.39	186.92	-0.78%
Shareholders' Equity	21.41	21.21	-0.96%
Net Profit	1.07*	1.00	-6.63%
*June; YOY chg			

Source: BankData; BLOMInvest Bank

Current Environment

The current economic slowdown is taking its toll on the performance of Alpha Banks which was published by Bankdata for H1 2019. The balance sheet of the 16 Alpha Banks with deposits exceeding \$2B per bank, barely improved while their net income remains on a declining trend, even without including the increase in tax rate on the interest income from 7% to 10%, effective August 2019.

Consolidated balance sheet

The improvement in Alpha Banks' total assets was marginal in H1 2019. Total assets recorded a 1.61% uptick since year start (YTD) to \$263.95B by H1 2019. In fact, assets in the banks' domestic branches (constituting 86.46% of the total assets) grew by 2.16% YTD to \$228.22B, which offset the 1.77% YTD downtick in foreign branches' assets to \$35.72B over the period.

Banks' cash account composed 43.75% of total assets, noting BDL resorted to unorthodox swaps in Q1 2019. Total cash of banks, including deposits with the central bank, climbed by 11.76%YTD to hit

\$115.48B by June 2019. Actually, since end-2018, deposits with the central bank (BDL) witnessed an increase that persisted into H1 2019, largely due to BDL offering banks products with attractive returns to boost its foreign reserves and thus investors' confidence in the country's financial stability.

Meanwhile, “the lower value of utilized loans extended by banks to the private sector points towards a challenging year.” According to BLOMInvest Bank's latest report on [Banks' lending activity by Sept. 2019](#), bank loans diminished and are expected to remain on a downward trend by end 2019 at least, mainly on the back of the high cost of debt, burdening any business or potential investments. In fact, average interest rates on LBP and USD loans climbed from December 2018's 9.97% and 8.57%, to highs of 10.94% and 9.49%, respectively, by June 2019 according to BDL's data, defacto crowding out the private sector from commercial and individual credit markets, despite BDL's re-launching of the housing loan subsidy program in Jan 2019.

Alpha banks' Net loans & advances to customers slumped by 6.26%YTD and 7.26% year-on-year (YOY), to \$60.03B in H1 2019. Net loans composed 22.46% of banks' total assets. In fact, loans in domestic branches fell to \$44.64B compared to \$48.25B by December 2018, owing it to the looming uncertainty on Lebanon's economic and political fronts, especially with the prolonged delay and bickering to approve the 2019 budget over the period. Similarly, loans in foreign branches which totaled \$15.4B, also declined from Dec. 2018's \$15.8B. This retreat may also be an indication of the regional slowdown, including foreign countries where some Alpha banks are present and operating (particularly, Turkey). As such, the ratio of net doubtful loans to gross loans climbed from 3.44% in December 2018 and 3.13% June 2018, to settle at 3.92% in H1 2019.

The banks continue to finance the government, despite the decline in their appetite as apparent in H1 2019. In details, banks' subscription to sovereign Eurobonds fell by 3.5% since the beginning of the year to stand at \$14.63B due to the fact that the government didn't issue Eurobonds since last year. In comparison, their subscription to Treasury bills decreased by a softer 1.9%YTD to \$14.47B by June 2019.

On the liabilities end, bank deposits lost a marginal 0.78%YTD to \$186.92B, while the dollarization rate is on the rise. Total customer deposits at Alpha Banks decreased to \$186.92B in the first six months of the year, down by 0.78% since year-start. The overall decline was underpinned by a 1.27% downtick in deposits of domestic branches to \$161B (or 86.14% of total deposits), but it is noteworthy to scrutinize the breakdown of these. Under the current market conditions reflecting the country's uncertainty, USD deposits are favored by clients, and this is reflected via the domestic deposits denominated in LBP (comprising 30.2% of total domestic deposits) which lost 3.23%YTD to \$48.6B by June 2019. Meanwhile, domestic deposits in foreign currencies (namely dollars) slipped by a marginal 0.4%YTD to reach \$112.36B over the same period. Hence, the dollarization rate increased from 69.18%

in December 2018 to 69.8% in H1 2019. On the counterpart, deposits in foreign branches (constituting 13.86% of total deposits), recorded a growth rate of 2.36% since December 2018, to settle at \$25.91B in H1 2019.

On the ratio analysis front, banks' "liquidity position" parameter is not as reflective under 2019's market conditions. Bank solvency, a pillar of banking activity, is mirrored through the "net primary liquidity-to-deposits ratio in Bankdata's report. Alpha banks' net primary liquidity-to-deposits grew from 57.65% and 51.21% by December 2018 and H1 2018, respectively, to stand at 59.88% in H1 2019. However, in the current deteriorating economic environment the higher liquidity-to-deposits ratio does not mean the banks' liquidity positions improved. In reality, the market is currently facing tightness in liquidity due to BDL's pursued monetary policy which prioritizes maintaining solid foreign currency reserves and boosting investors' confidence, while the country's fiscal policy fails to reflect macroeconomic improvement.

The "loans-to-deposits" ratio fell, owing it to downticks in both sub-components. The ratio in fact fell from 34% in December 2018 to 32.12% in H1 2019. This is expected, knowing that loans deteriorated at a faster rate than the deposits, largely owing it to the economic slowdown and the high interest rates crowding out the private sector.

In turn, the total number of Alpha Bank branches remained almost stable compared to 2018's. Actually, 898 branches were located in Lebanon with 327 abroad as of June 2019. However, compared to June 2018, the total number of branches climbed from 1,205 domestic and foreign branches together.

Consolidated Income

Alpha Banks' profitability remains a prime indication of the banking activity. Alpha banks' consolidated net profits slumped by 6.63%YOY to settle at \$1.00B in H1 2019. The lower profits were underpinned by a yearly drop of 11.3% in net interest income to \$1.93B, as the tax on interest income was raised from 5% to 7% last year and are expected to be further raised from 7% to 10% in H2 2019. Net fees and commission income also fell by an annual 4.3% to \$435.8M over the period. Overall, the banks' domestic net profits declined by 8.08%YOY to \$857.2M by June 2019, which outweighed the 2.94%YOY uptick in banks' total foreign profits to reach \$141.87M.

Banks' lower profitability also slashed the number of staff employed. Total operating expenses at Alpha Banks, of which staff expenses alone grasped 58.9%, retreated by 3.34%YOY to \$1.4B. In fact, the number of staff employed by the Alpha banks' branches inside Lebanon fell by 1.32%YTD which translates into more than 300 employees. This is mainly due to the increases in the interest income tax mentioned earlier, as well as the current economic conditions impacting banks' profitability and the number of hired

staff, especially domestically. In Lebanon, the banking sector employed approximately 500 to 700 employees every year, yet in light of the above reduction in staff employed domestically, the net impact on the Lebanese labour market is a loss of around 1,000 jobs.

In the same context, return ratios slipped over the first half of 2019. The return on average assets (ROAA) of Alpha Banks dropped from 0.9 in H1 2018 to 0.77 in H1 2019, noting that IBL Bank's ROAA was in the lead at 1.47, followed by BLOM Bank's ROAA of 1.27 and the Lebanese Swiss Bank's ratio at 1.11. The return on average equity (ROAE) of Alpha banks also slid from 10.08 to 9.41 by June 2019. The ROAE of IBL Bank was highest at 18.8, followed by that of the Lebanese Swiss Bank at 14.9, and BLOM's ROAE at 14.6.

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