



“With combined profits of \$2.40B in 2017 and assets around 4 times the size of the economy, Alpha Banks remained robust in 2017 despite the challenging operating environment in Lebanon and abroad”

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The Alpha Group's¹ total assets registered an increase in 2017, in large part due to higher domestic assets. According to Bank Data, the Alpha Group's total assets rose by 6.6% year-on-year to \$232.98B in 2017. Domestic assets, which constitute 84.25% of total assets, registered an 8.00% annual upturn to \$196.29B while foreign assets, representing 15.75% of total assets, registered a 0.04% yearly increase to \$36.69B.

In USD Million	Dec-16	Dec-17	YOY
Total Assets	218,495	232,982	6.6%
<i>of which domestic</i>	181,818	196,289	8.0%
<i>of which foreign</i>	36,678	36,693	0.04%
Total Loans to Customers	65,423	66,507	1.7%
<i>of which domestic</i>	46,333	49,169	6.1%
<i>of which foreign</i>	19,089	17,338	-9.2%

The lending activity of Lebanese Alpha Banks also grew in 2017 on account of domestic lending. The tough operating environment in the foreign countries where Lebanese Alpha banks operate translated into a decline in foreign lending. Although total loans to customers registered an annual uptick of 1.7% to \$66.51B, foreign loans declined by a yearly 9.2% to \$17.34B and domestic loans grew by an annual 6.1% to \$49.17B.

¹ Top Lebanese Banks with more than \$2B in deposits

The composition of Alpha Bank loans shows the predominance of dollar-denominated loans. Loans denominated in foreign currencies accounted for 70% of total Alpha Banks' loans and grew by an annual 3.2% to \$34.44B in 2017. Meanwhile, the stimulus packages offered by the Central Bank of Lebanon every year since 2013 have allowed banks to offer loans in local currency at low interest rates; Appetite for the Central Bank's subsidized loans has been growing with the Alpha Banks' local currency loans registering a double digit growth of 13.7% to reach \$14.73B in 2017.

Domestic Loans to Customers in USD Million	2016	2017	YOY
in LL	12,955	14,730	13.7%
in FC	33,379	34,439	3.2%
Total	46,333	49,169	6.1%

in USD Million	2016	2017	YOY
Total Deposits from Customers	176,501	182,590	3.5%
Domestic Deposits	149,566	156,802	4.8%
Foreign Deposits	26,934	25,788	-4.3%

Customer deposits grew in 2017 but at a slower rate compared to 2016. In fact, while customer deposits registered a 3.99% year-on-year uptick in 2016, they rose by a slightly lower rate of 3.5% in 2017 to reach \$182.59B due to the uncertainties that marked 2017, especially in the last quarter. The increase in overall customer deposits was solely due to the yearly 4.8% rise in domestic deposits to \$156.80B in 2017 since foreign deposits actually fell by an annual 4.3% to \$25.79B in 2017.

in USD Million	2016	2017	YOY
Domestic Customer Deposits in local currency	53,013	51,018	-4%
Domestic Customer Deposits in foreign currency	96,554	105,785	10%

The year 2017 was a politically charged year with the resignation of Prime Minister Hariri in late November rattling the social and economic landscapes. In fact, the resignation led to sizeable but manageable capital outflows (shown in the annual drop in foreign customer deposits above) and to higher demand on the dollar which translated into a 4% annual decrease in customer deposits denominated in local currency to \$51.02B in 2017. In parallel, customer deposits in foreign currencies registered a double-digits' annual growth of 10% to \$105.79B in 2017.

Operating conditions in foreign countries where Alpha banks operate have been challenging in 2017. The total number of Alpha Banks' branches has been on a steady decline since 2015 due to the closure of bank branches abroad. The number of Alpha Banks' branches reached 1,197 in 2017 down from 1,211 in 2016 and 1,257 in 2015. While the number of domestic branches increased consistently from 833 in 2015 to 855 in 2016 and 865 in 2017, the number of branches abroad declined from 424 in 2015 to 356 in 2016 to 332 in 2017. With the closure of branches abroad, it is obvious for the number of staff employed² abroad to decline from 10,024 in 2015 to 8,963 in 2016 and 8,074 in 2017.

Despite the challenging economic environment, Alpha Banks continued to sustain a high level of liquidity and asset quality. The Alpha Banks' loans to deposits ratio slightly slid from 37.07% in 2016 to 36.42% in 2017. The domestic loans to deposits ratio slightly rose from 24.44% in 2016 to 28.87% in 2017 since deposits in LBP slid in 2017 while the loans to deposits ratio in foreign currencies slid from 42.49% in 2016 to 39.35% in 2017 as deposits in foreign currencies grew in 2017. Moreover, the primary liquidity to assets ratio registered an increase from 35.12% in 2016 to 40.58% in 2017. In terms of asset quality, the ratio of gross doubtful loans to total gross loans remained almost unchanged at 5.63% in 2017, slightly lower than the 5.65% registered back in 2016.

Referred to as staff employed in Bank and non-banks by Bankdata ²

Lebanese Alpha Banks reduced their exposure to the sovereign in 2017. The Alpha Banks' exposure to the sovereign reached its lowest levels since at least 2015; the subscription of Alpha Banks to BDL (the Central Bank) Certificates of Deposits denominated in LBP dropped by an annual 19.49% to \$10.51B, the subscription of Alpha Banks to Lebanese Treasury bills in LBP and Lebanese Eurobonds also declined by a yearly 10.89% and 9.47% to reach \$15.36B and \$13.16B in 2017, respectively.

The Alpha Group sustained its profitability in 2017. According to Bankdata, the group's net profit rose by 6% year on year to reach \$2.40B in 2017. The group's operating profit actually dropped by a yearly 14% to \$2.76B mainly on account of substantial drops in net gains on financial investments which could be explained by the fact that this account witnessed exceptional gains in 2016 due to the financial engineering program launched by the Central Bank of Lebanon.

The willingness of Lebanese decision makers to embark on a sizeable Capital Investment Program (CIP) holds great potential for boosting overall economic growth. Vital infrastructure investments in electricity and water will allow Lebanon to achieve an overdue quality-leap which, in turn, will attract more investments and revive confidence in the country. Confidence is a key sentiment Lebanese banks thrive on and need, to keep attracting deposits and to find new lending opportunities.

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