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The Lebanese economy has been struggling during the first 3 months of 2019 over a stagnating economy, uncertainty around the operating environment and growing geopolitical tensions in the region. The BLOM Lebanon Purchasing Managers' Index (PMI) dropped from 46.9 in February to 46.3 in March driven by a sharp contraction in output. In figures, the country's debt burden stood at $86.2B in Q1 2019. In turn, Lebanon's fiscal deficit composing 11% of GDP totaled $6.3B by the end of 2018 according to the Ministry of Finance. Moreover, Lebanon's balance of payments (BOP) in Q1 2019 showed a substantial $2 billion worth of transactions flew out of the country, compared to a lower BOP deficit of $198.2 million recorded by March 2018. In details, the net foreign assets (NFAs) of BDL and the Lebanese commercial banks slipped by $1.1 billion and $899 million, respectively, in Q1 2019. Although the banking sector is considered to be resilient and the backbone of the Lebanese economy, it's Q1 performance was affected by the difficult conditions.

The Alpha Group's total assets registered an uptick in the first quarter of 2019 (Q1 2019). According to Bank Data, the Alpha Group's total assets increased by 0.30% year-to-date to $259.34B. Domestic assets, which constitute 86.73% of total assets, registered a 1.23% upturn to $224.91B from the end of 2018. Meanwhile, foreign assets, representing 13.27% of total assets, registered a 5.33% decrease to $34.42B in Q1 2019. According to the BankData report the decline in foreign assets can be linked to "the exchange depreciation in some regional markets and their corollary FX translation impact on banks' balance sheets".

Alpha Banks' Assets			
In Millions of USD	Dec-2018	Mar-19	YTD
Total Assets	258,552	259,337	0.30%
of which domestic assets	222,191	224,9113	1.23%
In LL	95,902	100,126	4.40%
In FC	126,328	124,786	-1.22%
Foreign Assets	36,361	34,423	-5.33%

The cash and balances with the central bank (grasping 41.91% of the total assets) grew by 6.13% y-t-d to $108.69B in Q1 2019. This increase can be linked to the to the swap operations undertaken by the Lebanese banks and the Central Bank. The swap consists 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 stagnating Lebanese economy in 2019 was reflected by the decline in lending activity of Alpha Banks.
In fact, total loans retreated by 3.91% since year start to $60.76B by March 2019. In details, domestic loans (constituting 74.72% of the total loans) decreased by 4.28% since year start to $45.40B. Moreover, foreign loans (constituting 25.28% of the total loans) dropped by 2.82% to $15.36B in Q1 2019 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-18	Mar-19	YTD
Total Loans	63,235	60,761	-3.91%
of which domestic	47,427	45,398	-4.28%
in LL	13,752	12,988	-5.55%
in FC	33,675	32,410	-3.76%
of which foreign loans	15,807	15,362	-2.82%

Customer deposits retreated in Q1 2019. In details, customer deposits registered a 0.98% y-t-d downtick to reach $184.49B in Q1 2019. The decrease in overall customer deposits was solely due to the 0.93% decline in domestic deposits (grasping 86.46% of total deposits) to $159.51B in Q1 2019 while foreign deposits (grasping 13.54% of total deposits) fell by 1.32% to $24.98B in Q1 2019. The important changes in deposits were witnessed during the month of January following a heavy sell-off of the country's dollar-denominated bonds triggered by the statement of Minister of finance Ali Hassan Khalil about debt restructuring. Moreover, banks refer to window dressing strategies which can lead to adjustments in some accounts of their financial statements.

Alpha Banks' Customer Deposits			
In millions of USD	Dec-18	Mar-19	YTD
Total Customer Deposits	186,329	184,494	-0.98%
of which domestic	161,014	159,514	-0.93%
in LL	49,462	49,317	-0.29%
in FC	111,552	110,197	-1.21%
of which foreign deposits	25,314	24,979	-1.32%

The Loans to Deposits ratio declined. According to the Alpha report, the loans to deposits ratio fell from 33.94% in December 2018 to 32.93% in Q1 2019. 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 27.80% in 2018 to 26.34% in Q1 2019 while the FC loans to deposits ratio decreased from 36.15% in 2018 to 35.34% in Q1 2019. Worth mentioning that Creditbank recorded the highest loans-to- deposits ratio of 56.94%, followed by Saradar Bank with 40.49% and Bank Audi with 39.82.%.

In terms of solvency, Alpha banks managed to reinforce their liquidity positions. In details, the net primary liquidity-to-deposits ratio increased from 46.30% in Q1 2018 to 57.88% in December 2018 and 56.16% in Q1 2019. BLOM Bank ranked first in net primary liquidity-to-deposits ratio with a reading of 77.27%, followed by Byblos Bank with 72.04%, and Lebanon and Gulf Bank with 66.07%.

Banks in Lebanon are the main financiers of the Lebanese government. The Alpha banks' subscription to Treasury Bills denominated in Lebanese Pound decreased by 1.92% y-t-d to $14.84B in Q1 2019. However, the banks' subscription to Lebanese sovereign Eurobonds grew by 1.07% y-t-d to $15.28B in Q1 2019.

The total number of Alpha Banks' branches recorded a marginal increase in Q1 2019 to reach 1,208 by March 2019 branches compared to 1,205 in December 2018 and 1,189 in March 2018. While the number of domestic branches remained the same at 879 in Q1, the number of branches abroad rose from 326 in December 2018 to 329 in March 2019. Worth mentioning that the number of staff employed domestically declined from 22,686 by the end of 2018 to 22,560 in Q1 2019.

In terms of profitability, the Alpha Group registered a decrease in profits. In details, the group's net profit dropped by 8.11% y-o-y to reach $483.86M in Q1 2019. In fact, although total operating expenses retreated yearly by 4.48% to $395.49M following the cost cutting strategy of the main Alpha Banks, the group's total operating profit actually dropped by a yearly 4.46% to $1.34B. This can be linked to the yearly decline in "net interest" and "fees and commission" incomes by 5.24% and 2.65% to $989.38M and $218.40M, respectively by March 2019. Worth mentioning that the domestic net profit declined yearly by 8.54% to reach $410.81M in Q1 2019.

In the same context, return ratios recorded downticks, with the return on average assets (ROAA) declining from 0.91% in December 2018 to 0.75% in March 2019 and the return on average equity (ROAE) slipped from 10.30% in December 2018 to 8.85% in Q1 2019. IBL Bank registered the highest ROAA of 1.42%, BLOM Bank and Bank Audi followed with 1.26% and 1.04%, respectively. In terms of ROAE, IBL ranked first with 18.17%, tracked by BLOM Bank and Bank Audi with 14.08% and 12.40%, respectively.

Facing mounting pressures from the unsustainable current trend of public debt, as well as weak economic growth, the Lebanese cabinet has approved the 2019 state budget in May and sent it to the parliament for final ratification. Government's main target is to unlock $11 billion in soft loans and grants pledged by the international community at CEDRE conference. In fact, the new budget seeks to lower Lebanon's fiscal deficit to GDP from an estimated 11% in 2018 to 7.6% in 2019. The cabinet decided to increase the tax on interest from 7% to 10%. This includes resident and non-resident saving deposits, corporate bonds, CDs, and treasury bills; however, interbank deposits and Eurobonds are exempt from this increase. This reform will surely hit banks' revenues. Worth mentioning that the increase in taxes on interest is not expected to lead to a capital outflow, as interest rates on Lebanese deposits remain the highest in the region.

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