Alpha Group Overview | Q1-2017

Moderate activity growth for Alpha banks amid tough operating conditions

The Alpha Report, outlining the performance and positioning of the first 14 banks in Lebanon with deposits exceeding US$ 2 billion, was issued by Bankdata Financial Services wll for the first quarter of 2017.

Alpha Banks actually registered a moderate activity growth in the first quarter of 2017 within the context of a tough operating environment. Consolidated assets of Alpha banks increased by 0.9% over the quarter and by 7.5% on an annual basis to reach US$ 218.8 billion at end-March 2017. Both domestic and foreign activity witnessed positive though modest growth in the first quarter of 2017, with the former growing by 1.0% and the latter growing by 0.4% over the period.

Consolidated deposits, which remain the main driver of total assets growth, followed almost the same performance, growing by 0.8% over the quarter and by 5.4% in annual terms. While deposits in entities abroad dropped by 1.3%, domestic deposits rose by 1.2%. It is worth mentioning that the growth in domestic deposits was mainly driven by FX deposits which grew by 1.6% while LL deposits increased by a mere 0.4%, thus further raising deposit dollarization over the year. Domestic FX deposit growth should be read in conjunction with a double-digit growth in financial inflows turning the deficit in the balance of payments to a net surplus.

Alpha banks remained highly liquid, with primary liquid assets as a percentage of deposits of 37.1% at end-March 2017, well above the regional and emerging markets averages of 26.9% and 23.1% respectively. Such a high liquidity results from the mild transformation, with loans to deposits standing at a low of 36.7%, well below the regional and emerging markets averages of 80% and 83% respectively. This mild lending transformation is witnessed more at the level of the local currency with a loans to deposits ratio of 25.3% as compared to a loans to deposits ratio in foreign currencies of 41.6% at end-March 2017.

Loans to the private sector reported a negative growth of 0.7% in the first quarter of 2017 in an environment of tough economic conditions restricting lending opportunities in Lebanon and main markets of presence. The difficult operating environment yet did not have noticeable adverse impact on asset quality. The ratio of gross doubtful loans to gross loans reported 5.4% at end-March 2017, almost the same level as at end-December 2016 and persistently below the emerging markets and global averages of 7.2% and 7.4% respectively. In parallel, specific loan loss reserves covered 73.5% of doubtful loans at end-March 2017, thus leaving the net doubtful loans to gross loans ratio at a mere 1.4%. More importantly, collective provisions reached a record high in absolute and relative terms, covering 1.6% of the net loan portfolio, mainly as a result of the use of proceeds from the exchange transactions with the Central Bank of Lebanon in 2016, in compliance with the BDL's Intermediary Circular No 446 .

At the profitability level, Alpha banks witnessed a modest net profit growth of 1.7% in the first quarter of 2017 relative to the same period of 2016, which within the context of higher activity and equity growth, translated into a net contraction in return ratios. The return on average assets dropped from 1.00% as at end-March 2016 to 0.95% as at end-March 2017 and the return on average equity declined from 11.07% to 10.14% (from 12.05% to 11.01% for the return on average common equity). The components of return ratios suggest that asset utilization declined noticeably from 2.90% to 2.53% over the same period driven mainly by the decrease in non-interest income to average assets from 0.97% to 0.65% due to lower gains on financial investments and FX, while interest margins slightly declined from 2.01% to 1.95%. Yet, the net operating margin rose in parallel from 34.62% to 37.63%, driven by a decline in credit cost from 9.09% to 3.12%, thus offsetting the increase in cost to income ratio from 47.69% to 51.05% between the two periods. The breakdown of return ratios highlights the persistently tough operating conditions of Lebanese banks in Lebanon and in various foreign markets of presence, pressurizing both their yields and their efficiency metrics within the context of persistently low spreads and interest margins at large.