## Alpha Group Overview | Q1-2019

### *Alpha banks facing increasingly tough operating conditions domestically and regionally*

The Alpha Report, outlining the performance and positioning of the first 16 banks in Lebanon with deposits exceeding US$ 2 billion, was issued by Bankdata Financial Services for the first quarter of 2019.

Measured by the consolidated assets of Alpha banks in both their domestic and foreign markets of presence, banking activity reported a mild growth of 0.3% in the first quarter of 2019 to reach US$ 259.3 billion at end-March. Domestically, assets grew by 1.2%. On the other hand, assets of foreign entities contracted by 5.3%, mainly due to exchange depreciation in some regional markets and their corollary FX translation impact on banks balance sheets. With banks adopting a consolidation stance, the network of Alpha banks reported stagnation with merely 3 new branches opened, while the staff count almost maintained its end-year level.

While assets under management managed to report a positive growth of 1.1% in the first quarter to reach US$ 25.6 billion at end-March, consolidated deposits contracted by 1.0% over the period at both domestic and foreign levels. The former declined by 0.9% while the latter dropped by 1.3%. The most important contraction is that of loans, with Alpha banks following de-risking strategies within the prevailing environment. Consolidated loans contracted by 3.9% in the first quarter amid a 4.3% contraction in domestic loans and a 2.8% drop in foreign loans.

Subsequently, Alpha banks managed to further reinforce their liquidity positions. The ratio of net primary liquidity as a percentage of deposits reached a high of 59.2% at end-March 2019, against 57.9% at end-December 2018 and 49.3% at end-March 2018. This liquidity reinforcement is tied to the loans to deposits ratio of Alpha banks reaching 32.9% at end-March 2019.

The first quarter of 2019 saw a slight deterioration of asset quality. Gross credit-impaired loans (Stage 3) rose by 1.4% over the first quarter to reach US$ 6.1 billion. As a percentage of gross loans, they rose from 8.89% in December 2018 to 9.36% in March 2019, with loan loss reserves standing at 60.67% of credit impaired loans (Stage 3), excluding real guarantees.

Alpha banks also saw their net profits contracting within the context of a tough operating environment in Lebanon and in foreign markets of presence. Net profits actually declined by 8.1% in the first quarter of 2019 relative to the same period of last year. Domestic profits, which account for 85% of consolidated profits, were down by 8.5% in the first three months. Despite the fact that operating expenses were down by 4.2% within the context of cost control efforts by Alpha banks, operating profit contracted by 7.8% driven by the 5.9% drop in net operating income at large.

As a result, return ratios were on the downside. The return on average assets contracted from 0.90% in the first quarter of 2018 to 0.75% in the first quarter of 2019, and the return on average equity dropped from 9.58% to 8.85% respectively (and from 10.26% to 9.24% for the return on average common equity). Such a contraction comes within the context of a drop in asset utilization from 2.41% to 2.09% along with a contraction in net operating margin from 37.29% to 35.76%. The drop in asset utilization is driven by a contraction in spread from 1.86% to 1.57%, while the ratio of non-interest income to average assets reported a relative stability. In turn, the drop in net operating margin is mainly due to a rise in tax cost (with an additional LL 90 billion between the first quarters of 2018 and 2019) following new taxes on banks, amid a stable cost to income.

Finally, despite tougher operating conditions, Alpha banks continue to display adequate financial standing ratios, with above-peer liquidity ratios, sound capital adequacy metrics and still acceptable (albeit slightly deteriorating) asset quality indicators, thus making sure the country's financial sector steers rather safely through the persisting uncertainties.

 