Alpha Group Overview | Q2-2018

Drop in deposit and loan dollarization for Alpha banks this year

The Alpha Report, outlining the performance and positioning of the first 15 banks in Lebanon with deposits exceeding US$ 2 billion, was issued by Bankdata Financial Services WLL for the first half of 2018.

The analysis of the consolidated activity of Alpha banks in Lebanon and abroad suggests that the first half of the current year has witnessed a slowdown in deposit and loan growth when compared to the same period of last year. In fact, deposit growth registered 0.3% between December 2017 and June 2018 (1.7% for domestic deposits and -8.5% for foreign deposits), against a growth of 3.4% over last year's corresponding period. Loans to the private sector contracted by 3.4% year-to-date (-1.7% for domestic loans and -8.3% for foreign loans), against a positive growth of 2.9% over last year's same period. Loan contraction is being registered amid scarce lending opportunities in a sluggish domestic economy and a number of foreign economies of presence.

The breakdown of domestic deposit growth by currency suggests that LL deposit growth reported a decent share of 50.2% out of total growth this year, leaving 49.8% for foreign currency deposits, bearing in mind that the latter had almost accounted for the totality of deposit growth last year. This has lead to a slight contraction in domestic deposits dollarization from 67.5% in December to 67.2% in June. The breakdown of domestic loan growth by currency suggests that while LL loans increased by 1.8% this year, FX loans declined by 3.1% over the period. This has lead to a further contraction in loan dollarization from 70.2% in December to 69.1% in June, a new record low for Alpha banks.

Net primary liquidity in foreign currencies as a percentage of deposits in foreign currencies, the core measure of primary liquidity, has slightly increased from 40.73% in December 2017 to 42.28% in June 2018, while net primary liquidity in Lebanese Pounds increased from 62.14% to 74.67% over the same period. Comparatively, primary liquidity stands at circa 29% for MENA banks, 17% for emerging markets banks and 18% for global banks.

The first half of the year reported a slight deterioration in the asset quality of Alpha banks, though the latter remains acceptable by global and emerging markets benchmarks. Gross doubtful loans as a percentage of gross loans rose from 5.88% in December 2017 to 6.41% in June 2018 (from 7.53% to 8.16% when including substandard loans). With loan loss reserves as a percentage of doubtful loans standing at 74.91%, net doubtful loans remain contained at 1.61% of gross loans, rising to 3.04% when including substandard loans without accounting for real guarantees. Collective provisions as a percentage of net loans yet reported a decline from 1.57% in December 2017 to 1.21% in June 2018, after the implementation of IFRS 9 early January 2018 excluding provisions on other assets and off-balance sheet as well as the excess general provisions which was booked in provisions for risk and charges.

At the profitability level, Alpha banks consolidated net profits reported a year-on-year contraction of 8.1% (-2.4% for domestic net profits) to reach US$ 1.1 billion in the first half-year. But after adjusting for profits from discontinued activities, profits after tax related to operating activities have reported in the first half of 2018 the same level as in the 2017 corresponding period.

Subsequently, Alpha banks' return on average assets dropped from 1.06% in the first half of 2017 to 0.91% in the first half of 2018 and the return on average equity declined from 11.45% to 10.04% (from 12.65% to 10.97% for the return on average common equity). The components of return ratios suggest that asset utilization declined from 2.74% to 2.42% over the same period, driven mainly by the decrease in non-interest income to average assets from 0.90% to 0.52%, while interest margin increased from 1.91% to 2.00%. The net operating margin likewise declined in parallel from 38.76% to 37.38%, driven by an increase in cost to income ratio from 48.65% to 49.99%, a rise in credit cost from 4.10% to 4.27% and an increase in tax cost from 7.97% to 8.25% between the two periods.

All in all, Alpha banks continue to rest on a dedicated customer base while maintaining a healthy liquidity status and adequate capitalization and ensuring strict lending monitoring with acceptable asset quality, thus remaining apt to withstand potential pressures emanating from a difficult operating environment in the domestic market or in foreign markets of presence.