

*Weak lending activity in a sluggish operating environment of Alpha banks*

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 for the first nine months of 2015.

Alpha banks actually reported a slowdown in activity growth this year. Measured by consolidated assets, Alpha banks' activity grew by 2.6% over the first nine months of 2015, against 6.6% at last year's corresponding period. Domestic assets actually grew by 3.0% between December 2014 and September 2015, while foreign assets rose by 1.1%. Out of total activity, 80% was tied to Lebanon and 20% abroad as at end-September 2015.

Deposits remain the main driver of activity growth. They constituted 82.8% of consolidated assets as at end-September and grew by 2.6% over the first nine months of 2015, against 6.3% at last year's corresponding period. The noticeably weak growth was actually that in lending, as consolidated loans rose by 1.3% year-to September 2015, against 8.7% at last year's corresponding period, revealing scarce lending opportunities in an increasingly tough operating environment, domestically and regionally.

The sluggish operating environment did not generate a deterioration in asset quality of Alpha banks. Gross doubtful loans as a percentage of total gross loans stabilized at 5.79% at end-September 2015, close to its beginning of year level. When deducting loan loss provisions that account for 76.25% of gross loans, net doubtful loans accounted for 1.37% of gross loans. Collective provisions to net loans rose to 1.16% at end-September 2015, against 1.03% at the beginning of the year.

In terms of liquidity, Alpha banks maintained a strong liquidity status. Within the context of a low loans to deposits ratio of 37.0% at end-September 2015, significantly lower than the MENA regional average of 75.5% and the global average of 83.6%, Alpha banks maintained an elevated primary liquidity ratio of 31.60%, although slightly declining from its beginning of year level of 33.01%.

At the level of profitability, Alpha banks were able to somewhat increase their profit position this year. Their consolidated net profits reached US\$ 1,498 million in the first nine months of 2015, rising by 9.7% relative to last year's corresponding period (5.5% for domestic profits). The rise in consolidated profits comes as a result of a 6.4% rise in net operating income, outpacing the 3.3% growth in operating expenses. In turn, the rise in operating income is driven by a 6.4% rise in net interest income while net fee and commission income slightly grew by 2.7%.

It is yet worth mentioning that the rise in profits did not lead to an improvement in return ratios. The return on average assets stabilized at 1.01%, while the return on average equity stabilized at 11.52% (12.80% for the return on average common equity). Interest spreads maintained their 1.91% level which, within the context of a non-interest income to average assets ratio of 0.90%, lead to an asset utilization ratio of 2.80% and a net operating margin of 36.16% coupled with a slightly improving efficiency ratio (cost to income) that registered 49.17% over the first nine months of 2015. The resulting modest return ratios bear witness of the difficult operating conditions Alpha banks are witnessing, be it in Lebanon or in the main markets of presence.