Alpha Group Overview | Q4-2017

Modest growth for Alpha banks in 2017, yet with persistently solid financial standing

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 for full-year 2017.

The year 2017 was a year of modest growth for the Lebanese banking sector, due to the one-off effect of the resignation of Prime Minister Hariri in November and which generated some outflows, though limited in volume, from the domestic banking system before returning to normality since the beginning of December. In fact, Alpha banks' consolidated customer deposits grew by 3.5% during the year. Their domestic deposits grew by 4.8% and their foreign entities deposits contracted by 4.3%.

At the level of lending activity, consolidated loans witnessed a 1.7% growth in full year 2017, while domestic loans achieved a larger growth of 6.1%, marking a higher volume growth than the year 2016. This reflects the continuous BDL support through subsidized lending programs. In this respect, domestic figures show a 13.7% increase in LL loans along with a 3.2% rise in foreign currency loans. In other terms, in 2017 as well, BDL measures aimed at fostering local currency loans drove LL loans to contribute to close to 63% of total domestic lending activity growth. This lead the loan dollarization ratio to continue on its declining trend and close the year at a record low of 70%, i.e. now very close to domestic deposits dollarization standing at 67.5% at end-2017.

The Alpha Banks growth performance was coupled with good financial standing which continued to bear witness to a strong financial soundness in the realms of liquidity, asset quality, capitalization and profitability. At the level of liquidity, net primary liquidity placed with central banks and foreign banks represented 41.44% of customer deposits as at end-December 2017, up from 36.42% at end-December 2016, a high level when compared to regional and global averages.

At the level of asset quality, despite the delicate operating conditions across a number of countries of presence of some Alpha banks, consolidated gross doubtful loans continued to represent only 5.63% of gross loans at end-December 2017, similar to the previous year, albeit rising to 7.46% when including substandard loans. In parallel, the coverage ratio of doubtful loans by specific provisions reported 73.13% at year-end 2017, rising to almost 100% when including real guarantees. Alpha banks' Managements are increasingly putting special emphasis on following up on the quality of the loan portfolio and ensuring adequate provision coverage.

At the capitalization level, Alpha banks' consolidated shareholders' equity grew by 6.4%, from US$ 20.5 billion as at end-December 2016 to US$ 21.8 billion as at end-December 2017. This translated in an additional improvement of the Bank's capital adequacy, with equity to assets now standing at 9.35%, ensuring an adequate coverage of credit risks, market risks and operational risks at large.

Last but not least, a rise in Alpha banks' net profits was recorded in 2017 to reach US$ 2.4 billion, growing by 6.0% year-on-year, with domestic profits managing to achieve a noticeable 28.7% growth over the year. At the level of return ratios, the return on average assets stabilized at 1.06% in 2017, while the return on average common equity dropped from 12.81% to 12.57%, below the cost of equity of Alpha banks. The components of return ratios suggest that LL spread rose by 26 bps moving from 1.88% to 2.14%, FC spread declined by 15 bps moving from 1.95% to 1.80%, coupled with a decline in the ratio of non-interest income to average assets from 1.67% to 1.00%, all generating a retreat in asset utilization from 3.60% to 2.91%. This was yet offset by a noticeable rise in the net operating margin from 29.71% to 36.54%, mainly tied to the drop in credit cost from 15.23% to 6.21%, while cost to income rose from 43.19% to 47.65% over the same period. It is yet worth mentioning that both the asset utilization ratio and the credit cost ratio of the corresponding 2016 period were inflated on one side by the non-recurrent revenues and on the other hand by the BDL requirement for banks to use their exceptional revenues in one-time extra provisions.