BANKDATA

Alpha Group Overview | Q4-2013

Alpha banks report strong activity growth but maintain flat profits in 2013

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 full-year 2013.

Alpha banks witnessed a relatively strong activity growth during the year 2013, but in an overall tough operating environment characterized by sluggish domestic economic conditions and ensuing pressures on fee income generation coupled with a low interest rate context that pressurized interest margins and spreads. Total activity, measured by the consolidated assets of Alpha banks, progressed by 10.1% over the covered period to reach US$ 176.4 billion at year-end 2013. This was realized on the back of adding 46 branches and 1,202 employees over the year, to reach a total branch network of 1,131 branches and a total staff count of 27,853 employees, of which 69% in Lebanon and 31% abroad.

Banking activity remains driven primarily by customer deposits, which rose by 9.9% in the year 2013, moving from US$ 133.9 billion at end-December 2012 to US$ 147.2 billion at end-December 2013. The US$ 13.2 billion increase in deposits further reinforces banks’ funding base, with deposits accounting for 83% of the aggregate balance sheet, and proved 27% higher than the deposit growth recorded over the year 2012. The breakdown of deposits reveals that the growth recorded in the year 2013 is mostly owed to domestic deposits (76.8% of total growth), but deposits in foreign entities reported a significant 14.3% growth over the year. Out of domestic deposits, foreign currency deposits were responsible for about 82% of total growth in 2013, with the growth in FX deposits almost double the growth of the previous year.

With additional liquidity at hand and relatively low leverage as reflected by a loan-to-deposit ratio of 36.7%, Alpha banks had enough financial flexibility to extend new waves of credit throughout the year domestically and abroad. Their lending activity grew by 15.6% in the year 2013, with domestic loans rising by 8.2% and loans in foreign entities rising by 38.6%. Banks also raised their foreign currency sovereign bonds portfolios by acquiring the bulk of the portfolio of the Central Bank of Lebanon last year. The ratio of banks’ foreign currency sovereign bond portfolio as a percentage of their foreign currency deposits rose from 12.7% in 2012 to 15.3% in 2013.

Lebanese banks, known for their prudent risk philosophy, were actually keen to maintain their strong asset quality, with a doubtful loan ratio of merely 5.85% of gross loans for Alpha banks at end-December 2013 (6.66% when adding substandard loans). Within the context of loan loss provisions representing 78% of doubtful loans, net doubtful loans maintained almost their previous year’s low level of 1.29% of gross loans (1.96% when adding substandard loans). Notwithstanding collective provisions which rose from 1.06% of net loans in December 2012 to 1.12% of net loans in December 2013.

At the profitability level, Alpha banks almost maintained the same net profits year-on-year. Net profits stagnated at US$ 1,718 million in 2013, of which US$ 1,527 million of domestic net profits rising by 2.3% relative to the previous year. The various components of return ratios show that pressures on interest margins and spreads continued during 2013, and overall asset utilization and net operating margins have been on the decline, driving an overall contraction in return ratios. In details, Alpha banks net interest margin reached 1.93% in December 2013, contracting by 10 basis points over the years (contractions of 24 basis points in LL and 4 basis points in FC). The spread contraction actually drove down Alpha banks asset utilization from 3.05% in 2012 to 2.88% in 2013. This was compounded with a decline in net operating margin from 36.١٩% to 35.4٤% between the two years. Despite the improvement in credit cost from 8.75% to 7.43%, the shrinkage in the operating margin was mainly driven by the increase in the cost to income ratio from 47.63% to 49.86% respectively. As a result, Alpha banks return on average assets shrank from 1.10% to 1.02%, while their return on average equity contracted from 12.87% to 11.79% (return on average common equity contracted from 14.38% to 13.11%).