BANKDATA

## Alpha Group Overview | Q2-2013

***Growing bank activity coupled with stagnant profitability in the first half-year***

The Alpha Report, outlining the performance and positioning of the first 13 banks in Lebanon with deposits exceeding US$ 2 billion, was issued by Bankdata Financial Services for the first half of 2013.

Measured by the consolidated assets of Alpha banks, total activity grew by 3.8% over the first half-year, mainly driven by the growth in domestic activity. Indeed, domestic assets rose by 4.8% during the first six months while assets of subsidiaries abroad declined by 0.7%. Customer deposits remain the main driver of activity growth, rising by 4.4%, also driven by domestic activity which yet saw a significant growth in FC customer deposits by 7.3% while LP customer deposits grew by a mere 2.1%. It is worth mentioning paradoxically that the significant 6.0% growth in loans was driven by foreign entities that saw their lending growing by 17.0% while domestic lending registered a mere growth of 2.4% year-to-date within the context of a slowing down domestic economy offering limited opportunities for lending.

Alpha banks maintained their liquidity in a relatively cloudy environment, with their primary liquidity representing 31.9% of their total assets. The first half-year of 2013 yet reported a rise in the share of Central Banks, with placements at Central Banks growing from 20.0% in December 2012 to 21.2% in June 2013, while placements with banks dropped from 11.7% to 10.7% over the same period. The first half-year also witnessed a rise in sovereign exposure, with the Lebanese sovereign Eurobonds as a percentage of foreign currency deposits rising from 12.8% in December 2012 to 14.3% in June 2013, with their share to shareholders equity growing from 85.6% to 100.2% respectively.

In parallel, the sluggish operating environment did not seemingly impact banks assets quality. Alpha banks saw the share of their doubtful loans as a percentage of total gross loans dropping from 6.24% in December 2012 to 5.68% in June 2013. When adding substandard loans, the ratio drops from 6.83% to 6.30% in gross terms and from 1.73% to 1.42% in net terms. The low level of the latter comes within the context of a rigorous provisioning policy on behalf of covered banks which saw their loan loss reserves as a percentage of doubtful loans rising from 79.٢% in December 2012 to 83.7% in June 2013. Notwithstanding the good level of collective provisions that reached a level of 1.1% of net loans by June 2012.

Within the context of tough operating conditions, Alpha banks reported a stagnation in profitability. Net profits rose by a mere 1.3% in the first half of 2013 relative to the corresponding period of 2012. The rise in net interest income by 2.2% comes within the context of the persistently low interest rate environment, while the 6.8% growth in net operating income is mainly driven by non interest income which saw its share from total income rising from 37.2% in the first half of 2012 to 40.0% in the same period this year. The growth in operating income was yet outpaced by that of operating expenses which amounted to 8.6% over the first half despite banks efforts to contain them.

The stagnant profits within the context of continuously growing balance sheet aggregates lead to a contraction in return ratios. The return on average assets slightly declined from 1.09% in the first half of 2012 to 1.06% in the 2013 corresponding period, while the return on average equity dropped from 12.37% to 11.84%. The components of return ratios show that the decline in the latter comes within the context of a drop in spread from 1.95% to 1.83% which, despite a slight rise in the ratio of non interest income to average assets (from 1.16% to 1.21% respectively) lead to a contraction in asset utilization from 3.11% to 3.04%. The contraction of the latter is coupled with a drop in the net operating margin from 35.07% to 34.99% as a result of a rising cost to income ratio from 46.69% to 47.45% within the context of growing operating expenses. It is worth mentioning within this context that, driven mainly by their new foreign operations, Alpha banks added 51 branches between June 2012 and June 2013 to reach a network of 1,081 branches, with a corollary rise in their staff employed by 1,002 employees to reach a staff count of 26,223 employees.