## Alpha Group Overview | Q1-2013

***Good banking performance over the first quarter of the 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 quarter of 2013.

The report shows that the first quarter of 2013 was relatively good for Lebanon's banking activity. Measured by the consolidated assets of Alpha banks, banking activity grew by 2.4% over the first quarter, mainly driven by customer deposits which grew by 2.2% over the period. The growth in activity was domestically driven, as domestic assets grew by 3.4% while foreign assets contracted by 1.9% between December 2012 and March 2013. Domestically, foreign currency deposits were the driver of deposit growth, progressing by 3.3% while LL deposits grew by a mere 1.0% over the period. It is worth mentioning that Alpha banks added 19 branches and 65 employees over the first quarter to reach a total staff count of 25,938 employees, of which 70% are employed in Lebanon, for an aggregate network of 1068 branches, of which 69% are operating in Lebanon.

The noticeable growth was that of loans to customers that increased by 3.6% over the first quarter, raising the loans to deposits ratio from 34.7% in December 2012 to 35.1% in March 2013. The loan growth was not realized at the detriment of liquidity status, which maintained a comfortable primary liquidity ratio of 32.0% of total assets, a good level by regional and international standards. It was not realized as well at the detriment of asset quality which reported a slight improvement over the period. The ratio of gross doubtful loans to gross loans declined from 6.28% in December 2012 to 6.18% in March 2013, which within the context of a 78.7% provisioning coverage translates into a net doubtful loans to gross loans ratio of 1.32%.

Bank profitability reported a double digit growth, somehow reversing the trend that was prevailing over the past couple of years. Net profits grew by 15.5% over the first quarter of 2013 relative to last year's corresponding period, with domestic profits accounting for 85.7% of total profits. With the growth in net profits surpassing that of balance sheet aggregates, a net improvement in return ratios was actually reported. The return on average assets rose from 1.01% in the first quarter of 2012 to 1.08% in the first quarter of 2013, and the return on average common equity rose from 12.60% to 13.25% respectively.

The analysis of the components of return ratios suggests that the increase in profitability was not tied to an improvement in margins. As a matter of fact, the drop in the yield on earning assets, within the context of a stability in the cost of funds, lead to a narrowing of Alpha banks' interest margin from 2.00% to 1.87% between the two quarters and a contraction in their spread from 1.91% to 1.80% within a prolonged low interest rate environment. The latter was particularly tied to the contraction in LL spread which dropped from 2.70% to 2.07% while the FC spread rose from 1.55% to 1.67%. Likewise, the ratio of non interest income to average assets dropped from 1.20% to 1.15%. The overall improvement was reported at the level of the net operating margin which rose from 32.7% to 36.7% and was mainly driven by an improvement in credit costs from 12.4% to 7.7%. As a matter of fact, net provisions for credit losses dropped from US$ 141 million in the first quarter of 2012 to US$ 90 million in the first quarter of 2013, i.e. an annual decline of 36.2% on the background of already significant loan loss provision allocations in 2011 and 2012.

 