BANKDATA

Alpha Group Overview | Q1-2014

Alpha banks maintain strong liquidity, satisfactory asset quality and adequate capitalization in the first quarter of 2014

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 quarter of 2014.

Alpha banks reported a sluggish growth in activity over the first three months of the year while sustaining their strong financial standing. As a matter of fact, although asset growth was modest at 1.5% in the first quarter of this year, the year-on-year activity growth remains sound at 9.2% between March 2013 and March 2014. Likewise, the growth of deposits and loans has maintained sound annual growth rates of 8.7% and 14.1% respectively at the end of March 2014.

The annual growth in assets between March 2013 and March 2014 was tied to a 7.4% growth in domestic activity, while foreign activity grew by 17.3%. In parallel, customer deposits reported a domestic growth of 6.7% compared to a growth of 19.4% in foreign entities, while loans grew by 6.5% domestically and 36.6% abroad.

At the level of domestic activity, customer deposit growth was driven by a 7.3% growth in FX deposits, while LL deposits grew by 5.6%, slightly driving up the deposit dollarization ratio from 63.1% in March 2013 to 63.5% in March 2014. On the other hand, domestic loans in LL increased much more than foreign currency loans, respectively growing by 15.4% and 3.9% annually as at March 2014. As a result, loan dollarization dropped from 77.1% in March 2013 to 75.2% in March 2014.

Alpha banks maintained their strong liquid status, with a net primary liquidity as a percentage of customer deposits of 30.4%, despite the rise in the loans to deposits ratio from 35.4% in March 2013 to 37.1% in March 2014. This was accompanied by a clear improvement in asset quality, with the gross doubtful loans to gross loans ratio regressing from 6.14% in March 2013 to 5.76% in March 2014. Even when adding substandard loans, the ratio drops from 6.75% to 6.59%. This was realised within the context of a good provisioning level, with loan loss reserves representing 76.4% of doubtful loans, notwithstanding collective provisions that rose from 1.08% of net loans in March 2013 to 1.13% in March 2014. In parallel, banks remained adequately capitalized with a stable equity to assets ratio of 8.78%.

At the profitability level, Alpha banks reported a contraction in consolidated net profits of 2.6%, while domestic profits posted a net drop of 5.0% in the first quarter of 2014 relative to the 2013 corresponding period. The profit contraction, within the context of a positive activity growth, drove down return ratios as a whole. The return on average assets dropped from 1.09% in the first quarter of 2013 to 0.97% in the first quarter of 2014. Likewise, the return on average equity declined from 11.83% to 10.63% (with the return on average common equity dropping from 13.11% to 11.70% over the same period).

The analysis of Alpha banks return ratios shows that their contraction is the result of a drop in asset utilization from 2.97% in March 2013 to 2.71% in March 2014, coupled with a decline in net operating margin from 36.64% to 35.58%. This drop in asset utilization, considering the stability of spreads and interest margins (1.82% and 1.90% respectively), is due to a net decline in the ratio of non interest income to average assets from 1.15% to 0.89% between March 2013 and March 2014. In parallel, the decline in net operating margin is related to the increase in the cost to income ratio from 47.81% to 51.54%, while credit cost dropped from 7.83% to 5.04% between March 2013 and March 2014.