Alpha Group Overview | Q3-2014

Fair growth in major banking aggregates of Alpha banks since the beginning of the year

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 nine months of 2014.

Total consolidated activity of Alpha banks, measured by their total assets, registered a growth of 6.5% between December 2013 and September 2014, a fair growth close to the one reported over the same period last year. It was driven by customer deposits, which account for 83% of total assets, and which have increased by 6.2% over the first nine-month period. A moderate growth of 5.0% in domestic deposits was actually reported coupled with a higher growth of 12.3% in foreign deposits over the same period. Out of domestic deposits, LL deposits grew by 6.0% while FC deposits rose by 4.5%, slightly contracting the deposits dollarization ratio from 64.2% in December 2013 to 63.8% in September 2014.

With Lebanese banks persistently characterized by high liquidity and financial flexibility, evidenced by a low loans-to-deposits ratio of 37.46%, lending activity recorded a satisfactory 8.3% increase in the first nine months of this year, moving from US$ 54.0 billion at end-December 2013 to US$ 58.5 billion at end-September 2014. A moderate growth of 5.5% in domestic lending was reported coupled with a higher growth of 15.1% in foreign lending over the same period. The increase in domestic lending was almost evenly distributed between FC loans (52% of the total) and loans in LL with the latter's LL 1,520 billion increase partly favoured by supportive BDL policies aimed at fostering lending in Lebanese Pounds.

The growth in bank lending was not at the detriment of asset quality which reported an improvement this year. The ratio of gross doubtful loans to total gross loans dropped from 5.93% in December 2013 to 5.55% in September 2014. When adding substandard loans, the ratio drops from 6.75% to 6.48%. In parallel, provisioning coverage has slightly improved, as the ratio of loan loss reserves to doubtful loans increased from 76.81% to 77.61% over the same period and the ratio of collective provisions to net loans reached a new high of 1.17%. As such, the ratio of net doubtful loans to gross loans dropped from 1.38% to 1.24% (2.01% when adding substandard loans). As a percentage of equity, net doubtful loans dropped from 5.16% at the beginning of the year to 4.72%, also confirming the relative improvement in asset quality year-to-date.

At the profitability level, the period witnessed a 4.4% growth in consolidated net profits relative to the first nine months of 2013 (a 2.7% growth in domestic net profits). With profit growth remaining below overall activity growth, return ratios reported an additional net contraction year-on-year. The return on average assets slightly dropped from 1.06% in the first nine months of 2013 to 1.00% in the first nine months of 2014, while the return on average equity declined from 11.89% to 11.35% (from 13.33% to 12.58% for the return on average common equity). The analysis of the components of return ratios evidences that the average spread maintained its low level of 1.90% within the context of the persisting low interest rate environment. In parallel, the ratio of non-interest income to average assets declined from 1.06% to 0.93% generating a slight drop in asset utilization from 2.96% to 2.84% which is coupled with a drop in operating margin from 35.82% to 35.21%. The latter was driven by a rise in cost to income from 48.57% to 51.11% while credit costs dropped from 8.29% to 6.22% over the same period. Return ratios of Lebanese banks remain weak when compared to their average weighted cost of capital although justified by the persistent tough operating conditions in their main markets of presence.