

***Rising efficiency efforts at Alpha banks amidst tough operating conditions***

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 2015.

Alpha banks witnessed a quasi stagnation of their activity base in the first quarter of 2015 but maintain a sound growth year-on-year. Total assets of Alpha banks have reached US\$ 194.0 billion at end-March 2015, growing by 8.4% relative to March 2014. Their activity base remains driven by customer deposits which constitute 82.7% of their assets and which have grown by 7.7% over the past year. As a matter of fact, domestic activity grew by 8.1% between March 2014 and March 2015 while foreign activity rose by 9.4% over the same period. It is worth mentioning that foreign activity has witnessed a net decline during the first quarter of 2015, mainly as a result of the depreciation of exchange rates of the currencies in respective markets of presence.

Staff and branch network expansion has continued throughout the covered period. The number of branches has reached a high of 1,214 branches in March 2015, against 1,142 branches in March 2014, an annual increase of 6.3%. Out of the global network, 66% are operating in Lebanon while 34% are operating abroad. The number of staff employed has reached a high of 29,857 employees in March 2015, against 28,172 employees in March 2014, an annual rise of 6.0%. Circa 68% of the staff count is located in Lebanon while 32% is located abroad.

Alpha banks witnessed a further increase in liquidity over the past year. Their net primary liquidity as a percentage of customer deposits rose from 30.57% in March 2014 to 32.53% in March 2015. While their net primary liquidity ratio in Lebanese Pounds slightly decreased, moving from 20.18% in March 2014 to 19.10% in March 2015, their primary liquidity ratio in FC reached a high of 38.27% in March 2015, up from 35.05% in March 2014. In parallel, the exposure to the State in foreign currency decreased despite their strong subscriptions to the sovereign Eurobond issue of last February. As a percentage of foreign currency deposits, Alpha banks holdings of Lebanese sovereign bonds decreased from 15.39% to 14.84%. As a percentage of shareholders' equity, their ratio decreases from 101.98% to 95.36%.

At the level of asset quality, a relative improvement was reported in the period under study. As a percentage of gross loans, gross doubtful and substandard loans retreated from 6.58% in March 2014 to 6.41% in March 2015. As their provisioning ratio maintained a sound level of 76.71%, the net doubtful and substandard loans contracted to 1.86% in March 2015, down from 2.02% in March 2014. In parallel, collective provisions continued their ascent to reach 1.23% of net loans in March 2015 (1.13% in March 2014). Capitalization was also reinforced, with equity to assets rising from 8.77% in March 2014 to a high of 9.01% in March 2015.

Finally, following the consecutive contraction in return ratios of the past few years, a relative stability was reported during the first quarter of 2015 relative to the 2014 corresponding period. The return on average assets stagnated at 0.99% and the return on average equity maintained its level of 11.06% (12.25% for the return on average common equity). Within the context of a quasi stability in spreads and interest margins, coupled with a rise in non interest income to average assets from 0.86% to 1.08%, asset utilization in Alpha banks rose from 2.71% to 2.95% yet offset by a contraction in their net operating margin. The latter declined from 35.58% to 33.46% due to a rise in credit cost that outpaced the improvement in efficiency. As a matter of fact, cost to income ratio at Alpha banks contracted from 51.64% in the first quarter of 2014 to 47.47% in the first quarter of 2015, bearing witness to reinforced efficiency measures anchored over cost control efforts within the context of rising revenue and cost optimisation strategies amidst tough operating conditions at large.