

*Relative slowdown in growth of Alpha banks activity over the first half-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 half of 2015.

The report suggests a modest growth in Alpha banks activity over the first half of 2015. Consolidated assets grew by 2.0% over the period to reach US\$ 198.4 billion at end-June 2015 while it registered 4.6% at end-June 2014. The activity growth slowdown comes amidst a tough domestic environment characterized by lingering politico-security tensions and economic sluggishness, a delicate regional context given the situation in neighboring countries and rising market volatility on the back of exchange rate depreciation in a number of markets of presence. As a matter of fact, foreign activity has contracted by 0.2% over the first half-year, while domestic activity rose by 2.5% over the same period.

In parallel, customer deposits, accounting for 82.9% of bank assets, rose by 2.2% over the first half of 2015, with domestic deposits growing by 3.0% while foreign deposits decreased by 1.4% over the period. Out of domestic deposits, LL deposits grew by 4.6% while foreign currency deposits increased by 2.1%, thus driving the domestic deposit dollarization ratio down from 64.0% in December 2014 to 63.4% in June 2015. Furthermore, in an environment with weak lending opportunities, loans to customers stagnated over the first half year, with a 1.1% growth in domestic loans and a 2.1% contraction in foreign loans.

As a result, loans to deposits registered a contraction from 37.47% in December 2014 to 36.70% in June 2015. The low loans to deposits ratio continues to be coupled with a high bank liquidity status. Net primary liquidity as a percentage of deposits reported 32.31% as at end-June 2015 (18.01% in LL and 38.44% in foreign currency). Comparatively, the regional net primary liquidity ratio stands at an average of 22.0% both in the region and in emerging markets at large.

The sluggish operating environment did not have adverse effects on asset quality. Gross doubtful loans as a percentage of gross loans stabilized at 5.77% in June 2015 (6.58% when including substandard loans), almost similar to the previous year-end level. Within the context of a persistently sound provisioning level of 76.36% of doubtful loans, net doubtful loans as a percentage of gross loans stabilized at 1.36% (2.02% when adding substandard loans). In parallel, the ratio of collective provisions to net loans rose from 1.03% in December 2014 to 1.15% in June 2015.

Last but not least, the first half of 2015 reported a 9.0% growth in net profits of Alpha banks, though the latter was not coupled with an improvement in return ratios. The return on average assets stabilized at 1.01% in the first six months of 2015, equivalent to the level reported in the same period of 2014. The return on average equity dropped from 11.81% in the first half of 2014 to 11.57% in the first half of 2015. Such an evolution comes amidst a stability in spread at 1.88%, a minor rise in non-interest income as a percentage of average assets from 0.94% to 0.98% leading to a slight rise in asset utilization from 2.81% to 2.86%, yet coupled with a decline in the net operating margin from 36.00% to 35.38% despite an improvement in the cost to income ratio from 50.85% to 49.45%. The banks return ratios and their components actually mirror the tough operating conditions of banks in Lebanon and the respective countries of presence.