BANKDATA

Alpha Group Overview | Q1-2016

No activity growth for Alpha banks in the first quarter 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 quarter of 2016.

Alpha banks witnessed a standstill in activity in the first quarter of 2016. Measured by the consolidated assets of banks operating in Lebanon, banking activity reported US$ 203.4 billion as at end-March 2016, almost its same level as at end-December 2015. Customer deposits, which account for 82.2% of total assets, reported a decline of 0.6% in the first quarter of 2016, mainly tied to the 5.3% decline of deposits of foreign subsidiaries due to foreign currency translation movements, while domestic deposits reported a mere growth of 0.4%. The breakdown of deposits by currency shows a rise in LL deposits by 1.2%, while foreign currency deposits reported a quasi-standstill at end-March 2016 relative to end-December 2015. Subsequently, the domestic deposits dollarization ratio declined further to reach 63.1% at end-March, its lowest level in the past three years.

The stagnation in activity comes despite a continuing rise in branch networks and staff counts. As at end-March 2016, the network of Alpha banks reached 1,241 branches, of which 66% in Lebanon and 34% abroad. At the same date, the number of employees reached 30,931, of which 68% in Lebanon and 32% abroad. It is important to bear in mind that the network and staff expansion is witnessing a slower pace amid tough operating environments in main markets of presence.

The first quarter of 2016 saw a further reinforcement of capital funds. Shareholders' equity grew by 2.4% to reach US$ 18.7 billion at end-March, against US$ 18.2 billion at end-December, thus raising the equity to assets ratio from 8.94% to 9.17% respectively. Alpha banks remain adequately capitalized to cover credit risks, market risks and operational risks at large. In parallel, they maintain a highly liquid status, with net primary liquidity reporting 30.60% of customer deposits while the loans to deposits ratio of 38.40% at end-March bears witness to a large financial flexibility available in Alpha banks.

At the level of asset quality, a slight decline was reported in the first quarter of 2016, though ratios still compare well by international standards. Within a 0.8% growth in loans to customers, largely generated domestically, the ratio of gross doubtful loans as a percentage of total gross loans rose from 5.41% at end-December 2015 to 5.62% at end-March 2016 (yet below the 5.75% level reported in March 2015). When adding substandard loans, the ratio reaches 6.36%, up from 6.14% in December 2105. Furthermore, with 73.6% coverage of non-performing loans by loan loss provisions, net non-performing loans report a low ratio of 1.48% of total gross loans (2.08% when including substandard loans).

At the profitability level, the first quarter of 2016 reported a 6.5% profit growth relative to the first quarter of 2015. The profit growth comes within the context of an 8.2% rise in net interest income and an 11.2% growth in net fee and commission income, generating a 7.7% rise in net operating income, yet offset by an 8.8% rise in operating expenses between the two periods. As a result, the return on average assets was maintained at 1.00%, while the return on average equity curved from 11.51% in 2015 to 11.06% in the first quarter of 2016 (with the return on common equity declining from 12.83% to 12.05% respectively). The decline in the return on average equity ratios comes within the context of a deterioration in cost to income from 48.65% to 49.88%, shrinking the net operating margin from 35.82% to 34.40% and counterbalancing the effect of slightly rising spreads and interest margins in the aftermath of their contraction of the past half-decade.

