BANKDATA

Alpha Group Overview | Q1-2018

Slowing down deposit and loan growth for Alpha banks in the first quarter of 2018

The Alpha Report, outlining the performance and positioning of the first 15 banks in Lebanon with deposits exceeding US$ 2 billion, was issued by Bankdata Financial Services for the first quarter of 2018.

While Alpha banks reported a moderate consolidated activity growth of 1.7% in the first quarter of 2018, their deposit and lending growths were sluggish. Deposits were on standstill, reporting a consolidated figure of US$ 182.4 billion, similar to year-end 2017, as a result of a mild 0.7% growth in domestic deposits and a negative -5.2% growth in foreign entities deposits amid the foreign currency translation effects tied to the depreciation of currencies in some foreign markets of presence. But 93% of domestic deposit growth came from LL deposits, against a share close to nil last year. As a result, deposit dollarization reported a net retreat to reach 67.0% at end-March 2018, against a 10-year high of 67.5% at end-December 2017.

In parallel, lending to the private sector stagnated amid economic volatility in regional markets of presence. Total loans to the private sector reported a net contraction of 1.8%, driven by the 1.7% drop in domestic loans to the resident private sector and the 2.1% decrease in foreign entities loans. With respect to domestic lending, while LL loans reported a growth of US$ 1.7%, foreign currency loans actually reported a drop of 3.1%. As such, domestic lending dollarization reported an all-time low of 69.0% at end-March 2018, registering for the first time a level quite close to deposit dollarization.

Alpha banks maintained good financial soundness indicators at the level of liquidity, asset quality, capital adequacy and profitability despite the mild activity growth. At the level of liquidity, primary liquidity as a percentage of assets rose from 41.4% in December 2017 to 42.7% in March 2018. As to capitalization, the ratio of shareholders equity to total assets was maintained at a sound level of 9.4%. Concerning asset quality, a relative deterioration was witnessed in the first quarter though ratios remain somehow acceptable on the overall. The ratio of gross doubtful loans as a percentage of total loans reported a rise from 5.65% at end-December 2017 to 6.27% at end-March 2018, compared to a 7.4% emerging markets average and a world average of 7.1%.

At the level of profitability, consolidated net profits managed to report an uptick of 1.8%, while domestic profits rose by 8.5% year-on-year in the first quarter of 2018. Profit growth was mainly driven by an 8.5% rise in net interest income, while fee income stagnated at last year's level, all leading to a 3.1% growth in net operating income. In parallel, operating expenses rose by a mere 4.0% amid enhanced cost control efforts in Alpha banks. The net result was a 2.0% rise in operating profit, partly offset by a growing tax bill within the context of recent tax hikes.

With profit growth slightly lower than asset and equity growth, return ratios were on a decline in the first quarter of 2018. Return on assets reported a net contraction from 0.95% in the first quarter of 2017 to 0.90% in the same period of 2018, while return on common equity declined from 10.63% to 10.37% between the two periods. The drop in return ratios comes within the context of a slight rise in interest margin (from 1.95% to 1.99%), offset by a decline in non-interest income as a percentage of average assets (from 0.66% to 0.55%), yielding a net contraction in asset utilization (from 2.53% to 2.45%) and a downtick in net operating margin (from 37.4% to 36.8%). The latter mainly came as a result of slightly rising cost-to-income (from 51.2% to 51.5%) and a rising credit cost from 3.2% to 3.7%.

It is worth mentioning that Alpha banks constituted important provisions as per IFRS 9 requirements well before regulatory deadlines, which reinforces their asset quality and risk profile.

