Alpha Group Overview | Q2-2019

An increasingly tough environment for Alpha banks prompting de-risking and efficiency measures

The Alpha Report, outlining the performance and positioning of Top banks in Lebanon, was issued by Bankdata Financial Services for the first half of 2019.

Measured by the consolidated assets of Alpha banks in both their domestic and foreign markets of presence, their banking activity reach US$ 263.9 billion at end-June, thus reporting a mild growth of 1.6% in the first half of 2019, partly driven by BDL financial engineering operations with Lebanese banks as shown by the domestic asset growth of 2.2%, while foreign entities of Lebanese banks registered a contraction of 1.8% over the period. The latter is mainly due to exchange depreciation in some regional markets and their corollary FX translation impact on banks balance sheets. While the branch network of Alpha banks reported a stagnation over the first half-year, the staff count reported a net decrease of 405 employees (Contractions of 304 employees in Lebanon and 101 employees abroad).

Customer deposits have been on a slight contraction over the first half-year while fiduciary accounts reported a growth of 10.5% over the period. In fact, consolidated deposits contracted by 0.8% over the period, driven by the decline of domestic deposits by 1.3% while foreign entities deposits grew by 2.4%. The most important contraction is that of consolidated loans (-6.3% over the first half-year), with Alpha banks following de-risking strategies within the prevailing environment (a 7.5% contraction in domestic loans and a 2.6% drop in foreign entities loans).

At the level of currency structure, the first half-year witnessed a further rise in deposit dollarization to almost a decade high. While FC domestic deposits contracted by a mere 0.4%, LL domestic deposits dropped by 3.2%. In parallel, domestic LL loans contracted by 10.6% over the first half-year, boosting the dollarization of loans as well.

It is worth mentioning that with the significant loan contraction, Alpha banks managed to further reinforce their liquidity positions. The ratio of net primary liquidity as a percentage of deposits reached 59.9% at end-June 2019, against 57.7% at end-December 2018 and 51.2% at end-June 2018. This liquidity reinforcement is tied to the loans to deposits ratio of Alpha banks reaching 32.1% at end-June 2019, against 34.0% at end-December 2018 and 35.0% at end-June 2018.

The first half of 2019 saw a slight deterioration of asset quality. As a percentage of gross loans, gross credit-impaired loans (Stage 3) rose from 8.98% in December 2018 to 9.92% in June 2019, with loan loss reserves standing at 60.51% of credit impaired loans (Stage 3), excluding real guarantees. The net credit impaired loans yet still represents a contained level of 11.99% of shareholders' equity.

At the profitability level, Alpha banks also saw their net profits contracting within the context of a tough operating environment in Lebanon and in foreign markets of presence. Net profits actually declined by 6.6% in the first half of 2019 relative to the same period of last year. Domestic profits, which account for 85% of consolidated profits, were down by 8.1% in the first six months. Despite the fact that operating expenses were down by 3.3% within the context of cost control efforts by Alpha banks, operating profit contracted by 8.2% driven by the 11.7% drop in net interest income and the 4.3% contraction in net fee income.

Subsequently, the return on average assets of Alpha banks contracted from 0.90% in the first half of 2018 to 0.77% in the first half of 2019, and the return on average common equity dropped from 11.04% to 10.01% respectively. Such contractions come within the context of a drop in asset utilization from 2.39% to 2.08% along with a contraction in net operating margin from 37.51% to 36.83%. The drop in asset utilization is driven by a contraction in spread from 1.84% to 1.49%, while the ratio of non-interest income to average assets reported a slight increase from 0.55% to 0.59%.

In brief, Alpha banks continue to display adequate overall financial standing within the context of firm de-risking measures, while their profitability is becoming increasingly challenged by increasing tax imposition in Lebanon and by rising pressures emanating from the operating environment in a number of foreign markets of presence.