

Alpha banks maintain good resilience amid persisting 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 full-year 2014.

The report suggests that the year 2014 was a positive year for Alpha banks, with growth rates of major banking aggregates proving to be more or less in line with the previous couple of years. Measured by total assets of Alpha banks, banking activity grew by 10.4% in 2014, moving from US\$ 176.3 billion at end-December 2013 to US\$ 194.6 billion at end-December 2014. Activity growth was driven by both domestic and foreign activity, though the latter proved to be more vigorous over the past year. Domestically, assets of Alpha banks witnessed an 8.8% growth in 2014, while their foreign activity grew by 16.9% over the year.

Customer deposits remain the main driver of activity growth. Customer deposits accounted for 82.7% of total activity and grew by 9.4% in 2014. In particular, foreign deposits grew considerably, increasing by 22.4% between December 2013 and December 2014, while domestic deposits grew by 6.8% over the same period. Out of the latter, LL deposits grew by 7.6% and FX deposits grew by 6.4%, slightly shrinking deposit dollarization of domestic activity. Similarly, LL loans grew by 14.1% while FX loans rose by 5.5%, contracting domestic loan dollarization to its lowest level in decades. In parallel, foreign entities engaged in significant lending which reported a growth of 21.9% in 2014, in line with foreign activity growth at large.

The substantial growth in lending activity has not been at the detriment of asset quality. Within the context of a lower growth in gross doubtful loans (7.6%) than that of total gross loans (11.4%), the ratio of gross doubtful loans as a percentage of total gross loans shrank from 5.94% in December 2013 to 5.73% in December 2014. When adding substandard loans, the ratio drops from 6.75% to 6.43% over the same period. Furthermore, with loan loss reserves equivalent to 76% of doubtful loans, the ratio of net doubtful loans to gross loans stabilized at 1.38% over the past year, while its ratio relative to equity registered 5.13% at end-December 2014.

The year 2014 witnessed a significant growth in capitalization as well. Alpha banks' shareholders' equity grew by 12.3%, moving from US\$ 15.3 billion at end-December 2013 to US\$ 17.2 billion at end-December 2014. As such, the equity to assets ratio rose from 8.67% in December 2013 to 8.82% in December 2014. In fact, the reinforcement of capitalization should have translated into higher capital adequacy ratios.

In parallel, the past year saw a 9.1% growth in Alpha banks consolidated net profits (2.1% for domestic net profits). Their profit growth was generated by a 10.3% growth in net operating income, exceeding that of operating expenses of 9.9% and leading to a 10.9% growth in profit before taxes. In turn, the growth in net operating income was driven by a 12.2% growth in net interest income coupled with a 13.7% growth in net fee and commission income.

Last but not least, as profit growth was close to that of total assets and equity, a relative stability in return ratios was recorded in 2014. The return on average assets hovered around 1.01%, maintaining its previous year's level, while the return on average equity slightly contracted from 11.71% in 2013 to 11.55% in 2014. Key performance metrics suggest a rise in spread from 1.88% in 2013 to 1.92% in 2014, yet offset by a slight decline in non interest income to average assets from 1.00% to 0.96%, leading to a stability in asset utilization at 2.87%, in conjunction with a slight decline in net operating margin from 35.47% to 35.19%, while cost to income has been constant at circa 50%.

Looking ahead, Alpha banks are apt to benefit from rising spreads and interest margins on the back of the expected rise in foreign benchmark rates, thus improving the yields on their liquid uses, ultimately supporting their profitability at large.