

Strong loan growth for Alpha banks amid a relative resilience in asset quality

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 six months of 2014.

The first half of 2014 reported a 4.6% growth in activity, as total assets of Alpha banks grew by US\$ 8.1 billion between December 2013 and June 2014. Activity growth was both domestic and foreign, with domestic assets growing by 4.1% and foreign assets increasing by 6.5%. Out of domestic activity, LL assets grew by 3.8% while FC assets rose by 4.3%. Banking activity remains driven by customer deposits which reported a growth of 4.6% over the first half-year, the equivalent of US\$ 6.8 billion, though such growth was driven by deposits in foreign affiliates which grew by 12.4% while domestic deposits grew by a mere 3.0%. The branch network added 35 branches over the first half-year to reach a total of 1,166 branches, of which 67% in Lebanon and 33% abroad, while 726 employees were added to the staff count to reach a total of 28,525 employees, of which 68% in Lebanon and 32% abroad.

In parallel, loans to the private sector grew by 6.9% in the first half-year, mainly driven by foreign loans which rose by 14.3% while domestic loans rose by 3.8% over the period. It is worth mentioning that out of domestic loans, LL loans rose at a faster pace than FC loans, with growth rates of 7.1% and 2.8% respectively. The growth in loans was not at the detriment of asset quality which witnessed relative resilience amid the tough operating environment. The ratio of gross doubtful and substandard loans to gross loans fell from 6.75% in December 2013 to 6.37% in June 2014. Within the context of a provisioning ratio of 76.3%, the net gross doubtful and substandard loans to gross loans dropped to 2.02%. It is worth mentioning as well that the ratio of collective provisions to net loans rose from 1.14% in December 2013 to 1.21% in June 2014.

At the profitability level, the first half-year witnessed a 4.8% growth in consolidated net profits relative to the first half of 2013 (a 1.7% growth in domestic net profits). The positive growth in net profits, although below potential, comes within the context of a 10.0% rise in net interest income coupled with an 11.1% growth in net fee and commission income, on the back of a 49.1% reduction in net provisions for credit losses. As operating expenses rose by 10.1%, the growth in operating profit was actually confined to 4.6%.

Having said that, with profit growth remaining below overall activity growth, return ratios contracted year-on-year. The return on average assets dropped from 1.06% in the first half of 2013 to 1.01% in the first half of 2014, while the return on average equity declined from 11.92% to 11.46% (from 13.34% to 12.75% for the return on average common equity). The analysis of the components of return ratios suggests that interest margins and spreads have maintained their levels of 1.92% and 1.84% respectively, but the ratio of non-interest income to average assets declined from 1.20% to 0.97% generating a drop in asset utilization from 3.05% to 2.81% which more than offset the rise in operating margin from 34.86% to 35.90%. It remains to be said that the latter progress was driven by a lower credit cost moving from 10.49% to 5.25%, while cost to income rose from 47.14% to 50.98% over the period. Those key performance metrics bear witness of the growing challenges facing leading banks, yet without putting at stake their capacity to build on an upside trend that could improve business prospects at large.