BANKDATA

Alpha Group Overview | Q4-2016

An atypical year for Alpha banks amid both opportunities and challenges

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 fourth quarter of 2016.

Alpha Banks actually registered in 2016 a satisfactory activity growth in a tough operating environment. Consolidated assets of Alpha banks increased from US$ 203.7 billion at end-December 2015 to US$ 216.9 billion at end-December 2016, corresponding to a rise of US$ 13.2 billion, i.e. a growth of 6.5%. This performance was nonetheless impacted by the 10.6% nominal decline in foreign activity as a result of the depreciation of respective currencies in main markets of presence, namely the Egyptian Pound and the Turkish Lira which exchange rates lost 58% and 18% respectively versus the US Dollar in 2016, which reflect on the conversion of these assets within the overall consolidation.

Consolidated deposits, which account for 81% of total activity, followed the same performance. While foreign deposits dropped by a nominal 12.3%, again driven by currency fluctuations, domestic deposits rose by 7.5%. It is worth mentioning that the growth in domestic deposits was mainly driven by FX deposits which grew by 9.2% while LL deposits increased by 4.5%.

At the level of lending activity, loans to the private sector reported a relatively mild growth of 2.2% in 2016 in an environment of sluggish economic conditions restricting lending opportunities, in addition to the above mentioned currency translation impact. The currency structure of domestic lending suggests that LL loans grew by a significant 13.5%, while FX loans rose by a mere 1.4%. The double-digit growth in LL loans was supported by the attractive stimulus packages in Lebanese Pounds, in addition to the excess liquidity in LL created by BDL swaps. It is worth mentioning in this respect that net primary liquidity in LL as a percentage of LL deposits rose from 18.0% at end-2015 to 40.5% at end-2016.

In parallel, Alpha banks realized a slight improvement in lending quality over the year. The ratio of gross doubtful loans to gross loans retreated from 5.51% at end-December 2015 to 5.38% at end-December 2016. Concomitant to that direction, with loan loss reserves covering 75.62%% at end-2016, against 73.98% at end-2015, the ratio of net doubtful loans to total loans contracted from 1.43% to 1.31%. More importantly, collective provisions reached a record high in absolute and relative terms, covering 1.23% of the net loan portfolio, as BDL requested Lebanese banks to mainly allocate the exceptional revenues from BDL swaps to collective provisions prior to IFRS 9 implementation in 2018.

At the profitability level, the year 2016 characterized by a significant growth in net fee and commission income, driving a double-digit growth in operating income and offsetting a significant growth in operating expenses and income taxes, all leaving an 11.9% rise in bottom line. Subsequently, return ratios relatively improved, with the return on average assets rising from 1.02% to 1.08% and the return on average equity increasing from 11.47% to 11.77% (13.02% for the return on average common equity). The components of return ratios suggest that asset utilization rose significantly from 2.84% to 3.46% driven mainly by the noticeable increase in non-interest income to average assets from 0.94% to 1.53%, while interest margins maintained somewhat stable levels. Yet, the net operating margin fell from 35.86% to 31.20%, driven by a rise in credit cost from 7.51% to 10.92% and an increase in tax cost from 7.96% to 10.03%, thus dampening the rise in return ratios and keeping them still below the cost of equity of Alpha banks.

In brief, the year 2016 was an atypical year for Alpha banks that faced arising internal opportunities in an evolving domestic environment, coupled with the challenges of tough operating conditions in a number of foreign markets of presence.