

### *Moderate activity growth, sound asset quality and acceptable return ratios for Alpha banks*

The Alpha Report, outlining the performance and positioning of the first 13 banks in Lebanon with deposits exceeding US\$ 2 billion, was issued by Bankdata Financial Services for the first nine months of 2013.

A sound banking activity growth was reported since the beginning of the year, though relatively decelerating during the third quarter. Measured by the aggregate assets of Alpha banks operating in Lebanon, banking activity grew by US\$ 8.3 billion, the equivalent of 5.3% between December 2012 and September 2013. Customer deposits continue to represent the bulk of banking activity for Lebanon's deposit rich banks. Over the first nine months of 2013, customer deposits rose by US\$ 6.6 billion, the equivalent of 5.0%, with domestic deposits rising by 4.9% and foreign deposits growing by 5.6%. It is important to note that domestically, the growth in foreign currency deposits was more important than that of Lebanese Pound deposits (US\$ 4.4 billion and US\$ 1.0 billion respectively), which actually contrasts the trend recorded over last year's corresponding period. In parallel, shareholders equity of Alpha banks grew by 4.8% over the first nine months of 2013 to reach US\$ 14.2 billion, the equivalent of 8.6% of total assets, maintaining a sound capitalization at large.

On the uses side, Alpha bank loans to the private sector increased by US\$ 4.5 billion year-to-date, the equivalent of 9.8%. It was driven by loans of foreign entities with a strong growth of 26.1% while domestic loans barely rose by 4.6%. Though lending to the resident private sector has benefited from the important stimulus package of the Central Bank that subsidizes loan interest rates for a number of economic sectors, it was less significant than last year's corresponding period within the context of the slowdown in the domestic economy. Alpha banks, known for their prudent risk philosophy, are actually keen to maintain their strong asset quality, with a non-performing loan ratio of merely 5.93% of total loans at end-September 2013, dropping by 28 basis points since the beginning of the year, and with loan loss provisions representing circa 81.5% of non-performing loans notwithstanding collective provisions of 1.1% of net loans.

Alpha banks were able to grow their net profits, though at a relatively modest pace year-on-year. Net profits rose to US\$ 1.3 billion over the first nine-month period, growing by 1.2% over last year's same period (2.2% for domestic net profits), thus somehow reversing the relative contractionary trend that was prevailing in the past two years. On the basis of average assets of US\$ 161.9 billion and average equity of US\$ 14.1 billion, Alpha banks return on average assets posted an annual ratio of 1.05% and their return on average equity registered 12.08% (13.54% for the return on average common equity), which despite relative contractions from last year's corresponding period, are considered satisfactory returns relative to regional and global benchmarks.

The various components of return ratios show that pressures on interest margins and spreads continued during the first nine months of 2013, partly offset by non interest income growth, while overall asset utilization and net operating margins have somewhat declined, driving the overall contraction in return ratios. In details, Alpha banks overall spread reached 1.84%, contracting by 11 basis points over the first nine-month period (Contractions of 16 basis points in LL spread and 9 basis points in FC spread). The spread contraction actually drove down Alpha banks asset utilization from 3.06% in the first nine months of 2012 to 2.95% in the first nine months of 2013. This was compounded with a decline in net operating margin from 36.00% to 35.65% between the two periods. Despite the improvement in credit cost from 8.57% to 8.31%, the shrinkage in the operating margin was mainly driven by the increase in the cost to income ratio from 47.68% to 48.94% respectively. As a matter of fact, Alpha banks added 42 branches between September 2012 and September 2013 to reach 1,079 branches, while the number of staff employed rose by 1,151 employees to reach 26,548 employees in September 2013, of which 70% in Lebanon and 30% abroad.