

*Sound financial standing for Beta banks, yet coupled with a decline in return ratios*

The Beta Report, outlining the performance and positioning of 11 banks in Lebanon with deposits between US\$ 500 million and US\$ 2 billion, was issued by Bankdata Financial Services for the first half of 2014.

The report outlined a modest activity growth of 2.2% over the first half-year, moving from LL 20,633 billion in December 2013 to LL 21,086 billion in June 2014, tied almost fully to domestic operations. Activity was mainly driven by customer deposits which account for 84.3% of total assets. Those deposits grew by 2.0% over the period, moving from LL 17,425 billion to LL 17,776 billion. Their growth was tied to LL deposits which grew by 6.7% over the first half, while foreign currency deposits barely changed, thus shrinking deposit dollarization from 69.2% in December 2013 to 67.8% in June 2014.

Lending growth was sound in the first half-year at 3.0% raising the Beta banks loan portfolio to LL 8,180 billion in June 2014. It was driven by LL lending which grew by 7.1% over the period, while FC lending increased by 1.8%. The first half-year did not witness a deterioration in lending quality when compared to the same period in 2013. As a matter of fact, gross doubtful loans to gross loans dropped from 7.74% in June 2013 to 7.62% in June 2014. When adding substandard loans, the ratio declines from 9.45% in June 2013 to 9.00% in June 2014. Yet, provision coverage has retreated, with loan loss reserves as a percentage of doubtful loans dropping from 86.10% in June 2013 to 82.41% in June 2014. As such, the ratio of net doubtful loans to gross loans rose from 1.08% to 1.34% over the same period.

Beta banks maintained a satisfactory liquidity level, though the latter slightly declined. The ratio of net primary liquidity to customer deposits declined from 24.30% in June 2013 to 22.84% in June 2014. Such a move is a mirror image of the loans to deposits ratio which rose from 44.06% to 46.02% over the same period. It is worth mentioning that Beta banks' holdings of Lebanese sovereign Eurobonds as a percentage of deposits in foreign currency dropped from 17.16% to 15.90% over the period. Meanwhile, capitalization remains adequate, with an equity to assets ratio of 8.34% as at end-June 2014.

At the level of profitability, net profits stagnated in the first half of 2014 at their level of the equivalent period of 2013. The 4.6% rise in net interest income coupled with a 7.3% growth in net fee and commission income lead to a 5.3% growth in net operating income. The latter was offset by a 9.7% increase in operating expenses, ultimately generating a 2.5% contraction in operating profit and a nil growth in net profits at large.

The profit stagnation within the context of the observed year-on-year growth in assets and shareholders' equity lead to a decline in return ratios. The return on average assets dropped from 0.75% in the first half of 2013 to 0.70% in the corresponding period of 2014. The return on average equity declined from 8.75% to 8.09% respectively (from 8.73% to 8.20% for the return on average common equity). This was the result of a drop in spread from 1.90% to 1.85% compounded with a decline in the ratio of non-interest income to average assets from 0.72% to 0.69%, leading to a fall in asset utilization from 2.62% to 2.54% and a parallel drop in net operating margin from 28.69% to 27.45%. The latter was generated by an expansion in the cost to income ratio of Beta banks from 62.00% to 65.39%, bearing witness to a retreat in cost efficiency putting further pressure on return ratios at large.