

*Alpha banks register modest activity growth on the back of sustained financial standing*

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 second quarter of 2016.

Alpha banks witnessed a modest growth in activity in the first half of 2016. Measured by the consolidated assets of banks operating in Lebanon, banking activity reported US\$ 206.7 billion as at end-June 2016, growing by 1.5% relative to end-December 2015. It is worth mentioning that growth was all tied to the second quarter of the year, as the first quarter reported a standstill in activity.

Customer deposits, which account for 82.4% of total assets, reported a growth of 1.2% in the first half of 2016, mainly tied to the domestic deposit growth of 2.3%, while deposits of foreign subsidiaries declined by 3.7% mainly due to foreign currency translation movements. The breakdown of deposits by currency shows almost equal growth in LL and FX deposits, further contracting deposit dollarization at large. It is important to mention that 65% of Alpha banks branches are located in Lebanon and 35% abroad, while 68% of staff is located in Lebanon and 32% abroad. The first half reported the opening of 18 new branches with 615 new employees to reach a total of 1,252 branches with 31,360 employees at end-June.

Alpha banks maintained their highly liquid status in the first half of 2016. Their net primary liquidity as a percentage of deposits registered 30.6% at end-June 2016, with the primary liquidity ratio in foreign currency registering 35.0% while the primary liquidity ratio in Lebanese Pounds reported 20.4%.

On the lending side, Alpha banks reported over the first half of this year a moderate 2.9% increase in lending activity, with total net loans reaching a new high of US\$ 65.7 billion at June-end 2016, of which 69% booked in Lebanon while 31% were booked in foreign entities.

Despite the prevailing environment in Lebanon and in main regional markets of presence, asset quality reported a slight improvement over the past year. The ratio of doubtful loans to gross loans dropped from 5.8% in June 2015 to 5.6% in June 2016, which is higher than the regional average of 3.6% but lower than emerging markets and global benchmarks of 6.8% and 7.1% respectively. The prudent provisioning policies of Lebanese banks prompted them to take all needed measures to maintain their good asset quality. At the current 73.5% level, the coverage of doubtful loans by loan loss provisions continues to be adequate, although lower than its previous year's level of 76.4%. It is important to mention that the ratio of net doubtful loans to gross loans stood at 1.49%, reaching 2.18% when including substandard loans, which still compares favorably to international benchmarks. As to collective provisioning, the ratio of collective provisions to net loans rose to a new high of 1.23% by June-end 2016.

The first half of 2016 reported growing profitability but return ratios remain modest. The consolidated net profits of Alpha banks expanded by 8.0% year-on-year to reach almost US\$ 1.1 billion. The banking sector's return ratios were almost stable in 2016, as growth in the sector's net profits was only marginally above growth in assets and equity. The sector's return on average common equity was 12.9% in the first half of 2016, unchanged from the previous year, while the return on average assets slightly rose from 1.01% to 1.05%. It is worth noting that Lebanon's return ratios came, again this year, somewhat short of global benchmarks within the context of persistently tough operating conditions in Lebanon and main markets of presence.