

### *Alpha banks striving to improve efficiency and support returns*

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 half of 2017.

Measured by the consolidated assets of Alpha banks, banking activity rose by an acceptable 2.6% growth in the first half of 2017 to reach US\$ 222 billion at end-June, out of which US\$ 37.2 billion in foreign entities representing 16.8% of the total.

Alpha banks added 7 branches and 531 new employees in the first half of 2017. As such, their branch network reached 1,195 branches in June 2017, of which 70.1% in Lebanon. Their staff count reached 31,085 employees, of which 71.1% in Lebanon.

Customer deposits, which represent 81.4% of total assets, managed to achieve a growth of 3.4% in the first half of 2017, against 1.2% over the same period of 2016. The Alpha banks deposit growth was mostly tied to domestic deposits which rose by 3.8% while foreign deposits grew by 0.9%. Out of domestic deposits, foreign currency deposits grew by 5.0%, while LL deposits inched up by a mere 1.6%, thus raising domestic deposit dollarization to a 6-year high of 65.2% in June 2017.

Alpha banks pursued their prudent lending policies amid a tough operating environment. Their consolidated loan portfolio grew by 2.9% mainly driven by domestic loans which grew by 3.5%. Contrary to the trend in deposits, the domestic loan growth is being accounted for by LL loans which grew by 9.4%, while FX loans rose by a mere 1.2%. Subsequently, domestic loan dollarization has reached a record low of 70.3% in June 2017. It is worth recalling that Lebanese banks are increasingly benefitting from the stimulus packages of the Central Bank of Lebanon providing interest incentives for LP lending over and above an increasing liquidity in LL which is being more and more targeted towards lending at competitive rates.

The growth in the Alpha bank's loan portfolio was yet coupled with a slight retreat in lending quality. The Banks gross doubtful and substandard loans as a percentage of gross loans rose from 6.81% in December 2016 to 7.46% in June 2017 in a low growth economic environment in Lebanon and some markets of presence. Still, while doubtful loans are provisioned to the extent of 71.61% by specific provisions, collective provisions were significantly enhanced reaching a new high of 1.63%. In parallel, primary liquidity was somewhat reinforced to reach a sound level of 35.98% of assets at end-June, against 30.33% a year ago.

As far as profitability is concerned, Alpha banks net profits grew by 10.1%, mainly driven by domestic profits which rose by 15.1% over the first half-year. Profit growth was driven by a 1.6% growth in net interest income, a 1.1% growth in net fee and commission income, coupled with a 2.5% contraction in operating expenses. It is worth mentioning that a part of profits was generated from discontinued activities, while profits from operating activities rose by a mere 3.4% year-on-year.

At the level of return ratios, the performance was mixed. While a slight increase in the return on average assets from 1.04% in the first half of 2016 to 1.07% in the first half of 2017 was reported, the return on average common equity slightly declined from 12.83% to 12.75%, i.e. below the cost of equity of Alpha banks. The components of return ratios suggest that spread has contracted by 9 bps, moving from 1.93% to 1.84%, coupled with a decline in the ratio of non-interest income to average assets from 0.98% to 0.89%, all generating a retreat in asset utilization from 2.92% to 2.73%. This was yet offset by a noticeable rise in the net operating margin from 35.56% to 39.15%, mainly tied to the drop in both cost to income from 49.10% to 47.89% and credit cost from 7.48% to 4.41% over the same periods. In brief, Alpha banks have been embarking on strict efficiency measures to offset the increasingly tough operating conditions and avoid further pressures on their already compressed return ratios at large.

Below are the rankings by balance sheet aggregates and net profits for Alpha banks as at end-June 2017.