



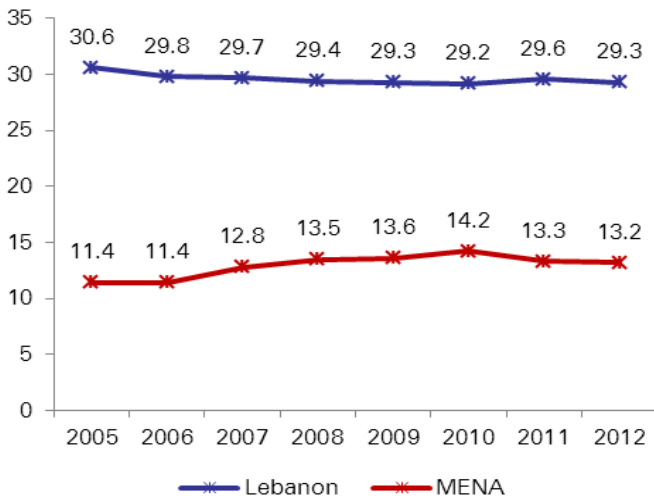
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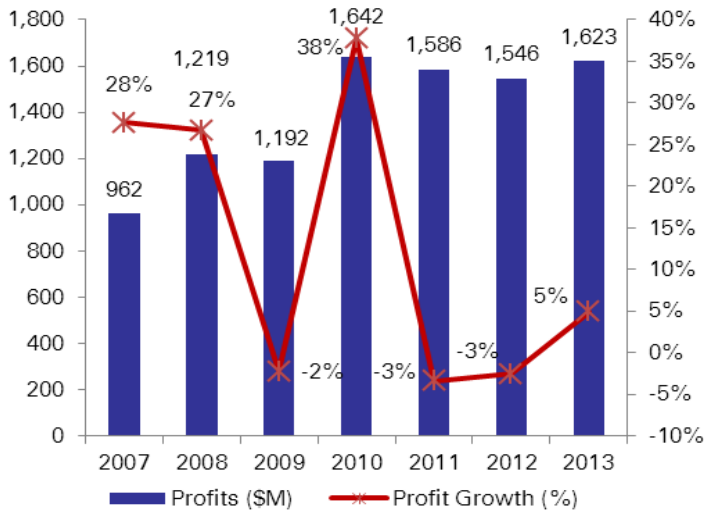
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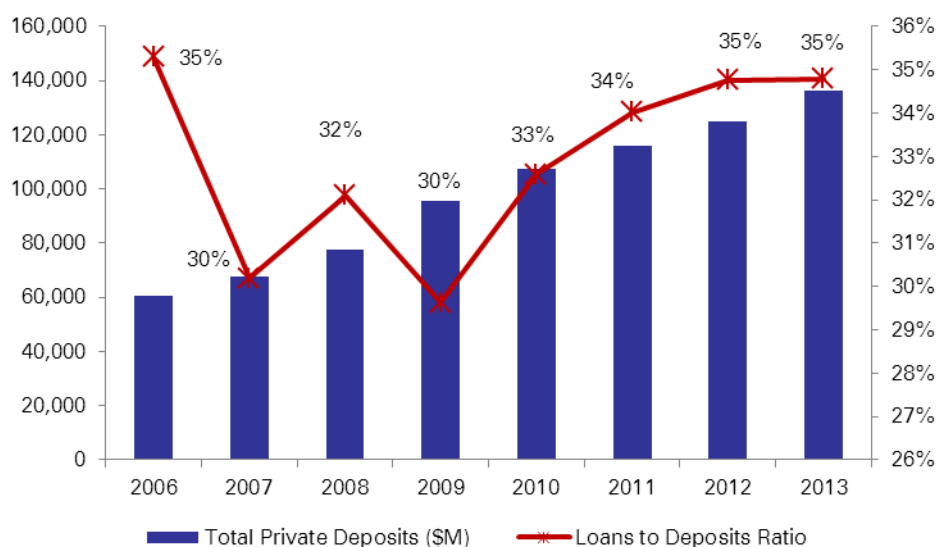
Commercial Bank Branches per 100,000 adults



Regional and Local Turmoil Taking its Toll on Lebanese Banks



*Lebanese Banks Accumulating Ample Liquidity*



*Source: World Bank, ABL, BDL, Blominvest Research*

In a Euromoney article published in May 2014, the governor of the Central Bank of Lebanon mentioned that the number of Lebanese banks (Lebanese shareholders and Lebanese management) was slashed by almost half in the past 20 years. However, he stressed the fact that this slide was the result of a consolidation process and not a series of bank failures: A fact that preserves confidence in the sector and that enhances competition. The following gathers some thoughts on banking consolidation and details the latest in banking M&A activity.

According to 2013’s national accounts, the value added of financial services represented 7% of GDP or \$3.31B. Since banks are the major players of financial intermediation, it is safe to say that the banking sector occupies an important weight in the Lebanese economy.

Given the importance of this sector, it is key to ensure that the market operates at high efficiency. One of the cornerstones of efficiency is assessing whether or not the number of players on the market allows healthy competition on the market.

Today, several categories of banks operate on the market. In terms of commercial banks, Lebanon counts: 10 Lebanese Banks with Arab Control, 1 Lebanese bank with foreign non-Arab control, 4 foreign banks, 31 Lebanese banks, 16 investment banks and 10 Arab banks.

In terms of loans and advances to customers the top three lenders are Bank Audi, BLOM Bank and Fransabank. Byblos Bank, BankMed, Bank of Beirut, Banque Libano-Francaise, SGBL, Credit Libanais, BBAC and Credit Bank follow and all together constitute the top 11 lenders of the country.

Ensuring competition amongst the lenders can be achieved through consolidation in the sector. Law number 192, promulgated in 1993, stands as a testimony to that. According to the Association of Lebanese Banks (ABL), the law facilitates mergers and acquisitions between banks and is designed to help small yet well managed banks go through tough times and avoid liquidation. The law enables M&A activity since it offers the acquiring bank soft loans that would cover the charges resulting from the operation such as the negative net asset value of the acquired bank, if any.

The governor of the Central Bank has however repeatedly ruled out any mergers between the top 11 lenders of the country. The reason behind this is that the market would witness very little competition if only a few banks operate on the market and we would witness the creation of "too big to fail" institutions, a model which we have seen drained taxpayers' money and destabilized the entire international financial system.

Mergers and acquisitions would also deliver better results if they are led by banks of similar or close sizes. If only large banks are the ones growing through M&A activity, a large gap would be created between large and small banks. This gap would negatively weigh on the profit margins of small banks which can only attract customers by charging low fees and commission on their offered services. This gap would also allow large banks to maintain wide profit margins due to the low competition levels.

In order to understand why the Central Bank of Lebanon has recently received many proposals for mergers and acquisitions, one should examine the context in which Lebanese banks are operating. The model applied by Lebanese banks has so far relied on attracting deposits, on the lucrative lending to the government and on lending to the private sector especially in terms of housing and retail loans. With a low loan to deposits ratio of just 35% and private deposits representing 300% of GDP in 2013, it is clear that Lebanese banks have accumulated ample liquidity. In fact, their conservative management is always eager to maintain high levels of liquidity since they operate in a tough political, economic and security environment both locally and abroad.

Difficult operating environment on local and regional markets, combined with the lack of investment opportunities in Lebanon and the cost of maintaining high levels of liquidity, makes it harder for banks to create profits and gives them more incentive to engage in consolidation activities. The law facilitating M&As was designed for times like these: rather than having small banks be shunned from the market due to difficult times, consolidation steps in to preserve confidence in the sector.

Moreover, with new compliance laws such as FATCA and those designed to combat money laundering, the cost of compliance has increased on local and correspondent banks, giving yet additional incentives for bank consolidation.

Below are the details for mergers and acquisitions in our banking sector.

## Fransabank Fully Acquires Ahli Bank Lebanon, May 2014

Fransabank fully acquired the operations of Ahli International Bank in the local market (part of the Jordan-based Al-Ahli Bank) through a deal valued at \$102 million and approved by the Central Bank. Ahli's implied Price to Earnings (PE) ratio is 28.78 while the Price to Book (PB) ratio is 1.64.

Deal Value	\$102 million
Ahli Implied PE	28.78
Ahli Implied PB	1.64

## Ahli International Bank Financial Highlights, in millions of USD

	2012	2013	% change
Total Assets	724.7	787.3	8.6
Loans and Advances to Customers	189	220.3	16.5
Customer's Deposits	620.2	669.5	7.9
Total Shareholders' Equity	58.7	62.2	6.0
Capital – Common Shares	19.8	19.8	-
Total Profit (In \$M)	3.59	3.54	-1.4

## Fransabank Financial Highlights, in millions of USD

	2012	2013	% change
Total Assets	15,751	16,964	7.7
Loans and Advances to Customers	4,714	5,273	11.9
Customer's Deposits	12,824	13,731	7.1
Total Shareholders' Equity	1,489	1,655	11.2
Capital – Common Shares	278.6	278.6	-
Capital – Preferred Shares	17.2	17.2	-
Total Profit (In \$M)	160.4	160.7	0.2

### ZR Group Trying to Acquire Banque Pharaon et Chiha, October 2014

In order to increase its capital and further its development, Banque Pharaon et Chiha sold 80% of its shares to the ZR Group, a Beirut based multinational.

The deal was valued at around \$90M. Bank Pharaon and Chiha's implied PE is 18.48 while the PB is 1.80. The Central Bank of Lebanon has requested further information about the deal in order to announce a final decision.

The shares were sold by Naji Pharaon and his family. The remaining shares will stay with the bank's other shareholders.

Deal Value	\$90 million
Pharaon et Chiha Implied PE	18.48
Pharaon et Chiha Implied PB	1.80

### Banque Pharaon et Chiha Financial Highlights in millions of USD

	2012	2013	% change
Total Assets	283.3	299.5	5.7
Loans and Advances to Customers	81.4	91.6	12.5
Customer's Deposits	227.1	238.5	5.0
Total Shareholders' Equity	46.1	50	8.5
Capital – Common Shares	27.1	27.1	-
Total Profit (In \$M)	4.78	4.86	1.7

#### BIT and NECB Merge, July 2014

Banque de L'Industrie et du Travail and the Near East Commercial Bank announced that they will be merging, a move that would bring their combined assets to \$1.1B.

According to news reports, the total equity would amount to \$185M and would be split 50-50 between NECB and BIT's shareholders. The additional capital injection would come from NECB. The implied Price to Book ratio of the new entity would therefore be 1.31.

Fouad al-Khazen will be the honorary chairman of the new bank which will be called BIT. BIT has 13 branches while NECB has six branches in Lebanon.

Among the key shareholders in the merged bank is former Prime Minister Najib Mikati, Nissan chairman Carlos Ghosn, the Saradar family and the Shammass Economic Institute.

The chairman and CEO of the bank will be Mario Saradar who was the chairman of NECB.

Banque de l'Industrie et du Travail and Near East Commercial Bank Financial Highlights, 2013, in millions of USD

	BIT	NECB
Total Assets	724.4	397.3
Loans and Advances to Customers	201.1	87.5
Customer's Deposits	550.8	315.7
Total Shareholders' Equity	80.7	50.7
Capital – Common Shares	3.4	42.6
Total Profit	0.6	0.9

Cedrus Invest Bank Acquires Retail Operations of Standard Chartered, June 2014

Cedrus Invest Bank signed an agreement to acquire the retail operations of Standard Chartered Bank for \$25 to \$27 million. A deal that was granted BDL approval.

According to news reports, officials at Cedrus said that they would keep 85 of Standard Chartered Bank’s employees while the rest will receive their end of service indemnity according to the Lebanese labor law.

Cedrus Invest Financial Highlights, in millions of USD

	2012	2013	% change
Total Assets	83.9	85.4	1.8
Loans and Advances to Customers	6.91	8.23	19.1
Customer’s Deposits	5.37	4.73	-11.9
Total Shareholders' Equity	54.1	57.3	5.9
Capital – Common Shares	51.7	51.7	-
Total Profit (In \$M)	2.34	3.20	36.8

Standard Chartered Financial Highlights in millions of USD

	2012	2013	% change
Total Assets	132.9	131.7	-0.9
Loans and Advances to Customers	67.6	60.6	-10.3
Customer’s Deposits	100.0	106.4	6.4
Total Shareholders' Equity	14.8	12.1	-18.2
Capital – Common Shares	7.96	7.96	-
Total Profit (In \$M)	-1.808	-3.071	-69.9

in millions of USD	Retail Portfolio	Loans to customers
<b>Standard Chartered</b>	53.9	54.6



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