Credit Libanais adds bespoke products

PRIVATE BANKING

By **Dr Joseph Torbey, Chairman, Credit Libanais**

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The Lebanese bank has developed its services over the last year, incorporating the principles of corporate social responsibility into its wider business model

The curtains have closed on an agitated 2012, leaving behind a multitude of unanswered questions for many banks. In the midst of these turbulences, Lebanese banks continued to reaffirm their apparent immunity to crisis, despite local and regional troubles, posting a healthy balance sheet growth of 8.26 percent year-on-year to $157.94bn in the first half of the year 2013; an annual increase of 9.97 percent in customer deposits to $134.06bn; and a growth of 7.51 percent in loans to $44.84bn. The banking sector also preserved a high liquidity level throughout 2012 and the first half of 2013, with a primary liquidity ratio of 78.34 percent as of June 2013. Profit levels were also consistently high throughout the period.

Most economic sectors suffered a major setback in 2012 and the first half of 2013, with export activity paralysed by the rising tensions on the Lebanese-Syrian border, which is a transit point between Lebanon and many neighbouring Arab countries. More specifically, Lebanon's industrial exports came in 16.14 percent lower year-on-year, at $2.952bn as at the end of 2012, compared to a slight increase in 2011 and double-digit expansions in 2010. Nevertheless, industrial exports bounced back in 2013, rising by 13.5 percent year-on-year to $1.459bn up to May 2013.

> **Rigorous stress testing is incorporated in the capital planning exercise, ensuring that the bank identifies and mitigates the risks to which it might be exposed**

On the energy front, Lebanon reached several milestones on the way putting itself on the international oil and gas production map, including the formation of the Petroleum Administration Committee and the setting of February 1, 2013 as the date for launching the tender for offshore oil and gas drilling. Furthermore, the government assigned March 21, 2013 as the date for publishing the list of qualified firms and May 2 of the same year as the date for receiving formal applications.

In addition, and according to the Lebanese Ministry of Water and Energy, Lebanon has launched a three-dimensional seismic scan for half of its 22,000 square metre Exclusive Economic Zone (EEZ). In fact, an initial survey conducted by Spectrum, the British-based oil and gas company that was contracted by the Lebanese government to conduct a 3D seismic survey of the Lebanese coast, suggested that an area of

3,000 square metres contains a potential 12 trillion cubic feet of gas that could meet Lebanon's electricity production needs for 99 years.

Expansion and modernisation

At Credit Libanais Group, the most significant developments of the year are highlighted by our expansion abroad and the opening of two branches in Iraq (Erbil and Baghdad), in a move towards the Iraqi markets characterised by high GDP growth expectations (8.6 percent average growth rate). Construction works were launched in 2012 to build the new CL Group Headquarters located in the Ashrafieh area, designed to bring all the management teams' efforts to one location, in an ultra-modern workplace and environment.

In parallel, as part of our strategy to develop and create value in the societies where we operate, in 2012 our group created additional tailor-made retail products and services catering to the needs of the public. This move is designed to facilitate the banking experience of dynamic segments of the population, demonstrating once again Credit Libanais' pioneering role in reshaping the banking experience. By the same token, our group is leading the way towards the country's modernisation by launching e-government services related to online tax payments through our subsidiary NetCommerce's payment gateway, in a move that aims to facilitate people's experience when dealing with the government.

Rising above the challenges, Credit Libanais (CL) continues its steady growth path, with all the group's major activity indicators reporting significant increases in 2012. CL's consolidated assets had reached $7.948bn at the end of 2012, before reaching $8.026bn in the first half of 2013.

Customer deposits have also seen an upturn, nearing $6.961bn in 2012 and notching higher to $7.024bn as of the end of June this year. On the lending front, customer loans rose by 13.05 percent in 2012, settling at $2.42bn as of the end of June 2013, with the loans-to-deposits ratio expanding to 34.45 percent in the first half of this year.

On the liquidity front, the group enjoyed a healthy liquidity ratio of 75.12 percent in the first half of 2013. The group's shareholders' equity (including profits) reached $625.87m as of the first half of 2013, up from approximately $619.04m at the end of 2012.

The capital adequacy ratio at the end of 2012 stood at 13.73 percent (computed according to the local national supervisor requirements and the Basel III standard) and rose to 15.07 percent as at June 30, 2013 from 12.83 percent in the first half of 2013, following the issuance of $100m in non-cumulative perpetual preferred shares by the group; well above the minimum regulatory ratio of 10.5 percent for 2013, indicating a high loss absorption capacity in the event of a crisis.

On the profitability front, Credit Libanais Group reported net profits of $61.08m in 2012 and $33.85m in the first half of 2013. It also reported a pre-tax return on average equity (ROAE) and a pre-tax return on average assets (ROAA) of 16.04 percent and one percent respectively in 2012 after adjusting for extraordinary expenses suffered during the year amounting to $4m relevant to the tax adjustments related to previous years, imposed by the Ministry of Finance. In 2012, capital market activities strengthened across the group and encompassed active sales and trading, added to a wide range of financial market products, bonds, equities, equity-linked products, commodities and securitised instruments.

On the corporate banking front, fast decision-making processes and operations are the result of our group's strategy to assign experienced relationship managers who have industry and sector experience, across the bank's regional management locations, thus ensuring an efficient customer experience. In 2012, we concentrated on expanding our customer base with a particular emphasis on the best-performing sectors, all the while enhancing structured and trade finance loans as an additive to existing industrial and commercial financing activities. In fact, industrial, construction, and agriculture loans grew by 7.5 percent to form some 25 percent of our total outstanding portfolio.

Commercial loans grew by 33.18 percent, representing approximately 75 percent of our total outstanding portfolio. Moreover, our partnerships with international institutions, such as the International Finance Corporation (IFC), the European Investment Bank (EIB) and the Arab Trade Finance Programme (ATFP), allow our group to offer a wide range of other long-term financing programmes to customers.

Strategy and efficiency

The retail portfolio continued to grow across all business lines, despite challenging market conditions. More than 100 retail products and services covering consumer lending, accounts services, bancassurance, payment gateways, credit cards and technologically advanced electronic banking services, are offered wherever our group has a presence.

These services are available across a multitude of channels and through an extensive domestic network of 66 branches and entities in Cyprus, Bahrain, Senegal, Iraq and Canada. With a global increase of 9.01 percent in retail products, our housing loans showed a healthy 23.62 percent growth; Iskan loans increased by 10.36 percent; personal loans by 10.45 percent; military Iskan loans by 21.58 percent, and

credit cards by 2.16 percent. In terms of delivery channels, we upgraded our customer relationship management to allow us cater to our customers' needs in a more efficient and timely manner.

In parallel, audit, control and risk management functions are dynamically managed. Effective strategies and policies are well established and periodically reviewed, to ensure an enhanced operational efficiency across the group, an optimal utilisation of resources and a transparent monitoring of capital consumption. In addition, a rigorous stress testing is incorporated in the capital planning exercise, ensuring that the bank identifies and mitigates the risks to which it might be exposed. Security and business continuity planning processes are implemented to enable the bank to continue critical operations and limit losses in the event of business disruptions. Moreover, procedures of fraud management and control, policies to combat money laundering and the financing of crime – namely those principles published by the Basel Committee on Banking Supervision – are also meticulously implemented to safeguard the interests of all our stakeholders.

Credit Libanais group enjoys one of the best asset quality metrics in the Lebanese sector, reporting its gross non-performing loans as a percentage of gross loans (NPL ratio) at 3.6 percent as of the end of June 2013, compared to an average peer ratio of 5.7 percent, noting that in addition to a low NPL ratio, the group maintains robust provisioning levels improving the overall quality of its loan portfolio, with a coverage ratio (total provision as a percentage of gross non-performing loans) at 85.3 percent.

Other support functions witnessed further development alongside the continuous growth of the group. In terms of developing our workforce, extensive training schemes were designed and presented to the majority of staff, mainly in IT, soft skills and core banking courses. We also enhanced our existing e-learning solution to include more than 400 core banking and behavioural courses. Impressive results were achieved throughout 2012, and staff showed great motivation to learn and develop.

Based on our strong belief that, as a socially responsible institution, we can succeed only when our communities succeed, we have taken corporate social responsibly (CSR) to a strategic level and will embark on the implementation of initiatives according to international CSR standards. Our goal is to conduct business while integrating social, ethical and environmental dimensions in all aspects of our activities.

Our strategy continues to focus on creating long-term and sustainable value for all stakeholders. We will do so by sustaining growth through active capital, liquidity and funding management, and capitalising on the continuous development of our financial and human capital.

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