

BLOM Bank Q3 17 Earnings Conference Call Hosted by Arqaam Capital
21 November 2017

Operator: Ladies and gentlemen, welcome to BLOM Bank's Third Quarter Earnings Conference call. I now hand over to your host, Mr. Anas Aboul Hosn, from Arqaam Capital.

Anas Aboul Hosn: Good afternoon everyone and thank you for joining us today. This is Anas Aboul Hosn and on behalf of Arqaam Capital I am pleased to welcome you to BLOM Bank's third quarter earnings conference call. I have with me today Mr Saad Azhari the Chairman and General Manager of BLOM Bank. Without any further delay, I will now turn the call over to Mr Saad Azhari.

Saad Azhari: Okay, thank you very much. I think I'm going to be brief because I'm sure the questions and answers are going to be long. The results for the first nine months that we published showed net profit at around \$357M which represents an increase of around 4% compared to the first nine months of last year. For the balance sheet, we had growth in assets at about 7.7% that reached \$31.8B. Customer deposits stood at \$26.9B, with an increase of around 8.3%. And loans advanced to \$7.6B, an increase of around 6.4%, all compared to the end of last year.

Relative to the banking sector, we maintained a high return on common equity of around 17% which is the highest among the listed banks. At the same time, we had the lowest cost to income ratio of around 34.4%. Our capital adequacy ratio was 17.7% compared to the required ratio of 14.5% in Lebanon. And the coverage of our non-performing loans, including real guarantees and collective provisions, was around 150%.

In general, we have been witnessing new political developments since the end of QIII with the resignation of our prime minister in Saudi Arabia, and the political uncertainty that followed during his stay there. We are expecting him back this evening and there are bound to be some political tensions related to his resignation. That said, I think that the overall situation is under control.

We have experienced some pressure on Lebanese pound conversions into US dollars. Dollarization has increased in the last couple of weeks but we are anticipating a better political climate that will ease the pressure on the Lebanese Pound. If the current political situation persists and the Prime Minister's resignation is not withdrawn, then we might see a continuation of the pressure on the Pound.

I think we can now take your questions.

Operator: Ladies and gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding until we have our first question. We have a question from Ana Shaarawy from FFA Private Bank. Please go ahead.

Ana Shaarawy: My first question will be about BLOM's NIM in Q3. You were talking earlier in the year about keeping NIMs in a certain range which is lower than the one we saw in Q3. Is this

increase related to the transfer of liquidity to the Central bank (BdL) versus more lending or was there another reason behind this?

Saad Azhari: NIMs definitely increased slightly in the third quarter and we are expecting it to increase more in the fourth quarter. The reason for the increase is due to the favourable placement yields that the Central Bank has been offering to banks.

Ana Shaarawy: *Okay thank you.*

Operator: *Ladies and Gentlemen, if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding. We have a question from Juri Fiedler from Terra Partners Asset Management. Please go ahead.*

Juri Fiedler: *Good afternoon, thank you for the presentation. I have actually one question. What is behind the drop in the provision for bad loans during the third quarter of this year? Did the loan portfolio quality rise that much to justify such a decline in the provisions for bad loans or what was behind that decline?*

Saad Azhari: If I understood right, you are enquiring about the reason for the drop in bad loans?

Juri Fiedler: *Yes and debt provision.*

Saad Azhari: There were write-offs.

Juri Fiedler: *I see and it's around \$70M according to note one on your balance sheet and was the whole write-off represented? Does this include recoveries or other reasons for the decline?*

Saad Azhari: Compared to last year, it was the write-offs that lowered the amount. This is the only reason.

Juri Fiedler: *Okay thank you. That's all from my side.*

Operator: *We have a question from Sherif Farid from EFG. Please go ahead.*

Sherif Farid: *Thank you Mr Azhari for the call. I just had a question on the current situation in Lebanon and the effects of the Saudi crackdown on corruption. Have you seen any capital outflows from your bank or any requests in this regard? And if not, do you anticipate any capital outflows in the future and what are your expectations on the cost of funding? Thank you.*

Saad Azhari: We have seen some movement from Lebanese pounds to dollars. But I must say it is less substantial compared to the 2005 assassination of Prime Minister Rafic Hariri or the 2006 Israeli War. More specifically, Central Bank reserves have gone down by about \$800M the first two weeks of November. Effectively, they dropped from \$43.5B to \$42.8B. On the other hand, outflows have not been large. I mean, they are almost equivalent to incoming transfers. So I expect that if the current situation persists, we would probably not see any growth in terms of deposits in the last quarter. With regards

to cost of deposits, it is going to be slightly increasing in dollars and perhaps higher for Lebanese pounds. We are currently witnessing banks increasing their interest rates on Lebanese pound deposits to incentivise customers from converting their money to dollars. So definitely there is an increase in the cost of deposits but the Central Bank has agreed to bear most of the cost of increase of deposits in Lebanese pounds by offering banks higher rates on their placements with the Central Bank.

Sherif Farid:

Thank you very much.

Operator:

Our next question is from Rahul Shah from Exotix Capital, please go ahead.

Rahul Shah:

Thanks for the opportunity. I have a question and I apologize if you just answered it but your provisions coverage ratio fell in Q3 and I was just wondering if you think that ratio could rise going forward? And also I think part of the reason for that drop was a slight increase in NPL. What is your take on that. And then looking at your loan mix, it seems as if you've reduced your exposure to SMEs in Lebanon and I'd be interested in your thinking around that as well. Thank you.

Saad Azhari:

Well in terms of our coverage ratio, specific provisions went slightly down from 83% to 82% between H1 and Q1 of this year. As for NPLs, they slightly increased between quarters from 3.02% in H1 to 3.2% in Q1.

Rahul Shah:

Do you think that it is a change in trend or just a blip?

Saad Azhari:

I don't think it's going to be a change in trend but I have to admit that if the prevailing political uncertainty continues for a long period and interest rates increase, lending rates will consequently increase and NPLs will be adversely affected. We are not seeing that right now but rationally if you have higher rates, you expect that borrowers will have difficulty repaying.

As for the slight quarterly increase in NPLs, it resulted from our overseas operations rather than our domestic market.

With regards to your question relating to the drop in SME lending, it is due to the fact that the latter's share of total lending dropped as a result of incorporating HSBC's corporate and retail lending portfolios.

Rahul Shah:

Thank you. Sorry just to clarify on the coverage ratio, I was talking about the overall coverage ratio which fell from 150% to around 120%. So I guess it's more to do with general provisions but historically you've been above the current level so I was just wondering whether you intend to build that up?

Saad Azhari:

Overall and even after we factor the new IFRS provisions requirements, we are comfortable with our provisioning levels. And as I said earlier, we are 150% provisioned if we were to include our collective provisions and real guarantees.

Rahul Shah:

Thank you.

- Operator: Our next question is from Ana Shaarawy from FFA Private Bank. Please go ahead.*
- Ana Shaarawy: My question is about loan growth, we have seen soft landing so far in 2017. I'm just wondering about your outlook for the rest of the year and 2018, for Lebanon and Egypt?*
- Saad Azhari:** For Lebanon, the current situation doesn't bode well for lending. So growth in local lending will be subdued. As for Egypt, we have seen in the first nine months a growth of around 26% in lending in dollar terms. There has been considerable growth in deposits and lending in dollar terms as well as profits of around \$28M in the first nine months.
- In comparison with the same period of last year, profits are relatively less in dollar terms by around 20-25%. But this has to be viewed in the context that the Egyptian pound has been devalued by 50% in the first nine months of this year. On the other hand, our profits in Egyptian Pounds went up by 70%.
- Ana Shaarawy: Thank you.*
- Operator: As a reminder, ladies and gentleman, if you wish to ask any further questions, please press 01 on your telephone keypad. Thank you for holding until we have further questions. Please go ahead.*
- Speaker: I have a question over here. With the recent BDL financial engineering schemes, what was BLOM's share? Do you have any idea about that?*
- Saad Azhari:** The last?
- Speaker: The most recent.*
- Saad Azhari:** There was a recent one yesterday.
- Speaker: The one before it that started in September.*
- Saad Azhari:** We put placements in dollars at the Central Bank who in return extends a loan at 2% in Lebanese pounds. Our share stood at \$700M or 25% of the overall estimated size of \$2.5B
- Speaker: Fair enough and in terms of dividend payout guidance for this year, would it be around 50%?*
- Saad Azhari:** I think it's too early until April but our dividend payout policy might not change.
- Speaker: Fair enough. Thank you.*
- Operator: Ladies and gentleman, if you wish to ask a question, please press 01 on your telephone keypad. Thank you for holding. We have no further questions. Dear speakers, back to you for the conclusion.*

Anas Aboul Hosn: Thank you everyone. We appreciate your participation today and if you have any further questions please feel free to get in touch with us. I think we're ready to close the call. Thank you again.

Saad Azhari: Thank you.

Operator: This concludes today's conference call. Thank you all for your participation, you may now disconnect.