THE BANKERS - December 2017

The BLOM way: prudence, professionalism, performance and improvement

BLOM BANK's success rests on a conservative business model, innovative services, and the spread of 'Peace of Mind' to its clients.

Saad Azhari, chairman and general manager of BLOM Bank

"BLOM'S OPERATIONAL AND MANAGERIAL EFFICIENCY HAS ENABLED IT TO MAINTAIN THE LOWEST COST-TO INCOME RATIO AMONG ITS PEERS AT 35.81%"

The Banker
Bank of the Year 2017
LEBANON

As one of the oldest established banks in Lebanon, if not the region, BLOM BANK has always been at the centre of the country's banking system. Its universal banking services revolve around trust and credibility, built with its clients through long-term personal relationships, integrity, and the innovative and rewarding products that it has consistently provided. The bank's renowned conservative management has paid off over the years: for decades, BLOM has been one of the most profitable and largest banks in Lebanon. It is proud to have become its clients' preferred banking partner, meeting all their financial needs through innovative products and cutting-edge technology, and making it the lender that delivers their 'Peace of Mind.'

EFFICIENT PERFORMANCE

Throughout the years, BLOM BANK has maintained a track record of exceptional performance. On one hand, BLOM's operational and managerial efficiency has enabled it to maintain the lowest cost-to-income ratio among its peers at 35.81%. In turn, this has translated to steady growth in profitability. From 2010 onwards, net income increased at a compound annual growth rate (CAGR) of 5.79% to reach $463.3mn by 2016. In addition, assets increased at a CAGR of 4.76% to a total of $29.5bn. As important, BLOM's performance is also reinforced when profits are measured relative to the assets and equity bases from which they are generated. In this respect, in 2016 the bank kept a lead of 50 basis points at 1.58% over its main competitor with respect to the return on average assets, and 273 basis points at 17.43% in relation to the return on average common equity.

On the other hand, BLOM has been successful in preserving the capital of its clients through its conservative asset allocation. This includes 46.73% in cash and deposits at central banks, 24.26% in loans, 19.26% in securities, and 7.28% in interbank placements. The Bank adopts this strategy as a differentiating characteristic in procuring capital appreciation, outperforming the market and hedging against risks.

Despite the prevailing political turmoil in the region, BLOM's assets under management (AUM) witnessed a yearly growth of 6% in 2016 to reach $7.1bn. Net inflows came from the Lebanese market, the GCC countries, and the Lebanese diaspora in Africa, Europe and Latin America. Moreover, BLOM's consolidated Basel III capital adequacy reflected solid solvency with a ratio of 19%. Tier I capital increased by 8.3% to $2.94bn, attributed mainly to increases in retained profits. In fact, the bank's policy is to strike a balance with respect to maximising shareholder value while not compromising its Tier I capital growth.

GEOGRAPHIC EXPANSION

BLOM BANK is the Lebanese bank with the widest international network. The bank conducts worldwide operations through a widespread network of branches/subsidiaries in 12 countries: Lebanon, Jordan, UAE, France, UK, Switzerland, Romania, Cyprus, Egypt, Qatar, Iraq, and Saudi Arabia. In its drive to diversify its revenue base and enrich its asset class, the bank is prioritising its regional expansion by adopting a measured growth policy. To this end, BLOM BANK is capitalising on its competitive edge in terms of common language, geographic proximity, excellent reputation, and existing relationships. It also follows a parallel expansion policy in Lebanon to strengthen the flow of its services, as best exemplified by the acquisition and merger of the assets and liabilities of HSBC Lebanon branches in June 2017.

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Qatar National Bank takes lead in Middle East

For the first time in the history of *The Banker*'s Top 1000 World Banks ranking, Qatar National Bank (QNB) has topped the regional table for the Middle East with $17.2bn in Tier 1 capital. This comes after the Qatari lender progressively narrowed the gap with Saudi Arabia's National Commercial Bank, the long-time regional leader, over the past few years. QNB's stellar growth has seen the bank emerge as a true giant in the Middle East and Africa region following a series of ambitious acquisitions including Société Générale's Egyptian business in 2013, a stake in pan-African lender Ecobank in 2014 and Turkey's Finansbank in 2016.

The remaining top five Middle Eastern lenders are the same as in the 2016 rankings. However, the headline merger of the National Bank of Abu Dhabi and FGB, two of Abu Dhabi's largest banks, has not been taken into account in this year's edition as it fell outside of the review period. Though the two banks occupy fifth and ninth positions, respectively, the rebranded entity, known as First Abu Dhabi Bank, may well rise in the rankings in 2018.

Outside the Gulf Co-operation Council, Bank Leumi le-Israel has climbed the Middle East table from 13th place in 2016's rankings to 10th this year. Jordan's Arab Bank has also risen, climbing to 18th place in the regional table from 21st in last year's rankings.

The Middle East's highest movers table is dominated by banks from the United Arab Emirates. Three of its lenders have made the top 10, including Ajman Bank and Noor Bank in the top two spots. The remaining entries include two banks from Bahrain, two from Qatar and one each from Oman, Jordan and Lebanon. It is notable that five of the 10 highest movers are sharia-compliant institutions. In this regard, Dubai Islamic Bank is the only institution to be both a highest mover and in the top 25 regional table, and has posted a 31% increase in its Tier 1 capital.

Meanwhile, the top five banks by return on capital include two Lebanese banks at the summit. Blom Bank, in first place, reported return on capital of 23.75%. Bank Audi, the country's largest lender by total assets, comes in a close second with 22.8%.

NEW ENTRANTS: MIDDLE EAST ($M)

World Rank	Bank	Country	Tier 1 capital
905	Ithmaar Bank	Bahrain	574
969	Bank of Jordan	Jordan	485
914	Ajman Bank	UAE	557

Source: www.thebankerdatabase.com

TOP 25: MIDDLE EAST ($M)

Regional rank	World rank	Bank	Country	Tier 1 capital
1	82	Qatar National Bank	Qatar	17,248
2	87	National Commercial Bank	Saudi Arabia	15,912
3	101	Al Rajhi Bank	Saudi Arabia	13,852
4	109	Emirates NBD	UAE	13,024
5	112	National Bank of Abu Dhabi*	UAE	12,458
6	119	Samba Financial Group	Saudi Arabia	11,416
7	128	Riyad Bank	Saudi Arabia	10,073
8	133	Bank Hapoalim	Israel	9,483
9	147	FGB*	UAE	8,792
10	152	Bank Leumi le-Israel	Israel	8,464
11	154	Saudi British Bank (SABB)	Saudi Arabia	8,341
12	161	Abu Dhabi Commercial Bank	UAE	8,160
13	162	Banque Saudi Fransi	Saudi Arabia	8,063
14	163	National Bank of Kuwait	Kuwait	7,903
15	184	Dubai Islamic Bank	UAE	6,840
16	197	Arab National Bank	Saudi Arabia	6,076
17	198	Kuwait Finance House	Kuwait	5,979
18	213	Arab Bank	Jordan	5,441
19	218	Mashreqbank	UAE	5,163
20	220	Alinma Bank	Saudi Arabia	5,114
21	229	Union National Bank	UAE	4,942
22	240	Qatar Islamic Bank (QIB)	Qatar	4,687
23	252	Israel Discount Bank	Israel	4,183
24	254	Bank ABC	Bahrain	4,154
25	257	Commercial Bank	Qatar	4,111

* FGB and National Bank of Abu Dhabi finalised their merger at the beginning of 2017 to form First Abu Dhabi Bank

Source: www.thebankerdatabase.com

HIGHEST MOVERS: MIDDLE EAST

Regional rank	World rank	Bank	Country	Tier 1 capital % ch.	Tier 1 capital $m
1	914	Ajman Bank	UAE	63.61	557
2	563	Noor Bank	UAE	55.29	1,429
3	534	Societe Generale de Banque Liban	Lebanon	51.73	1,573
4	810	Oman Arab Bank	Oman	32.08	736
5	612	Bank of Bahrain and Kuwait	Bahrain	32.05	1,249
6	184	Dubai Islamic Bank	UAE	31.03	6,840
7	684	GFH Financial Group	Bahrain	25.58	1,041
8	481	Al Khalij Commercial Bank	Qatar	24.65	1,788
9	520	Qatar International Islamic Bank	Qatar	24.61	1,625
10	969	Bank of Jordan	Jordan	24.39	485

Source: www.thebankerdatabase.com

TOP FIVE ROC: MIDDLE EAST

Regional rank	World rank	Bank	Country	Return on capital (%)
1	363	Blom Bank	Lebanon	23.75
2	321	Bank Audi	Lebanon	22.8
3	631	HBTF	Jordan	22.55
4	684	GFH Financial Group	Bahrain	22.38
5	484	Al Baraka Banking Group	Bahrain	21.85

Source: www.thebankerdatabase.com

The Top 1000: how we did it

The Banker's Top 1000 World Banks ranking tracks the largest bank holding companies based on Tier 1 capital. We have analysed close to 2000 financial results in order to produce the Top 1000 for 2017. We include banks for which we hold audited year-end financial results. We only include banks for which we hold latest results (end of 2016), and aim to track banks at their highest capital regulated consolidation level.

end 2016

We do not track foreign-owned banks in the main ranking. Foreign-owned subsidiaries are included in the country breakdown, if their Tier 1 would be large enough for them to feature in the Top 1000. Foreign-owned banks are marked 'FOS' in the country ranking.

This year's minimum Tier 1 capital for inclusion was $442m (in comparison with the $404m last year, a 9.41% increase). The country breakdown starts on page 216 and covers 1272 banks in 102 countries.

The rankings are based on the definition of Tier 1 capital, as set out by Basel's Bank for International Settlements (BIS). We always collect Tier 1 capital after regulatory deductions. Where no capital disclosures are available, we recalculate banks' Tier 1 capital based on their 'change in shareholder equity'. All BIS ratios are, however, collected as published. If banks published financials both in statutory and pro-forma figures, we track the statutory figures. Where accounts are available according to both International Financial Reporting Standards and national accounting standards, we have consistently used International Financial Reporting Standards accounts.

DEFINITIONS

Year end	In order to produce a more accurate ranking, which compares bank performance over the same time period, the 2017 Top 1000 only includes banks for which we held 2016/17 year-end data on our production deadline of May 31, 2017.
Tier 1 capital	Tier 1 capital, as defined by the latest BIS guidelines, includes loss-absorbing capital that is common stock, disclosed reserves, retained earnings and minority interests in the equity of subsidiaries that are less than wholly owned. It excludes cumulative preference shares, hidden reserves and revaluations reserves, subordinated debt and long-term debt: these are defined as Tier 2 capital, which we track but do not include in our Top 1000 ranking. Tier 1 capital figures are net of regulatory deductions outlined by the BIS committee on banking regulation (where disclosure is available).
Assets	This refers to banks' total assets and excludes third-party items such as acceptances, guarantees and securities held with third parties, and off-balance-sheet assets.
CAR latest	The capital/assets ratio is commonly referred to as the 'leverage ratio' (Tier 1 capital/total assets), although the BIS rules have further regulatory definitions for capital and assets used in calculating leverage ratios, which will differ from those used in *The Banker*'s ranking.
Profits	All profits are before tax to make the figures comparable on a worldwide basis, and are net of provisions for impairment. Profit figures also include discontinued operations.
ROC latest	Return on capital measures banks' profitability on Tier 1 capital (profits/Tier 1 capital).
ROA latest	Return on assets is a measure of banks' profitability on total assets (profits/total assets).
BIS total capital ratio	The BIS capital adequacy ratio is used to assess the level of banks' capital in proportion to risk-weighted assets. Basel III guidelines, which will be phased in incrementally until 2019, will increase the amount of capital banks must hold. Risk-weighted assets are calculated by applying different risk weightings on assets from 0% to 100% depending on individual assets' riskiness and potential for default. Where banks have calculated the ratio according to both Basel I and Basel II, we take the Basel II calculation.
NPL ratio	This ratio refers to the total non-performing loans as a percentage of gross total loans. *The Banker*'s definition of non-performing loans is based on loans with outstanding payments of more than 90 days, plus all non-accrual loans. The ratio takes into account neither provisions nor third-party guarantees. These are calculated on a year-on-year basis only.
Loans/assets ratio	Represents the proportion of loans in a bank's total balance sheet. Where possible, we take gross total loans including loans to banks and do not deduct provisions from the calculation.
RWA/total assets	This ratio is calculated by dividing total risk-weighted assets (which are used to determine the level of regulatory capital banks are required to hold) by total assets. The RWA/total asset ratio reflects the perceived riskiness of the assets held by a bank. The lower the percentage, the lower the risk weightings that have been applied to a bank's assets in its calculation of its BIS total capital adequacy ratio.
Cost/income ratio	This is the ratio of total general and administrative costs (i.e. staff, sales and marketing, IT, and premises) divided by total operating income. We do not include depreciation or amortisation in this calculation. Total operating income is calculated as the sum of net interest income and net non-interest income.
% change	These are calculated on a year-on-year basis only.
BCL	Basel compliance level
L->P	Bank moved from loss to profit
LCD	Limited capital disclosure
NPL	Non-performing loans
RWA	Risk-weighted assets