

Kassar: Fransabank in line with Basel III

Bank takes steps to meet international requirement well ahead of 2019 deadline

Editor's note: The following is an interview with Nadim Kassar, general manager of Fransabank.

What are the measures taken by each bank to meet the conditions of Basel III?

The main changes from Basel II to Basel III were at the level of "Capital" and "Liquidity" frameworks. Although the Basel Committee on Banking Supervision (BCBS) announced a transitional arrangement period to gradually implement the new capital structure and liquidity standards, starting from January 2013 through January 2019, Fransabank has already started to follow up a strategy aimed to build up the necessary infrastructure to meet the requirements of Basel III. Indeed, an internal quantitative impact study was conducted to assess the effect of the proposed capital ratios on Fransabank status. This study revealed that Fransabank has a strong common equity base, which represented more than 60 percent of the total equity in terms of Basel III definition.

At the level of the "Leverage Ratio," which was introduced as a supplementary measure to the Basel III capital ratios, Fransabank is also in a strong position. Its leverage ratio, calculated as the total Tier 1 capital over the total on and off balance sheet exposures, exceeds by far the min-



Kassar: "We shall continue consolidation in the year 2011."

imum proposed ratio of 3 percent.

As for the implementation of Basel III liquidity framework, which requires banks to maintain adequate liquidity levels in the short term represented by the "Liquidity Coverage Ratio" and another medium-term liquidity ratio in the form of "Net Stable Funding Ratio," Fransabank SAL is in the process of developing its database and IT infrastructure in such a manner that allows it to generate all required information needed to compute the above-mentioned ratios on a frequent basis.

In this context, Fransabank SAL is cur-

rently maintaining a significant amount of Lebanese government securities, which like any other domestic sovereign securities, are considered by the BCBS as "Level 1 – High Quality Liquid Assets." As a result of this cushion, Fransabank SAL will certainly maintain a Liquidity Coverage Ratio well-above the 100 percent threshold set by the BCBS.

Describe the profits, assets and deposits of banks in 2011 compared to 2010 and their opinion on the flow of capital to Lebanon from abroad.

The Lebanese banking sector has continued its outstanding performance in 2010, with a high rate of growth in all of its components.

As for Fransabank, we continued to register in 2010 a continued solid and sustained growth as evidenced in the following key indicators.

- Net profits: \$146 million with a growth rate of 40.25 percent
- Total assets: \$12.255 billion with a growth rate of 13.33 percent
- Customers' deposits: \$10.090 billion with a growth rate of 11.95 percent
- Net loans and advances to customers: \$3.140 billion with a growth rate

of 36 percent

□ Shareholders' equity: \$1.291 billion with a growth rate of 20.20 percent

□ Return on average equity: 13.30 percent

□ Return on average assets: 1.27 percent

□ Coverage ratio of the non-performing loans by the provisions: 88 percent

□ Solvency ratio (Basle II): 11.80 percent

□ Primary liquidity to customers' deposits ratio: 46 percent

How are banks compensating for the drop interest rates (i.e: more focus on commission and fees)?

The drop in interest rates is on both sides of the balance sheet, albeit somewhat non-reciprocate. At Fransabank, we don't view this as a threat but rather an opportunity to increase on the one hand the volume of our own business activities including organic and horizontal growth inside and outside the country, and diversifying our revenue channels by emphasizing fee-based income in addition to margin differentials.

Overview of the loans to the private sector: who are the main borrowers and what purpose are they borrowing money for and at what interest rates?

At the individual level, our Fransabank customers are equitably distributed between all social classes; whereby each subscribes to the product that better meets his expectations and financial capacities, and serves his varying finan-

cial need and objective.

The Housing Loan is a major product at Fransabank and we have given it a massive priority in terms of development and diversification. In addition to the large basket of housing loans, Fransabank proposes a variety of other consumer loans such as personal loans, educational loans, car loans, commercial vehicle loans and energy loans.

We have also at Fransabank a range of business loans that fulfill every business financial needs, for all working sectors mainly, among others, industrial, agriculture, handicrafts, IT, trade, hospitality and other operational sectors. It is worth mentioning that Fransabank always offers very competitive interest rates, with as low as 0 percent to those loans subsidized by the Central Bank of Lebanon, depending on the type of the loan.

Are their plans to continue expanding outside Lebanon and where exactly?

In the year 2010, we have consolidated our presence in several regional and international markets, and shall continue this consolidation in the year 2011 with prudence and good management.

In addition to having the largest branch network in Lebanon, with 107 branches all over the Lebanese territory, Fransabank Group is present today in France, Algeria, Syria, Sudan, Belarus, Libya, Cuba. We recently started operating in Cyprus through USB Bank Cyprus, acquired by BLC Bank – a subsidiary of Fransabank Group. Moreover, we recently submitted our request for a banking license in Iraq.