

Rating Action: Banque Bemo SAL

Moody's assigns Aa2.Ib/ LB-1 National Scale Ratings to Banque Bemo (Lebanon)

First-time ratings

Limassol, May 22, 2008 -- Moody's Investors Service has assigned Aa2.Ib/LB-1 Lebanese National Scale Ratings (NSRs) to Banque Bemo sal (Bemo). The ratings carry a stable outlook.

The NSRs assigned reflect the bank's niche franchise as a "boutique bank" specialized in private and corporate banking. In addition to the bank's relatively small size and limited, albeit growing financial muscle within a highly competitive Lebanese environment, the NSRs assigned also reflect the bank's relatively high concentrations in single-name exposures, a common feature among banks in Lebanon. The ratings also take into account the precarious political environment and an operating environment badly in need of reforms in Lebanon.

The ratings are supported by the bank's conservative risk appetite, reflected in its lower overall Lebanese sovereign exposure than any of its rated peers, as well as its superior liquidity profile and strong capitalisation. The bank also maintains good asset quality and has a strong presence in Syria through an affiliate with management control.

In assigning the NSRs, Moody's recognises the effectiveness of the bank's strategy and the profitable market niche it has carved out for itself, but also views the bank's limited, albeit growing scale as a constraining factor to its further franchise development. At the same time, low margins, a high cost base and a difficult operating environment weigh on Bemo's moderate profitability levels. However, Bemo being part of a larger group spread in Europe, the Middle East, and the Gulf region, exhibits better than average profitability on a risk-adjusted basis.

In the currently fragile operating environment in Lebanon, higher ratings for Bemo are unlikely. Any signs of deterioration in the bank's asset quality or capitalisation may lead to downward pressure on its ratings. In particular, a rapid and significant increase in non-performing-loans as a consequence of either a systemic crisis or problems faced by large counterparties may cause deterioration in the bank's financial metrics.

Moody's concludes that in the event of difficulty for the bank, we believe that there is limited likelihood that Bemo would receive support from the Lebanese financial authorities and that any support is likely to be provided by the bank's founders and owners. This view is based on the bank's relatively small size and importance in the country's payment system, and also on the high level of dollarisation of deposits in Lebanon, constraining the level of external support that could be provided to systemically important banks by the authorities.

The NSRs assigned do not consider any systemic risks that could affect all banks in the system. NSRs rank issuers within a country relative to each other and so do not capture absolute default risk. National ratings isolate systemic risks; they do not address loss expectation associated with systemic events that could affect all issuers, even those that receive the highest ratings on the national scale.

Banque Bemo s.a.l. is headquartered in Beirut, and at the end of December 2007 had total assets of LBP1,192 billion (USD791 million).

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