Ratings On Three Lebanese Banks Lowered To 'SD' On Revised Deposit Terms And Conditions

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- On Dec. 4, 2019, Lebanon's central bank issued a circular requesting banks to pay half of the interest due on U.S. dollar-denominated term deposits in the local currency, Lebanese pounds.
- In our view, this latest move, following a number of recent measures, further limits depositors' access to their funds.
- We view these changes as consistent with our definition under our criteria of a restricted default of banks in Lebanon that we rate.
- We are therefore lowering our foreign and local currency issuer credit ratings on Bank Audi, Blom Bank, and Bankmed to 'SD' (selective default), and removing them from CreditWatch negative.

PARIS (S&P Global Ratings) Dec. 18, 2019--S&P Global Ratings today lowered its long-term issuer credit ratings on Bank Audi S.A.L., Blom Bank S.A.L., and Bankmed S.A.L. to 'SD' from 'CCC'. At the same time, we lowered to 'SD' the 'C' short-term issuer credit ratings on Bank Audi and Bankmed.

The ratings were removed from CreditWatch with negative implications, where they were placed on Oct. 28, 2019.

The rating actions follow the release of a new circular from Banque du Liban, the Lebanese central bank, on Dec. 4, 2019, in which it requests banks to pay, in Lebanese pounds, half of the interest due on customers' U.S. dollar-denominated term deposits existing and not matured before Dec. 5. This is contrary to the terms of the original contractual agreements. The circular is the latest in a series of recent measures by the central bank and the Association of Banks in Lebanon, including restrictions on U.S. dollar-deposit withdrawals, the limitation of transfers of money abroad, and limits on cash conversion from Lebanese pound to the dollar at the official rate.

We lowered our ratings to 'SD' because, in our opinion, private individuals' lack of access to their bank deposits on time and in full, different remuneration from the original contractual terms, and constraints to their ability to transfer funds abroad constitute a risk for depositors of losing the benefit of their agreements and therefore a selective default. We also believe that some of these measures could be tightened in the future, since liquidity in Lebanon appears to be diminishing, causing banks to possibly face near-term mounting pressure on their funding positions.

At the same time, we consider that these risks have been exacerbated by regulatory inability to prevent, in the past, the buildup of imbalances in the banks' balance sheets, both on the funding and asset sides. Although recent financial engineering operations by the central bank have boosted banks' profitability, they also resulted in a further increase in banks' Lebanese sovereign exposure. Moreover, because we expect economic conditions to remain stressed in the coming years, we don't expect inflows of deposits to resume, thus likely keeping the banking system's funding structure under pressure. For this reason, we have revised our industry risk score on Lebanon under our Banking Industry Country Risk Assessment (BICRA) to '10' from '8', on a scale of '1' to '10' where '10' denotes the highest risk. Lebanon's banking system remains in BICRA group '10'.

BICRA Snapshot

Lebanon

	To	From
BICRA Group	10	10
Economic risk	10	10
Economic resilience	Extremely high risk	Extremely high risk
Economic imbalances	Very high risk	High risk
Credit risk in the economy	Extremely high risk	Extremely high risk
Trend	Stable	Stable
Industry risk	10	8
Institutional framework	Very high risk	High risk
Competitive dynamics	Very high risk	Very high risk
Systemwide funding	Extremely high risk	Very high risk
Trend	Stable	Stable

*Banking Industry Country Risk Assessment (BICRA) economic risk and industry risk scores are on a scale from 1 (lowest risk) to 10 (highest risk). For more details on our BICRA scores on banking industries across the globe, please see "Banking Industry Country Risk Assessment Update," published monthly on RatingsDirect.

Related Criteria

- General Criteria: Hybrid Capital: Methodology And Assumptions, July 1, 2019
- General Criteria: Group Rating Methodology, July 1, 2019
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Post-Default Ratings Methodology: When Does S&P Global Ratings Raise A Rating From 'D' Or 'SD'?, March 23, 2015
- General Criteria: Methodology: Timeliness Of Payments: Grace Periods, Guarantees, And Use Of 'D' And 'SD' Ratings, Oct. 24, 2013
- Criteria | Financial Institutions | Banks: Quantitative Metrics For Rating Banks Globally: Methodology And Assumptions, July 17, 2013
- General Criteria: Criteria For Assigning 'CCC+', 'CCC', 'CCC-', And 'CC' Ratings, Oct. 1, 2012
- Criteria | Financial Institutions | Banks: Banking Industry Country Risk Assessment Methodology And Assumptions, Nov. 9, 2011

- Criteria | Financial Institutions | Banks: Banks: Rating Methodology And Assumptions, Nov. 9, 2011
- General Criteria: Use Of CreditWatch And Outlooks, Sept. 14, 2009
- General Criteria: Understanding S&P Global Ratings' Rating Definitions, June 3, 2009
- General Criteria: Rating Implications Of Exchange Offers And Similar Restructurings, Update, May 12, 2009

Related Research

- Ratings On Three Lebanese Banks Lowered To 'CCC' On Rising Liquidity Pressure; Kept On Watch Negative, Nov. 14, 2019
- Lebanon Ratings Lowered To 'CCC/C' On Increasing Financial And Monetary Risks; Outlook Negative, Nov. 15, 2019
- Credit FAQ: Foreign/Local Currency And Sovereign/Nonsovereign Ratings Differentials, Sept. 22, 2003

Ratings List

***************** Bank Audi S.A.L. *****************		
Downgraded; CreditWatch/Outlook Action		
	To	**From**
Bank Audi S.A.L.		
Issuer Credit Rating	SD/SD	CCC/Watch Neg/C
***************** Bankmed s.a.l. *****************		
Downgraded; CreditWatch/Outlook Action		
	To	**From**
Bankmed s.a.l.		
Issuer Credit Rating	SD/SD	CCC/Watch Neg/C
***************** Blom Bank sal *****************		
Downgraded; CreditWatch/Outlook Action		
	To	**From**
Blom Bank sal		
Issuer Credit Rating	SD/--	CCC/Watch Neg/--

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