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Corporate Governance in Lebanese Banks: Focus on Board of  
Directors

By

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degree of Master of Business Administration

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# Corporate Governance in Lebanese Banks: Focus on Board of Directors

Bilal Kchouri

## Abstract

Banks in Lebanon are the central depository platform of the overall economy's funds and liquid assets. They have worked as a main pillar for the economy over several decades before, as well as being essential to attracting and securing foreign investments into the country. Given that agency problems and poor governance systems have led to many banking problems and money crises across the globe, evaluating the status of the banking governance in Lebanon becomes essential to identify and mitigate risks, and optimally abide by recognized international standards. I aim in this thesis to investigate about the corporate governance practices applied in Lebanese banks, and greatly focusing on the Board of Directors structure. The study gathers information from 67 operational banks working in Lebanon with physical presence in the country. Data used covers almost all the country's banks having operated in the current year, whether Lebanese or of foreign ownership.

Within this framework, we created a Board of Directors Index using ISS scoreboard, accessed the available information for banks, linked the findings to the international corporate governance standards and compared the scores of BoD with financial performance indicators and BvD ownership structure. For further analysis, banks were grouped into local and foreign entities and ranked by tiers based on total assets. BoD Index is also grouped into three subgroups.

Keywords: Corporate, Governance, Board, Directors, ISS, Banks, Lebanon

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## **List of Abbreviations**

ANOVA: Analysis of Variance

BoD: Board of Directors

BODINDEX: BODINDEX Index

BvD: Bureau van Dijk

CEO: Chief Executive Officer

CHARC: Characteristics

COMMT: Committee

CSR: Corporate Social Responsibility

EXPRC: Experience

GDP: Gross Domestic Product

ISS: International Shareholder Services

LCGTF: Lebanese Corporate Governance Task Force

LTA: Lebanese Transparency Association

LTD: Loans to Deposits

MSCI EAFE: Morgan Stanley Capital International for Europe, Australasia and Far East

MSCI EM: Morgan Stanley Capital International Emerging Markets

NYSE: New York Stock Exchange

ROAA: Return on Average Assets

ROAE: Return on Average Equity

S&P: Standard & Poor's

SPSS: Statistical Package for the Social Sciences

TSX: Toronto Stock Exchange

USD: United States Dollar

# Chapter One

## Introduction

In this chapter, we introduce the notion of corporate governance with concentration on banking sector, and then describe the importance of this governance in the banking sector in Lebanon and its impact on the Lebanese industries. Finally we describe how corporate governance can be measured.

### **1.1. Why is the banking governance important?**

Banks are considered alternatives to underdeveloped financial markets and play the role of the central depository for the economy's funds. Bank managers have now more freedom in managing their banks with the presence of modern liberalized banking systems. Chahine and Safieddine (2009) states that "There arises the importance of safeguarding the industry in developing countries from systematic failures, which result in the majority of cases from governance inefficiencies".

In fact, agency problems and poor governance have led to many banking crises and failures. The latest financial crisis and various failures in the USA and Europe (i.e., Lehman Brothers in USA, Northern Rock in UK, etc.), ensured that having good

regulations and well-governed organizations is a must to moderate risk and build stable economy.

The bank has a fiduciary obligation to both depositors and shareholders. Thus, the interests of clients, who are attempting to save their money, are different from the bank shareholders, who would prefer a further risky asset in seeking a higher return. If a bank pursues the interests of its shareholders, it could go for more risk than its clients' need. Therefore, governments have a motivation to protect both bank depositors and shareholders by setting regulations to discourage extreme risk and to guard the deposit insurance system from moral hazard cruelty by bank administration. Banks are also responsible to conserve a well-structured corporate governance system that ensures internal system to protect and develop the sector.

## **1.2. Why is banking governance important in Lebanon?**

In Lebanon, banks are the key source of business financing and they are considered the central financial institutions, by means that loans from banks are the key source of external finance for business. It is critical to view the real image of this sector in order to understand the status of the economy and to improve it accordingly.

In the case of Lebanon based on The World Bank data, the Lebanese Gross Domestic Product (GDP) rose from 3.3 Billion USD in 1988 to 44.3 Billion USD in 2013. This 1242.42% increase in 25 years was accompanied by only 750% increase in annual income from 1,000 USD in 1988 to 8,500 USD in 2013. To understand the source of this

inconsistency, we have to know that the consumption, government and net exports are increasing at a much lower rate than the investment component in Lebanon. The banks acquire the biggest investments in Lebanon, thus they are considered the base of the monetary growth during the last 25 years.

According to Banque du Liban (See Appendix A), Lebanon has 67 active banks in 2015 of which 16 are investments banks. These banks have a total of 1041 branches. Also, there are 376 branches of 33 banks outside Lebanon across 33 countries and 85 cities. The total assets are USD 175 billion and total deposits are USD 147 billion. Total Credits to Private Sector are USD 50 billion and total credit for housing loans and small to medium enterprises are USD 116.6 million. According to the Association of Banks in Lebanon, banks in Lebanon contribute to 40% of the GDP.

Regarding human resources, banks in Lebanon have 23,850 employees of which 46.5% are female and 74.8% are holders of university degrees.

The growth of this sector was adopted by the use of advanced technology and expert workforce. Lebanese banks were center of attraction for foreign investments especially Arabian ones because of the strict secrecy law and the free exchange system. Stable monetary system in Lebanon was observed during the financial crisis of 2008. The economy and the banking sector in Lebanon were almost not affected in that crisis. Central bank governor expressed wise policies and regulations to protect the sector.

### **1.3. How would this impact Lebanese industry?**

Lebanese economy is weak and illiquid. After 15 years of civil war, the renaissance of the banking sector was crucial in providing the capitals desired to reconstruct the republic. The repaired confidence and the movement of external investments stimulated a number of foreign banks to reopen their branches in Lebanon. Lebanese banks are considered a center of attraction for foreign investments, especially Arabian ones because of the strict secrecy law and the free exchange system. Stable monetary system in Lebanon was observed during the financial crisis of 2008. The economy and the banking sector in Lebanon were almost not affected in that crisis. Central bank governor expressed wise policies and regulations to protect the sector.

After the war, Lebanon benefited from big investments coming from other markets, especially the gulf region. This played a big role in refining the economy. These investments were going to Lebanon because of the confidential banking system supported by the central bank. However, due to many political and regional reasons, these investments shifted into other economies where risk rates were considered to be less significant.

In order for the local and foreign banks to gain the confidence of the foreign investment, they are asked to apply disclosure system. Lebanese firms are requested by law to disclose their financial reporting. However, there is some information that is

still not available, such as compensation and corporate governance reporting. The voluntary disclosure theorizes that an extended disclosure strategy is a mechanism that helps to decrease the asymmetric information between inside directors and outside investors. Hence, banks in Lebanon that need additional external financing for growth are likely to carry out an expanded disclosure policy which will in return lower the cost of external financing.

When the government is not applying good law enforcement, the foreign investments will decrease thus firms will rely more and more on banks. In the absence of good regulating government and within the dependence of the economy on the banking sector, it becomes very crucial that banks apply a diverse corporate governance that ensures monitoring and development.

The Lebanese legal system was structured around the French legal system, which falls between the network-oriented and the market-oriented systems.

“Unfortunately, the Commercial Code is outdated and does not address many key corporate governance issues, and the Beirut Stock Exchange Listing Requirements focus on disclosure and accounting issues only.” (Chahine & Safieddine, 2009, p. 4) As a result, a lot of main corporate governance zones are not included into the legal structure. This factor may results in vulnerable minority shareholders. Lately, corporate governance has been recognized as important factor in mending performance, especially in private sectors.



However, due to the adaptation of good government practices, a number of Lebanese banks have progressed in restoring a culture of equity/fairness that was lost during the 1975-1990 Lebanese civil war and in improving aspects in the legal and institutional corporate governance structure. For this reason, Lebanon entered in the low tier of emerging markets.

#### **1.4. How is corporate governance in banks measured?**

In 2005, the International Shareholder Service (ISS) organized group attributes to measure corporate governance in foreign firms. One can notice each attribute in the filings, annual reports, and websites of the firms under study. For the purposes of this thesis, part of the attributes that can be applicable to Lebanese banks was used. A numerical score was given for the attained attributes. Each bank will then have a score that reflects its level in applying corporate governance.

The Governance QuickScore is an issuance by the ISS that defines corporate governance standards to help researchers and investors evaluate governance risk and apply necessary actions. The QuickScore covers more than 5,000 companies including: U.S. Russell 3000, Canadian S&P/TSX Composite, MSCI EAFE, STOXX600, NZX15, ASX 200, and the MSCI EM. The score also covers data in Brazil, Russia, India, China, South Africa, and South Korea.

In calculating each company score, ISS scrutinizes correlations between governance attributes and financial indicators. The financial indicators are based on common

performance factors that can be classified into four categories: market, profitability, liquidation and valuation.

The corporate governance attributes consist of 200 criteria that reflect corporate governance risk. Companies under study are evaluated relevant to their information. The company may meet, surpass or fail to attain each relevant attribute. The attributes can be grouped into four categories: board structure, compensation/remuneration, shareholder rights and audit practices.

ISS doesn't declare weights for each attribute. For this reason, the thesis considered all attributes have the same weight.

The thesis is organized as follows. Chapter2 presents a literature review of what has been studied previously in the banking governance and ISS application. Chapter 3 defines the methodology of the research. In chapter 4 hypotheses are developed. Chapter5 presents the empirical results, and chapter 6 discusses the final conclusions.

# Chapter Two

## Literature Review

The literature review includes studies done on the subject in USA, EU and third world countries. Minor efforts were done in Lebanon regarding corporate governance in banking, but worth to be presented.

### 2.1. Banking governance in US and EU markets

Prior research found considerable proof that banks with efficient corporate governance mechanisms report higher positive income when compared to banks with weak governance efficiency. Also, banks that are well-administered involve less in aggressive earnings management behavior through using discretionary provisions for loan losses and realized security profits and losses (Leventis, Dimitropoulos, & Owusu-Ansah, 2013). Investors take into account the effectiveness of each bank's corporate governance aiming for a better investment decision when returns are not really informative. Leventis et al. (2013) asked inspectors to consider reinforcing governance mechanisms through new laws or stronger law reinforcement, where earnings management is this much, since they are in charge for the acceptable level of corporate governance standards.

After Leuz, Lins and Warnock (2010), in attempt to assess whether and why concerns about corporate governance result in fewer foreign holdings, they 4,409 firms were examined from twenty-nine countries. They found out that the firms that are located in countries with poor outsider protection and disclosure and have ownership structures that are helpful to governance problems don't attract foreigners to invest in it. This action is mainly declared when earnings are opaque, indicating that inconsistency and monitoring expenses handled by foreign investors possibly drive the results. Opromolla (2008) argued that the new banking Italian regulations force the banks to set up the appropriate corporate governance provisions and organized management and control devices that aim to back up the risks that they are exposed to. The new regulatory charter spins on the principles presented on corporate governance for banks by Basel Committee's guidance.

## **2.2. Corporate Governance in Lebanon**

Corporate Governance is a new phenomenon in Lebanon. It enhances a new corporate culture a complicated process that consumes long time. There are many obstacles that prevent good implementation like dogmatic system and legal weakness. In Lebanon the CG awareness is somehow traditional in means of the willingness to create a real independent management structure that avoid manager-stockholder conflict. This awareness is gradually improving, especially in private sectors and banks. There are obstacles that prevent the regulatory system in Lebanon from moving fast.

Most of the Lebanese companies are family based and are considered small to medium enterprises. Even many banks in Lebanon are essentially family business. Hence, although a reliable CG system can develop a company to lead a constant market expansion over the long-term; many companies in Lebanon still rely on managing their businesses themselves. They are even unwilling to use business procedures. In addition, most of the companies in Lebanon have duality in Chairman and CEO who usually is a family member.

It is noticed throughout previous studies that family businesses in Lebanon does not recognize the importance of an independent member on the board of directors. They are unwilling to share management with independent party and decision-making power with outsider. The information of the company are considered sensitive and not to be shared.

Samia EL Meouchi and Ola Haidar (2009) observed absence of governmental agencies responsible for enforcing CG regulations. The only efforts are done by two non-governmental organizations, the Lebanese Transparency Association (LTA) and the Lebanese Corporate Governance Task Force (LCGTF). There are some small law firms specialized in corporate governance implementation, but they are still not able to expand in the market.

Regarding the banking sector, Lebanese Central Bank has the authority to apply CG principles. However these principles are still finance focused and do not abide by international standards. The Banking Control Commission monitor financial reporting

of banks and the central bank is eligible to charge penalties and other actions on the defaulting banks.

For example, the central bank is concerned with internal audit in banks. The central bank requires all banks to have a management unit in charge of internal audit. The internal audit unit is governed through the Core Principles for Evaluating Internal Control Systems in Banks set by the Basle Committee on Banking Supervision. This unit is mandated to be independent from the bank's management. The chief is appointed in the board of directors.

The central bank also asks banks to have Audit Committee driven from the board of directors. The committee shall include at least three independent members. One of these members at least should acquire financial expertise. The central bank states that duty of this committee is to assist BoD in accomplishing audit requirements and supervisory tasks.

Moreover, the LTA and LCGTF enhanced the Lebanese Code of Corporate Governance in 2006 to define principles and practices to develop the value of board of directors and the performance of the company. This code introduces the fundamentals of corporate governance based on multiple international references and good governance practices. Although this code is driven by international standards, it is modified to meet the Lebanese commercial and legal contexts. The LCGTF issued recently amendments to the Code to keep it updated.

The LTA and LCGTF worked on providing listed companies with CG code. The problem is that corporate governance in Lebanon –except the mentioned case of central bank- is applied voluntarily. The code imposes listed companies to abide by clear governance procedure. The code is still focused on board of directors and audit. LTA and LCGTF are working on other sides of corporate governance for the future.

The most important objective for them now is to increase awareness of CG in order to apply it efficiently. Governmental authorities, financial institutions and different companies are requested to invest more in corporate governance. The aim is to protect Lebanese industries and attract foreign investments to accelerate economy cycle and strengthen financial situation.

# Chapter Three

## Research Methodology

The research methodology used in this thesis is to convert corporate governance and ownership structure numerically to be measured and assessed in terms of financial performance.

### 3.1. Attributes

Attributes contain board of directors index sorted from the ISS Quickscore and ownership structure sorted from the Bureau van Dijk Independence Indicator.

#### 3.1.1. Board of Directors Attributes

Similar studies used the ISS index to study corporate governance in firms and compare it with other factors. Chung, Elderb and Kim (2007) found that companies with enhanced corporate governance are barely spread. They have less significant price impact of trades. An index with a higher quality market and information-based trading is not a choice. They used 24 attributes from the ISS to measure the corporate governance in firms.

Aggarwal, Erel, Stulz and Williamson (2007) constructed a firm-level governance index and compared between companies in the US and companies outside the US. They



found that only 12.68% of the foreign companies have higher index than US companies. To score the governance, Aggarwal et al. used thirty attributes of ISS index and applied it to 2,234 firms outside US and 5,296 firms in the US. They settled cross country implications and matched the two set of companies.

This study is similar in its methodology to the studies discussed above. However, this thesis focuses on the board of directors in the Lebanese banking system.

As most of the banks in Lebanon are not listed, the disclosed information was found on each bank's website, financial reports and other publications (proxy statements, governance documents, directors and execution compensation, CSR and code of ethics).

Below is the index that was used to measure BoD performance in the bank.(Check to include here or in appendix)

- Bank Name
- Listed / Unlisted
- Audit Firm
- Annual Report Disclosure
- Board of Directors Existence Disclosure
- Board of Directors Details Disclosure
- Audit Committee
- Nomination and Compensation Committee
- Corporate Governance Committee
- Executive Credit Committee

- Board Risk Committee
- Board Executive Committee
- Board of Directors: Number of members
- Independent Members on Board
- Dual Chairman/CEO
- Average Age of Members
- Financial Experience of Members
- Minority on Board
- Corporate Governance Guidelines
- Number of Annual Meetings of Board

For each bank under study, we reviewed the available information on the website, annual report and corporate governance guidelines. The undisclosed information lead to a score of “0” for each attribute in the index. Attributes that cover annual report disclosure, board of directors existence, board members’ details disclosure, committees, and availability of corporate governance guidelines will have a “1” score for a “Yes” answer and a “0” for a “No” answer.

For audit firm, a score of “1” was given for having one local or international auditor, “2” for having an auditor from the Big Four, “3” for having an auditor from the Big Four and another local or international auditor, “4” for having two auditors from the Big Four.

For the number of members on board, a score of “1” was given for banks that have less than 7 or greater than 12 members on board. ISS considered board of six members or less to be a small one while a board of 12 members and more to be a big one.

For the board independence, a score of “0” was assigned for the undisclosed information or for having no independent member on board, “1” for having one independent member, “2” for having less than 50% or greater than 80%, and “3” for having between 50% and 80% independent members. ISS considered that a board with no majority of independent members raises significant concerns. “Directors with ties to management may be less willing and able to effectively evaluate and scrutinize company strategy and performance. Furthermore, boards without adequate independence from management may have inherent conflicts of interest” (ISS Governance Score 2.0, 2014). New York Stock Exchange (NYSE) defines an independent director as one who has no material relationship with the company. Based on this definition, the board member will be independent if he has not served as an executive of the bank, earned compensation greater than \$120,000 from the bank, served as an internal or external auditor of bank or served as an executive of another bank whose business with his/her bank is \$1 million or 2% of revenue.

In case the chairman of BOD is also the CEO, the bank will get “0”. The same score is given in case the information is not disclosed. If the Chairman and CEO are two different individuals, the bank will get “1”.

Regarding the average age of the board members, a score of “0” will be given to the missing information. A score of “1” is given to the bank where average age is less than

50 or greater than 70 years. A score of “2” will be given to the bank where average age is between 50 and 70 years. According to Cloyd, directors who are getting old are standing back to give a chance for the new generation into the boards. New directors on board have decreased to 291 out of 5,184 total director seats in 2012. This presents a 27% drop since 2002, according to the 2012 Spencer Stuart US Board Index reports. Concurrently, directors’ average age is 68, board term’s average is 8.7 years, and the obligatory retirement age ranges between 72 and 75, but all of those rates have arisen. “Many proponents of board renewal suggest that a director should be replaced after a lengthy tenure since they may not have “fresh” perspectives and because they may not be entirely independent.” (Cloyd, 2013)

For the financial expertise, Zero “0” was given for the bank with no members having financial experience or no information about the subject. One “1” was given for boards containing less than 50% of members with financial expertise and “2” for boards containing more than 50% of members with financial expertise. ISS suggests having on board experts in finance, accounting and audit. It’s also recommended that the financial expert to be independent. “A member is considered to be financial expert if he /she is or was a chief financial Officer, chartered accountant, certified management accountant, fellow chartered accountant (FCA), fellow certified practicing accountant (FCPA), or partner of an accounting firm” (ISS Governance Score 2.0, 2014).

“According to some academic and other studies, increasing the number of women on boards of directors correlates with better financial performance. Such findings could have a significant effect on the nomination of women as corporate officers” (ISS

Governance Score 2.0, January 2014). The score "0" was recorded for banks with no information on minority members or for banks with no women or different ethnicity on board. A score of "1" was given for boards with one minority member and "2" for more than one minority member. Statistics show that 16% of board members in USA are women.

Zero "0" was given for banks that have no corporate governance guidelines and "1" for banks that have one.

Zero "0" was given for banks that do not declare number of meetings per year conducted by the board of directors. A "1" score was given for banks with less than eight annual meetings and "2" for banks that have more than eight. "The average number of annual board meetings in USA is 8-9 meetings" (Spencer Stuart, 2009).

### **3.1.2. Ownership structure**

A final attribute was used, unrelated directly to the board of directors, but to the ownership structure of the bank. For this purpose the reference was the Bureau van Dijk Independence Indicator (BvDI). The BvD database is constantly updated and hence it comprises the recent structure of shareholder ownership. Bureau van Dijk generated an independence indicator in order to illustrate the structure of the shareholders and measure its independence. The indicator scores range from an A, B, C, D and to U.

"A" refers to the "independent companies". It means that none of the known shareholders own more than twenty five percent directly or collectively. According to Varekamp, the indicator A can also be further qualified as A+, A and A - :

A+: Represents companies that have more than 5 stockholders whose ownership percentage is known.

A: Companies that have 4 or 5 identified shareholders with known ownership percentage.

A-: Companies that have 1 to 3 identified shareholders with known ownership percentage.

“The qualifications “+” or “-” refer to the degree of reliability of the indicator that is attributed and not to the degree of independence.” (Varekamp, 2013)

“B” means that none of the known shareholders own more than fifty percent directly or collectively but there are shareholders with ownership that exceeds twenty five percent as in “A”. The “B” can be also indicated as B+, B, and B- with the same meaning as mentioned above.

“C” refers to companies that have an ultimate owner where the collective ownership exceeds fifty percent.

“D” refers to companies that have an owner holding more than fifty percent of the shares directly.

“U” is given to companies that have no sufficient information to assess the degree of independence.

In our study, we to plug the numbers in SPSS we considered:

U: 1

D: 2

C: 3

B: 4

A-: 5

A+: 6

### **3.2. Financial Performance Indicators**

The banks are classified into two groups. The aim of this classification is to extend our analysis abilities. The first group classifies banks referring to their ranking in Lebanon in terms of total assets. The second group classifies banks if they are local or regional banks acting in Lebanon or international banks having a branch in Lebanon.

To study results and compare the scores of the board of director's attributes and the subtitles we add financial ratios. The purpose is to understand the financial performance and the shareholder independence of the bank.

The first indicator is the Return on Average Assets (ROAA). This indicator measures the profitability of the assets of a firm. Regularly banks and other financial institutions use this indicator to show its performance. This ratio helps stakeholders to see how well the bank is converting the investments in assets into profits. ROAA was used on annual basis and get the data of the last three years (2012, 2013, and 2014).

$$\text{ROAA} = \text{Net Income} / \text{Average Total Assets}$$

The second indicator is the Return on Average Equity (ROAE). It measures how effectively the bank is making profit from the invested equity in the bank. It's considered effective for evaluating and comparing similar banks in same area. The average equity affords more precise indication of the profitability of the bank, mainly when the equity of the stockholder has changed considerably during the financial year.

$$\text{ROAE} = \text{Net Income} / \text{Average Stockholders' Equity}$$

The third indicator is equity to total assets. This is considered a solvency ratio that measures the assets that are financed by owners' investments. This shows us how much will the shareholder get after paying all liabilities. It also shows how leveraged the bank is with debt. Banks with higher ratio prove new investors and creditors that current investors believe in the bank and are willing to finance it. This means that the bank is more sustainable and less risky to lend more. On the other hand, "people who run banks will always want to have less equity, because this enables them to get more upside when times are good, and they can rely on various forms of government downside support when decisions go wrong" (Simon Johnson, 2013). He also considers that it costs a lot for the rest of them if banks fund themselves with so much debt equity. This factor creates a weak and deformed financial system that doesn't provide safe support to the economy.

$$\text{Equity Ratio} = \text{Total Equity} / \text{Total Assets}$$

The fourth indicator is net interest margin. It measures the difference between interest expense and interest return adjusted relative to the amount of interest-generating assets. This should not be puzzled with profitability. Banks have additional major returns from fees and service charges. This is not affected by interest margins. "In the United States, the average net interest margin for banks was 3.03% in the first quarter of 2015" (Sean Ross, 2015). However, this was the lowest average net interest margin in more than 10 years. The net interest margin for American banks during the first quarter of 2005 was 3.5%. A recent peak of 3.84% was reached in the first quarter of



2010. On the surface, this suggests that a typical net interest margin for American banks in the 21st century ranges between 3 and 4 %.

$$\text{Net Interest Margin} = (\text{Investment Returns} - \text{Interest Expenses}) / \text{Average Earning Assets}$$

The fifth indicator is the loan-to-deposit ratio (LTD). It is frequently used for assessing banks liquidity by dividing the banks loans by its funding and short term deposits. If this ratio is too high, it means that banks might not have sufficient liquidity to face unexpected fund necessities; if the ratio is too low, banks may be losing part of earnings.

$$\text{LTD} = \text{Net Loans} / \text{Deposits\& ST Funding}$$

As the board of directors' attributes, ownership structure and financial performance are converted into measurable numbers, the second step is to develop the hypothesis and report findings.

## Chapter Four

### Hypotheses development

Reference to the presented literature review and research methodology, the key goal of the thesis is to understand the actual status of the corporate governance in focus on the board of directors in the Lebanese banks above, present the situation numerically and analyses the index with financial performance. In order to deepen the study, banks are classified into:

- local and foreign banks
- ranking tiers according to total assets

Also, BoD index is divided into three subgroups.

#### 4.1 Attributes Hypothesizes

The fact that corporate governance is relatively a recent trend of attention from the Lebanese firms, it is still not considered a basic concentration for all banks management. It is expected that banks in Lebanon have comparatively low score on the BoD Index. Various banks in Lebanon do not consider BoD attributes a major concern. Some foreign banks and big banks in Lebanon increase the mean of this index.

Hypothesis 1: Less than half of banks in Lebanon have BoD index score above 50%

Foreign banks have higher chance to apply corporate governance standards. This statement would be strongly true if the banks are from advanced countries where corporate governance is essential part in the management system. However most of the foreign banks in Lebanon are based in Arabian countries. The awareness in the other Arabian countries regarding the importance of the corporate governance is even less than in Lebanon. Lebanon has been a unique case in the maturity of the good relationship with western countries.

Banks with better ranking in terms of total assets are expected to be more aware to corporate governance standards. Often bigger banks are exposed more into international stakeholders who are concerned on having good standards. It is expected that bigger banks have higher BoD index.

Hypothesis 2 (a): Foreign banks have higher BoD index score than local ones

Hypothesis 2 (b): Banks with better ranking have higher BoD index score

Board committees and characteristics are the main components of the BoD index. In Lebanon it is observed that banks have approximately good availability of audit and risk committees. This gives bigger and local banks opportunity to differentiate in these two components.

Hypothesis 3 (a): Bigger banks have higher committee and characteristics score

Hypothesis 3 (b): Local banks have higher committee and characteristics score

## **4.2 Financial Performance Hypothesizes**

In general, higher ranked banks are supposed to have higher returns. Banks with more assets have advanced opportunity in better results. It is expected that banks with more assets have higher profitability and liquidity ratios. However since the total assets are higher, the ROAA would get lower as the denominator in this case is increasing also. Equity to assets ratio is also expected to be lower as higher ranked banks depends more on their assets in terms of investments rather than equity.

Local banks in Lebanon have more assets than foreign banks and are attainable to have higher returns. However foreign banks have more strict financial standards being subsidiaries to man offices abroad and thus may have higher liquidity and solvency ratios.

Hypothesis 4 (a): Higher ranked banks have higher financial indicators except in ROAA and Equity to Assets

Hypothesis 4 (b): Local banks have higher profitability ratios and foreign banks have higher liquidity and solvency ratios.

## **4.3 Attributes and Financial Performance Hypothesis**

The key question in this thesis is to evaluate the efficiency of board of directors in terms of financial performance. Prior research finds positive relationship between corporate governance and financial performance. Research indicates that as banks invest more on well-structured BoD, independent CEO and good committees the bank is able to show more positive results than banks with same circumstances having less CG awareness. In Lebanon, It is expected to have a positive relationship between financial measurements (ROAA, ROAE, Equity to Assets, interest margin and LTD) and BoD index. Linear regression is applied to present this relation.

Hypothesis 5: BoD index affects positively financial performance.

## **Chapter Five**

### **Empirical Findings**

This section presents all empirical findings in attempt to give evidence that supports hypothesizes.

#### **5.1. Data Results**

Data results give a general overview for the total index, geographic indications and ranking classes.

##### **5.1.1. Primary Indications**

The total index score is 29 formed out of 18 attributes. The average score of the total population is 12.49 which represent 43%. Thirty three banks or 49% of the banks scored above 14 and ten banks scored above 20. The highest score was 26 counted for one bank and eight banks scored 0 due to total absence of disclosed information related to the study.

Table 1: Percentage of banks in Lebanon with BoDindex above 15/29

<i>Observed</i>	<i>Hypothesized</i>	
0.5522	0.5	p (as decimal)
37/67	34/67	p (as fraction)
37.	33.5	X
67	67	n
	0.0611	std. error
	0.86	z
	.8038	p-value (one-tailed, lower)

The above results give evidence that marginally supports Hypothesis 1.

The average ROAA for the banks during last three years was 0.98. Returns of banks in Lebanon, was almost equal to their average assets. The average ROAE during the last three years was 8.7. The average equity to total assets during the same period was 17.25. The interest margin for the banks was 3.5 and LTD was 36.6. In general average financial performance of banks is positive. Studying it in details is out of this thesis scope.

Fourteen banks had a score A and B in the ownership structure, BvD indicator and thirty banks were unclassified.

### **5.1.2. Geographic Indications**

A bank is considered to be foreign bank acting in Lebanon if the main office is abroad and the bank has a branch in Lebanon. The bank is Lebanese local one if the main office is in the country and it's registered as Lebanese bank regardless if more than half of the shareholders or executives are foreigners.

Based on this definition there are 17 foreign banks acting in Lebanon. The average score of BoD index for the foreign banks is 14 and 12.1 for local banks. Three foreign banks and nine local ones mentioned almost nothing in terms of attributes under study. Four foreign banks and eleven local banks scored above 66% of the total index. Foreign banks have relatively the same BoD index as local banks.

There are no enough evidence that supports Hypothesis 2 (a). The score of the foreign banks is higher slightly.

The financial performance of the foreign banks differs from the local ones. The average ROAA of the foreign banks for the last three years is -0.3. Five banks recorded negative results at least one year and six banks did not disclose financial data. This implies that foreign banks in Lebanon are facing problems preventing from profit earnings. In the same period of time, average ROAA for the local banks in Lebanon is 1.3 and only two banks disclosed negative profits. The average ROAE for foreign is -0.25 while local banks average ROAE recorded 10.9. A big difference is noticed implying that foreign banks in Lebanon rely more than local banks on equity funding. Equity exceeds total assets 19.9 times for foreign banks and 16.5 times for local banks. Net interest margin average for foreign banks is 5.5 which is higher than the local banks average 3.0. LTD average for the two groups is close to each other.

### **5.1.3. Ranking Indications**

In the purpose of understanding the situation more, banks are ranked reference to their total assets into four groups. First group represents the first tier and consists of



the top 15 banks. The second tier ranges from 16 to 37, the third tier ranges from 38 to 7 and the fourth tier is named “other” due to missing data.

The average score of BoD index for the first tier banks is 20.3. The second tier scored an average of 13.71 while the third tier mean is 6.19. Eight banks from the third tier mentioned very minimal information about the corporate governance. The non-ranked banks scored 11.8. It is noticed that better ranked banks tend to have higher score on the index.

Presented results are considered strong evidence that supports Hypothesis 2 (b).

The financial performance of the tiers differs among each other. The average ROAA of the first tier is 0.96, second tier is 0.76 and third tier is 1.2 while the fourth group scored irrelevant data. This implies that ranking per total assets cannot determine the financial profitability of the bank. The average ROAE for the first tier is 11.64 while the average of the second and third tier is 6.71 and 8.68 respectively.

## 5.2. Factor Analysis

In this section, the factor analysis is conducted to categorize the BoD index into four different categories.

Table 2: Factor Analysis of all studies attributes

**Rotated Component Matrix<sup>a</sup>**

	Component			
	1	2	3	4
AdtFirm		.803		

AnRep		.709		
BoDExst		.809		
BoDDet	.738			
NMCMPC	.761			
CGC	.635			
CRDTCOM				
RSKCOM	.647			
BRDMBR		.880		
INDNPD		.730		
DUALCC				.831
AVGAGE			.648	
FINEXP	.660			
MNRTBD				
CGGDL	.743			
MEET	.741			
EXECCOM			.813	

Attributes factor analysis lead to the following classification.

Board Characteristics:

- Audit Firm
- Annual Report Disclosure
- Board of Directors Existence Disclosure

- Board of Directors: Number of members
- Independent Members on Board

Board Committees:

- Board of Directors Details Disclosure
- Nomination and Compensation Committee
- Corporate Governance Committee
- Board Risk Committee
- Financial Experience of Members
- Corporate Governance Guidelines
- Number of Annual Meetings of Board

Board Members Experience:

- Average Age of Members
- Board Executive Committee

Duality:

- Dual Chairman/CEO

The statistical factor analysis can be studied and explained in terms of our understanding to the variables that constitute board of directors' scores.

### **5.2.1. Board Characteristics**

The board characteristics contain attributes that explain the essential disclosure of BoD. We find that as long as banks hire audit companies from the "Big Four", it is common to find disclosed annual report mentioning board members. It is understandable that whenever bank hire professional auditor, there will be a disclosed

annual report on their website. We find that there is a positive relation between audit firms being dual and from the “big four” and having a board with suitable number of members.

### **5.2.2. Board Committees**

Board committees contain the presence of different committees under BoD. There is a positive link between the presence of the nomination and compensation committee, corporate governance committee and board risk committee. Lebanese banks tend to focus on having these three committees. This is a sign on the importance of the functions of these committees for the banks in Lebanon. Audit committee is present in 41 banks (61.2%). Risk committee is present in 55.2% of banks. Nomination and compensation committee is present in 38.8% of banks. Corporate governance committee is present in 25.3% of banks. Executive credit committee is present in 19.4% of banks. Board executive committee is present in only 7 banks (10.4%).

“The audit committee has a broad range of responsibilities:

- Oversee financial reporting and disclosure
- Monitor choice of accounting principles
- Hire and monitor the external auditor
- Oversee internal audit function
- Oversee regulatory compliance
- Monitor risk” (Larcker and Tayan, 2014)

Responsibilities of the nominating and compensation committee include:

- Appointing qualified members on board

- Selecting consultants when needed
- Evaluating the board and CEO process
- Setting guidelines for the compensation of the executives

Responsibilities of corporate governance committee are assisting the BoD on:

- The general approach to corporate governance of the bank
- The size and structure of the Board and its committees
- Related party transactions and other difficulties comprising conflicts of interest.

Responsibilities of the board risk committee:

- Recommends acceptable level of financial and operational risk appetite
- Analyzes limits for individual types of financial and operational risk
- Observe the financial and operational risk profile

On the other hand, it's noticed that executive credit committee and board executive committee is not positively correlated to the other committees.

Responsibilities of the executive credit committee include:

- Setting the parameters for all the levels of credit consent.
- Revising loans that exceeds the limits set.
- Improving the Credit Policy rules.

Responsibilities of the executive committee include:

- Developing and delivering bank strategy
- Overseeing the quality of projects
- Reviewing relevant issues before being considered by the board.

The study measures that in Lebanon credit responsibilities are managed by the executives of the bank and are discussed in the board. However, few banks decided to set a specialized committee for this purpose. Also the responsibilities of the executive committee are denoted usually for the CEO and the BoD.

There is a positive relation between the three committees and the annual number of meetings. As the meetings per year increases, we can find the seriousness and the continuation process on the board.

#### **5.2.4. Board Experience**

Test shows that there is positive relationship between age of the directors and the presence of the board executive committee. As the age of the directors ranges between 50 and 70 years, we notice that more banks have executive committee.

#### **5.2.5. Duality**

The duality of chairman and CEO didn't fit in other categories and we classify it alone.

### **5.3. Analysis of Variance Test**

Below the ANOVA test is presented for the BoD index and the subsidized groups.

#### **5.3.1. ANOVA Index per ranking**

Several analyses of variance (ANOVA) were conducted to determine whether there exists significant difference in the average of the attributes across ranking groups.

### 5.3.1.1. Board of Directors Index

Table 3: Statistics results and ANOVA for BoD index reference to ranking groups

**Descriptive**

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
BODINDX	1st Tier	15	20.07	3.127	.808	18.33	21.80	15	26
	2nd Tier	21	13.71	6.270	1.368	10.86	16.57	0	24
	3rd Tier	21	6.19	6.539	1.427	3.21	9.17	0	22
	Other	10	11.80	8.094	2.560	6.01	17.59	0	21
	Total	67	12.49	7.880	.963	10.57	14.41	0	26

**ANOVA**

		Sum of Squares	df	Mean Square	F	Sig.
BODINDX	Between Groups	1730.689	3	576.896	15.348	.000
	Within Groups	2368.057	63	37.588		
	Total	4098.746	66			

Descriptive statistics give the average board of directors index (BODINDX) for each rank group along with the standard deviation and other statistics.

The ANOVA table reveals that the test is highly significant (0.000), which indicates that there is a difference in the average BODINDX among the ranking groups.

The first tier which represents the top 15 banks in Lebanon has the highest mean of total attributes (20.07). The second tier has a score of 13.71. The fourth tier has a score of 11.8 and the third tier has a score of 6.19. Results are expected as larger banks tend to have higher awareness for the importance of corporate governance and process of applying BoD.

Table 4: Post Hoc test for BoD index reference to ranking groups

**Multiple Comparisons**

Scheffe

Dependent Variable	(I) RnkGrp	(J) RnkGrp	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
BODINDEX	1st Tier	2nd Tier	6.352*	2.073	.032	.40	12.31
		3rd Tier	13.876*	2.073	.000	7.92	19.83
		Other	8.267*	2.503	.017	1.08	15.46
	2nd Tier	1st Tier	-6.352*	2.073	.032	-12.31	-.40
		3rd Tier	7.524*	1.892	.003	2.09	12.96
		Other	1.914	2.356	.882	-4.85	8.68
	3rd Tier	1st Tier	-13.876*	2.073	.000	-19.83	-7.92
		2nd Tier	-7.524*	1.892	.003	-12.96	-2.09
		Other	-5.610	2.356	.140	-12.38	1.16
	Other	1st Tier	-8.267*	2.503	.017	-15.46	-1.08
		2nd Tier	-1.914	2.356	.882	-8.68	4.85
		3rd Tier	5.610	2.356	.140	-1.16	12.38



The Post Hoc Test based on the Scheffe determines the multiple comparisons between different tiers. The average BODINDEX in the first tier differs significantly in the other groups (all alpha significance are below 0.05). The significance of the second tier relevant to the first tier is 0.032 with average 6.35, the third tier is 0.00 with average of 13.87 and the other is 0.017 with average of 8.26.

The first tier relevant to the second tier is significant 0.032 with average -6.35 and the third tier is also significant with average of 7.52.

The first tier relevant to the third tier is significant 0.00 with average -13.87 and the second tier is also significant 0.003 with average -7.52.

The first tier relevant to the "other" group is significant 0.017 with average -8.26.

In general this test proves that large banks in Lebanon apply more corporate governance standards focused on BoD than the smaller banks.

### 5.3.1.2. Board Committees

Table 5: Statistics results and ANOVA for Board Committees subgroup index reference to ranking groups

**Descriptives**

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
						COMMT	1st Tier		
	2nd Tier	21	-.079531	1.1181037	.2439902	-.588486	.429424	-1.9763	2.4731
	3rd Tier	20	-.585344	.5895514	.1318277	-.861262	-.309425	-1.3309	1.2442
	Other	10	.242358	1.0169917	.3216010	-.485154	.969870	-1.2123	1.7130
	Total	66	.000000	1.0000000	.1230915	-.245831	.245831	-1.9763	2.4731

**ANOVA**

		Sum of Squares	Df	Mean Square	F	Sig.
COMMT	Between Groups	15.571	3	5.190	6.511	.001
	Within Groups	49.429	62	.797		
	Total	65.000	65			

Descriptive statistics give the average board committees index (COMMT) for each rank group along with the standard deviation and other statistics.

The ANOVA table reveals the test is significant (0.001) which indicates that there is a difference in the average COMMT among the ranking groups.

The first tier has the highest mean of committee attributes (0.73). The second tier has a score of -0.07 and the third tier has a score of -0.58. This means that top banks in Lebanon has highest score of committee attributes.

Table 6: Post Hoc test for Board Committees subgroup reference to ranking groups

**Multiple Comparisons**

Scheffe

Dependent Variable	(I) RnkGrp	(J) RnkGrp	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
COMMT	1st Tier	2nd Tier	.8097606	.3018490	.076	-.057703	1.677224
		3rd Tier	1.3155735*	.3049771	.001	.439121	2.192026
		Other	.4878714	.3645173	.619	-.559690	1.535433
	2nd Tier	1st Tier	-.8097606	.3018490	.076	-1.677224	.057703
		3rd Tier	.5058130	.2789723	.358	-.295907	1.307532
		Other	-.3218891	.3430560	.830	-1.307774	.663996
	3rd Tier	1st Tier	-1.3155735*	.3049771	.001	-2.192026	-.439121
		2nd Tier	-.5058130	.2789723	.358	-1.307532	.295907
		Other	-.8277021	.3458115	.137	-1.821506	.166102
	Other	1st Tier	-.4878714	.3645173	.619	-1.535433	.559690
		2nd Tier	.3218891	.3430560	.830	-.663996	1.307774
		3rd Tier	.8277021	.3458115	.137	-.166102	1.821506

The average COMMT differs significantly among some groups. The significance of the second tier relevant to the first tier is low 0.076 with average 0.8, the third tier is 0.01 with average of 1.31 and the “other” is not significant 0.619 with average of 0.48.

The first tier relevant to the second tier has low significance 0.076 with average - 0.8while the third and “other” are not significant (0.358 and 0.830 respectively)

The first tier relevant to the third tier is significant 0.001 with average -1.31while the rest are not significant.

The three tiers are not significantly related to the “other” tiers in terms of committee attributes.

### 5.3.1.3. Board Characteristics

Table 7: Statistics results and ANOVA for Board Characteristics subgroup index reference to ranking groups

		Descriptives							
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
CHARC	1st Tier	15	.556752	.5508210	.1422214	.251718	.861787	-.8235	1.2532
	2nd Tier	21	.286808	.9315613	.2032833	-.137234	.710850	-1.8279	1.4500
	3rd Tier	20	-.585217	1.1387407	.2546302	-1.118164	-.052270	-1.8699	1.2028
	Other	10	-.266991	.7317329	.2313943	-.790441	.256459	-1.8279	.5712
	Total	66	.000000	1.0000000	.1230915	-.245831	.245831	-1.8699	1.4500

**ANOVA**

		Sum of Squares	Df	Mean Square	F	Sig.
CHARC	Between Groups	13.939	3	4.646	5.642	.002
	Within Groups	51.061	62	.824		
	Total	65.000	65			

The ANOVA table reveals the test is significant (0.002) which indicates that there is a difference in the average board characteristics (CHARC) among the ranking groups.

The first tier has the highest average of characteristics attributes (0.55). The second tier has a score of 0.28, the third tier has a score of -0.58 and the “other” tier has a score of -0.266. This means that top banks in Lebanon has highest score of board characteristics attributes.

The above results are enough evidence to support Hypothesis 3 (a) significantly.

Table 8: Post Hoc test for Board Characteristics subgroup index reference to ranking groups

Multiple Comparisons

Scheffe

Dependent Variable	(I) RnkGrp	(J) RnkGrp	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
CHARC	1st Tier	2nd Tier	.2699441	.3067912	.855	-.611722	1.151610
		3rd Tier	1.1419688*	.3099705	.006	.251166	2.032772
		Other	.8237432	.3704856	.187	-.240970	1.888456
	2nd Tier	1st Tier	-.2699441	.3067912	.855	-1.151610	.611722
		3rd Tier	.8720247*	.2835399	.031	.057179	1.686871
		Other	.5537991	.3486728	.477	-.448228	1.555826
	3rd Tier	1st Tier	-1.1419688*	.3099705	.006	-2.032772	-.251166
		2nd Tier	-.8720247*	.2835399	.031	-1.686871	-.057179
		Other	-.3182256	.3514735	.844	-1.328301	.691850
	Other	1st Tier	-.8237432	.3704856	.187	-1.888456	.240970
		2nd Tier	-.5537991	.3486728	.477	-1.555826	.448228
		3rd Tier	.3182256	.3514735	.844	-.691850	1.328301

The average CHARC differs significantly among some groups. There is no significance for the second and “other” tier relevant to the first tier (0.855 and 0.187 respectively); while the third tier is significantly (0.006) relevant to the first tier with average of 1.14.

The third tier relevant to the second tier has significant difference 0.031 with average 0.87 while the first and “other” tiers are not significant.

The first and second tiers are significantly different (0.006 and 0.031 respectively) with average of -1.14 and -0.87.

#### 5.3.1.4. Board Experience

Table 9: Statistics results and ANOVA for Board Experience subgroup index reference to ranking groups

#### Descriptives

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
						EXPRC	1st Tier		
	2nd Tier	21	-.075617	.7605278	.1659608	-.421805	.270571	-1.0570	1.9214
	3rd Tier	20	-.126935	.5944319	.1329190	-.405137	.151268	-1.1032	2.0522
	Other	10	-.214872	.8578934	.2712897	-.828572	.398828	-1.3689	1.2541
	Total	66	.000000	1.0000000	.1230915	-.245831	.245831	-1.3689	3.6340

#### ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
EXPRC	Between Groups	3.529	3	1.176	1.187	.322
	Within Groups	61.471	62	.991		
	Total	65.000	65			

The ANOVA table exposes that there is no significant (0.3222) difference in the average board experience (EXPRC) among the ranking groups.

The first tier has the highest average of characteristics attributes (0.55). The second tier has a score of 0.28, the third tier has a score of -0.58 and the “other” tier has a score of -0.266. This means that top banks in Lebanon has highest score of board characteristics attributes.

### 5.3.1.5. Ownership Structure

Table 10: Statistics results and ANOVA for BvD Index reference to ranking groups

#### Descriptives

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
						BvDCat	1st Tier		
	2nd Tier	21	1.71	.956	.209	1.28	2.15	1	4
	3rd Tier	21	2.00	1.378	.301	1.37	2.63	1	6
	Other	10	1.10	.316	.100	.87	1.33	1	2
	Total	67	2.06	1.324	.162	1.74	2.38	1	6

#### ANOVA

		Sum of Squares	Df	Mean Square	F	Sig.
BvDCat	Between Groups	33.642	3	11.214	8.603	.000
	Within Groups	82.119	63	1.303		
	Total	115.761	66			



The ANOVA table states that there is significant (0.000) difference in the average of ownership structure (BvDCat) among the ranking groups.

The first tier has the highest average of characteristics attributes (3.27). The third tier has a score of 2.00, then the second tier with a score of 1.71 and the “other” tier has a score of 1.10. This means that top banks in Lebanon has highest score in terms of independent ownership structure based on Bureau van Dijk Independence Indicator.

Table 11: Post Hoc test for BvD Index reference to ranking groups

**Multiple Comparisons**

Scheffe

Dependent Variable	(I) RnkGrp	(J) RnkGrp	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
BvDCat	1st Tier	2nd Tier	1.552 <sup>*</sup>	.386	.002	.44	2.66
		3rd Tier	1.267 <sup>*</sup>	.386	.018	.16	2.38
		Other	2.167 <sup>*</sup>	.466	.000	.83	3.51
	2nd Tier	1st Tier	-1.552 <sup>*</sup>	.386	.002	-2.66	-.44
		3rd Tier	-.286	.352	.883	-1.30	.73
		Other	.614	.439	.584	-.65	1.87
	3rd Tier	1st Tier	-1.267 <sup>*</sup>	.386	.018	-2.38	-.16
		2nd Tier	.286	.352	.883	-.73	1.30
		Other	.900	.439	.250	-.36	2.16
	Other	1st Tier	-2.167 <sup>*</sup>	.466	.000	-3.51	-.83
		2nd Tier	-.614	.439	.584	-1.87	.65
		3rd Tier	-.900	.439	.250	-2.16	.36

Based on multiple comparisons, we notice a significant relation between the first tier and the other three tiers. The average of the second tier relevant to the first tier is 1.55, the third tier is 1.26 and the “other” tier is 2.16.

The average BvDCat in the second tier differs significantly in the first tier (0.002) but doesn’t differ significantly in the third and “other” tier.

The case is similar for the third and “other” tier.

### 5.3.2. ANOVA Indicators per ranking

Based on the same ranking, we analyze ANOVA to determine whether there exists significant difference in the average of the financial indicators across ranking groups.

We dismiss the indicators where ANOVA shows no significant relationship.

Table 12: ANOVA test for financial indicators reference to ranking groups

		Sum of Squares	Df	Mean Square	F	Sig.
ROAA	Between Groups	1.061	3	.354	.050	.985
	Within Groups	374.403	53	7.064		
	Total	375.464	56			
ROAAm1	Between Groups	.723	3	.241	.031	.992
	Within Groups	398.435	52	7.662		
	Total	399.158	55			
ROAAm2	Between Groups	12.653	3	4.218	1.916	.141
	Within Groups	99.056	45	2.201		

	Total	111.709	48			
ROAE	Between Groups	414.445	3	138.148	1.185	.324
	Within Groups	6178.117	53	116.568		
	Total	6592.562	56			
ROAE <sub>m1</sub>	Between Groups	393.912	3	131.304	.991	.404
	Within Groups	6887.978	52	132.461		
	Total	7281.891	55			
ROAE <sub>m2</sub>	Between Groups	1009.910	3	336.637	.511	.677
	Within Groups	29653.775	45	658.973		
	Total	30663.686	48			
EqAst	Between Groups	6818.143	3	2272.714	7.576	.000
	Within Groups	18899.047	63	299.985		
	Total	25717.190	66			
EqAst <sub>m1</sub>	Between Groups	4313.712	3	1437.904	6.024	.001
	Within Groups	15037.701	63	238.694		
	Total	19351.413	66			
EqAst <sub>m2</sub>	Between Groups	1544.772	3	514.924	2.567	.062
	Within Groups	12639.365	63	200.625		
	Total	14184.136	66			
IntMar	Between Groups	128.102	3	42.701	7.266	.000
	Within Groups	370.213	63	5.876		
	Total	498.315	66			
IntMar <sub>m1</sub>	Between Groups	159.722	3	53.241	4.178	.009

	Within Groups	802.872	63	12.744		
	Total	962.594	66			
IntMarm2	Between Groups	66.189	3	22.063	3.799	.014
	Within Groups	365.864	63	5.807		
	Total	432.053	66			
LnsDps	Between Groups	6614.483	3	2204.828	6.433	.001
	Within Groups	21591.687	63	342.725		
	Total	28206.171	66			
LnsDpsm1	Between Groups	6153.433	3	2051.144	5.848	.001
	Within Groups	22097.317	63	350.751		
	Total	28250.749	66			
LnsDpsm2	Between Groups	7245.227	3	2415.076	1.223	.309
	Within Groups	124383.643	63	1974.344		
	Total	131628.870	66			

Equity to Assets

Table 13: Statistics results for Equity to Assets ratio in reference to ranking groups

Descriptives

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
EqAst	1st Tier	15	8.82407	1.431754	.369677	8.03119	9.61695	7.006	12.818
	2nd Tier	21	14.67548	10.802024	2.357195	9.75845	19.59250	.969	43.335
	3rd Tier	21	29.72852	28.534601	6.226760	16.73973	42.71732	4.985	99.995
	Other	10	1.67400	5.293653	1.674000	-2.11285	5.46085	.000	16.740
	Total	67	16.14306	19.739665	2.411584	11.32818	20.95794	.000	99.995
EqAstm1	1st Tier	15	8.59713	1.289952	.333064	7.88278	9.31148	6.776	12.166
	2nd Tier	21	16.05990	14.604969	3.187065	9.41180	22.70801	.757	67.114
	3rd Tier	21	24.52010	22.904660	4.998207	14.09402	34.94617	.000	78.060
	Other	10	1.68600	5.331600	1.686000	-2.12800	5.50000	.000	16.860
	Total	67	14.89548	17.123178	2.091929	10.71881	19.07215	.000	78.060
EqAstm2	1st Tier	15	8.21207	1.389142	.358675	7.44279	8.98135	6.379	11.192
	2nd Tier	21	15.53071	15.162944	3.308826	8.62862	22.43280	.000	64.499
	3rd Tier	21	13.49210	19.698527	4.298571	4.52543	22.45876	.000	83.680
	Other	10	1.67800	5.306302	1.678000	-2.11790	5.47390	.000	16.780
	Total	67	11.18567	14.659848	1.790986	7.60985	14.76149	.000	83.680

The ANOVA table reveals that there is strong significant difference in the Equity to Assets ratio among the ranking groups. The last year significance was 0.000 and the year before was 0.001.

The first tier has the lowest average equity to asset ratio (8.82). The second tier has a ratio of 14.67, and the third tier has a ratio of 29.72. Results are against primary expectations but can be understood. Ranking are based on total assets, thus banks with larger assets will have less on this ratio. Also, large banks in Lebanon tend to depend on depositors on their investments rather on shareholders' equity.

Table 14: Post Hoc Tests results for Equity to Assets ratio in reference to ranking groups

**Multiple Comparisons**

Scheffe

Dependent Variable	(I) RnkGrp	(J) RnkGrp	Mean Difference (I-J)	Std. Error	Sig.	95% Confidence Interval	
						Lower Bound	Upper Bound
EqAst	1st Tier	2nd Tier	-5.851410	5.855253	.802	-22.67100	10.96818
		3rd Tier	-20.904457*	5.855253	.008	-37.72404	-4.08487
		Other	7.150067	7.070889	.796	-13.16152	27.46165
	2nd Tier	1st Tier	5.851410	5.855253	.802	-10.96818	22.67100
		3rd Tier	-15.053048	5.345090	.057	-30.40716	.30107
		Other	13.001476	6.654583	.292	-6.11424	32.11719
	3rd Tier	1st Tier	20.904457*	5.855253	.008	4.08487	37.72404
		2nd Tier	15.053048	5.345090	.057	-.30107	30.40716
		Other	28.054524*	6.654583	.001	8.93881	47.17024

	Other	1st Tier	-7.150067	7.070889	.796	-27.46165	13.16152
		2nd Tier	-13.001476	6.654583	.292	-32.11719	6.11424
		3rd Tier	-28.054524*	6.654583	.001	-47.17024	-8.93881
EqAstm1	1st Tier	2nd Tier	-7.462771	5.222957	.567	-22.46605	7.54051
		3rd Tier	-15.922962*	5.222957	.033	-30.92624	-.91969
		Other	6.911133	6.307319	.753	-11.20704	25.02931
	2nd Tier	1st Tier	7.462771	5.222957	.567	-7.54051	22.46605
		3rd Tier	-8.460190	4.767885	.377	-22.15625	5.23586
		Other	14.373905	5.935969	.130	-2.67755	31.42536
	3rd Tier	1st Tier	15.922962*	5.222957	.033	.91969	30.92624
		2nd Tier	8.460190	4.767885	.377	-5.23586	22.15625
		Other	22.834095*	5.935969	.004	5.78264	39.88555
	Other	1st Tier	-6.911133	6.307319	.753	-25.02931	11.20704
		2nd Tier	-14.373905	5.935969	.130	-31.42536	2.67755
		3rd Tier	-22.834095*	5.935969	.004	-39.88555	-5.78264
EqAstm2	1st Tier	2nd Tier	-7.318648	4.788377	.510	-21.07357	6.43627
		3rd Tier	-5.280029	4.788377	.750	-19.03495	8.47489
		Other	6.534067	5.782514	.735	-10.07658	23.14471
	2nd Tier	1st Tier	7.318648	4.788377	.510	-6.43627	21.07357
		3rd Tier	2.038619	4.371170	.974	-10.51785	14.59508
		Other	13.852714	5.442063	.102	-1.77996	29.48539
	3rd Tier	1st Tier	5.280029	4.788377	.750	-8.47489	19.03495
		2nd Tier	-2.038619	4.371170	.974	-14.59508	10.51785

	Other	11.814095	5.442063	.205	-3.81858	27.44677
Other	1st Tier	-6.534067	5.782514	.735	-23.14471	10.07658
	2nd Tier	-13.852714	5.442063	.102	-29.48539	1.77996
	3rd Tier	-11.814095	5.442063	.205	-27.44677	3.81858

The Post Hoc Test based on the Scheffe determines the multiple comparisons between different tiers. In the latest year, the average equity to total assets ratio in the first and second tier differs significantly in the third tier. The averages of the third tier relevant to the first and second one are -20.9 and -15.

The first tier relevant to the third one is significant 0.032 with average -6.35 and the third tier is also significant with average of 7.52.

In the previous year, the first and "other" tiers are significantly relevant to the third year with average of equity to assets 15.9 and 22.8 respectively.

In the year before, there are no significant relations.



*Interest Margin*

Table 15: Statistics results for Interest Margin ratio in reference to ranking groups

**Descriptives**

		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
						IntMar	1st Tier		
	2nd Tier	21	3.30609	3.110275	.678718	1.89031	4.72187	-1.532	13.980
	3rd Tier	21	4.18905	2.919243	.637031	2.86022	5.51787	.000	12.816
	Other	10	.00000	.000000	.000000	.00000	.00000	.000	.000
	Total	67	2.85983	2.747768	.335693	2.18960	3.53007	-1.532	13.980
IntMarm1	1st Tier	15	2.26233	.551159	.142309	1.95711	2.56756	1.278	3.079
	2nd Tier	21	3.20576	3.202264	.698791	1.74811	4.66342	-1.210	13.799
	3rd Tier	21	4.69995	5.447613	1.188767	2.22023	7.17968	.000	24.537
	Other	10	.00000	.000000	.000000	.00000	.00000	.000	.000
	Total	67	2.98440	3.819000	.466565	2.05288	3.91593	-1.210	24.537
IntMarm2	1st Tier	15	2.34000	.377090	.097364	2.13117	2.54883	1.678	3.110
	2nd Tier	21	2.88186	2.486906	.542687	1.74983	4.01388	.000	10.884
	3rd Tier	21	2.84233	3.465395	.756211	1.26490	4.41976	-.019	11.426
	Other	10	.00000	.000000	.000000	.00000	.00000	.000	.000
	Total	67	2.31803	2.558565	.312578	1.69395	2.94211	-.019	11.426

The ANOVA table states that there is significant relationship in the Interest Margin ratio among the ranking groups. The last year significance was 0.000 and the year before was 0.009 and the one before was 0.014

The first tier has the lowest Interest Margin in the last two years (2.2). The second tier has a ratio of 3.2 and the third tier has a ratio of 4. As in the equity to total assets, results are against primary expectations but can be understood. As mentioned above, this margin should not be puzzled with profitability. Banks have additional major returns from fees and service charges. Large banks in Lebanon do not account for profit due to higher interest margin. There are other factors that engine this difference.

*Loans to Deposits*

Table 16: Statistics results for LTD ratio in reference to ranking groups

		Descriptives							
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
LnsDps	1st Tier	15	35.78353	9.859059	2.545598	30.32377	41.24330	21.426	54.271
	2nd Tier	21	34.55876	14.298510	3.120191	28.05016	41.06737	11.998	65.070
	3rd Tier	21	30.29905	25.291328	5.519020	18.78657	41.81152	.000	90.150
	Other	10	6.10000	19.289894	6.100000	-7.69916	19.89916	.000	61.000
	Total	67	29.25025	20.672838	2.525589	24.20775	34.29276	.000	90.150
LnsDpsm1	1st Tier	15	35.73127	10.073994	2.601094	30.15248	41.31006	20.663	54.835
	2nd Tier	21	32.15343	16.633556	3.629739	24.58192	39.72493	8.276	66.676

3rd Tier	21	31.01400	24.134889	5.266665	20.02793	42.00007	.000	83.476
Other	10	6.23000	19.700990	6.230000	-7.86324	20.32324	.000	62.300
Total	67	28.72813	20.689168	2.527584	23.68165	33.77462	.000	83.476

The ANOVA table exposes that there is significant relations in the Equity to Assets ratio among the ranking groups. The last year significance was 0.001 and the year before was 0.001.

The first tier has the highest average LTD (35.7). The second tier has a ratio of 32.1, and the third tier has a ratio of 31.0. Results are the same in the last two years. Data discrepancy is minimal. This shows that banks in Lebanon share similar strategy for loans and deposits ratio.

In summary, the results indicate the following:

- There is no significant difference in ROAA and ROAE among ranking tiers.
- Equity Assets and Interest margin are higher as ranking is lower.
- LTD ratio is positively related to ranking.

Hypothesis 4 (a) has no enough evidence for support.

### 5.3.3. ANOVA Index per Country

As mentioned previously, banks are divided into two groups. Local banks have their headquarters in Beirut and are registered as Lebanese companies while foreign banks have their main office outside Lebanon and operating through branches in the country.

Table 17: ANOVA for BvD Index, Bod Index and subgroups relevant to country

**ANOVA**

		Sum of Squares	Df	Mean Square	F	Sig.
BODINDX	Between Groups	51.766	1	51.766	.831	.365
	Within Groups	4046.980	65	62.261		
	Total	4098.746	66			
BvDCat	Between Groups	2.852	1	2.852	1.642	.205
	Within Groups	112.909	65	1.737		
	Total	115.761	66			
COMMT	Between Groups	.128	1	.128	.127	.723
	Within Groups	64.872	64	1.014		
	Total	65.000	65			
CHARC	Between Groups	.290	1	.290	.287	.594
	Within Groups	64.710	64	1.011		
	Total	65.000	65			
EXPRC	Between Groups	.641	1	.641	.638	.428
	Within Groups	64.359	64	1.006		
	Total	65.000	65			

The Anova index shows that there is no significant relationship between local and foreign banks in terms of BoD index, BvD index and the subgroups.

Hypothesis 3 (b) is not proofed to be true.

### 5.3.4. ANOVA Indicators per Country

Based on the same ranking, we analyze ANOVA to determine whether there exists significant difference in the average of the financial indicators across the country origin. We dismiss the indicators where ANOVA shows no significant relationship.

Table 18: ANOVA for BvD Index, Bod Index and subgroups relevant to ranking

		ANOVA				
		Sum of Squares	Df	Mean Square	F	Sig.
ROAA	Between Groups	39.763	1	39.763	6.515	.014
	Within Groups	335.702	55	6.104		
	Total	375.464	56			
ROAAm1	Between Groups	36.385	1	36.385	5.416	.024
	Within Groups	362.773	54	6.718		
	Total	399.158	55			
ROAAm2	Between Groups	3.163	1	3.163	1.369	.248
	Within Groups	108.547	47	2.310		
	Total	111.709	48			
ROAE	Between Groups	443.067	1	443.067	3.963	.051
	Within Groups	6149.495	55	111.809		
	Total	6592.562	56			
ROAEm1	Between Groups	314.166	1	314.166	2.435	.125
	Within Groups	6967.725	54	129.032		
	Total	7281.891	55			
ROAEm2	Between Groups	3653.292	1	3653.292	6.357	.015

	Within Groups	27010.393	47	574.689		
	Total	30663.686	48			
EqAst	Between Groups	136.928	1	136.928	.348	.557
	Within Groups	25580.262	65	393.542		
	Total	25717.190	66			
EqAstm1	Between Groups	4.947	1	4.947	.017	.898
	Within Groups	19346.466	65	297.638		
	Total	19351.413	66			
EqAstm2	Between Groups	67.487	1	67.487	.311	.579
	Within Groups	14116.650	65	217.179		
	Total	14184.136	66			
IntMar	Between Groups	4.071	1	4.071	.535	.467
	Within Groups	494.245	65	7.604		
	Total	498.315	66			
IntMarm1	Between Groups	8.572	1	8.572	.584	.448
	Within Groups	954.022	65	14.677		
	Total	962.594	66			
IntMarm2	Between Groups	.732	1	.732	.110	.741
	Within Groups	431.321	65	6.636		
	Total	432.053	66			
LnsDps	Between Groups	1227.469	1	1227.469	2.957	.090
	Within Groups	26978.701	65	415.057		
	Total	28206.171	66			

LnsDpsm1	Between Groups	1249.859	1	1249.859	3.009	.088
	Within Groups	27000.890	65	415.398		
	Total	28250.749	66			
LnsDpsm2	Between Groups	2923.369	1	2923.369	1.476	.229
	Within Groups	128705.501	65	1980.085		
	Total	131628.870	66			

### ROAA

ANOVA test indicates that there is a significant relationship between local and foreign banks regarding ROAA in the last two years.

Table 19: Statistics results for ROAA in reference to country.

#### Descriptives

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum	
					Lower Bound	Upper Bound			
ROAA	Lebanese	46	1.32204	1.206550	.177896	.96374	1.68034	-1.096	5.166
	Foreign	11	-.79436	5.198005	1.567258	-4.28643	2.69770	-15.976	2.521
	Total	57	.91361	2.589348	.342967	.22657	1.60066	-15.976	5.166
ROAAm1	Lebanese	45	1.24722	1.585953	.236420	.77075	1.72370	-2.296	8.364
	Foreign	11	-.78164	5.020976	1.513881	-4.15477	2.59150	-15.482	2.492
	Total	56	.84870	2.693959	.359995	.12725	1.57014	-15.482	8.364

Descriptive statistics state that average ROAA for Lebanese banks around is 1.3 in the last two years, while average ROAA for foreign banks is around -0.7 in the same period. Several reasons justify this difference. Lebanese banks transact in Lebanese Lira which charge higher interests than USD. Local banks also have additional services that can be offered. They can give housing loans (Iskan), student loans and other services restricted on foreign banks. The central bank had over liquidity and offered the Lebanese banks facilities to support the economy cycle. It's also noted that the local banks have less restrictions than foreign banks that are connected with main office. Other factors may also support the discrepancy.

*ROAE*

ANOVA test shows that there is a marginal significant difference among local and foreign banks regarding ROAE in the last year (0.051) and the year 2012 (0.015).

Table 20: Statistics results for ROAE in reference to country.

		Descriptives							
		N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
						Lower Bound	Upper Bound		
ROAE	Lebanese	46	10.54839	9.147620	1.348743	7.83188	13.26490	-17.056	44.097
	Foreign	11	3.48364	15.440019	4.655341	-6.88911	13.85638	-21.963	29.282
	Total	57	9.18502	10.850084	1.437129	6.30610	12.06393	-21.963	44.097
ROAE <sub>m2</sub>	Lebanese	39	11.28556	8.198358	1.312788	8.62796	13.94316	.114	45.208



Foreign	10	-10.13880	52.128363	16.484436	-47.42918	27.15158	-155.442	22.563
Total	49	6.91324	25.275023	3.610718	-.34659	14.17308	-155.442	45.208

According to the above statistics the mean of ROAE for local banks in 2014 is 10.54 and in 2012 is 11.28. The ROAE for foreign banks in 2014 is 3.48 and in 2012 is -10.13. There is a big difference in ROAE between the two groups. Justification is similar to what was mentioned in ROAA.

### *Loans to Deposits*

ANOVA reveals marginal significant relationship between the two groups in terms of LTD ratio for the last two years.

Table 21: Statistics results for LTD ratio in reference to country

#### Descriptives

	N	Mean	Std. Deviation	Std. Error	95% Confidence Interval for Mean		Minimum	Maximum
					Lower Bound	Upper Bound		
LnsDps								
Lebanese	50	31.74604	19.708968	2.787269	26.14481	37.34727	.000	90.150
Foreign	17	21.90971	22.283647	5.404578	10.45251	33.36690	.000	61.000
Total	67	29.25025	20.672838	2.525589	24.20775	34.29276	.000	90.150
LnsDpsm1								
Lebanese	50	31.24658	18.927781	2.676792	25.86736	36.62580	.000	83.476
Foreign	17	21.32094	24.297771	5.893075	8.82818	33.81370	.000	62.300
Total	67	28.72813	20.689168	2.527584	23.68165	33.77462	.000	83.476
LnsDpsm2								
Lebanese	50	33.86046	49.660732	7.023088	19.74704	47.97388	.000	336.572

Foreign	17	18.68053	22.167364	5.376375	7.28312	30.07794	.000	66.100
Total	67	30.00884	44.658446	5.455898	19.11578	40.90189	.000	336.572

In the last three years Lebanese banks had an average of 32.3 on LTD ratio while foreign banks had an average of 20.4.

In summary:

- Profitability ratios are higher for local banks. This supports hypothesis 4(b)
- No significant difference in Equity to assets and Interest Margin between local and foreign banks
- Liquidity (LTD ratio) is higher for local banks than foreign ones

Hypothesis 4 (b) is partially proved to be true. The liquidity part in hypothesis is rejected.

## 5.4. Linear Regression Analysis

Using SPSS, we generate the relationship between the subgroups, total index and ownership structure with the financial performance. Ratios of 2014 are used to construct regression model with financial indicators as dependent variables and BoD index (or it's subgroups), BvD category, country location and ranking group as independent variables.

### 5.4.1. ROAA

Table 22: Linear regression with ROAA independent variable

#### Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.446 <sup>a</sup>	.199	.137	2.405040

a. Predictors: (Constant), RnkGrp, Cntry, BvDCat, BODINDX

#### ANOVA<sup>a</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	74.685	4	18.671	3.228	.019 <sup>b</sup>
	Residual	300.779	52	5.784		
	Total	375.464	56			

a. Dependent Variable: ROAA

b. Predictors: (Constant), RnkGrp, Cntry, BvDCat, BODINDX

#### Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.121	1.708		.071	.944
	BODINDX	.079	.060	.243	1.330	.189
	BvDCat	.345	.264	.182	1.309	.196
	Cntry	-3.022	.943	-.465	-3.206	.002
	RnkGrp	1.224	.581	.394	2.108	.040

a. Dependent Variable: ROAA

When ROAA is considered as dependent variable, regression model was highly significant (F= 3.228 and P-Value= 0.019) as shown in the ANOVA table. The model explains acceptable R square value 0.199. The model revealed that country and ranking are significant coefficients. The country coefficient -3.022 indicates that the difference in ROAA between two banks having the same BoD index and BvD category when one is Lebanese and the other is foreign. The ROAA index is 3.022 higher for Lebanese banks. The ROAA is also higher for lower ranked groups. This can be justified since the ranking is based on total assets value, which stands for the denominator in the presented ratio. So as the ranking goes higher, the denominator becomes bigger.

#### 5.4.2.ROAE

Table 23: Linear Regression with ROAE as independent variable

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	626.153	6	104.359	.858	.533 <sup>b</sup>
	Residual	5963.274	49	121.699		
	Total	6589.427	55			

ANOVA test shows no significant results for linear regression when compared with BoD index, BvD category, country origin and ranking.

#### 5.4.3. Equity to Assets

For Equity to Assets ratio, ANOVA test applied stepwise regression method backward.

The test showed no significant results.

Table 24: Linear Regression with Equity to Assets as independent variable

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1515.736	4	378.934	.971	.430 <sup>b</sup>
	Residual	24201.454	62	390.346		
	Total	25717.190	66			

a. Dependent Variable: EqAst

b. Predictors: (Constant), RnkGrp, BvDCat, Cntry, BODINDEX

**5.4.4 Interest Margin**

Applying stepwise regression method backward, the model is marginally significant (0.066) after country and ranking are omitted.

Table 25: Linear Regression with Interest Margin as independent variable

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
3	.285 <sup>c</sup>	.081	.053	2.674582

c. Predictors: (Constant), BvDCat, BODINDEX

**ANOVA<sup>a</sup>**

Model		Sum of Squares	Df	Mean Square	F	Sig.
3	Regression	40.498	2	20.249	2.831	.066 <sup>d</sup>
	Residual	457.817	64	7.153		
	Total	498.315	66			

a. Dependent Variable: IntMar

d. Predictors: (Constant), BvDCat, BODINDX

**Coefficients<sup>a</sup>**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
3	(Constant)	2.656	.697		3.810	.000
	BODINDX	-.081	.046	-.233	-1.775	.081
	BvDCat	.592	.272	.285	2.172	.034

BvD Category is significant in this model. As the bank has more independent ownership structure, the interest margin is higher by 0.592. As the bank has higher score on the board of directors index, the interest margin is lower by 0.81. This negative result falls against expectations for the relationship between BoD attributes and financial performance.

#### 5.4.5. LTD

Table 26: Linear Regression with LTD as independent variable

**Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.430 <sup>a</sup>	.185	.132	19.258151

a. Predictors: (Constant), BODINDX, Cntry, BvDCat, RnkGrp

ANOVA<sup>a</sup>

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	5211.834	4	1302.959	3.513	.012 <sup>b</sup>
	Residual	22994.336	62	370.876		
	Total	28206.171	66			

Coefficients<sup>a</sup>

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	40.764	11.205		3.638	.001
	BvDCat	2.939	2.060	.188	1.427	.159
	Cntry	-1.785	6.837	-.038	-.261	.795
	RnkGrp	-6.234	3.516	-.301	-1.773	.081
	BODINDX	-.035	.400	-.013	-.088	.930

When LTD is considered as dependent variable, regression model was significant (F= 3.513 and P-Value= 0.012) as shown in the ANOVA table. The model explains acceptable R square value 0.185. The model revealed that ranking is significant coefficient. The ranking coefficient -6.234 indicates that the difference in LTD between

two local or foreign banks having the same BoD index and BvD category when one is ranked higher than the other.

In summary of the above:

- There is no significant relationship between ROAA, ROAE, Equity to Assets, interest margin and LTD with BoD index.
- Local banks have higher financial performance than foreign banks despite the fact that foreign banks have slightly better BoD index
- Better ranked banks have higher LTD ratios but lower ROAA. Other financial performance are not significantly related

There are no enough evidence to support Hypothesis 5



## **Chapter Six**

### **Conclusion**

This thesis describes the status of the corporate governance practices applied in Lebanese banks especially in board of directors. The study used 18 attributes driven from International Shareholder services QuickScore and combined with Bureau van Dijk indicators. These attributes were combined to form an index that measures corporate governance in the banks. Then this index was analyzed in details in relation with financial performance of the banks. The thesis concludes that there is no consistency in the disclosure of Board of Directors mechanisms made by banks in Lebanon. Although most of the banks disclose their corporate governance practices, the study revealed many them do not abide by international standards. The disclosed information about board members, committees and roles are minimal. This makes it difficult to judge that actual situation and propose necessary corrections. In fact, the test reveals that half of the banks in Lebanon apply have minimal application for BoD international standards and less than quarter of the total banks have independent ownership structure.

Based on the index created in this thesis there is no empirical evidence that banks in Lebanon applying BoD standards referred by ISS have better financial performance. Opposite to the expectations, the test is not enough to support most of hypothesizes

that corporate governance with the presented attributes affect the financial performance positively. Various interpretations explain this relation. The application of corporate governance is still preliminary in the Lebanese banks; actual results will appear on long term. Also central bank in Lebanon supports banks to raise their financial performance, despite the fact they are protected well. The secrecy financial system is considered as an attraction for foreign investments who seek benefits from this system regardless the governance situation.

The study concludes slightly better CG index in foreign banks than local ones. However, this better position didn't lead the foreign banks to have better financial results. Local banks in Lebanon have better financial indicators than foreign banks. This negative relationship can be interpreted. Local banks have the right to lend the central bank while foreign banks are forbidden. This gives local banks higher chance for profitable and less risky investments. Lebanese banks transact in Lebanese Lira which charge higher interests than USD. Local banks also have additional services that can be offered like housing loans... The central bank support Lebanese banks with monetary facilities to immune the economy cycle. It's also noted that the local banks have less restrictions than foreign banks that are connected with main office. Other factors may also support the discrepancy.

Finally, it is a fundamental issue to improve corporate governance position in Lebanon, but a realistic view should encounter the regional situation. Lebanese economy has been passing in harsh period since 2011 surrounded by political strains, security challenges, and neighborhood crisis, especially in Syria. In fact, the pillars of the

Lebanese economy and monetary inflow have decreased steadily since the beginning of the Arab spring in 2011. Tourism, investments, and international trades were affected negatively. The national debt increased by 10% and is more than the GDP by 143%. These negative consequences are expected to continue with worse scenarios. The *banking sector* was able in all of these difficulties to remain solid recording, a growth of 7% with total assets of more than USD 175 billion at the beginning of 2015. All these challenges make it crucial for government to set regulations and build legal enforcement that ensures good corporate governance application.

### **6.1 Limitations and recommendations for further research**

Data is limited to the information that appears in bank's website, annual report and corporate governance publications. No meetings with banking expertise were done in this study. Such meetings add value to the understanding of the actual situation, preventing obstacles and future plans for improvement.

The study was limited to part of board of director's attributes. Future studies can continue deeper in BoD details and to cover corporate social responsibility, committees' work, ownership structure, risk mitigation and IT governance. Attributes were driven by ISS review. There are additional score boards driven by other institutions in this domain.

Financial performance was studied through five financial ratios that cover profitability, liquidity and solvency. Financial performance can be studied more intensely by covering balance sheet, income statement and cash-flow figures and ratios. Aside from

financial ratios, there are measurements that analyze conservatism measurements. For example, Basu coefficient is an important measurement for the asymmetric verifiability of profits and losses. The PIN is another important measurement for information asymmetry.

The thesis analyzed the efficiency of BoD in respect to financial performance. Similar studies to be conducted to compare BoD attributes applied in Lebanon with international standards and attributes of other countries. Comparison can be done with countries having similar circumstances such as UAE and Egypt or with countries having best governance practices as ideal case.

The thesis analyzed the efficiency of BoD in respect to financial performance. Similar studies to be conducted to compare BoD attributes applied in Lebanon with international standards and attributes of other countries. Comparison can be done with countries having similar circumstances such as UAE and Egypt or with countries having best governance practices as ideal case.

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## Appendix A – Complete List of Banks

BDL Bank List No.	Banks
1	FRANSABANK sal
3	Banque Misr Liban S.A.L. / in abbreviation BML SAL
5	ARAB BANK PLC
7	HSBC BANK MIDDLE EAST LIMITED
9	RAFIDAIN BANK
10	BANQUE LIBANO-FRANCAISE S.A.L.
11	B.L.C. Bank S.A.L.
12	NEAR EAST COMMERCIAL BANK SAL
14	BLOM BANK S.A.L
16	Federal Bank of Lebanon s.a.l.
17	Saudi National Commercial Bank
19	SOCIETE GENERALE DE BANQUE AU LIBAN S.A.L.
22	BankMed sal
27	Audi Private Bank sal
28	BBAC s.a.l
33	AUDI INVESTMENT BANK S.A.L
34	SYRIAN LEBANESE COMMERCIAL BANK S.A.L.
35	BANQUE PHARAON ET CHIHA S.A.L
36	Banque de Crédit National S.A.L.
39	BYBLOS BANK SAL
41	BANQUE DE L'HABITAT S.A.L.
43	FINANCE BANK S.A.L.
48	BANQUE DE L'INDUSTRIE ET DU TRAVAIL S.A.L.
52	IBL BANK S.A.L.
53	CREDIT LIBANAIS S.A.L.
56	Bank Audi sal
58	Fencia Bank SAL
62	North Africa Commercial Bank S.A.L.
63	LEBANESE SWISS BANK s.a.l.
67	BANK SADERAT IRAN
68	BSL Bank SAL
73	NATIONAL BANK OF KUWAIT (LEBANON) S.A.L.
75	BANK OF BEIRUT s.a.l
80	Jammal Trust Bank S.A.L.
85	HABIB BANK LIMITED
90	arab african international bank
92	Emirates Lebanon Bank S.A.L.

93	BANQUE BEMO SAL
94	Lebanon and Gulf Bank s.a.l.
95	Saudi Lebanese Bank sal
98	Standard Chartered Bank s.a.l.
101	AL-MAWARID BANK S.A.L.
103	CreditBank S.A.L.
104	United Credit Bank S.A.L.
105	BANK AL MADINA S.A.L.
108	FIRST NATIONAL BANK S.A.L.
109	Al Baraka Bank SAL
110	MEAB SAL
111	BLOMINVEST BANK S.A.L.
113	MedInvestment Bank sal
114	CREDIT LIBANAIS INVESTMENT BANK - S.A.L.
115	CITIBANK, N.A.
118	ARAB INVESTMENT BANK S.A.L.
121	Fransa Invest Bank SAL (FIB)
123	BYBLOS INVEST BANK SAL
125	Arab Finance House SAL (Islamic Bank)
126	LEBANESE ISLAMIC BANK SAL
127	BLOM Development Bank S.A.L
129	FFA SAL (PRIVATE BANK)
130	Bank of Beirut Invest S.A.L
131	Warka Bank For Investement & Finance J.S.C
132	Bank of Baghdad (Private S.A.Co.)
133	CSCBank SAL
134	AL- BILAD ISLAMIC BANK For investment & Finance P.S.C.
135	IBL Investment Bank s.a.l
136	Qatar National Bank (Qatari Societe Anonyme)
137	Cedrus Invest Bank S.A.L.
138	BLC INVEST SAL
139	LIBank S.A.L. (Levant Investment Bank)
140	National Bank Of Abu Dhabi
141	Invest bank

## Appendix B – Average Results of BoD Attributes

<b>BoDAttributes</b>	<b>Average</b>
BoD Index	12.49
Audit firm	2.07
Disclosed annual report	0.61
BoD Existence	0.82
BoD Details	0.45
Audit Committee	0.61
Nominating and Compensation Committee	0.39
Corporate Governance Committee	0.25
Executive Credit Committee	0.19
Board Risk Committee	0.55
Board Executive Committee	0.10
BOD members	1.46
Number of Independent member	2.28
Dual Chairman/CEO	0.39
Average age	0.25
Financial Expertise on Board	0.72
Minority on Board	0.54
Corporate Governance guidelines	0.40
Number of meetings per year	0.39
BvD Category	D

## Appendix C – Average Results of Financial Indicators

<b>Financial Indicators</b>	<b>Average</b>
ROAA last year	0.91
ROAA last year -1	0.85
ROAA last year -2	1.21
ROAE last year	9.19
ROAE last year -1	9.78
ROAE last year -2	6.91
Equity / Tot Assets last year	18.65
Equity / Tot Assets last year -1	17.51
Equity / Tot Assets last year -2	15.29
Net Interest Margin last year	3.42
Net Interest Margin last year -1	3.70
Net Interest Margin last year -2	3.38
Net Loans / Dep& ST Funding last year	35.00
Net Loans / Dep& ST Funding last year -1	34.37
Net Loans / Dep& ST Funding last year -2	41.03
Total Assets last year (Million USD)	3993.57