## ABL FINANCES THE START UP CONFERENCE – 2014

Once again, the Association of Banks in Lebanon actively took part in a major Startup conference in November 2014 with the participation of hundreds of professionals and CEOs of companies from over 20 countries especially from the UK.

Sponsored by the Central Bank, the international conference, entitled Accelerate 2014, received wide media coverage and was hailed as a landmark achievement for Lebanon despite the mounting tension in the region and political stalemate in the country.

Among the key financers of Accelerate 2014 was ABL which injected $460,000 into the event to guarantee its success and to demonstrate that startup companies have a promising future in Lebanon, provided that the necessary support was made available by all the concerned parties.

This is not the first time ABL participated in an event like this but what is important about this conference is that it focused on the startup companies and firms that are involved in high tech industries, a topic which is close to the heart of the association of banks.

Lebanese banks, with the full support of the Central Bank, have endeavored to assist startup companies through venture capital program.

Banks also extended easy credit facilities to companies through the Central Bank program that aims to assist Startup firms.

Circular No. 331, which was issued by the Central Bank in August 2013, encourages commercial banks to invest in startups.

The Central Bank will guarantee up to 75 percent of the value of these commercial bank investments in the capital of startups that meet the determined criteria.

Dr. Francois Bassil, the president of ABL, was one of the main speakers in Accelerate 2014 and has repeated the banks' support for businesses and innovations in the country.

In his speech, Dr. Bassil underscored the paramount role the Lebanese banks play in creating jobs and contributing to economic growth in Lebanon.

Dr. Bassil also praised Circular 331, saying that a number of venture capital firms had established funds that had raised considerable amounts of money, which would be invested in startups in the information and communications technology sector and in other creative industries.

"Such funds have already received investment commitments from ten Lebanese banks, but more are expected to participate in the coming future," he said.

It is worth noting that has extended billions of dollars of loans to the private sector and this massive injection was the major factor which helped businesses grow and prosper for many years.

In addition to Central Bank governor Riad Salameh and Dr. Bassil, the conference was attended by British Ambassador to Lebanon Tom Fletcher.

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## Capital Intelligence maintains positive outlook of Lebanon's sovereign rating

The London based Capital Intelligence has maintained Lebanon's long and short-term foreign and local currency sovereign ratings at 'B' with a 'stable' outlook.

This positive indication from Capital Intelligence affirms that both the government bonds and the Lebanese banks which hold a big chunk of these issues are in a healthy position.

The agency stressed that Lebanon's ratings show that proper liquidity and especially the level of its foreign currency reserves, which constitutes a buffer against external economic shocks. Furthermore, the agency noted that foreign currency reserves and other liquid foreign assets stood at $39.4 billion at the end of September 2014 and were equivalent to 83 percent of GDP and to about 1.5 times the country's external financing needs.

The agency considered that deposits from the Lebanese Diaspora, which are equivalent to about 120 percent of GDP, support the accumulation of foreign reserves, are the main source to cover the current account deficit, and indirectly allow the government to finance its fiscal deficit.

The finance ministry and commercial banks expressed confidence that the demand for sovereign bonds will remain strong in the next few years and this is attributed to the confidence of investors in the financial and banking system in the country.

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## Citigroup: Robustness of Lebanese banks key element in stability of sovereign risk profile

Citigroup has again voiced its confidence in the Lebanese banking sector which has financed for many years all the needs of the Lebanese state and took a big chunk of the sovereign bonds despite the gloomy picture some rating agencies drew.

Citigroup said in its last report on Lebanon that the stability of the sovereign risk profile rests on the robustness of the Lebanese banking sector and its ability to continue funding the government. Indeed, the Lebanese banks have provided the government $37.3 billion in the forms of loans up to November 2014. The banks have subscribed to the Lebanese sovereign bonds to help the treasury finance the public debt which now stands at $66 billion.

This massive cash injection has also enabled the government to meet all its needs. International investments banks and rating agencies realize that commercial banks, thanks to the guidance and directives of the Central Bank, have bailed out the government on numerous occasions and have vigorously subscribed to the bonds even at lower interest rates that are below the sovereign risk of Lebanon.

There is no sign that this trend will stop in the near future although banks are in favor reforms in all government departments.

## Foreign borrowing of banks and financial institutions clarified in a new circular by the Central Bank

The Central Bank modified Circular 378 dated November 12, 2014 in a bid to put new conditions on banks and financial institutions that plans to borrow or to access funds from non-resident in return for guarantees or collateral.

The amendments consist of adding a new article to the original circular. The collaterals and guarantees are in the form of Lebanese sovereign Eurobonds, foreign currency-denominated Certificates of Deposits (CDs) issued by the Central Bank of Lebanon, and sovereign or corporate bonds from foreign issuers.

The value of borrowed funds should not exceed 60 percent of the value of the sovereign Eurobonds and CDs or 50 percent of the value of corporate bonds used as a guarantee. The new circular also indicated that the total value of borrowed funds from non-resident financial sectors should not exceed 50 percent of the borrowing institution's Tier One capital. Furthermore, the Central Bank has prohibited banks and financial institutions from including the foreign currency-denominated CDs issued by the Central Bank of Lebanon as part of their net immediate liquidity in foreign currency, in case they are used as guarantees against loans from non-resident financial institutions.

The new article stipulates that the deal between the two sides must allow Lebanese banks and financial institutions to freely and unconditionally implement any necessary adjustments in case of a ratings downgrade to below 'BBB' of the foreign sovereign or corporate bonds used as a guarantee.

## Central Bank issues new circular on provisions for commercial and retail loans

Lebanese banks will raise provisions on commercial and retail loans in another precautionary measure to assess the quality of assets in line with the Central Bank circular issued in December 24, 2014 which has revised the old ceiling for the provisions.

The circular called on banks and financial institutions operating in Lebanon to conduct impairment tests on a regular basis, based on international standards and on the directives of the Banking Control Commission.

The circular requested banks and financial institutions to build collective provisions against their performing commercial loans portfolio based on the results of the impairment tests.

Banks are required to build general reserves on their performing commercial loans portfolio, which must be equivalent to at least 0.25 percent of a bank's loan portfolio at the end of 2014, 0.5 percent at end-2015, 1 percent at end-2016 and 1.5 percent at end-2017.

The circular allowed banks to include these reserves as part of their Tier One Capital.

Tier One Capital is the core measure of a bank's financial strength from a regulator's point of view.

Furthermore, the circular said that banks should build collective provisions against their performing retail loans as well as against their retail loans that are up to 30 days in arrears Housing, student and education loans are excluded from the measure.