
02

PART II

ACTIVITIES OF THE
ASSOCIATION OF BANKS
IN LEBANON

The ABL continued in 2015 to follow-up on the banking regulations and legislations with the relevant authorities, particularly the monetary and supervisory authorities, as well as on other issues related to the banking profession.

I- THE CONTENTS OF THE MOST IMPORTANT CIRCULARS AND GUIDELINES ISSUED IN 2015

01

The Implementation of Basle III Accord on Capital Adequacy

The Lebanese monetary and supervisory authorities continued in 2015 in coordination and cooperation with the Association and banks' management to take the necessary arrangements to pursuing implementing Basle III by strengthening bank capital, enhancing bank corporate governance and the role of administrative boards and their committees, and improving risk management and internal control.

a- About calculating solvency ratio

Lebanese banks are seriously committed to the capital ratios imposed in the Basle III accord. The BDL asked banks in basic circular no.44 to secure a total solvency ratio (total capital/ total risk weighted assets) not lower than 12% at the end of 2015 with a share of common stocks of a minimum of 8% and core capital of 10%. These ratios include a conservation capital buffer which should reach 2.5% at the end of 2015 and which can be used during emergencies to avoid falling below required ratios. This buffer is to be re-established after the end of the emergency.

These minimum ratios are more stringent than ones imposed in the Basle III accord where the Basle committee recommends a total capital ratio of 8% at the beginning of 2015 increasing gradually to 10.5% at the beginning of 2019. Facing these stringent conditions, the BDL reduced some risk weights that could be improved, while continuing to commit to the Basle requirements especially the ones applied on bank deposits in foreign currency at the BDL which are not used by the BDL as it places them with correspondent banks. These deposits were given a risk weight of 50% which is an average weight between 20% and 100% that could be adopted.

In order to reach this high level of capitalization in a short period of time and with the encouragement of the BDL and the Association, Lebanese banks adhered in the last few years to confine the large part of their profits to strengthen and increase their capital in addition to secure needed provisions and free reserves against future non-identified risks supporting their abilities to face any emergency possibly arising in the future as a result of the regional and international difficult conditions. The **Banking Control Commission (BCC)** kept following the efforts of banks in this direction and the necessity to fully comply by all required standards of capital ratios and provisions before deciding on distributing the **profits of 2015** based on **memorandum no. 3/2016**.

We note that the base of bank capital doubled during the last six years increasing from USD 7.5 billion at the end of 2009 to more than USD 15.4 billion at the end of 2015 which is a development that would convey relief to international financial markets and confirm the strength and robustness of the banking and financial sectors.

On another hand, **the BCC issued memoranda, no.5/2015, no.20/2015, and no. 5/2016** in which it requested banks to calculate thoroughly their solvency ratio based on its audited balance of 31/12/2014 and its balance of 30/6/2015 and 31/12/2015 consecutively, while adopting the same weighting rates for credit, operational and market risks as proposed by the Basle II and Basle III Accords with detailed information about the structure of their capital based on Basle III. The BCC realized that the situation of the Lebanese banking sector is comfortable as the average solvency ratio for the sector as a whole stood over the required 12% reaching more than 14% at the end of 2015.

The BCC also issued in 2015 circular no. 283 in which it asked banks to conduct the Internal Capital Adequacy Assessment Process (ICAAP) on an overall basis based on the figures of the balance of 31/12/2015 noting that the minimum capital required to cover risks (credit, market and operational risks) based on the methods specified in pillar one remains 8% while allocating additional capital of no less than 4% to cover other risks out of which 1.5% for systemic risks resulting from outside factors such as general economic and political conditions, and 2.5% to the capital conservation buffer. The evaluation procedure is to be accomplished with the cooperation of all concerned parties especially the committee and department of each of the risks and audit in addition to the department of financial administration.

The main purpose of the special report of this self-evaluation is to facilitate the continuous work of the board of directors on risk assessment faced by banks and the techniques and methods to reduce the risks. This represents the most important step in building the strategy of bank specific risk and in capital planning. This step falls into bank corporate governance.

b- Liquidity ratios according to Basle III standards

The Basel III Accord stresses the subject of liquidity as it does for capital requirements, where liquidity appeared as important as capitalization since it determines the bank's ability to cope with financial crises, when it is hard to count on markets for funding and without resorting to public funds i.e. taxpayers.

As far as liquidity in the short term or the concept of Liquidity Coverage Ratio (LCR), the Basle committee adopted a time schedule to reach the required average progressing from the beginning of year 2015 (60%) to the beginning of 2019 (100%). This average is computed as the ratio of High Quality Liquid Assets (HQLA) to the total monetary outflows from the bank net of inflows over a period of 30 consecutive days. The purpose is to determine if the bank is capable of satisfying its liquidity needs over a month in the case of crisis without resorting to the market. In as far as the Net Stable Funding Ratio (NSFR), the Basle committee is planning on imposing it effective 2018.

The monetary and supervisory authorities follow the degree of commitment of banks to the average required ratios as the BCC issued circular no. 275/2013 on liquidity risk management in which it asked banks to continuously preserve a large buffer of high quality free unencumbered liquid assets based on the results of stress tests conducted by banks. The ratio of these liquid assets to net short term monetary flows constitutes the LCR.

And as in the previous year, the BCC issued in October 2015 memorandum no.22 in which it asked banks to provide it with detailed information on the high quality free unencumbered liquid assets and monetary outflows and inflows based on the balance of 30/9/2015 in order to conduct a quantitative experiment on computing the LCR of banks.

The banking sector in Lebanon still enjoys a high liquidity ratio in LBP and a convenient net liquidity ratio in foreign currencies in comparison to the required international standards. The administrations of banks operating in Lebanon aimed at preserving high levels of liquidity to protect the sector against crises. Despite the cost of this liquidity especially in foreign currencies, it remains necessary even vital for a safe administration of the sector in the absence of a lender of last resort or a central bank capable of printing foreign currency and providing it to the market.

c- Committing to the Basle III banking industry standards

In the framework of bank corporate governance and activating the role of boards of directors, the BDL and the Association follow very seriously the commitment of banks to applying their principles. It has become known that the principles of corporate governance which are the subject of basic circular no. 106 and its amendments, are not only addressed in this circular but are also included in other circulars related to boards of directors and their committees (basic circulars no. 118 and no. 132), internal control systems (basic circular no. 77), assessing bank's capital adequacy (basic circular no. 119), in addition to remunerations and bonuses granted to bank employees over which the BDL issued in 2014 basic circular no. 133. Many banks publish a summary on the bank corporate governance guide in their annual reports which include as a minimum an administrative organizational chart, a mechanism of communication between the board of directors and the higher executive administration, and the standards applied to compute the compensation for each relying on the booklet of the Association on the corporate governance guidelines for banks.

Given that the application of these principles requires in addition to the organizational preparation the full support of the boards of directors and the higher administration, the BDL issued on 26/10/2015 **intermediate circular no. 405** in which it asked all presidents and members of boards of directors of banks operating in Lebanon to attend corporate governance programs that the BDL prepares especially for them. It also asked the presidents and members of the audit, risk and compensation committees to attend the specialized programs that it prepares in the field of specialty of each of those committees. The Association continued in 2015 to organize its training sessions on this subject to bank employees.

And also in the framework of commitment to the standards of Basle over transparency and declaration, we mention that the BDL issued on 12/2/2015 **basic circular no. 134** on

protecting the customer which aims at defining the appropriate measures of conducting banking and financial operations with customers. The circular stressed on the necessity to educate customers, raise their awareness, and explain to them their rights by spreading awareness and education programs in banks' head offices and branches. It also emphasized preparing detailed lists stating customers' rights and duties and putting them at the disposal of the customers in addition to developing a proper mechanism for customer requests insuring their treatment. The circular also stipulates on the creation of an independent Unit to execute the operations that takes care of applying the provisions of this circular.

The BCC issued **circular no. 281** which details the many applied sides of basic circular no. 134. It also noted concerning remunerations and bonuses which is the subject of basic circular no. 133 not to consider the number of products and services sold to customers as the main standard in determining the remunerations of the employees marketing them.

The Association had wished to the BDL to include amendments to the mentioned circular to facilitate its execution which serves its main goal or the transparency of the information to customers on one hand and observing the conformity of the financial services and products with the needs of the clients and their financial education on the other. The Association did not feel the need to create a special unit but in assigning its duties to the many existing units in the bank given that the human element in banks has expanded heavily in the last years in the areas of audit, control, and compliance at the expense of service and commercial tasks with the additional ensuing costs. The Association also asked that the circular includes a major distinction between the clients and the products categories, in addition to re-designing many of the sections to go along the reality of the banking profession in the field.

On another hand, the Association held many meetings on the subject with the BCC to clarify some of the applied sides of the circular, and stressed on the necessity to extend the period of implementation of the signature of the agents on the written document concerning receiving the list of "rights and obligations". And in 2015, the BCC issued **memorandum no. 24** that extended until 30/6/2016 the period of providing and signing the list of rights and obligations stated above.

On another hand, the Association cooperated with the company "Deloitte and Touche" to develop a complete guide of measures on the subject. In September 2015, the Business Ethics and Customer Protection guide was circulated to banks to save on the cost as in line with the three guides dealing with the subjects of FATCA, combatting money laundering, and sanctions. This guide is complete concerning the information provided as well as managing the operations by bank employees and finally concerning the ethics of the profession.

d- General provisions

The administrations of banks accompanied by the BCC continued in 2015 their efforts to clean and refine their balance sheets by settling loans and forming the necessary provisions.

On 2/1/2015, the BCC issued **circular no. 280** concerning forming private provisions and reserves related to retail lending and forming general provisions and total reserves on the portfolio of loans and other facilities earning interest rates based on the results of the impairment tests conducted on the portfolio of these loans. We mention that the BDL had specified in intermediate circular no. 369/2014 the meaning of retail loans and the policy of granting them and the percent of provisions that have to be formed when signs of hindering appear.

On 26/10/2015, BDL issued basic **circular no. 135** on debt restructuring. This circular guarantees the continuation of the economic activity of the client on one hand and the preservation by the bank of the amount lent on the other as banks can discount at the BDL 50% of the restructured bills.

However, after studying the proposal of this circular, the Association made major remarks to allow a more plausible implementation of debt restructuring. Thus, it asked for business meetings among teams from the BDL, the BCC and the Association to discuss these remarks and the many practical sides of this circular. The monetary authorities are thanked for taking these remarks into consideration before issuing the stated circular.

At the beginning of 2016, the BCC issued **applied circular no. 284**.

The BDL mentioned in its monthly meetings with the Association that banks decide on their own responsibility on the agents that are liable to continue and the BCC will examine and voice its opinion. This measure is preventive due to the general situation and not due to the percent of doubtful loans which remains low and in the region of 3.6% from the loan portfolios. Banks stressed that they will continue as usual to deal with responsible flexibility with borrowers facing circumstantial difficulties in fulfilling their obligations due to the current economic conditions especially in the category of housing loans.

On another hand, the Association discussed in this framework the subject of how to deal with the loans of clients whose accounts have been blocked by the Special Investigation Commission based on the requests of many banks granting retail loans especially housing ones to people with blocked accounts after loans were granted. The Association asked to allow concerned banks to liquidate the guarantees whereas the BDL preferred that concerned banks open parallel accounts where payments are collected without extinguishing the loans of said borrowers pending the final decision on the blocked accounts from the Special Investigation Commission.

e- Banks' foreign placements of available banking liquidity

In 2015, monetary and supervisory authorities continued to monitor banks foreign placements in order to avoid investments in new risky financial instruments and the involvement in the investments drift and the derivative products.

The BDL cautioned again in 2015 in monthly meetings with the Association to the necessity of being careful in placing liquidity in financial instruments and the bills issued by emerging countries or their private institutions. The developments that may happen to the US interest rates could affect the currencies of these countries possibly exposing the holders of their debt to losses.

In another framework, due to the severe fluctuations witnessed by international markets in 2015 resulting from the slow growth especially in China, and the reduction in the prices of raw material namely petroleum and the continuation of negative interest rates, the results of banks abroad declined. However, banks in Lebanon remained isolated from some of these impacts on their results and profits as they are committed to the circulars of the BDL requiring them not to place abroad more than 50% of their capital in countries with ratings that are equal or higher than the investment class. Banks also respect the credit ceiling against instruments and shares specified as 50% of their value. They also avoid placements at high interest rates paid by some Mediterranean countries fearing carrying their high risk.

In the framework of limiting the risk of customers dealing in currency markets and with the continuous large fluctuations abroad as happened when the Euro and the Swiss Franc were disengaged early in 2015, the BDL also cautioned in its monthly meetings with the Association on the necessity to continue respecting basic circular no. 48 where banks insist on requesting margins no less than 20% from customers participating in foreign exchange market. This margin is important to protect the bank and especially the clients themselves as a result of the positions they take and the possible impact on their ability to pay their obligations to banks.

The BCC follows on the degree of exposure of banks and clients resulting from their placements abroad. Thus, it requested in 2015 from banks based on **memoranda no. 6 and no. 16** to provide it with the sum of the net negative values and the reduction in the margins in the portfolios of agents. It also asked based on **memoranda no. 2 and no. 4** to be provided with the degree of exposure of some correspondents (the size of open positions and the amounts in the accounts of agents) especially the non-performing among them such as Boston Prime Ltd and others.

02

New circulars aiming at enacting lending to the private sector

Banks continued in 2015 to expand their loans to the private sector, despite the difficult circumstances in the country and the region. The amount of these loans increased to LBP 81743 billion at the end of the year or by an increase of 6.5% compared with the preceding year. Banks continued granting concessional loans with assured economic and social benefits. These loans gave back to the Lebanese pound its role as a lending tool benefitting from government subsidized interest rates, incentives and reduction in required reserves and the facilities of the BDL. These concessional loans helped create employment opportunities by supporting small and medium size enterprises and contributed to social stability especially through housing loans which represent the largest share of these loans.

In order to maintain this lending trend, the BDL extended based on **intermediate circular no. 409/2016** until the end of 2016 the period of benefitting from the incentives granted since 2009. It also extended based on **intermediate circular no. 382 and circular no. 408/2015** until the middle of November 2015 and then until 15/11/2016 the period over which banks can benefit from the facilities that the BDL grants to them at an interest rate of 1% to provide concessional loans with these funds. It also added to the funds not used from these facilities a sum of LBP 1500 billion in 2015.

The Association, encouraged by the BDL, expanded in 2015 the scope of the protocols of cooperation with the General Directorate of State Security and the Customs Police in which banks grant concessional housing loans. As a result, the BDL issued **intermediate circular no. 397/2015** in which it granted reductions of 100% of required reserves on these loans. Additionally, based on **intermediate circular no. 399/2015**, the BDL is to provide facilities to banks against these loans when the amount of required reserves available for these mechanisms gets depleted. The BDL added to the list of loans benefitting from these bank facilities ones in Lebanese Pounds granted to support rural areas and villages for the purpose of financing environment friendly projects in the fields of energy and renewable energy with the amount of each loan not exceeding LBP 30 million.

The BDL based on **intermediate circular no. 400/2015** extended the maximum period for loans at subsidized interest rates to twelve years from the previous ten. However these loans will not benefit from the interest subsidy during the extended period but only from the reduction in required reserves. Institutions are to bear the differences in subsidies distributing them over the remaining years. This helps institutions suffering from the difficult conditions in the country to continue their operations by granting them an additional period to settle their status.

The BDL also issued in 2015 **intermediate circulars nos. 386 and 387** in which it imposed for one time only a charge in LBP of 0.4 % of the value of all environment friendly loans granted by banks. It was clarified to the Association after enquiring about the matter that the BDL does not charge commissions to its benefit after it completed financing and modernizing the payments system, and that the mentioned charge is cut for the European Union from the beginning of the period of the loan.

Due to the many consumer and small bank loans, the BDL reduced based on **intermediate circular no. 388/2015** the amount of credit granted to one person that should be declared to the Centrale Des Risques Bancaires from LBP 9 million to LBP 5 million.

On another hand, intermediate circular no. 331 issued in 2013 created a firm cooperation between the financial and the knowledge economy sectors. The success achieved by its implementation during 2014 caused the monetary authorities to continue providing the financial support to this emerging sector over the long term. Banks as well find this measure helpful in achieving their developmental role. It became known that this circular concerns directly the capital of firms instead of bank lending where banks and financial institutions were allowed within 3% of their capital to capitalize emerging projects, incubators, and accelerator companies whose activities center around the knowledge economy and on condition that the companies operate in Lebanon and employ Lebanese labor force. The BDL secures to the concerned bank, in return for these contributions, facilities for a maximum period of seven years at no interest with risk coverage of 75% of bank investments in these companies. Concerned banks need to have an active role in developing the business of these firms supporting their continuing growth and proper management.

In **memorandum no. 17/2015**, the BCC asked to be provided with information on the contribution of banks in the emerging companies, business incubators and accelerators.

After the success of “BDL Accelerate 2014”, in transforming Lebanon to an international center for emerging companies, the BDL organized the second international conference on emerging companies “BDL Accelerate 2015” on 10 and 11 December 2015 at the Forum de Beirut.

The conference addressed the topic of “Emerging Start up Ecosystems” and included businessmen, investors and supporting institutions from more than 8 international cities. There were over 2000 participants, 100 speakers, 100 exhibitors, and 50 emerging companies attending from all over the globe. The conference also organized two competitions for emerging companies, workshops, and provided an area for exhibitors. Such activities are bound to enhance the external reputation of the banking sector and the BDL.

The relationship with the Public Corporation for Housing (PCH)

The banks providing housing loans in cooperation with the Public Corporation for Housing (PCH) faced again some difficulties during 2015 due to the delay of the PCH in making interest payments on behalf of the customers to banks. This is due in reality to the fact that the Ministry of Finance did not provide in 2014 resources to the PCH as per the practiced laws.

It is evident from the survey conducted by the BCC that the outstanding portfolio of housing loans approaches USD 3 billion, with interest payments accrued on the PCH of USD 22 million in 2014 and close to USD 150 million in 2015. To avoid classifying the loans of the PCH as non-performing despite being guaranteed by the government, it was agreed with the monetary authorities to cover the outstanding debt of 2014 by taking provisions for it on condition that the BCC studies with concerned banks the possible remedies of the outstanding portfolio of 2015.

Finally, the Ministry of Social works issued on **5/3/2015 decree no. 1463** in which it grants the PCH a Treasury loan of LBP 40 billion to pay the interest owed to banks. The Association asked the monetary authorities to find a radical solution to this issue so that banks do not remain the captives of Treasury loans that could be approved or delayed as happened in the past. The Association sent the BDL a letter in which it suggested a solution based on subsidies, in return for maintaining the low interest rates for borrowers.

II- PROFESSIONAL ISSUES

01

Some banking investment aspects

The Lebanese monetary and supervisory authorities continued in 2015 in coordination and cooperation with the Association and banks' management to take the necessary arrangements to pursuing implementing Basle III by strengthening bank capital, enhancing bank corporate governance and the role of administrative boards and their committees, and improving risk management and internal control.

a- Rationalizing the Market for Interests Rates

In 2015, the Association continued to periodically send circulars to banks on the Beirut Reference Rate (BRR) in dollars and in Lebanese pounds. These rates fluctuated in 2015 on the USD between 6.08% and 6.23% and on the LBP between 8.67% and 8.8%. These rates increased slightly on the USD and on the LBP compared to 2014. These averages allow banks, after adding the quality of credit risk and profitability concerning loans and credit in USD and LBP, to determine the prime rates.

b- Settling the payment of the tax on built properties at banks

The board of directors of the Association approved the suggestion of the Minister of Finance concerning settling the payments of the tax on built properties at the branches of banks operating in Lebanon. A discussion is being held with the Ministry of Finance on the mechanism, the principles, and the procedures to be adopted for this purpose.

02

Fighting money laundering and terrorist financing

The banking sector continued in 2015 to spend its utmost efforts to combat money laundering and countering the financing of terrorism and to comply with the international standards on the subject. Over the last few years, cooperation continued among the monetary and supervisory authorities, the Association and bank administrations to adopt “the best practices” in this domain. The purpose is to strengthen rules and ethics of the profession and its pacts, and emphasize the operation of preparing and developing the systems, and training the qualified human cadres.

Lebanon falls in a high risk area especially political and security risks while their financial and banking sectors operate in a business environment characterized by high economic and financial risks particularly reputational ones. In the middle of this environment and in the spirit of large openness to the world, it becomes natural for the financial sector in Lebanon to adjust to the international developments. In order to fortify the banking relationships with the world and solidify the firm and continuous commitment of the Lebanese government to applying international standards to keep Lebanon on the world financial map, the Association and the monetary authorities pursued for more than three years with the political branch to have the Lebanese parliament pass the important financial laws concerning combatting money laundering and the financing of terrorism.

On 24/11/2015, four laws were passed. These were Law no. 42 on declaring the cross-border transportation of money, Law no. 43 on exchanging of tax information, Law no.44 on major amendments to Law no. 318 on combatting money laundering and Law no. 53 on allowing Lebanon to join the United Nations Convention on combatting terrorist financing signed in 1999.

Law no. 42 on declaring the cross-border transportation of money includes a double system requiring the declaration on sums exceeding USD 15 thousand in addition to announcements based on the requests of customs authorities. The declaration and statement include details on the carrier of money, its owner and recipient in addition to the source of money and the means of transportation. This law is in line with the recommendations of FATF-GAFI which is the international task force concerned with fighting money laundering and terrorist financing. These recommendations require any country to make the necessary arrangements that allow tracking the cross-border transportation of money in and out.

Law no. 43 on the exchange of tax information includes a harsh procedural path for the exchange of this information in order to avoid randomness and preserve the rights of the concerned people. Issuing this law allowed Lebanon to legally join and comply with the standards of the Organization for Economic Cooperation and Development (OECD) adopted by the G20 group.

It is to mention, in the framework of tax evasion, the US tax legislation known as FATCA which imposed new standards to prevent American citizens from conducting tax evasion abroad. It is known that the Lebanese banking sector worked hard for many years on clarifying its contents

and applying its laws. It is to mention that after Lebanon chose the agreement path (implying that each bank is to enlist on an individual basis with the US Internal Revenue Service IRS), all banks operating in Lebanon started joining the FATCA agreement as the Association declared it in 2014.

Law no. 44 includes major amendments to Law 318 on fighting money laundering, enlarging its scope to include most financial crimes and expanding the duty of declaration to new categories and sectors (real estate developers, commodities and precious metal merchants, lawyers) in addition to many procedural issues that make practicing the mission of the “Special Investigation Commission” more efficient.

As far as Law no. 53 concerning having Lebanon join the United Nations Convention to fight terrorism of 1999, it is to point-out that FATF-GAFI had alluded in its last meetings of 2015 to the last few countries including Lebanon that have not joined the convention. To avoid placing Lebanon on the list of countries not joining, passing law no. 53 on 24/11/2015 created a big relief in the banking and financial environment.

On 22/12/2015, the BDL issued **basic circular no. 136** in which it asked banks, financial institutions, and various institutions subject to the supervision of the BDL to review constantly any update on the UN Security Council website concerning the names designated in the lists issued pursuant to UN Security Council Resolutions (1267/1999, 1988/ 2011, 1989/2011) and any related successor resolutions, to automatically and immediately freeze, without delay and without any prior notice, the funds, accounts, operations, or other assets related to these names, and to inform the “Special Investigation Commission” of this action. In addressing the concerns of the banks, the BDL clarified during the monthly meetings with the Association that article two of this decision requiring its implementation on the branches and sister and subsidiary institutions abroad does not ask informing the Special Investigation Commission in Lebanon on agents abroad whose names were placed on said lists but requires only informing the concerned authorities of the countries where these branches and institutions reside.

It is to mention in this framework the Manual for Policies and Procedures on the subject of sanctions issued by the Association in early 2015 after having asked Deloitte to prepare the manual with the close participation of members of the compliance and anti-money laundering committee in the Association. The purpose of this manual is to strengthen awareness at banks concerning risks of sanctions and to shed light on the sanctioned financial operations. It is a continuation to the manual on fighting money laundering and terrorist financing that was previously issued by the Association also prepared by Deloitte.

It is known that the Lebanese banking sector complies with the sanctions decided in the United Nations, the United States and the European Union, and prevents any attempt at violating or circumventing them for the purpose of preserving its reputation and international standing and the protection of the interest of its shareholders, depositors and agents as well as its clear and good relations with correspondent banks.

The BDL issued two basic circulars no. 1/2015 and 2/2016 **directed towards “lending counters”** to supervise their activities. It asked these counters based on the first circular to provide

him with specific information about them. The second circular detailed the conditions and principles they should comply with so that they are permitted to conduct lending operations. In this framework, the BDL prohibited based on **intermediate circular 410/2016** banks and financial institutions to lend directly or indirectly “lending counters” mentioned above so that they do not carry the credit risk of these loans and also to strengthen the sphere of combatting money laundering and terrorist financing.

The BDL also prohibited based on **intermediate circular no. 411/2016** banks and financial institutions from performing any kind of banking or non-banking or financial or non-financial operations, whether recorded in or off-balance sheet, with companies or mutual funds whose stocks and shares are totally or partially issued in bearer form. The BDL justified this measure on the basis that it falls under the context of international standards which is a new culture in the world that we have to join. There may be a cancellation of shares issued in bearer form in many countries due to the difficulty in identifying the beneficial economic owners of their holder and to prevent their use for money laundering. It is preferred not to accept these shares in the accounts of banks despite their knowledge of the owners.

In order to close any new loophole that could be used for money laundering, the BDL also issued in 2016 intermediate circular no. 415 which prohibited banks and institutions providing ATMs and credit cards from issuing or promoting prepaid cards. The sources of the BDL have declared that these cards could have been obtained without a name on them in many places other than banks and financial institutions whereas they are supposed to be tied to a bank account and issued in the name of their owner.

03

The visit of the Association delegation to the USA

During 2015, a delegation of the Association conducted a major business visit to New York City and Washington D.C. from 27 April to 2 May. The yearly visit aims at communicating with the U.S. administration and banks and is considered vital for the profession of the banking sector and the functioning of the Lebanese economy.

The main purpose of the visit was to review and strengthen the correspondent relationship between the Lebanese and the US banks. The delegation met executives from the New York Federal Reserve Bank in addition to ones in the fields of operations and compliance at the Bank of New York, City Bank and JP Morgan. The delegation met as well in Washington D.C. executives from the Treasury and many other different bodies concerned with the banking and financial matters.

The delegation of the Association stressed during these meetings on the concern of the Lebanese banking sector to continue complying with the international banking standards especially the American ones given that more than 80% of the external operations of this sector is conducted in US dollars and through correspondent accounts with US banks. The US executives highlighted the necessity for banks to keep working along the same lines as

far as risk management is concerned to preserve the existing correspondent relationship as a service to the benefit of the customers, the banking sector and the Lebanese economy.

The BDL praised this visit and the objectivity of the Association in preserving the standing of Lebanon in the world banking order. It also saw that the continuation of this effort enhances the confidence of the banking sector with the correspondent banks despite the regional and international risks and challenges surrounding our activities and the one of the correspondent banks. These latter banks due to the requirements of compliance and capitalization resort to severing their relationships to achieve de-risking in many countries (Latin America, Africa, ..). The activity of the Association with banks and with the authorities protected Lebanon from these risks that affected countries with better conditions than ours and prevented this vital relationship with correspondent banks from facing problems. It is necessary to intensify and continue these visits be it by the Association or by individual banks.

III- INTERNAL AND EXTERNAL PRESENCE OF THE ASSOCIATION AND ITS COOPERATION WITH THE ECONOMIC BODIES

a- At the internal level

ABL reiterated in 2015 its commitment to the national public interest, while revealing its concern at increasing its presence and reinforcing its position as one of the major economic groups in Lebanon. This was specifically achieved through the following means:

- 1- Enhancing the communication and the relation with the responsible groups on economic issues in all the Lebanese media outlets which serves the continuous and complete coverage of the activities of the Association and its positions.
- 2- Issuing press releases on the national, economic and professional issues of interest to the Association and the banking community.
- 3- Providing the media, regularly and intensively, with ABL publications (press releases, monthly bulletins, leaflets and manuals, series of articles and studies, etc.), to be adopted as a major source of information and ethics on the various sectors of the economic activities in Lebanon in general, and the banking activity in particular.
- 4- Cooperating with different Lebanese economic bodies in order to draft working documents and common perceptions on the points of view of these organizations with regard to projects and measures proposed by the official authorities, especially the formulation of common economic and social recommendations among the economic groups, the General Labor Union, and the syndicates.
- 5- Continuing to closely cooperate with the different ministries, public institutions, national committees with social, economic, and environmental interests, through the representation of the banking sector and the Association in the following institutions: the Board of

Directors of the National Fund for Social Security; the Board of Directors of the National Agency for Employment; the banking commission and the commission on environment (International Chamber of Commerce – Lebanon); the commission for the promotion of the rights of the disabled in the labor market (Ministry of Labor); the Board of Directors of the Industrial Research Institute (Ministry of Industry); The group of national coordination on issues of climate change (Ministry of Environment); the guidance committee on fighting environmental pollution (Ministry of Environment); the administrative commission for the Fund for Environment (Ministry of Environment); National Advisory Council for Environment (Ministry of Environment); The organization and management committee of the National Afforestation Program for the planting of 40 million trees on Lebanese Territories (Ministry of Agriculture); The committee on equipping public parks with the internet (Ministry of Telecommunication).

- 6- Taking part in sponsoring and/or supporting some major national and economic events, such as: the conference organized by the Army command on: the middle east in light of the changes and possible compromises (May 5-8, 2015); The Reunion of the Secretary General of the Association and union of Arab banks (August 28, 2015); the Conference on “Strengthening the financial capacity” in collaboration with the Ministry of Finance and the Ministry of Education (October 21, 2015); The Conference of the Companies’ Social Responsibilities held at Phoenicia Hotel (October 26, 2015); “Accelerate 2015” organized by the Banque du Liban (Forum de Beyrouth, December 10-11, 2015).
- 7- Hosting a number of official figures (Minister of Finance Mr. Ali Hassan Khalil and the Minister of Interior, Mr. Nohad Machnouk), members of the Arab and foreign diplomatic corps in Lebanon and hosting several Arab and international delegations (the Institute of International Finance, World Bank, European Investment Bank, International Monetary Fund, The U.S. Treasury Department, the Francophone Union of Banks (UBF), etc..), and participating in official Lebanese delegations abroad.
- 8- Renewal of the agreement between the Association, the Ministry of Communication and Sodetel in order to provide free internet service in a number of public parks in Lebanon. Following this agreement, this service was provided in 2013 to the Jesuit Garden and Saint Nicholas Garden in Ashrafieh, Beirut. Other parks are being prepared to receive the same service under this agreement.

At the level of publishing, the Association continues to publish its **Monthly bulletin** (1200 issues per month, distributed equally to subscribers and media representatives in Lebanon), **The Economic Letter – in English** - includes a brief overview of the evolution of the major sectors of the Lebanese economy, with statistical tables and figures, and of which 1100 electronic copies are distributed to banks, institutions, individuals, and associations, in addition to a number of registered in Lebanon and abroad. Since 2015, a **Quarterly Newsletter in English** was added to these publications presenting the most important economic and banking activities, as well as the most important publications, training workshops, and cultural seminars aimed at informing the bank employees about methods to fight organized crime especially financial crimes related to money laundering and trading in narcotics. Besides, monthly bulletins on **Key Indicators** and on **the portfolio of Treasury Bills** in Lebanese pounds and in foreign

currencies are still distributed. In addition to the **Annual Report of 2014**, in Arabic and English, **the Almanac of Banks in Lebanon 2015** was also issued in English. Finally, and as part of the series on the documents of the Association (under no. 28), a new document entitled **“The Human Resources in the Lebanese Banking Sector in 2013”** also published in Arabic and French.

On the level of documentation and internal library, the ABL continued to update its **data bank and press archives** (1990-2015) and enrich **its library periodicals** (1546 specialized works and 130 periodicals in Arabic, French, and English). It is to note that the ABL places, at the disposal of banking staff, specialized researchers, university professors and students a full series of documents and references they may need.

The Association continues **to update its Internet site** (www.abl.org.lb). The site is available in three languages (Arabic, French, and English) and allows users to obtain information on ABL structure, General Secretariat, Board of Directors, and committees, as well as its various services, and most important domestic and foreign activities especially in the field of fighting organized crime and on various publications. The site also publishes the news of banks and their activities in addition to the 2013-2014 version of the **Collective Labor Agreement** which governs the professional relationships between bank administrations and their employees. This site also allows users to access thanks to the “useful links”, the websites of a large number of local Arab and foreign financial and economic institutions and associations.

b- At the external level

1- Participating in Arab and international banking events

In 2015, the Association participated in several regional and international meetings and conferences. Its representatives (President, Vice-President, members of the Board or some consultative committees, and the Secretary General) had many interventions and contributions during these activities and several communications on the side.

2- The public relations external campaign

The Association continued the public relations campaign in 2015 that started in 2013 and especially targeting the USA and some European Countries. In this context, many delegation from the Association conducted visits to New York, Washington D.C., Paris, London and Brussels that covered many institutions, administrations, and persons concerned with issues of interest to the Association. The purpose of these meetings, on one hand, was to introduce the importance of the Lebanese banking sector and its vital role in the stability of Lebanon and even in the region. On the other hand, the meetings emphasized the importance of correspondence between the Lebanese banks and the banks of the largest world financial centers. The Lebanese banking delegation also presented in these meetings the efforts spent on fighting money laundering and terrorism financing based on an organized and continuous administrative work and on the cooperation with the UN, Interpol, EU and US banks and the US Treasury Department in their principles and rules of operation at this level. During the meetings, the working delegation team

stressed on the Lebanese banking sector's commitment to international sanctions against countries and parties concerned, with reference to the 4 Laws that were approved by the Lebanese Parliament on: The exchange of tax information, the declaration of transfer of funds across borders, the amendment of the law on anti-money laundering and the UN convention on draining sources of financing terrorism. These laws would strengthen the procedures to combat terrorism and organized crime, especially on the financial level. The Association along with the supervisory and monetary authorities have played a crucial role with both legislative and executive authorities in order to encourage issuing these laws.

It is well known that the Association is a founding member of **the Union of Francophone Banks (UBF)** and an active member in its committees. In this context, the Association is seeking as part of this international important forum to strengthen correspondent relations with the French banks and the French-speaking ones, and to focus, in particular, on activating the communication mechanisms, the exchange of experiences, the intensification of forums and workshops that are specialized in various aspects of the banking profession. In 2015, the Association of Banks in Lebanon agreed upon the document entitled: "The Contribution of the Francophone Banking Union (UBF) in the Fight against Climate Change" (La Contribution de l'Union Bancaire Francophone dans la Lutte Contre le Changement Climatique). This document was issued by the Union on the eve of the "COP21/United Nations Conference on climate change" that was held on November - December 2015 in Paris.

It was decided that Beirut (the Lebanese Capital) is scheduled to host in 2016 a seminar on "Secure Banking" according to the proposal of the Association of Banks in Lebanon.

