02

PART 2: ACTIVITIES OF THE ASSOCIATION OF BANKS IN LEBANON

The ABL continued in 2013 to closely 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 MAIN CIRCULARS AND GUIDELINES ISSUED IN 2013

1-1 The implementation of Basle 3 Accord on Capital Adequacy

The Lebanese monetary and supervisory authorities continued in 2013 in coordination and cooperation with the Association and administrations of banks to take the necessary measures to implement the new Basel 3 accord by reinforcing the capital base, enhancing good governance, activating the role of boards of directors by establishing board committees and establishing a better risk management and internal control.

a- About calculating the solvency ratio

Lebanese banks are seriously committed to the capital ratios imposed in the Basel 3 accord. The BDL through basic circular 44 asked banks to secure a total capital ratio (Total Capital/Total Risk-Weighted Assets) of 10.5% at the end of 2013 with a share of common stocks of a minimum of 6% and core capital of 8%. Banks are required to gradually increase their solvency ratio to 12% by the end of 2015. These rates also include a 2.5% rate of the Capital Conservation Buffer that could be used in extreme emergencies to avoid any drop below requested rates, provided that it would be formed again once the emergency ends. It has become known that these minimum ratios are more stringent than ones imposed in the Basel 3 accord where the Basel committee recommends a total capital ratio of 8% in 2013 increasing gradually to 10.5% at the beginning of 2019.

In order to achieve the requested high capital in a short period of time, banks continued in 2013, with the support of the BDL and the Association, to use the largest part of their profits (75%) to consolidate and increase their capitals and create the provisions and free reserves for unspecified future risks in order to face any future emergency resulting from the difficult regional and national circumstances.

In this framework, banks capital base doubled during the last five years, increasing from USD 7 billion to over USD 14 billion, causing a great relief for the international money markets and confirming the strength of the Lebanese banking and monetary sector.

However, with the worsening conditions in the region and their impact on Lebanon and on the size and diversity of the provisions that banks need to mobilize to face risk, the BDL informed the Association that it is necessary to re-consider the way to apply Basel 3 in a direction facilitating the commitment to the Accord without changing the capital ratios that Lebanese banks have started applying. Thus, on **6/3/2014**, the BDL issued **intermediate circular 358** that set-up the organizational framework for capital sufficiency of banks operating in Lebanon. The circular specified the capital tools other than the common stocks, the new provisions other than the systemic and legal (including reserves on property for liquidation and other accumulated comprehensive income) that can be counted as part of the rights of holders of common shares and basic core capital. The circular addressed the credit weights consistent with the requirements of Basel 2/Basel 3 reducing some weights that can be improved especially the ones applied to bank deposits in foreign currency at the BDL, which are not used by BDL who is satisfied with placing them at correspondent banks. Based on this circular, a weight of 50% was assigned which is an average between 20% and 100% that could be adopted as the BDL confirmed to the Association. These adjustments will open venues for new investors to join the banking sector while keeping unchanged the time frame to comply with the new capital ratios. This means reaching 8% at the end of 2015 for common shares, 10.5 % for tier 1 capital, and 12% for total capital. This schedule is more stringent than the requirements of Basel 3.

With the adoption of Basle 3 standards for solvency and putting them into effect as soon as possible, banks will be in line with the European Committee decisions- CRD IV 2014. Lebanese banks have a significant expansion of branch network in Europe (Cyprus, Paris, London, Luxemburg, Frankfurt, Brussels …) and are thus obliged to comply with those decisions in conformity with over 8300 banks operating in Europe. Our banks will have to commit to new solvency ratios, but more importantly, to prepare databases that allow them to conduct reporting and disclosure operations starting 2014.

On another hand, the **Banking Control Commission (BCC)** continued to investigate the ability of banks to implement these new ratios. In 2013, it issued **memos no. 4/2013 and no. 12/2013** in which it requested banks to calculate thoroughly their solvency ratios based on their audited balance of December 31, 2012 and their balance of June 30, 2013 consecutively, while adopting the same weighting rates for credit, operational and market risks as proposed by the Basel 2 and Basel 3 Accords with detailed information about the structure of their capital.

The banking Control Commission also issued in **2013 memo number 7** in which it asked banks to conduct their internal assessment of capital sufficiency (ICAAP) based on the balance sheet of 12/31/2012 noting that the minimum capital required to cover risks (credit, market and operational) based on the methods specified in pillar one is still 8%. In order to reach a capital ratio of 12% at the end of 2015, based on BDL circular 44, banks are to form additional capital of 4% out of which 1.5% is for systemic risks resulting from external factors such as political and economic factors, and 2.5% for the conservation factor previously mentioned. The committee also realized that the Lebanese banking sector is developing in the right direction as banks hold in addition to high capital a large liquidity in foreign currency reducing the size of risk-weighted assets and thus capital requirements.

b- Liquidity ratios according to Basel 3 standards

It is noteworthy that the Basel 3 Accord will not only include requirements related to the nature of the capital but it will also involve the Liquidity Credit Ratio (LCR) and the Net Stable Funding Ratio (NSFR) that the Basel Committee looks forward to impose in the future.

In regard to the Liquidity in the short-term or the concept of LCR (i.e. Liquidity Coverage Ratio), the Basel Committee adopted a timetable in order to gradually achieve the required liquidity ratio, reaching 60% at the beginning of 2015 and 100% at the beginning of 2019. This ratio is calculated by computing the High Quality Liquidity Assets- HQLA to the total net cash outflows of the bank (cash outflows minus cash inflows) over 30 consecutive days. The purpose of the Committee is to enable banks to provide liquidity for a month, without counting on markets to cover their resources in case of any crisis.

The emphasis of the Basel Committee and the 27 central banks members of the Committee on the subject of liquidity is due to the global financial crisis, where liquidity appeared as important if not more significant than capitalization since it determines the bank's ability to cope with financial crisis, when it is hard to count on markets for funding and without referring to public funds i.e. taxpayers. The banking crisis of Cyprus presents a clear expression of the importance of liquidity, as is the case of solvency, which proves the relevance of the approach adopted by the Basel committee. The Lebanese banking sector has a very high liquidity ratio in Lebanese pounds and a good liquidity ratio in foreign currencies, compared to the required international standards. It has become a tradition for the management of operating banks to maintain significant levels of liquidity in order to protect the sector against crisis. Despite its high cost, especially in foreign currencies, liquidity remains the essential and vital factor for a good banking sector management, in the absence of a lender of last resort, i.e. a central bank able to print these foreign currencies and inject them into the market.

The strengthening of liquidity by banks remains the monetary and supervisory authorities' main concern. **At the beginning of 2013, the Banking Control Commission issued circular no. 275** related to liquidity risk management, in which it requested banks to continue, based on stress tests results, to maintain a convenient buffer of high quality unencumbered liquid assets constituting an adequate Liquidity Credit Ratio for the short-term net cash flows.

In addition, **the Banking Control Commission issued in August 2013 memo number 10** in which it asked banks to provide it detailed information on the high quality unencumbered liquid assets and monetary outflows and inflows based on the balance of 30/9/2013 in order to conduct a quantitative experiment on comparing the LCR stated above. This topic is still under discussion between the Association and the Banking Control Commission as the Basel Committee did not issue until now final texts concerning liquidity ratios due to the large divergence at this level.

The Association also organized in August 2013 an intensive training session at two levels on the subject of liquidity and the changes concerning risk assessment based on the recommendations of Basel 3 in cooperation with the French training institution AFGES specialized in risk management, auditing, and accounting for banks.

c-Committing to the Basel 3 Banking industry standards, it is to mention that the BDL issued in the last year several major amendments to circulars related to internal control, good governance of banks and the constitution of the audit and the risk committees in addition to the role of the Board of Directors and the number of its non-executive and independent members.

The principles of good governance, which are the subject of basic circular no. 106 and its amendments, are not only confined to this circular but also include other circulars related to the Boards of Directors and their committees and the internal control systems. These circulars require banks to develop guidelines for the code of conduct including at least an organizational chart for the administrative structure and communication mechanisms between the Board of Directors and the senior executive administration, the adopted standards to calculate their salaries and bonuses in addition to other information such as defining the duties of executives and their accountability etc...several banks have started issuing a summary on the guidelines for good governance in their annual reports. The booklet prepared by the Association in 2011 on "The Corporate Governance Guidelines for Banks Operating in Lebanon" will help banks in this endeavor.

At the beginning of 2014, the BDL sent the Association for consultation a proposal on the compensation and bonuses granted to bank employees in which it asked the banks to develop a written policy for those "compensations" approved by the Board of Directors in addition to the creation of a compensation committee composed of the non-executive Board members. After studying the proposal by its specialized committees, the Association raised comments on the periods of the meetings of the above-mentioned committee to be once or twice a year instead of quarterly and the possibility of having a member of this committee participate in the membership of any of the audit and risk committees due to the non-existence of conflict of interest with these committees. The Association asked for defining the framework of the committee concerning disclosure and other operational duties and for including the information on compensation in the annual reports instead of the quarterly financial statements.

We mention, in the context of good governance, the major amendments of **intermediate circular no. 308/2012** related to direct and indirect granted credits to the members of the Board of Directors, senior executives of the bank and major shareholders and their families based on paragraph 4 of articles 152 and 153 in the Code of Money and Credit. The total of these credits that could be granted were reduced from a 5% to a 2% of core capital, and from a 2% to a 1% rate for the credits granted without meeting the conditions stipulated in the above mentioned paragraph 4. Despite the circular strict requirements, the Association found it necessary, after consulting with the BDL, to abide by these procedures in order to strengthen governance and transparency.

On 23/8/2013, the BDL issued **intermediate circular no. 334** in which it reemphasized denying the members of the Board of Directors of the bank, the major shareholders, their family members and their related institutions based on paragraph 4 of articles 152 and 153 of the Code of Money and Credit from direct or indirect facilities offered by related banks and financial institutions outside Lebanon. In order to emphasize the importance of this subject, the BDL issued in 2014 **basic circular no. 132** in which it detailed all the rules related to these facilities subject to paragraph 4 from articles 152 and 153 of the Code of Money and Credit.

In the context of committing to the Basel accord, we refer to **memo no. 3 issued by the BCC in 2013,** in which it requested banks and other institutions of the banking sector to declare their commitment level to the provisions of the BDL **circular no. 103/2006** related to scientific, technical and ethical qualifications required for the performing of certain functions in the banking and financial sectors, after the expiry of most of the required examination time limits to gain the diplomas for the employees concerned by this circular. Due to the difficulty in the commitment to the deadlines, the BDL extended most of them in **intermediate circular no. 339/2013**. In return, it added new diplomas available effective 2015 until the end of 2019.

The management of banks for the sake of the sector's stability and the protection of it clients is seriously working on training and developing its employees to accomplish most of the certificates required in the circular. The BDL however, is expanding on the number of the required diplomas and the possibilities of the sector's business given that this circular issued in 2006 is addressed to the employees of the financial markets and their products to protect customers. The BDL added ten examinations on this circular, thus including all bank employees in them. It also cancelled some diplomas that it had imposed for a while on some categories of employees and exchanged them with others. The Association has shown concern on several occasions over many of the diplomas asking for their review so that they better fit the requirements of the local market. Thus, on 11/3/2014, the BDL cancelled through **intermediate circular 363** one diploma and added diplomas to new categories in addition to exempting employees holders of specialized diplomas (CFA level 1, CME) from sitting for some exams.

d- Collective provisions: In 2013, banks, with the help of the BCC, continued their efforts in the settlement of non-performing loans (NPL's) and in forming necessary provisions in order to clean up their balance sheets. It is to note that banks are showing their flexibility with debtors who are facing circumstantial difficulties, due to the current situation in Lebanon and the region, thus studying each case separately.

The Association in this framework organized in cooperation with the International Finance Corporation a workshop on the general principles of rescheduling non-performing loans outside court to introduce these principles and mechanisms in addition to presenting several successful practices in this domain.

The matter of collective provisions is important especially with the escalation of the regional problems, lately in Cyprus, and their direct and indirect impacts on investment and credit portfolios. In its **memo no. 15/2013** the supervisory authorities emphasized the need for banks to conduct collective impairment tests on portfolios subject to credit risk and create necessary collective provisions.

e-In the context of limiting the risk of customers' investments abroad and the available liquidity, and after the issuance in December 2012, intermediate circular no. 311 that included major amendments on the limits of the risks of bank facilities (basic circular 48) which required the efforts of the tripartite working group of the

Association, the BDL and the BCC to review it before its issuance, the **BCC issued on 21/6/2013 circular 276** that clarified some technical issues related to capital and the preparation of credit files based on the analytical requirements, the administration and the treatment of credit and its risks. The Commission also organized a workshop to banks on this subject valuing the accuracy of information to be disclosed.

The amendments stressed on the facilities granted to investments outside Lebanon where the ceiling on granted facilities to one debtor or a group of interlinked debtors for foreign investment was reduced to a maximum of 10% of capital of bank branches in Lebanon and abroad. The circular specified a ceiling of four times the bank capital base, for the total of facilities granted for investment outside Lebanon and all foreign countries regardless of their sovereign rating. It is to mention that in the past, there was no requirement to commit to a ceiling for the total.

As for foreign investments of available banking liquidity, monetary and supervisory authorities, with the positive cooperation of the Association continued in 2013 to monitor banks foreign investments in order to avoid new investments in risky instruments. It is to mention that this cooperation helped during the global financial crisis to preserve the Lebanese banks from getting involved in the risky foreign speculative investments drift, the derivative products, and foreign financial instruments. The development of the crisis in Cyprus underscores the righteous approach of adopting such a policy aimed at conserving high liquidity and placing a ceiling on foreign investments with criteria to distribute investments over countries benefitting from classifications exceeding or equal to investment grade. One of the most important factors that prevented the contagion of the banks in Lebanon was their non-involvement in sovereign external loans. Each bank has a team of experts following the developments of some indicators in detail especially ones on the direction of sovereign risks such as the CDS.

In the framework of stressing on circular 302/2012 regarding Treasury placements abroad only with correspondents classified BBB and above, and given a Net Credit Exposure for each foreign correspondent not exceeding more than 25% of the bank's capital base, the BDL prohibited banks and financial institutions operating in Lebanon based on **intermediate circular no. 333/2013** from allowing correspondents or depositors abroad in handling or lending Treasury Bills issued by the Lebanese government or the CDs issued by the BDL and placed at its premises or presented as a collateral. The BDL also imposed that contracts stipulate a clear text to that effect to avoid trading the above-mentioned securities and also prevent the failure of the borrowing party.

The interest of the Capital Markets Authority, established by Law no. 161/2011 as a control authority for financial markets in 2012, centered on the organizational, control and operational issues. This authority issued a set of decisions developing the general by-laws of financial markets. In addition to the subjects related to the joint-stock corporations, these decisions came about to organize the work of the financial intermediaries, the commissions of collective investment, asset securitization, derivative operations, the business related to the financial instruments and products, which were all before subject to decisions made by the BDL. The BDL cancelled as a result the basic circulars related to these operations carrying the numbers 27, 49, 98, 125, 129.

The control of the Capital Markets Authority over the financial instruments and products implies giving it access to the bank accounts of customers trading in currencies, commodities, precious metals and financial instruments **(Intermediate circular no. 342)**. This measure does not conflict with bank secrecy law since article 55 of the financial market law gave regulators the right of access to these accounts while preserving bank secrecy. In order to facilitate this operation, banks can open separate specialized accounts for these operations and subject to the control of the Capital Market Authority without interfering with any other accounts for the customers.

2-1 New circulars aiming at enacting lending to the private sector

The banks continued in 2013 to expand their loans to the private sector, despite the difficult circumstances in the country and the region. The size of these loans increased to LBP 71428 billion at the end of the year or by an increase of 9% compared with the preceding year. Concessional loans benefitting from government subsidized interest rates, from incentives and reduction in required reserves and from the facilities of the BDL constituted around 26% of the total portfolio of bank loans to the private sector.

The BDL launched in 2013 a new incentive-based program to help banks to continue granting concessional loans with assured economic and social benefits and also to encourage banks to support the launching of startup companies and activate the financial markets. This program that contributes to activating domestic demand and the slowing-down economic activity centers on the following issues:

First, The BDL placed in 2013 at the disposal of the banking sector, based on **intermediate circular no. 313** and its amendments, credit or facilities lines in the amount of LBP 2210 billion (around USD 1.47 billion) at an interest rate of 1% so that banks can at a later stage lend them to customers at lower interest rates between 0.75% and 6%. These facilities included most economic sectors especially housing which constituted 56% of the total figure, the environment constituting 24%, the productive sectors at 18%, education at 2% with some sums allocated to business leaders in the areas of knowledge economies and small enterprises. And given that these loans rely on a new lending mechanism different than the one of using the required reserves, the average interest rates on them were higher (by less than 1%) than previous ones. The size of loans that banks can grant against these facilities, for the most in LBP, is around LBP 3000 billion.

It is to mention that this measure was taken based on the consultations between the monetary authorities and the Association after the rate of decrease in the required reserves used in concessional loans had reached the allowable 90% ceiling, with no possibility to grant more of these loans. Additionally, the Public Housing Institute had started facing a liquidity problem making difficult to continue with the mechanism of housing loans within the protocol it signed with the banks.

It also appeared based on the last available givens of 2013 that banks were active in using these facilities so that loans allocated to new projects especially to the housing sector were practically consumed, as they faced a large appeal from the Lebanese and contributed to the activation of the real estate sector facing a slow-down because of the surplus of buildings and apartments. The loans on research and development as well as the ones on energy substitutes required a larger effort by banks. The BDL extended based on **intermediate circular no. 213/346** until the end of October 2014 the period through which banks can benefit from these facilities to grant more concessional loans, and added to the sums not used the amount of LBP 500 billion so that the remaining available facilities became equivalent to LBP 1200 billion in 2014.

The BDL improved based on **intermediate circular no. 317/2013** the conditions of the housing loan allocated to buying a main house by increasing the ceiling on this loan to LBP 800 million (around USD 530,000) to enlarge this mechanism to the middle class taking into consideration the increase in building costs in the last few years, and also extended the period of the loan to 30 years instead of 20 years with a grace period not exceeding 4 years. It is to mention in this framework that the BDL insisted that these loans keep the characteristics of housing loans as the **intermediate circular no. 330/2013** asked banks to keep the same house as a guarantee against the loan and without allowing the beneficiary to sell or mortgage the house before a period of 7 years at least.

Second, in August 2013, the BDL enacted based on **intermediate circular no. 331** a new financial service concerning 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 accelerators whose activities center around the knowledge economy. Placements in these new companies up to 7 years are allowed conditional on the companies operating in Lebanon to have Lebanese labor force and to operate in the knowledge economy. The BDL secures to the concerned bank in return for these placements facilities for a maximum period of 7 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 and in supporting their continuing growth and proper management.

The Association developed an interest in the subject and found in this new measure an additional incentive for banks to continue their developmental role, expecting the measure to provide an opportunity to the creation of new promising companies that could become in the future corporations constituting a source of growth for national wealth causing new employment and strengthening the financial markets. The Association organized a workshop to banks in 2013 with the Ministry of communication which is directly involved with the knowledge economy and with accelerators to introduce the management of banks to the concerned circular encouraging them to benefit from it. Companies that have an interest in the digital economy are considered promising ones needing little capital in large markets desperate for the services of knowledge companies in the field of electronic programming and various products and solutions related to the internet, knowing that these newly companies may sometimes generate large profits to banks outside the usual. Some banks have taken the initiative starting the direct contribution in the capital of some emerging companies.

From another point, the Governor of the BDL issued in his capacity as the chairman of the Capital Markets Authority **decision no. 3** concerning crowd-funding which organizes in a clear manner the public's subscription in shares or stocks of small, medium and emerging enterprises while legalizing the rights and duties of all sides which encourages the public or individuals to invest in these companies and present the stocks to the investors and find new sources of financing.

Third, based on **intermediate circular no. 325/2013,** the BDL extended to the maximum period of the interest subsidized loans from seven to ten years without benefitting from the interest subsidies over the extended period so that loans insured by KAFALAT, for example, which benefit from the reduction in required reserves could only benefit from this reduction over the extended period. The institutions bare the difference in subsidies spread over the remaining years. This helps the institutions facing difficulties to continue their business for an additional period to settle their conditions.

Fourth, in cooperation with the European Union and based on **intermediate circular 328/2013,** the BDL provided a grant of USD 5 million to support loans granted to small and medium size enterprises to finance environmental friendly projects in the field of energy at very low interest rates and for a period of 10 years.
Additionally, it was realized that there exists a high demand, in the framework of projects for clean and substitute energies, for concessional loans granted by banks benefitting from the loan of the European Investment Bank and supported by the BDL and the government. These loans are very important in enhancing the tendency to save on the imports of fuel.

3-1 Circulars related to some technical aspects of the Banking Profession

After placing into effect in 2012 the Real Time Gross Settlement System (BDL-RTGS) (basic circular no.127), the BDL launched in November 2013 based on **basic circular no. 130** the retail payment system **BDL-CLEAR** which includes the many banking applications of this system such as check-clearing services, cards, orders of collection and transfers, in addition to the transfer of the salaries of both public and private sectors. These services became effective in 2014. Other bank applications will follow such as the electronic settlement of various taxes and fees and public sector payments.

This system and its banking applications represent an important move in the framework of modernizing the payments systems and coping with the progress witnessed by the international banking industry as it allows conducting transfers and settling the payments between banks and the BDL quickly and directly and in a safe manner. The clearing houses have also become part of this system as the BDL has cancelled based on this system circulars no 42 and no 92 concerning clearing houses and the electronic clearing of payments cards. The paper exchange of checks remains valid among banks pending the passing of the law permitting electronic signatures.

It is to mention in this framework that his Excellency the Minister of Finance issued on 22/3/2013 a decision under no. 1/432 introducing a working mechanism between the Ministry of Finance and the banks to settle taxes and fees electronically (e-payment). This mechanism which relates to government payments BDL-PAYGOV is classified under the applications of the RTGS mentioned above and developed by the BDL. The Association went along with this project and declared that Lebanese banks which have always been at the forefront of developing various banking operations in the age of the communication revolution and coming-up with measures to protect this mechanism are ready to implement it. Based on this measure, it becomes possible for the taxpayer Lebanese to settle the taxes owed electronically at any of the banks that have signed a memorandum of understanding with the Ministry of Finance at any time around the clock and during the year including Sundays and official holidays. Electronic payments take effect in two ways: either through an electronic transfer from the electronic account of the designated to the Ministry of Finance or through electronic payments via credit cards on the website of the Ministry.

This mechanism has many benefits including: Insuring a quick tax collection to the Treasury, reducing the pressure on the employees of the Ministry of Finance and public administrations involved in tax collection, facilitating the work of the taxpayers and limiting the use of paper and mail, in addition to reinforcing transparency and accountability in the transactions and measures of public administration. It is without doubt a first step towards modernism and development hoping for many similar other steps to follow in the same direction so we could gradually get to what is referred to as "e-government".

II – PROFESSIONAL ISSUES

1-2 Some banking investment aspects

a- Rationalizing the Market for Interest Rates

In 2013, the Association continued to periodically send to banks by circular, the Beirut Reference Rate (BRR) in dollars and in Lebanese pounds. In 2013, these rates fluctuated on the USD between 5.77% and 5.99% and on the LBP between 8.48% and 8.55%. These rates increased slightly on the USD and decreased on the LBP compared to 2012. These averages allow banks, after adding premium for credit risk and profitability concerning loans in USD and LBP, to determine the prime lending rates.

As for credit interest rates, banks worked hard in 2013, with the strong support of the BDL, to maintain banks stability and avoid any reduction in these rates, considering that attracting deposits to Lebanon and maintaining bank liquidity remain a priority given the continuous weakening of the balance of payments, and in view of the hard and unstable regional situation surrounding the country.

b- Imposing tax obligations on banks that are initially the duty of bank's agent taxpayer

Over the last period, some departments of the Ministry of Finance have started broadening their explanation of the application of tax laws which is harmful for some bank off-balance sheet activities causing their relocation abroad to the benefit of the customers (based on an erroneous interpretation of some articles of the income tax law). These interpretations take place, for example, when these departments impose some banks that have received funds for offshore companies registered in Lebanon to handle tax payments, whereas tax declaration to the Ministry of Finance is the duty of the concerned taxpayer without having the bank required to deduct taxes for the Treasury account. The Association asks for the formation of a specialized committee from the Ministry of Finance, the BDL and the Association to address these harmful practices to the functioning of the financial markets and the stability of legislation in Lebanon, and to find a mechanism that protects the right of the Treasury and the taxpayers at the same time.

2-2 Fighting Money Laundering and Tax Evasion

a- On Fighting Money Laundering

The banking sector continued in the last year 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 the rules and ethics of the profession, and emphasize the operation of preparing and developing the systems, and training the qualified human cadres.

The Association accompanied these developments and intensified the meetings of its specialized committees to review the recent measures and commitments and determine how they could be best applied. Given that compliance falls under bank cooperation instead of competition, the Association asked in July 2013 one of the largest auditing firms "Deloitte" to prepare with the close cooperation of the members of the committee on compliance and anti-money laundering in the Association the necessary material for issuing the **Manual for Policies and Procedures** on fighting money laundering and countering the financing of terrorism. The manual includes many of the principal subjects taking into consideration the Lebanese and international rules and systems and the international standards as well as the size of risks in Lebanon. This manual is naturally for the interest of all large and especially small banks. It thus represents a working base for all banks given its generic nature rather than being customized for some of them. Therefore, it was emphasized for banks not to rely on the manual only but to go about their work as usual especially that there are deadlines to be respected.

We also note in this framework to **BDL circular no. 128** concerning the creation of a compliance department in every bank taking its principles from the Basel Accord. Thus, the Association held a working meeting in July 2013 to the responsible heads of compliance departments in banks operating in Lebanon in which it was decided on the necessity for banks to develop an effective compliance program with the interest being in the content of circular 128 and not in the form only. It is to mention that the Banking Control Commission is in the process of preparing the applied circular to the mentioned one.

The Association of Banks continued as part of its primary functions the training programs to help member banks remain ready to deal with international standards including the rules of the US Treasury especially concerning the AML/CFT and Know your Customers (KYC) currently used in Lebanon and also to respect and implement all sanctions imposed by the US Treasury and other international bodies. The banks continue their commitment of not dealing with any person or institution placed on international lists especially the one of the Office of Foreign Assets Control (OFAC) in the USA.

In 2014, the Association strengthened its relationship with the INTERPOL and with the "INTERPOL for a safer world" created lately and headed by a Lebanese personality with international consent as this Lebanese presidency constitutes an opportunity to help Lebanon including its banking sector from the available and future capabilities and to explore the ways for future cooperation in the fields of combatting financial crimes and money laundering. The cooperation between the Association of Banks and the INTERPOL is not new as the Association has been providing banks for the last few years in a regular and organized way all information and documents sent by the INTERPOL and supplied by the Governor of the BDL.

Future cooperation will not be confined only to what was in effect but will surpass it to allow Lebanese banks upon opening an account for any person to make sure whether the name is part of the INTERPOL records. This service provided by the INTERPOL will not be free but the cost will be low compared to the nature of the service to banks. Currently, banks are obliged upon opening accounts for new customers and in order to investigate their financial integrity to consult many international available lists of records from among at least four: American (OFAC), European (EU), United Nations (UN), and British (UK) in addition to the lists of private information firms such as World Check and others. Assembling these lists in one international information base facilitates the work of banks and reduces the cost and effort while adding to the credibility of the acquired information. Banks are thus in line with the security systems checking the accuracy of passports especially across the borders to make sure passports are not forged or stolen.

The cooperation of the banking sector in Lebanon with the INTERPOL creates a model to be used by international banks in this cooperation. It is hoped that this model would secure for the banks within the Lebanese laws and for international banks within the conventional standards a shield for the banking industry and a protection from financial organized crime.

In this framework, the Association embarked in 2013 on an external campaign based on **a large media and professional strategy** to inform decision-makers in the international financial and banking sectors on the seriousness of the Lebanese banking sector in its deep commitment to implement international standards especially in the area of AML/CFT **(see part II, section 3)**.

Lebanese banks whether in Lebanon or abroad are keen on keeping their sound reputation and Arab and international positions, and on preserving the interests of their shareholders, depositors and agents and on their good and clear relationship with correspondent banks. Thus, they are adamant whether in Lebanon or abroad on avoiding any of the activities that would endanger all of the above.

Based on all of these efforts, the Banking sector in Lebanon has earned the respect of the international community despite the difficult national and regional framework of operation. To underscore this point, Lebanon has not been placed on the US FinCEN list (the equivalent of the Special Investigation Commission in Lebanon) in its latest report of 2014 (nor in its previous reports) of countries with strategic AML/CFT deficiencies.

It also falls in this framework the steps that are being conducted by the Banking Control Commission in preparing and/or signing memoranda of understanding (MOUs) with a number of bank supervisory authorities worldwide including Cyprus, Belgium and the United Kingdom in light of their latest developments, so that these agreements could help Lebanese banks and build for good relationships.

b- In the Framework of Fighting Tax Evasion

Since the issuance by the American Congress of the legislation known as FATCA "Foreign Account Tax Compliance Act" which included new standards to prevent American citizens from conducting tax evasion abroad placing the responsibility of implementing and following these instructions on banks and financial and non-financial institutions worldwide, the Association addressed this issue by conducting the following steps:

- The Association published in early 2013, a major announcement related to the law on tax compliance and made it available to customers of banks operating in Lebanon in Arabic, French and English. However, the law effectively is exclusive to customers identified by this law as Americans. The Association then organized, in cooperation with the Deloitte and PricewaterhouseCoopers institutions, a seminar on the latest developments in the system and guidance of applying the tax compliance law. A discussion was held in the workshop on the best means to arrange for the proper practical implementation of the law in Lebanese banks and to prepare reports for submission to the American concerned parties, especially on the necessity to improve the means of dealing with customers, providing them with the necessary care with the purpose of assembling the additional needed material and adjusting the rules to meet the requirements of this law.

- In July 2013, the Association decided to engage Deloitte company to prepare the **"FATCA Policy and Procedures Manual"** with the close cooperation of the Compliance and Fighting Money Laundering Committee at the Association. The manual also guides small and medium banks to a proper implementation as it includes the following main points: the responsible officer in charge of applying FATCA, the qualifications, a list including the necessary measures required of the bank to become committed to the FATCA law, the needed adjustments on the code of ethics, the principle guidance required of the executive directors and addressed to all employees in the framework of exposing them to FATCA law. This manual which is similar to the one on combatting money laundering previously mentioned is of a generic nature not customized to the size of every bank. Thus, it is emphasized not to rely only on the manual but to have each bank go about its work especially with the presence of deadlines that need to be respected.

- Additionally, the concerned committee in the Association prepared two documents addressed to bank customers. The first is an information one explaining FATCA law and the commitments of banks operating in Lebanon to it, and the second is on lifting bank secrecy off concerned accounts. The Association received in November

2013 US deputy secretary of Treasury Mr Daniel Glazer who held a meeting with the Chairman and members of the Board of Directors and later on with representatives of banks operating in Lebanon. Discussions in both meetings centered around the mechanism of applying US sanctions and FATCA. It is to mention that every bank is required to sign electronically the commitment to the application of this law with the US Internal Revenue Service (IRS) and not through a bilateral agreement by the Lebanese government or Central Bank. Since the deadline for registering in FATCA law is July 2014, the Association asked banks to execute this transaction early because this improves our image with correspondent banks.

- To accomplish this effort, the Association prepared with a team of experts on this subject a series of questions to member banks to determine the level of readiness of each bank to commit to the requirements of the FATCA law and to help banks that need assistance from this team in return for an acceptable fee.

  It is to mention that countries members of OECD doubled in the last ten years the mechanisms of fighting tax evasion by introducing new standards and mechanisms to address this vice at the international level, and subjecting the tax havens, countries and offshore, to major pressure to abide by them. These havens have complied or are on the way to complying so that they do not get black or grey listed.

  In this framework comes the visit of the delegation of the Association to Paris in June 2013 (mentioned in the second part, section three) where the official French authorities, especially in the Ministry of Finance and the Economy, emphasized on the need to ratify a treaty for the exchange of tax information to avoid placing Lebanon in the future on the list of non-cooperative countries or the list of "Tax Havens" that Lebanon lately avoided taking into consideration the view of the Ministry of Foreign Affairs. The Lebanese delegation explained the seriousness of the current situation and the sending of the Lebanese government a draft law to the Parliament. The delegation also clarified that bank secrecy in itself is not a barrier to the exchange of information with the presence of a mechanism going through the Special Investigation Commission (SIC). The dialogue stressed on the importance and need to renew the dialogue between the responsible executives in the two countries concerning the subject of tax transparency and exchange with the international community. The Lebanese bank delegation promised to follow-up on the subject with the persons in charge to find an acceptable formula.

- It remains necessary and vital for the Lebanese parliament to pass some draft laws in its possession, that the government has passed-on to it since mid-march 2012 , especially the three important draft laws concerning the amendment of Law

318/2001 on combatting money laundering, the law on the declaration of cross-border deposits, and the one on tax information exchange. These laws ensure beyond any doubt the definite and continuous commitment of the Lebanese government to the application of the international standards on AML/CFT.

c- On the regional banking relationships: The cases of Cyprus and Iraq

The advent of the crisis in Cyprus and its deterioration in 2013 made the Lebanese banking sector address with responsible flexibility the problems faced by this neighboring country to help it overcome the critical phase it is passing through as there exist old historical links between Lebanon and Cyprus. In addition to the geographic proximity, Cyprus opened its doors to the Lebanese and Lebanese banks during the war in Lebanon. Currently, there are two Cypriot banks in Cyprus owned by two Lebanese banks and there are nine Lebanese banks with branches in Cyprus.

The monetary authorities aimed at keeping the best relationships with Cyprus. Thus, they insisted on Lebanese banks present there not to withdraw liquidity from this country based on the requests of depositors trying to transfer their funds, but to show full commitment to the Cypriot laws, till the settlements that will be granted to foreign banks.

In 2014, three associations composed of the Association of Banks in Lebanon, the Association of Banks in Cyprus and the Association of Foreign Banks in Cyprus organized a Lebanese-Cypriot banking day in Limassol on 14 February, with the participation of the monetary and control authorities in the two countries and the presence of more than 70 persons of which 32 bankers and responsible Lebanese attending from Beirut.

This banking reunion aimed at discussing the means of cooperation of the banking sector whether in Lebanon or through its presence in Cyprus with the Cypriot banks. The **first** mean is in the field of **financing Cyprus foreign trade**. Cypriot banks had overcome the severe financial crisis that spread through the island in 2012 recording a loan/deposit ratio of over 100%. This high ratio reflects the lack of liquidity or the loss in the ability to open external credit and the issuance of letters of guarantees. Second, the Cypriot banks look forward to rely on our banks to accompany the large Cypriot enterprise sector that gains contracts and foreign projects especially in Qatar and the rest of the Gulf, as our cooperation provides the financing requirements through the standard instruments such as Bid Bonds Performance Bonds, etc. Third, the Cypriot banks are offering ours the opportunity to enter into syndicated loans for the benefit of the gas and oil sector in Cyprus.

As a result of meetings and discussions, the Lebanese banks emphasized that the possibility of cooperation with Cypriot banks is large and is based on a vision summarized in three pillars: First, the cooperation is to be done on a case by case basis so that the Lebanese bank can have the opportunity to study the file of the customer on condition that the Cypriot bank provides the Lebanese bank with a complete file or one including the guarantees provided or required to be shared by the two concerned banks. Second, the Central Bank of Cyprus is to lift the restrictions placed on transferring funds abroad in case of financing. The latter promised to grant permission in case the financing is for foreign trade and when the amounts exceed one million Euro. The Lebanese banks also wished at this level to lift the restrictions on institutions and individuals for opening bank accounts in the branches of Lebanese banks operating in Cyprus including accounts opened to receive permanent residency or Cypriot nationality. The Central Bank promised to study the request and allow it if it is related to the financing of the Cypriot economy. The Lebanese banks finally showed the intention to get into syndicated loans not for the gas and oil sector but to finance large enterprises for projects in the Gulf countries on condition that the syndicated loan is of good structure and managed by a trusted banking source. The industry of oil and gas, however, is another issue requiring special skills and large financing sources that Lebanese banks do not possess on their own the energy to organize. It was decided at the end of the meeting to form a joint committee to pursue the means and contents of the cooperation.

Thus, the Lebanese banking appearance on Cyprus came as an initiative encouraging the Cypriot economy as it received a major interest and welcome, and a large coverage from local media sources. Banks and Lebanese in general owe Cyprus for the hosting of our banks and citizens during the Lebanese war of the seventies and eighties of the previous century. This meeting may present an opportunity to extend a helping hand in the context of the Lebanese rules and procedures that govern the activities of banks. In all conditions, Cyprus remains the neighbor of Lebanon and a European country situated only hundreds of kilometers away from our border representing a good and positive location for future investments.

Regarding the banking profession in Iraq, six Lebanese banks operate there, as it is well-known, with other Lebanese banks getting ready to enter the Iraqi market. These banks represent a major component of the Lebanese banking wide expansion in 31 countries extending over the Arab region, Europe, USA, Africa, Asia and Australia. Lebanese banks in Iraq serve the Iraqi economy and provide the Lebanese banking sector diversity in its risks and additional returns on its investments. This policy requires Lebanese banks to engage in providing credit facilities to individuals, families, and Iraqi institutions using the credit tools available in Lebanon such as credit cards for individuals, opening documentary credit, and letters of guarantee to finance real foreign trade to Iraqi importers. We thank the Iraqi monetary and control authorities for working diligently on completing the organizational framework that allows banks working in Iraq, out of which the Lebanese ones, to introduce and develop their modern banking services for the Iraqi market. The operation to develop the organizational framework, for example, includes establishing a risk center and placing the names of branches of banks operating in Iraq as part of the list officially licensed on the website of the Central Bank of Iraq. This framework also includes activating the department of company registration and receiving the information requests on the ones officially registered.

Combatting money laundering is a subject given by our banks all the importance it deserves. Thus, banks in Iraq, in addition to the information provided by the specialized office at the Central Bank of Iraq in answering their requests on customers, investigate supplementary information from the international lists previously mentioned as well as from site visits to their customers and institutions. Combatting money laundering and knowing the real beneficial owners of the economic right is a major duty in the work of our sector in Lebanon and abroad. Our banks also approach this subject through the mechanism of classifying various accounts based on the Risk Based Approach. Our banks are also subject to a complete and meticulous control not only from the internal compliance department in every bank, but also from their international auditing firms and the Lebanese monetary and control authorities. The latter group looks into the detailed reports of the auditors and coordinates with its counterparts in Iraq, based on a signed memorandum of understanding that is developed as need arises.

The expansion in the Iraqi market through the usage of universal banking with all the meaning of the word from operations, technicalities, and bank management opens for our banks promising future horizons. This is because it is expected that the Iraqi market in its size and needs is to become the largest emerging market in the region during the next few decades. There exists between the Lebanese and the Iraqis working relationships and mutual confidence going back many decades. It is our duty to seriously strengthen it for the sake of the general benefits of both parties.

In summary, banks expanding abroad face different risks as far as type, size, and management from the ones usually faced in their domestic markets. However, foreign expansion has in itself become a necessity due to the narrow size of the Lebanese market and its continuous exposure to all kind of political and internal security pressures. What matters is for the expansion to be carefully assessed based on the size of our bank capital, the capability of bank executive management, the righteousness and reality of the bank business model and its suitability to the foreign markets in which banks choose to operate.

3-2 The Signing of the new collective labor agreement for years 2013-2014

After long and severe negotiations, the collective labor agreement for 2013-2014 was signed in July 2013 in the office of the Minister of Labor in the care taker government, Mr Salim Jreissati, between the Association of Banks and the Federation of Unions of Banks' Employees in Lebanon. It is known that this collective agreement, which governs since 1972 the professional relationship between the partners in production in the Lebanese banking sector, contributed in all these years in securing good conditions for a decent standard of living to bank employees whose number reached 23,000, and in insuring the stability of the work of banking institutions that play a vital role in financing the Lebanese economy in its public and private sectors.

We mention that the new collective agreement preserved the earned rights of the employees concerning the salary scale, the administrative raise, and the work schedule but adjusted the value of the school and university grants substantially, and corrected many of the other benefits. The agreement also emphasized the right of the employee to receive health coverage after reaching retirement age from the support fund of bank employees or from private insurance companies.This formula came as fair and satisfactory to both bank management and employees. The Board of Directors of the Association gave the subject of the collective agreement a priority over other concerns due to its positive impact on creating a climate of stability and security among the sector employees. The overseers of this sector are keen on having the best relationships govern the partners of production to the benefit of all and to the service of the Lebanese economy especially during these difficult conditions that the Lebanese experience in all the political, economic and security aspects. This requires dealing objectively with the social issues and the common attempts to reach compromises and finding realistic and possible solutions to all problems in a firm and sensible dialogue away from all forms of media escalation or political exploitation.

4-2 Establishing the "Higher Institute for Banking Studies"

In July 2013, the President of the Association of Banks in Lebanon and the President of Saint-Joseph University announced in a press conference held on the campus of the School of Social Sciences the creation of the "Higher Institute of Banking Studies" and accepting registering students in it for the academic year 2013-2014.

The Association clarified on the occasion that it has realized long-time ago the importance of partnerships between the professional and educational sectors. Thus, it was at the forefront of creating the center for banking studies to secure the banking professional education, develop the skills of those working in the banking sector and raise their levels. The banking sector was able due to the role it plays in the Lebanese economy and its dynamism to attract the best of Lebanese youth for employment with the holders of university degrees in the sector reaching 72% of total bank employees. The ability of adjustment with the ongoing changes became a model adopted regionally and worldwide. The center for banking studies received over the last forty-three years large contingents of employees of various banks operating in Lebanon who followed its educational programs, gaining primary or higher diplomas creating for them a high level of education and providing them with knowledge.

On 21 October, studies started officially in the "Higher Institute of Banking Studies" where the Governor of the Central Bank of Lebanon presented the "opening lesson" of the Institute **(see part III, section 3)**

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

a- At the internal level

ABL reiterated in 2013 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:

- 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.

- Issuing press releases on the national, economic and professional issues of interest to the Association and the banking community.

- 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 on the various sectors of economic activity in Lebanon in general, and the banking activity in particular.

- Cooperating with different Lebanese economic groups in order to draft working documents and common perceptions on the points of view of these organizations with regards 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.

- 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 Communication) and the Lebanese Tourism Promotion Council (Ministry of Tourism).

- Taking part in sponsoring and/or supporting some major national and economic events, such as: the conference organized by the Army command on dynamic shifts: the challenges in security, economics, administration and politics (10-13 April 2013).

- Hosting a number of official figures, 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, INTERPOL, etc.) and participating in official Lebanese delegations abroad.

- 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 Achrafieh, 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 -** including 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 participants in Lebanon and abroad. Lately, 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 2012**, in Arabic and English, **the Bank ALMANAC of 2013** was issued as well as the **training program** in Arabic and English and the bulletin **"The Lebanese Banking Sector: the basis of stability in Lebanon"** published in English. This last document is intended to acquaint foreign banks and financial institutions and the directors of investment funds in the world with some pillars of the Lebanese economy, on one hand, and with the policies and measures adopted in Lebanon to combat money laundering and the financing of terrorism on the other. Finally, and as part of the series on the documents of the Association (under no. 26), a new document entitled **"The Most Important Financial and Banking Legislations in Lebanon"** (2011-2012) was published in Arabic and English in 2013.

On the level of documentation and internal library, the ABL continued to update its **data bank and press archives** (1990-2013) and enrich **its library periodicals** (1538 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 Internet 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 2013, 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. Some of the most notable Arab and international events in which the Association participated were: The General Assembly of the Association of Arab Banks and the Arab Banking Conference for 2013 (Al-Manama - Kingdom of Bahrain, 3-4 April 2013), the International Conference on FATCA (Rome – Italy, 1 February 2013), the meetings of the Working Groups formed in the framework of the project "The Francophone Banking Association" (Paris – France, 15 February and 27 September 2013), the World Summit on the Industry of Financial Services (Paris – France, 16-18 May 2013), the Sixth American Convention on Economic Sanctions (Washington D.C. – USA, 5-6 June 2013), the Annual Meeting of the International Financial Institute (Paris – France, 25-26 June 2013), the Arab International Banking Summit for 2013, organized by the Association of Arab Banks (Vienna – Austria, 26-28 June 2013), the Joint Annual Meeting of the World Bank and the International Monetary Fund (Washington D.C. – USA, 9-13 October 2013), the Fifth Banking Arab-European Convention (Rome – Italy, 1 November 2013), the Financial Frankfurt Conference for the MENA Region organized by Maliki Group (Frankfurt – Germany, 21 November 2013).

2- The public relations external campaign

The Association embarked on a public relations campaign in 2013 especially targeting the USA and France. As for the USA, a delegation from the Association conducted two visits to New York and Washington D.C. (in March and October 2013) covering many American institutions, administrations, and persons concerned with issues of interest to the Association. The purpose of these meetings, on one hand, was to introduce the members of Congress to the Association of Banks and to the importance of the Lebanese banking sector and its vital role in the stability of Lebanon and even the region. On the other hand, the meetings emphasized the importance of correspondence between the Lebanese banks and the New York ones especially that the Lebanese economy is highly dollarized. The Lebanese banking delegation also presented in these meetings the efforts spent on fighting money laundering and terrorist financing based on an organized and continuous administrative work and on the cooperation with the US banks and Treasury in their principles and rules of operation at this level. The working delegation team also clarified that the Lebanese banking activity in Syria decreased to a great extent and that Lebanese banks are absorbing the effects of the Syrian situation with acceptable losses backed by provisions taken earlier. Thus, Lebanese banks will definitely be ready to contribute to the reconstruction of Syria at a later stage.

The Association side clarified its commitment to the sanctions and the coordination on them with the US Treasury and that bank management took all necessary measures in this regard by adopting the systems capable of covering any existing shortcomings. The American side commanded the efforts taken by Lebanese banks in the last few years.

As for France, the Association organized in cooperation with the French Banking Association a working visit (June 2013) to a number of political authorities and ministries concerned with the financial and economic domains, and to the Central Bank where the delegation of the Association had the opportunity to repeat the views presented in the United States concerning the important role of the banking sector in achieving stability in Lebanon and the region. The Association emphasized reinforcing the professional close ties with the French banking family especially that Lebanon is a founding member of the Association of Francophone Banks and is active in the committees of this Association. The delegation also stressed on strengthening the correspondence relationships with the French banks within the full and complete respect of the rules and international standards concerning knowing the customers and the fight against money laundering and the trade in narcotics. The delegation of the Association presented to the official authorities and the French banking organizations the role played by the Lebanese banking sector concerning complying with the sanctions imposed by the European Union. Additionally the delegation stressed on the need for more cooperation with the French authorities specialized in fighting organized crime, especially in the financial field, clarifying that the Lebanese Government sent to the Parliament a number of draft laws that reinforce this cooperation and enlarge it in the future.

To summarize, it is possible to evaluate these first visits in the framework of the external movements as beneficial and positive whether in the many meetings that took place or in the subjects discussed. This allowed the Association to make its position known where it counts and matters. These visits strengthened the correspondence relationships among Lebanese banks and US and French banks, which is a vital issue for the small size Lebanese economy open heavily on dealing with the world.