



**THE LEBANESE BANKING SECTOR –  
A PILLAR OF STABILITY**

The Lebanese banking sector plays a critical, stabilizing role in the Lebanese economy and that of the MENA region. An overview of Lebanon's political and economic systems, its banking sector and information about the Association of Banks in Lebanon ("ABL") is available here:

[www.abl.org.lb/library/files/ABL%202013%20LBS.pdf](http://www.abl.org.lb/library/files/ABL%202013%20LBS.pdf)

**ABL AND INTERPOL AGREE TO STRENGTHEN  
COOPERATION TO COMBAT ORGANIZED CRIME  
AND MONEY LAUNDERING**

Combating organized crime and money laundering were high on the agenda of talks between ABL board of directors and crime busting organization Interpol on January 28, 2014.

ABL board of directors reviewed these issues with the President of "Interpol Foundation for a Safer World", Mr. Elias Murr, and the Secretary General of Interpol, Mr. Ronald Noble, and the accompanying delegations. Both sides agreed on the need to strengthen areas of cooperation in order to better combat organized crime, particularly financial crimes such as money laundering and terrorist financing.



The meeting was followed by a luncheon sponsored by the ABL in honor of President Murr and Mr. Nobel. It was attended by heads of the judiciary, leaders of the military and security institutions, ambassadors, bankers and businessmen. More information, along with speeches delivered by Dr. François Bassil, Mr. Elias Murr and Mr. Ronald Nobel, is available here:

[www.abl.org.lb/NewsDetails.aspx?pageid=1891](http://www.abl.org.lb/NewsDetails.aspx?pageid=1891)

**LEBANESE AND CYPRIOT BANKING SECTORS  
STRENGTHEN RELATIONS**

A high profile Lebanese banking delegation headed by Central Bank governor Mr. Riad Salame, President of ABL Dr. François Bassil, Mr. Usama Mikdashi, Chairman of the Banking Control Commission held talks with Cypriot counterparts and officials ways to boost cooperation on February 14, 2014.



The purpose of the meeting was to discuss establishing a framework of cooperation between the two banking sectors with the aim of supporting the Cypriot economy. Lebanese banks represent the largest national group of financial institutions in Cyprus, with nine branches and two subsidiaries, and are well-placed to expand the banking services they are currently offering in Cyprus. Among the topics discussed were regulatory issues relating to strengthening the combat against money laundering and the gradual lifting of restrictive measures imposed by Cypriot authorities as a result of the liquidity issues faced by Cyprus in 2013. ABL's press release, along with the speech delivered by Dr. François Bassil during the meeting, is available here:

[www.abl.org.lb/NewsDetails.aspx?pageid=1898](http://www.abl.org.lb/NewsDetails.aspx?pageid=1898)

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## SEMINAR ON "CYBER FRAUD PREVENTION TECHNOLOGIES AND SERVICES"

The ABL in collaboration with Kaspersky Lab organized on Tuesday 11<sup>th</sup> of February 2014 at ABL premises, a seminar on "**Cyber Fraud Prevention Technologies and Services**".

The aim of this seminar was to promote the dangers and types of attacks of the cyber banking industry and the means to hedge them, and to shed light on how to discover fraud in this area and the prevention against it. Also, examples of fraud and cyber fraud were introduced during the seminar that was conducted by the Kaspersky Lab speakers.

The seminar on Cyber Fraud prevention technologies and services comprehended many key points that were discussed, namely:

- *Banking Cyber Threats and Online Fraud Landscape*
- *Cyber Fraud Attacks, how it works and attacks' examples*
- *How to Protect Internet Banking Users from Cyber Fraud*
- *Developing Online Banking Mobile Applications with Fraud Prevention Capabilities*
- *Defending Internet Banking Environments against Malicious Behavior, Targeted Attacks and Cyber Fraud*
- *Building a Multi-layer Framework for Cyber Fraud Detection and Prevention*
- *Enhancing the Online Banking User Experience*

Other seminars will be held to a continued awareness of the cyber fraud dangers.

## THE GENERIC FATCA POLICY MANUAL AND THE AML/CFT GENERIC POLICIES AND PROCEDURES MANUAL

The **Generic FATCA Policy Manual** covers a lot of basic subjects, and takes into account the Lebanese laws such as BDL's circular n° 128, the International laws and regulations, and the international standards, as well as the size and nature of risks in Lebanon. Moreover,

this manual comes under the interest of all banks, large and small ones in particular, and should be a road map/ generic basis to all operating banks in Lebanon and is not tailored strictly to each bank. Therefore, emphasis was made not to rely only on the manual, but each bank should proceed in its work, especially when existing deadlines must be respected. It's worth noting that **the Generic FATCA Policy Manual** comprehends the following key points:

- *Responsible Officer: qualifications competencies*
- *Checklist for all pre-requisites actions for a Bank to become compliant*
- *Required amendments to the Code of Ethics*
- *Guidelines required from CEOs to be addressed to all employees as awareness on FATCA*

Also, on the FATCA subject, each bank in Lebanon has accepted the terms of the FATCA agreement that took place electronically on a system set by the U.S. Internal Revenue Service IRS.

The FATCA effective dates are modified to conform to the six month delay announced in IRS Notice 2013-43. However, the Regulations do not extend FATCA's general July 1, 2014 effective date. Thus, July 1, 2014 continues to be the date withholding and new account onboarding procedures begin.

On the other hand, **the AML/CFT Generic Policies and Procedures Manual** also produced and distributed to all operating banks in Lebanon covers key points such as the definition of Money Laundering and Financing Terrorism, its legal and organizational frame, policies and procedures regarding clients and their classification according to the Risk Based Approach, the Due diligence and control of operations applied by each bank; relations with the correspondent banks and the customer identification (Know Your Customer), reporting the suspicious transactions, penalties and human resources training and other important elements.



## **BANKS URGED TO EXPEDITE REGISTRATION WITH FATCA**

The Association of Banks in Lebanon and the financial authorities have called on the Lebanese banks to expedite the registration process in the Foreign Account Tax Compliance Act (FATCA) and to tighten internal supervision.

This call came during a meeting on April 4 between representatives of banks and officials from ABL and the anti-money laundering committee.

The participants agreed that the Lebanese banks take the initiative of registering with this organization as soon as possible so they will be among the first financial institutions registered with FACTA.

It is worth noting that Lebanon is ahead of many countries in the region in preparing FACTA conditions and requirements. Officials said that the **Financial Crimes Enforcement Network (FinCEN) has not added Lebanon's name in any of its lists issued in March of this year.**

Discussions also centered on the relations between the correspondent banks. These correspondent banks are coming under pressure from its supervisory authorities, which have reflected in dealings with banks around the world, including Lebanon. For this reason, it is imperative that Lebanese banks must respond to the additional requirements in their dealings with correspondent banks. Also, discussions centered on the need to conduct the necessary training for the staff so that banking policies are clear for all the employees, including the front people who are direct touch with the clients.

### **OUR MEMBER BANKS' LATEST NEWS:**

[www.abl.org.lb/NewsRoom.aspx?pageid=29](http://www.abl.org.lb/NewsRoom.aspx?pageid=29)

## **CENTRAL BANKS UPDATES REGULATORY FRAMEWORK FOR CAPITAL ADEQUACY**

The Central Bank of Lebanon issued Intermediate Circular 358 on March 6, which modifies Basic Circular 44 dated March 25, 1998 about the capital adequacy regulatory framework from banks operating in Lebanon. The circular details the criteria that capital instruments must meet in order to be included in Common Equity Tier One Capital, in Additional Tier One Capital and in Tier Two Capital. It also specifies the criteria that would allow banks to include cash contributions in their Common Equity Tier One Capital or in their Additional Tier One Capital.

In parallel, the circular stipulates that banks have until the end of 2015 to comply with the minimum capital adequacy ratios as well as with the capital conservation buffer. It mandated that the a bank's Common Equity Tier One must reach a minimum of 7% by the end of 2014 and of 8% by the end of 2015; its Tier One Ratio has to be at least 9.5% by the end of 2014.

## **LEBANESE AUTHORITIES LIFTS SECRECY ON 17 CASES SUSPECTED OF MONEY LAUNDERING**

The Special Investigation Commission (SIC), which is designated to fight money laundering and terrorist funding, revealed in its 13<sup>th</sup> annual report, that Lebanese authorities have lifted 17 cases suspected in money laundering, embezzlement and terrorist funding. The Report indicated that the SIC received 301 suspected cases in 2013, of which 189 cases or 62.8% were local cases and 112 cases or 37.2% were referred from abroad. The SIC referred 137 suspected cases to the judicial authorities, while 46 cases are still pending and the remaining 118 cases did not fall within the framework of Law 318. As a result, authorities lifted the banking secrecy on 17 cases, of which 1 case was referred from foreign governments and organizations and 16 cases from domestic sources.



### **LEBANON SOLID AND LIQUID FINANCIAL SYSTEM MITIGATES RISKS: MERRILL LYNCH**

Investment bank Merrill Lynch said in a recent report that Lebanon's massive liquidity in the Central Bank and commercial banks has enabled this country to weather the financial crisis and reduced risks.

"Lebanon's solid and liquid financial system continues to mitigate risks. The Central Bank is capable of converting nearly all local-currency denominated deposits to non-financial sector to US Dollars if required," Merrill Lynch said.

It added that the Central Bank's \$31 billion in foreign currency reserves as well as \$11 billion gold stocks were key factors behind stability of the Lebanese pound. It noted that the Central Bank's foreign currency reserves cover 120 percent of foreign currency denominated public debt and are equivalent to about 70 percent of Money Supply (M2). It pointed out that banks in Lebanon are still capable of financing the government's deficit without increasing their exposure, thanks to the sustained rise in banks' deposits.

Merrill Lynch has also maintained its recommendation on Lebanon external debt ids "Market Weight" given that the strong domestic investor base and the Central Bank's solid foreign currency reserves reduce the deterioration in macroeconomic and political fundamentals resulting from the Syrian crisis. Merrill Lynch projected Lebanon's real GDP growth at between 1 percent and 2 percent in 2014, similar to last year and relative to growth rates of 2 percent to 2.5 percent during the 2011-12 period and 8 percent to 10 percent between 2007 and 2010.

It attributed the slowdown in economic activity to the ongoing political uncertainty and the direct and indirect spillovers from the crisis in Syria.

It considered that the recent development in forming a national unity government as positive indication, but it noted that such

progress would not significantly reduce domestic divisions.

It anticipated that economic activity would remain weak and political tensions would remain high due to the steady deterioration in fundamentals during the 2011-12.

It said that the rise in political tensions reflects the failure to achieve a credible and lasting peace in Syria in the near-term. It forecast the fiscal deficit to remain close to 10 percent of GDP due to subdued public revenues and rising spending.

### **S&P REVISES LEBANON'S OUTLOOK TO STABLE FROM NEGATIVE THANKS TO STABLE FINANCIAL SYSTEM AND STEADY DEPOSIT INFLOWS**

International rating agency Standard and Poor's revised Lebanon's outlook from negative to stable due to the country's high liquidity and following the formation of a national unity government.

The outlook revision reflects S&P's view that deposit inflows to the financial system will enable the government to meet its financing needs over the coming year despite the difficult internal and external political environments.

However, S&P affirmed its "B-/B" long and short-term foreign and local currency sovereign ratings.

According to S&P, Lebanon's government debt servicing capacity is supported by steady flows of cash to the financial system, which remain stable despite a challenging political and security environment.

This funding source has helped stabilize the government's financing needs during increasingly challenging times for the internal and external political environments.

It added that the deposit inflows have been stable, even during the domestic political vacuum in 2013 and also in the face of the



increasing spillover from the deteriorating situation in Syria.

Accordingly, S&P considers that the government currently has the ability to meet its financial commitments, despite the fact that this concentration of government financing from a single source is seen as a structural weakness, which in S&P's view leaves Lebanon more vulnerable to adverse business, financial, and economic conditions.

The rating agency noted that the formation of a new government reduces the risk of a widespread escalation of domestic conflict. As to confidence in the Lebanese banking system, it remains intact and supported by remittances from the Lebanese Diaspora as well as the interest rates banks pay on both local and foreign-currency deposits.

The banking system's funding profile features a high proportion of retail deposits. Banking sector deposits, including resident and nonresident deposits, were 2.1 times the government debt levels as of the end of February 2014. In addition, at end-January 2014, government debt was 23 percent of total banking system assets, meaning that bank creditors held 53% of gross central government debt.

**MONTHLY EDITORIAL**  
**BY DR. MAKRAM SADER,**  
**SECRETARY GENERAL OF THE**  
**ASSOCIATION OF BANKS IN LEBANON**

### **Some Aspects of the Presence and Lebanese Banking Relations Abroad**

On February 25<sup>th</sup>, Dr Sader wrote: "The meeting with Mr. Noble, the Secretary General of the Interpol organization and his team, was designed to explore the possibilities for future cooperation in the fighting against financial crimes and money laundering..... Our relation with Interpol is not recent. For several decades and on regular basis, the Association

distributed, to all operating banks in Lebanon, circulars relating to information and documents issued by the Interpol and provided by the Governor of the Banque du Liban (BDL).... Naturally, the next cooperation will not be limited to its current state, but it will be more sophisticated...

The presence of Lebanese banks in Iraq currently counts 8 banks... With regard to the fight against money laundering, our banks attach the due importance to this matter. They ensure further information relating to their clients and do not rely only on the specialized office within the Central Bank of Iraq, but also through the international lists...

Three associations of banks namely the Association of Banks in Lebanon, the Association of Banks in Cyprus and the Association of International Banks took the initiative of organizing the first Cypriot-Lebanese banking day in Limassol (Cyprus) on February 14<sup>th</sup>, with the participation of the monetary and supervisory authorities of both countries. Also, more than 70 participants, including 32 Lebanese bankers and officials flew to Limassol, especially for this purpose...

The cooperation with Interpol provides additional protection to the performance and activities of our banks on both domestic and foreign markets. The expansion in Iraq through the global banking activity, with



what such activity represents in terms of banking operations, technical skills and management, opens promising prospects in the future. This stems from the Iraqi market that could be one of the largest emerging markets for decades to come. The business relations and trust that have bounded the two nations goes back to several decades. It is our duty to seriously strengthen and preserve mutual interests of both parties.

As for Cyprus, the island is one of the gates of Europe and of some countries in the region..." The monthly Editorial is available here: [www.abl.org.lb/ar/subpage.aspx?pageid=1905](http://www.abl.org.lb/ar/subpage.aspx?pageid=1905)