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Introducing the new "Sanctions & embargoes Program" to banks

On Thursday the 29th of January 2015, the AML Committee of the Association of Banks ("ABL") held a meeting at the ABL's premises in Beirut, to brief compliance/AML officers on the new manual prepared by Deloitte with the collaboration of the ABL, namely "Sanctions & Embargoes Program" ("the Manual").

The purpose of the Manual - that is addressed to all banks of different sizes operating in Lebanon - is to strengthen awareness around the risk associated with the sanctions and understand what transactions are prohibited subject to the restrictions imposed by the Central Bank of Lebanon, the Office of Foreign Assets Control, US department of the treasury, European Union, and United Nations.

The head of committee insisted on the fact that the content of the Manual should not be adopted verbatim by the banks, who must consider tailoring specific sections of it as deemed necessary. Therefore, the manual shall be amended to be in proportion with the organizational structure, size and complexity of offered products/services of the bank. In other words, each bank shall utilize the Manual as a cornerstone to prepare its own policies and procedures, taking into consideration that it must be implemented in conjunction with such bank's AML policies & procedures.

During and after the briefing, compliance and AML officers addressed their questions to the head of committee and to the representative of Deloitte who responded assuredly to the issues raised.

The Future of Swiss Banking

A leading Swiss banker told his Lebanese counterparts that the era of banking secrecy in the world is coming to an end, suggesting that the lenders have to prepare their clients for this inevitable outcome.

"The banks that attract tax evaders can no longer continue in this pattern because the era of banking secrecy is over and transparency era has begun," Jacque de Saussure, the chairman of Bank of Pictet & Cie, told a group of Lebanese bankers during a lecture on the Future of Swiss Banking at the Association of Banks in Lebanon on Friday March 20.

After giving a brief history of Swiss banks and banking secrecy in his country, de Saussure said Swiss banks have benefitted from the flow of funds and the relative ease to open accounts offshore. But de Saussure noted that the U.S. authorities became more alert following the Swiss bank UBS scandal in 2009. "Following this scandal, the U.S. authorities issued a tax legislation better known as FATCA. Most countries around the world are expected to make similar moves, especially the European Union and Australia," he added.

De Saussure stressed that the fight against tax evasion is as serious as the fight against money laundering. He called on the Lebanese bankers to benefit from the Swiss experience.

Fitch hails robust banking sector but remain cautious about high public debt, security risks

The well-managed banking system, a credible exchange rate policy, as well as high levels of human development and GDP per capita are among the major factors which induced international rating agency Fitch to maintain Lebanon's long-term foreign and local currency Issuer Default Ratings (IDR) and short-term foreign currency IDR at 'B'.

But the agency noted the high public debt and the spillover of the Syrian conflict on Lebanon are among the main reason which prompted Fitch to have a negative outlook of Lebanon.

Fitch showed deep concern about the rising tension along the Lebanese-Syrian border and the recurrent clashes with the armed elements that infiltrate the borders occasionally.

The political deadlock and the failure to elect a president of the republic have also contributed to the negative outlook of the country.

The agency saw significant improvement in Lebanon's growth prospects which is contingent on the resolution of the Syrian conflict.

It expected real GDP growth to improve slightly from 1.5 percent in 2013 to 1.8 percent in 2014 due to a temporary pick-up in economic performance in the second quarter of the year, and the slight improvement in tourism and real estate activity.

It forecasted the fiscal deficit at about 9.3 percent of GDP in 2014, similar to the 2013 level, anticipating that the decline in global oil prices would reduce Treasury transfers to the state-owned and money-losing Electricité du Liban (EDL), which would keep the fiscal deficit at below 9 percent of GDP during the 2015-16 periods.

Moody's further downgrades Lebanon sovereign ratings on deteriorating public finance metrics

Rising public debt, and spillovers of the Syrian conflict on Lebanon's economy and fiscal performance have been sufficient reasons for Moody's Investors Service to downgrade Lebanon's government bond ratings to 'B2' from 'B1' and keep the outlook at 'negative'.

It said that the public debt level has been rising since 2011 and projected it at close to 140 percent of GDP in 2015, the third-highest level among rated sovereigns.

The agency also lowered the country's local-currency bond and deposit ceilings to 'Ba2' from 'Ba1' and its foreign currency deposit ceiling to 'B2' from 'B1'. It affirmed the short-term foreign currency deposit ceiling at 'NP' and the foreign currency bond ceiling at 'Ba3/NP'. Also, it downgraded Lebanon's Medium Term Note Program '(P)B2' from '(P)B1' and affirmed its short term rating at '(P)NP'.

Moody's was skeptical that Lebanon would be able to achieve a reasonable growth in 2015 due to the reasons mentioned in the report.

Although the agency said it was unlikely to upgrade the sovereign ratings over the medium term, Moody's nevertheless left a window hope when it assured that it would revise the outlook to 'stable' if the debt metrics stop deteriorating and if the risks of political spillovers from the Syrian conflict recede. It forecast Lebanon's real GDP growth to average 2.1 percent annually during the 2011-15 period compared to an average annual growth rate of 9.1 percent between 2008 and 2010.

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S&P: Lebanese banks are stable despite debt exposure

International rating agency Standard & Poor's said Lebanon's banking sector demonstrated its resilience in front of an adverse economic and political environment although challenges before this industry are quite enormous and especially its exposure to the public debt.

S&P classified the banking sector in Lebanon (B-/Stable/B) in group '8' under the Banking Industry Country Risk Assessment (BICRA) methodology.

This reflects an economic risk score of '9' and an industry risk score of '7'. The agency highlighted some of the strength of the Lebanese banking sector. It noted that regulation and supervision are adequate, helping banks to maintain much-needed confidence and sustain a large and resilient customer base.

Furthermore, S&P said the crowded but stable competitive landscape is largely concentrated on a dozen players.

It added that banks are able to absorb the high cost of risk in private-sector lending owing to the stable competitive landscape.
The agency noted that Lebanon's adequate banking supervision and favorable interest rates have been vital to sustaining depositors' confidence, its steady deposit flows, and the government's financing capabilities.

It added that the competitive landscape is crowded but largely concentrated around a stable set of a dozen players. But the agency warned that banks bear high exposure to the sovereign, which is the main risk factor for the domestic banking system.

It added that the economy is highly vulnerable to internal and external political risk, noting that the economy and banks' balance sheets are highly dollarized.

IMF: high bank deposits beefs up Central Bank's foreign currency reserves

Once again, the International Monetary Fund (IMF) stressed that Lebanese banks continued to attract customer deposits despite the gloomy political picture in the country.

It added that thanks to these mounting deposits, the Central Bank of Lebanon was able to beef up its foreign currency reserves to reach $39 billion at the end of November 2014.

But it warned that the banks' exposure to government and to the Central Bank has increased at the same time.

The IMF renewed calls on the authorities to implement a credible fiscal consolidation that would reduce the government's reliance on the Central Bank's financing, especially in terms of foreign currency financing.

It pointed out that the Central Bank has been proactively seeking to maintain financial stability and to stimulate economic activity through subsidized financial facilities, but it noted that the Bank's operations are taking a toll on its balance sheet.

This assessment came during a visit by the IMF delegation to Lebanon to examine closely all the measures adopted by the Finance Ministry and the Central Bank in terms of keeping the public debt at bay.

The IMF repeated its concern about the impact of the large number of Syrian refugees on the country's economy.

The Fund estimated real GDP growth in Lebanon at below 2 percent in 2014, a growth rate that it considered insufficient to reduce the rising levels of unemployment and poverty.

It warned that the prevailing political deadlock is disrupting policy-making and is preventing efforts to pass legislation. The IMF called for immediate, cohesive and non-partisan political action to secure Lebanon's economic future, and for urgent and targeted efforts to put economic activity on a sustainable path. It considered that waiting for a more favorable external and domestic political environment is not a viable strategy, as the costs of inaction are rising.

The fight against terrorism in Lebanon:

Urgent need for a better legal framework

By: Dr. Makram Sader

The Association of Banks in Lebanon renewed its full and dedicated commitment to all the anti-money laundering and terrorist funding laws and procedures.

In an article by Markam Sader, ABL Secretary General, the author called on Parliament to ratify three draft laws to combat money laundering that the Cabinet already approved three years ago.

It also called for approving Lebanon's adherence to the United Nations' 1999 International Convention for the Suppression of the Financing of Terrorism. ABL said the first draft law allows the introduction of amendments to anti-money laundering Law 318, the second draft law regulates the transfer of funds across borders and the third one is about the exchange of tax information. The association said the Parliament's approval of the three draft laws would strengthen the country's anti-money laundering framework.

ABL indicated that the requirements for Lebanon to join the United Nations' treaty are simple and consist of including the definition of terrorism in clauses 314, 315 and 316 of the Lebanese Penal Code.

It said Lebanon's banking secrecy does not contradict the U.N. convention due to the presence of the Special Investigation Commission against Money Laundering, which regulates the lifting of banking secrecy. Also, it noted that Lebanon ratified the Arab Convention on the Suppression of Terrorism in 1999 and signed several bilateral agreements to combat terrorism that are similar to the United Nations convention…

It added that 171 states, including 15 Arab countries, have already joined the U.N.'s 1999 International Convention for the suppression of the Financing of Terrorism….

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http://www.abl.org.lb/subPage.aspx?pageid=7163

BDL calls on banks to raise provisions on commercial and retail loans

The Lebanese Central Bank has requested banks and financial institutions to raise their provisions on commercial and retail loans as part of impairment test.

In an amended circular issued on Dec. 24, the Central Bank called on banks and financial institutions operating in Lebanon to regularly conduct impairment tests, based on international standards and Banking Control Commission directives.

The circular also required banks to use the results of the impairment tests to build collective provisions against their performing commercial loans portfolios. This measure is a stress test to assess the quality of assets and meet the requirements of Basel III, according to bankers.

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

They are exempt from building general reserves if their collective provisions exceed 0.25 percent of their loan portfolio by the end of 2014, 0.5 percent at the end of 2015, 1 percent at the end of 2016, and 1.5 percent at the end of 2017. Banks are allowed to include these reserves as part of their Tier One Capital, the core measure of a bank's financial strength for regulators.

Bankers agree that this measure is necessary although it will affect the profits in general on an accounting basis but these profits will be recuperated.

Lebanon successfully launches largest Eurobond issue in Lebanon's history

Lebanon successfully issued its largest-ever Eurobond of $2.2 billion to meet the state's short-term needs, but Parliament must approve further bond sales to cover all expenses for 2015, the Minister of Finance announced.

Finance Minister Ali Hassan Khalil said the Finance Ministry was seeking to tap the market for $4.4 billion in Eurobond sales to meet all its needs for 2015. The ministry has raised $2.2 billion but based on the authorization from Parliament, the treasury is entitled to issue $2.5 billion this year. The ministry said it has the authorization for an additional $300 million, but this amount is not sufficient to meet the full needs of the state, according to the minister said. The minister called on Parliament to approve the issuance of more bonds this year.

Khalil disclosed that the $2.2 billion sale, the largest foreign currency bond sale in Lebanon's history, was $4.9 billion or 233 percent oversubscribed. The issuance was divided into two categories: the first is for $800 million with a 10-year maturity period and 6.2 percent interest, and the second is for $1.4 billion with a 15-year maturity period and 6.65 percent interest. Originally, the Finance Ministry was aiming to raise $1 billion, but the interest shown by local and foreign investors was overwhelming, Khalil told reporters. Foreign investors snapped up 15 percent of the new issue and the rest went to local investors and bankers.

Lebanon has been tapping local and international markets since 1996 to finance the public debt and cover government expenditures.

Khalil said that despite its current political difficulties, Lebanon still earns the confidence and respect of the world and the best example of this trust is the foreign participation in the new Eurobond issue.

The public debt at the end of 2014 stood at $66.5 billion, 62 percent of which is in Lebanese denominated currency and 38 percent in foreign denominated currency. The public debt in 2014 rose by 5 percent compared to a 10 percent increase in 2013, and this is a good indicator which we need to take into consideration, Khalil said.

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