



مصرف لبنان
BANQUE DU LIBAN

Lebanon's Banking Sector: A Guide

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Why Lebanon? (1)

- **There are at least 10 reasons to invest in Lebanon:**
 1. Strategic Location
 2. Market-oriented economy
 3. Liberal financial environment
 4. Banking Secrecy
 5. Favorable taxation & fiscal incentives

Why Lebanon? (2)

6. Non-discriminatory legal framework
7. Highly qualified and competent Human Capital
8. Low labor cost
9. Strong international network
10. High tech infrastructure for services

All these factors provide investors with the best environment for their businesses to flourish

Lebanese Banking Sector

Lebanon is reputed to be the leading banking and business center of the MENA region due to its:

- Advanced and well structured banking legal framework
- Financially sound and stable banking industry
- Secure financial environment
- Banking Secrecy Law
- Corporate governance infrastructure

The Role of BDL in Promoting and Safeguarding the Lebanese Currency and the Banking Sector

The central bank is mainly concerned with the safeguard of the currency as a fundamental guarantee for a sustained social and economic growth. Its basic functions include:

- Safeguarding a sound Lebanese currency
- Safeguarding economic stability
- Developing the monetary and financial markets
- Safeguarding the basic structure and the soundness of the banking system by safeguarding deposits and preventing defaulting banks from falling down.

Banque du Liban (BDL) encourages competition in the banking sector

Table: Total Number of Banks in Lebanon

| | 1998 | 2001 | 2002 | 2008 | 2009 | 2010 | 2011 |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Commercial Banks | 70 | 60 | 53 | 48 | 49 | 49 | 49 |
| <i>o/w Foreign Banks</i> | <i>16</i> | <i>14</i> | <i>11</i> | <i>8</i> | <i>9</i> | <i>10</i> | <i>11</i> |
| Islamic Banks | 0 | 0 | 0 | 4 | 4 | 5 | 5 |
| <i>o/w Foreign Banks</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>0</i> | <i>1</i> | <i>1</i> |
| Investment Banks | 9 | 8 | 8 | 12 | 12 | 13 | 15 |
| Total Number of Banks in Lebanon | 79 | 68 | 61 | 64 | 65 | 67 | 69 |

Market Access to Foreign Banks

- The Lebanese Banking Sector is open to foreigners, irrespective of whether authorities in the foreign country allow the establishment of Lebanese banks or not. Thus, Lebanon, does not apply any reciprocity treatment (since 1991)

- A foreign bank can have a presence in Lebanon under one of two forms:
 - 1- Affiliated bank; Lebanese bank under a joint-stock company form with foreign ownership of shares. The majority of the board members must be of Lebanese nationality, but the chairman can be non-Lebanese.
 - 2- Branch: Branch of a foreign bank which is subject to the same regulations imposed on a Lebanese bank.

What are the procedures for opening a Foreign Commercial Bank Branch? (1)

The establishment procedures of a foreign bank's new branch in Lebanon are simple and not complicated, they include the following:

a) License Application

The establishment procedures are initiated by an application submitted by the concerned and delegated authorities from the administration of the foreign bank to the chairman of the Central Council (Governor), requesting a license for opening a branch in Lebanon that will engage in public banking activities according to the provisions of article 121 of Code of money and credit

What are the procedures for opening a new branch? (2)

- b) Documents to be enclosed with the license application
Some documents including foreign bank's bylaws, and its registration certificate in the home country should be submitted, in triplicate, along with the license application, duly certified by the Lebanese embassy in the country of the foreign bank and by the Lebanese ministry of foreign affairs

- c) Approval of the Central Council of the BDL

What are the procedures for opening a new branch? (3)

- d) Payment of the capital of 10bn L.L (around 6.6 million US \$)
- e) Registration at the Ministry of Economy and Trade
- f) Registration at the commercial Registry
- g) Registration on the List of Banks

What are the Commitments Subsequent to the opening of the Foreign Bank Branch?

The person in charge of managing the branch should:

- Register each amendment to the bank's bylaws, at the Ministry of Economy and Trade, the office of Commercial Registry in Beirut, and the Banque du Liban.
- Submit to the Banque du Liban documents that prove registration of this amendment.
- Submit to the Banque du Liban quarterly and annual reports and any special reports issued by the head office of the foreign bank.

What are the prohibitions imposed on the foreign bank's branch?

The foreign bank branch is prohibited from:

- Carrying out industrial or commercial activities or any activity other than banking.
- Participating, in any form, in industrial, commercial, or agricultural institutions or any other institution except within the limits of its private funds.
- Carrying out, on its behalf, any operation on derivatives.
- Reducing the capital assigned for its investment, or buying back any part of it.

Free Acquisition and Trade in Bank Shares in Lebanon

Law No. 308 of April 2001, on Issuing and Trading Bank Shares, does not discriminate between Lebanese and foreigners with respect to the acquisition and trading of bank shares.

No pre-approval is required for the subscription or trading in shares, except in the following cases:

- When the subscriber acquires directly or through a fiduciary contract 5% of the total shares of the bank or of voting rights, whichever is higher.
- When the transferor or transferee is a member or member-elect of the Board, no matter what is the number of transferred shares

Opening of Foreign Banks' Representative Offices in Lebanon (1)

1- Authorized activities

The activities of a foreign bank's representative office in Lebanon consist of:

- Establishing public relations and contacts with other banks, financial institutions, companies, organizations, public and private institutions, with a view to collect all kinds of information that may be useful to the bank's head office.
- Undertaking general studies on Lebanon and investors

Opening of Foreign Banks' Representative Offices in Lebanon (2)

2- Prohibited activities

The representative office is strictly prohibited from:

1. Dealing with individuals
2. Carrying out banking or commercial operations, particularly opening credit lines, granting credits, receiving deposits in the name or on behalf of the bank, discounting bills of exchange, drafts, withdrawals, or any other debt instrument.
3. Accepting and signing agreements and commitments on behalf of the bank or a bank's subsidiary company.

Success of the Lebanese Financial and Banking Sector (1)

The Lebanese banking sector has shown continuous success. The conservative regulation and prudent supervision by the BDL over the last eighteen years largely insulated the Lebanese Banking System from the effects of various crisis including the global financial crisis. Some of the important policies and measures taken by BDL during the last eighteen years include:

- Continuous commitment to the stability of the Lebanese Pound's exchange rate against the U.S. dollar that played a pivotal role in maintaining financial and price stability. This stability is crucial for maintaining confidence, achieving economic growth and social stability.

Success of the Lebanese Financial and Banking Sector (2)

- Regulating structured products and derivatives, and forbidding the acquisition of subprime mortgage debt.
- Tackling the problem of non-performing loans and helping weak banks merging with bigger ones, thus refusing any act that might cause bankruptcies or losses to depositors.
- Maintaining high liquidity levels (Currently around 30%). Recently in 2008, the BDL set tight ceilings on loans for real estate projects in order to prevent real estate bubble.

Success of the Lebanese Banking Sector (3)

- Establishing a reliable banking system that strictly abides by international banking and accounting standards, particularly in terms of capital adequacy, good governance, transparency, and the fighting money laundering and countering financing of terrorism .
- Preventing the bankruptcy of any bank even though it might be an easy solution, since not only the bank's shareholders would be affected, but also its depositors and agents and the banking system as a whole which will suffer a lack of confidence.
- The firm conviction that protecting the economy and the market requires a continuous attention and care from the State and the regulatory and supervisory bodies, since talking of a free market economy without any regulations or supervision leads to chaos.

Success of the Lebanese Banking Sector (3)

- Believing in the independence of banking and financial supervisory and regulatory bodies, as expressly stipulated in the rationale of the Code of Money and Credit.
- Banque du Liban has recently issued new circulars aiming at encouraging lending in Lebanese pounds at a lower cost, by setting new exemptions from obligatory reserves, in order to finance housing loans, student loans, and finance environmentally friendly projects or any new investment project.

Success of the Lebanese Banking Sector (4)

The good performance of the Lebanese banking sector in 2011 can be shown by looking at facts and numbers:

- Bank deposits registered an annual growth of more than 7%, thus exceeding 122 billion dollars at end- 2011, around three times of Lebanon's GDP .
- The dollarization rate of bank deposits declined from 77.34% at early 2008 to around 65% at the end of 2011, due to significant conversions from the dollar into the Lebanese pound.
- The banking sector continued to provide credit services, unlike the contraction tendency that prevailed in numerous banking institutions in most countries. In fact, bank credits to the private sector in Lebanon rose to USD 40.5 billion at end-December 2011, growing by more than 13% since the beginning of the year.

Success of the Lebanese Banking Sector (5)

- Foreign-currency liquid assets of the Banque du Liban, (excluding gold whose value exceeded 16 billion US dollar) rose to USD 32 billion by end-February 2012, a record level sufficient to cover imports for a period of more than 19 months.
- Capital adequacy has reached 7% among Lebanese banks and this is the ceiling required by international standards (Basle III). As a further prudential measure, BDL is attempting to increase this ratio to 12% by the year 2015.
- The growing confidence in the local currency generated persistent conversions from the dollar into the pound, thus boosting the BDL foreign assets to a new historical high.

Thank You