FFA Private Bank: Best banking practices are the key for restoring trust in the Lebanese banking sector

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Since the revolution in October 2019, the Lebanese have started to lose trust in banks, due, among other reasons, to the banking crisis burdened by a shortage of foreign currency and the unilateral imposition by Lebanese banks of capital controls, thus blocking access to accounts and information. Aware of its responsibility towards its loyal clients, FFA Private Bank has been for years applying best banking practices and most importantly transparency, in particular with regards to Basel III requirements.

In fact, the banking sector crisis in Lebanon, although masked by the financial engineering operations carried out by the central bank, had started much earlier. Despite the colossal profits announced by Lebanese banks until last year, a reversal of financial flows had been observed as early as January 2019.

In August 2020, the Central Bank issued the circular 154 to reactivate the work of banks operating in Lebanon. These exceptional measures aiming at "restoring confidence in the banking sector" consist of reconfiguring the banks account abroad with correspondent banks provided such account represents not less than 3% of the total of deposits in dollars.

The Governor of Lebanon's central bank Riad Salameh justifies this step as "the only solution to restore people's confidence in the banking sector since providing people with a guarantee that they can get dollars whenever they request it."

The 3% liquidity that banks are required to pump abroad (which is estimated at about $ 3.4 billion for all banks combined), will form the basis for the new circular, because the funds collected from the market and sent abroad will be used to cover deposit accounts in US dollars.

However, should a bank choose to keep the money inside Lebanon, "it will either have to buy dollars from the market to build up reserves in exchange for the deposit abroad, thus adding more losses to its budget with the expected disastrous consequences.

Many analysts see this new measure as a translation of the "new economy", which paves the way to the "post-fresh" stage, and most importantly, prevents banks from disposing of depositors' money.

Circular 154 follows Basel III requirements as of 2020, regarding a bank's tier 1 and tier 2 minimum capital adequacy ratio (including the capital conservation buffer) that must be at least 10.5% of its risk-weighted assets. The Circular 154 requires banks to make a fair assessment of their assets and present to the central bank a 5 years plan to reconstitute their capital as needed. In order to be able to continue operating in the international financial system, and if only to preserve their relations with correspondent banks, Lebanese banks must continue to respect the Basel III capital adequacy ratio. Because otherwise, the correspondent banks will simply stop doing business with them.

Some financiers in the private sector, especially ethical banks, developed disclosure policies. Since its inception in 2007, FFA Private Bank Group has made it a high priority to commit to transparency and best banking practices, earning over the years clients' utter trust. Operating from its headquarters in Beirut and in Dubai (DIFC) FFA Private Bank Group is one of the region's leading specialized banks.

By being intermediaries between investors and borrowers of money, FFA Private Bank believes that banks must show accountability more than any other institutions. In this perspective, FFA Private Bank Group shares a certain level of responsibility for the impacts of its operations within the financial market, as it carries responsibility for the economic and social outcomes that result from banking activities.

Having the highest capital adequacy ratio and liquidity within the Lebanese banking sector, not only does FFA Private Bank comply with both BDL Circular 154 and Basel III regulatory requirements, but the Group has proudly announced lately having exceeded the required CAR, witnessing since 31/12/2018 a 40% increase in its regulatory capital.

Indeed, the bank's Capital Adequacy Ratio has reached 61% while the required CAR is at 10.5%. On the other hand, its external liquidity ratio has reached 160% while the required is 3%.

FFA Private Bank also confirmed submitting its 5 years Strategy Plan to both the Governor of the Central Bank of Lebanon and the Banking Control Commission (BCC) within the respective deadlines. The plan demonstrates clearly that no capital increase is needed even when worst case stress tests scenarios are taken into consideration.

True to its commitment to best banking practices, FFA Private Bank firmly believes that banks need to be as transparent as possible with regard to the clients, companies, projects and countries, since financial institutions play a key role in facilitating business activities in all other economic sectors. Moreover, the bank stresses that transparency can also serve the bank's interests by ensuring that any raised concerns may be resolved before they become conflicts, threatening the viability of banks activities, hence weakening clients' trust in the banking sector.

Despite the fact that the vast majority of its revenues are generated from its international activities, FFA Private Bank Group keeps faith in the future of Lebanon and believes that the coming years will witness a change in the country's management and governance and therefore is committed to continue being an intrinsic part of the emergence of the new Lebanon.