

BANQUE DU LIBAN

Basic Circular No 95 addressed to Banks

Attached is a copy of Basic Decision No 8829 of August 26, 2004 relating to the conditions for the establishment of Islamic banks in Lebanon.

Beirut, August 26, 2004

The Governor of the Banque du Liban

Riad Toufic Salamé

BANQUE DU LIBAN

Basic Decision No. 8829 Conditions for the Establishment of Islamic Banks in Lebanon

The Governor of the Banque du Liban,

Pursuant to the Code of Money and Credit,

Pursuant to Law No 575 of February 11, 2004 relating to the Establishment of Islamic Banks in Lebanon, notably the provisions of Article 2 thereof, and,

Pursuant to the Decision of the Banque du Liban Central Council taken in its meeting of August 25, 2004,

Decides the following:

Article 1:

Islamic banking activities in Lebanon are prohibited unless carried out by the following institutions:

- The Islamic banks established in Lebanon.
- The branches of foreign Islamic banks.

Article 2:

- a- Banks operating in Lebanon or foreign banks, Islamic or proficient in Islamic banking operations, must be among the founders of any Islamic bank in Lebanon.
- b- At least one third of a Lebanese Islamic bank's total shares must, at all times, be held by banks from the categories specified in Paragraph (a) of this Article.

Article 3:

The minimum capital of Islamic banks in Lebanon or the minimum capital which must be appropriated to branches of foreign Islamic banks licensed to operate in Lebanon is set at LBP 150,000, 000, 000 (one hundred and fifty billion Lebanese pounds), to be fully paid up in cash at the Banque du Liban.

Before the start of operations, a proportion of this capital, set by the Central Council, shall be put in escrow at the Lebanese Treasury in the name of the concerned bank, and shall be refunded to the said bank with no interest in case of liquidation of its activities.

In justified exceptional cases, notably when the license-requesting banks enjoy high professional standards, the Central Council may, in accordance with conditions it specifies, decide:

- 1- To grant the Lebanese Islamic bank or the foreign Islamic bank's branch a specified time-limit for increasing its capital to the above-mentioned minimum; or
- 2- To approve a minimum capital of thirty billion Lebanese pounds, in case the following conditions are cumulatively met:
 - a- The shareholders' equity does not fall, at any time, under LBP 150 billion for:
 - The banks contributing to the capital of the Lebanese Islamic bank and which are mentioned in Article 2, Paragraph (a) of this Decision.
 - The foreign Islamic bank licensed to open a branch in Lebanon.
 - b- Each of the banks specified in Article 2, Paragraph (a) of this Decision or the foreign Islamic bank licensed to open a branch in Lebanon expressly undertakes, jointly and severally, and in accordance with the provisions of Article 134 of the Code of Money and Credit, to reconstitute the capital of the Lebanese Islamic bank, or that appropriated to the foreign Islamic bank's branch in Lebanon, in case such capital incurs losses.

Article 4 :

The license application for establishing a Lebanese Islamic bank must be submitted to the Banque du Liban, signed by the founders, together with an original and three copies of each of the documents specified in Article 2 of Basic Decision No 7739 of December 21, 2000 relating to the Conditions of Establishment of Banks In Lebanon.

The By-laws of Lebanese Islamic banks must include a special section on the Shari'a Consultative Body, detailing the provisions that govern the appointment of its members, its relationship with the bank itself and its prerogatives, including the provisions related to Shari'a-based internal control. Such provisions should clearly show the compliance of the bank, in all its transactions and operations, with the Shari'a provisions and principles that are consistent with the enacted laws not in conflict with the provisions of Law No 575 of February 11, 2004, relating to the Establishment of Islamic Banks and with the regulations issued by the Banque du Liban for the implementation of this law.

Article 5:

The license application for the establishment of a branch of a foreign Islamic bank must be submitted to the Banque du Liban, signed by the administration of the concerned foreign Islamic bank, together with an original and three copies of each of the documents specified in Article 3 of the above-mentioned Basic Decision No 7739 of December 21, 2000, in addition to an undertaking issued by the Board of the foreign Islamic bank or its Manager in Lebanon acknowledging the commitment of the said branch to implement the provisions of Article 4, Paragraph 2, of this Decision.

Article 6:

The Banque du Liban Central Council grants the license for the establishment of the bank to the extent it deems it serving the public interest and after checking that all the legal and regulatory requirements stipulated in Article 4 of the above-mentioned Basic Decision No 7739 are met.

Article 7:

The Lebanese Islamic bank or the branch of a foreign Islamic bank licensed by the Banque du Liban Central Council must complete its establishment formalities within a maximum six- month period from the license notification date under penalty of license cancellation.

Article 8:

In addition to the provisions of this Decision, Islamic banks are governed, unless otherwise provided for, by all legal and regulatory provisions concerning non-Islamic banks.

Article 9:

This Decision shall be published in the Official Gazette and shall enter into force upon its issuance.

Beirut, August 26, 2004

The Governor of the Banque du Liban

Riad Toufic Salamé