

BANQUE DU LIBAN

Basic Circular No. 99 addressed to Banks

Attached is a copy of Basic Decision N° 9042 of June 1, 2005 relating to the Ijara Tachghilia and the Ijara Mountahia bil Tamalouk operations carried out by Islamic banks.

Beirut, June 1, 2005

The Governor of the Banque du Liban

Riad Toufic Salamé

Banque du Liban**Basic Decision No. 9042**

The Ijara Tachghilia and the Ijara Mountahia bil Tamalouk operations carried out by Islamic banks

The Governor of the Banque du Liban,

**Pursuant to Law N° 575 of February 11, 2004, relating to the establishment of Islamic Banks in Lebanon, notably Article 4 thereof; and
Pursuant to the Decision of the Central Council of the Banque du Liban taken in its meeting of May 31, 2005,**

Decides the following:

Article 1:

The Ijara Tachghilia and the Ijara Mountahia bil Tamalouk operations carried out by Islamic banks shall be governed by the provisions of this Decision.

Article 2:

The lease is an Ijara Tachghilia when it does not end with the acquisition of the leased assets by the lessee. The lease is an Ijara Mountahia bil Tamalouk when it provides for the lessee's option to acquire the leased asset.

Article 3:

The following leasing operations shall not be governed by the provisions of this Decision:

- 1- Leasing contracts regarding exploration rights and the use of natural resources, such as oil, gas, wood forests, minerals and the like.
- 2- Licensing contracts for the exploitation of intangible movable assets such as patents, copyrights, etc....
- 3- Employment and professional services contracts.

Article 4 :

The lease agreement signed by the bank in its capacity of lessor, must at least expressly and accurately include the following elements:

- The type of lease (Ijara Tachghilia or Ijara Mountahia bil Tamalouk).
- The leased asset and its modality of use.
- The lessee's option to acquire the leased asset in case of an Ijara Mountahia Bil Tamalouk.
- The rent and its payment modalities.
- The lease duration.
- The maintenance expenses.
- The guarantees required from the lessee and their recovery modalities.
- The events of rescission, termination and renewal of the lease.
- The mandatory insurance on the leased asset to be made to the benefit of the bank.

Article 5:

The Islamic banks must liquidate their owned-for-lease assets that have not been leased within six months from their acquisition date. They must also lease again or liquidate the assets covered by both types of lease operations, either within six months from the contract term date in the event the lessee did not opt for their acquisition, or from the date the contract is terminated before its term for any reason. In the event the Islamic bank is unable to comply with the above-mentioned time-limits for reasons beyond its control it must refer to the Banque du Liban.

Article 6:

The Islamic banks are prohibited from carrying out both types of lease operations and act as a lessor of real estate properties before obtaining the Banque du Liban prior approval. This approval is contingent upon the concerned bank's compliance with the laws and regulations in force, notably as to its compliance with the mandatory ratios on its investments in fixed assets.

Article 7:

This Decision shall be effective upon its issuance.

Article 8:

This Decision shall be published in the Official Gazette.

Beirut, June 1, 2005

The Governor of the Banque du Liban

Riad Toufic Salamé