

BANQUE DU LIBAN

Basic Circular No 104 to Banks

Attached is a copy of Basic Decision No 9302 of April 1, 2006, on Implementing the Basel II Capital Adequacy Accord.

Beirut, April 1, 2006

The Governor of the Banque du Liban

Riad Toufic Salamé

Basic Decision No 9302

Implementing the Basel II Capital Adequacy Accord

The Governor of the Banque du Liban,

Pursuant to the Code of Money and Credit, particularly Articles 70 and 174 thereof, and

Pursuant to the Decision of the Central Council of the Banque du Liban, taken in its meeting of March 30, 2006,

Decides the following:

Article 1:

For the purpose of implementing the provisions of this Decision, the following expressions shall mean:

Basel II Accord: The new international capital adequacy accord.

Affiliated Lebanese

Banks abroad: Lebanese banks whose majority of shares is held by a banking or financial group registered abroad.

Article 2:

All banks operating in Lebanon must implement the Basel II Accord in a diligent and progressive manner, in order to compute the solvency ratio, as of January 1, 2008, on an individual or consolidated basis, where applicable, in accordance with the provisions of this Decision and those to be subsequently issued.

Article 3:

Lebanese banks must:

- 1- Implement the Standardized Approach to compute credit risks.
- 2- Implement the Basic Indicator Approach to compute operational risks.

- 3- ¹- Start to compute market risks, as of August 31, 2007, and include in the solvency ratio computation, as of January 1, 2008, capital requirements to cover market risks.
- 4- Obtain the approval of the Banque du Liban for switching from the implementation of both afore-mentioned approaches to that of more advanced approaches, once the Banking Control Commission has ascertained the capacity of the concerned bank in this respect.
- 5- Prepare, in order to execute the foregoing, a plan of action to be discussed with and approved by the Banking Control Commission. The said Commission shall follow up the execution of the plan with the administration of the concerned banks, and shall ask them to take the required measures, when needed.
- 6- Implement the directives specified in Pillar 3 of the Basel II Accord, concerning banks' compliance with rules of transparency and market discipline.

Article 4:

Lebanese banks affiliated to a banking or financial group registered in countries that implement the Basel II Accord may adopt the approaches followed by their parent companies in computing the solvency ratio, in addition to the regulatory approaches applied in Lebanon if these are different from the ones implemented by the group, provided the Banking Control Commission verifies the approaches adopted and their suitability to the situation of the concerned banks.

Article 5:

Lebanese branches of foreign banks registered in countries that implement the Basel II Accord must submit to the Banking Control Commission the annual reports issued by their foreign head office on capital adequacy, regardless of the approaches applied by the head office to the said branches in Lebanon.

Article 6:

Affiliated Lebanese banks abroad and Lebanese branches of foreign banks must comply with the provisions of Article 3 of this Decision, **in case they are affiliated to institutions registered in countries that do not implement the Basel II Accord.**

¹- This Paragraph was amended pursuant to Article 1 of Intermediate Decision No 9707 of September 24, 2007 (Intermediate Circular No 146).

Article 7:

Bank operating in Lebanon must appoint a Basel II Project Manager, who should preferably be an expert in risk management. They must also notify the Banking Control Commission, by April 30, 2006, about the name, telephone number and electronic mail of the said manager.

Article 8:

The Banking Control Commission shall issue the circulars concerning the implementation of this Decision.

Article 9:

This Decision shall enter into force upon its issuance.

Article 10:

This Decision shall be published in the Official Gazette.

Beirut, April 1, 2006

The Governor of the Banque du Liban

Riad Toufic Salamé