

BANQUE DU LIBAN

Basic circular No 110 to Banks

Attached is a copy of Basic Decision No 9671 of August 16, 2007 on the relationship between Lebanese banks and financial institutions and their affiliates abroad.

Beirut, August 16, 2007

The Governor of the Banque du Liban

Riad Toufic Salameh

BANQUE DU LIBAN

Basic Decision No. 9671

**Relationship between Lebanese banks and financial institutions
and their affiliates abroad**

The Governor of the Banque du Liban,

**Pursuant to the Code of Money and Credit, particularly Articles 174 and 182 thereof,
and**

**Pursuant to the Decision of the Central Council of the Banque du Liban taken in its
meeting of August 14, 2007,**

Decides the following:

Article 1:

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

Parent companies: Lebanese banks or financial institutions having affiliates abroad.

Affiliates: The branches abroad, or the affiliated banks or financial institutions abroad, in which the parent company holds, directly or indirectly, a minimum of 40% of the voting rights, or whose management is effectively controlled by the parent company, regardless of the latter's stake.

Article 2:

I- Parent companies must receive from their affiliates abroad:

- 1- An annual business plan.
- 2- A quarterly report (business letter) that details the performance of the affiliates abroad, as compared with their established business plan and incurred risks.
- 3- The monthly financial statements (the balance sheet and the profit and loss account) required by the host country, or, in case these are not available, monthly financial statements to be prepared according to Lebanese regulations in force, including those governing Islamic banks.
- 4- The auditors' reports.
- 5- The reports of the control authorities in the host country and the responses of the concerned affiliates to these reports, with due regard to the regulations in force in the host country.
- 6- The internal audit reports.

II- Parent companies must provide:

- 1- The Money Services Businesses Department and the Statistics and Economics Research Department at the Banque du Liban with a copy of the documents mentioned in Paragraph I, Sub-Paragraph 3, of this Article.
- 2- The Banking Control Commission:
 - a- With a copy of the financial statements and reports specified in paragraph I, sub-paragraphs 3 and 4 of this Article.
 - b- With a copy of the documents specified in paragraph I, sub-paragraph 5 of this Article, with due regard to the regulations in force in the host country.

Article 3:

For following up their affiliates abroad, parent companies must set up a commission including senior executives from the bank, experts in risk management and, when needed, an expert in Islamic banking.

This commission shall convene periodically and undertake, for indicative purposes but not restrictively, the following tasks:

- 1- To examine the reports, financial statements and documents submitted by the affiliates, and to express opinions about them.
- 2- To ask for clarifications or any additional information.
- 3- To require from affiliates the taking of remedial measures, and to verify the implementation of these measures.
- 4- To propose, when needed, the sending of a team to affiliates for the purpose of on-site discussion and assessment of their strategy, performance, results and risks.
- 5- To provide the parent company's Board with summaries of its meetings' minutes, and with the quarterly report (business letter) submitted by each affiliate.

Article 4:

Parent companies must ascertain that:

- 1- Regulations are appropriate and implemented by the management of each affiliate, notably those concerning internal surveillance, risk management, internal control, information technology safety, and the fighting of money laundering.
- 2- Affiliates' human resources are appropriate, qualified and properly trained to apply the said regulations.
- 3- The scientific, technical and ethical qualifications of the affiliates' staff are identical to those required by Basic Decision No 9286 of March 9, 2006 for the performance of certain functions in the banking and financial sectors.

Article 5:

The parent company must send to its affiliates abroad, each year, an internal audit team for controlling their activities and preparing reports concerning their situations. These reports must be submitted to an audit commission to be established by the Board of the parent company, with members selected from the said Board. In case such a commission does not exist, the reports must be submitted to the parent company's Board.

Article 6:

Banks and financial institutions must comply:

- 1- With the provisions of Article 5 of this Decision by December 31, 2007.
- 2- With the provisions of Articles 2, 3 and 4 of this Decision by March 31, 2008.

The financial statements, reports and documents mentioned in Article 2, paragraph I, subparagraphs 3, 4, 5 and 6 shall be submitted for the first time regarding the accounts closed on December 31, 2007.

Article 7:

The Banking Control Commission shall issue the implementation regulations governing the provisions of this Decision and ascertain their proper application.

Article 8:

This Decision shall enter into force upon its issuance.

Article 9:

This decision shall be published in the Official Gazette.

Beirut, August 16, 2007

The Governor of the Banque du Liban

Riad Toufic Salameh