

BANQUE DU LIBAN

Basic Circular No 112 to Banks

Attached is a copy of Basic Decision No. 9725 of September 27, 2007, on corporate governance in Islamic banks.

Beirut, September 27, 2007

The Governor of the Banque du Liban

Riad Toufic Salamé

BANQUE DU LIBAN**Basic Decision No 9725****Corporate Governance in Islamic Banks**

The Governor of the Banque du Liban,

**Pursuant to the Code of Money and Credit, particularly Articles 70 and 147,
Pursuant to Law No 575 of February 11, 2004 on the Establishment of Islamic Banks in
Lebanon, particularly Article 4;
Pursuant to the Decision of the Central Council of the Banque du Liban, taken in its
meeting of September 26, 2007,**

Decides the following:

Article 1:

Islamic banks shall set the necessary internal frameworks and regulations concerning corporate governance, in conformity with agreed international rules and recommendations that are not inconsistent with Lebanese laws and rules in force, particularly with Basic Decision No 9382 of July 26, 2006 on corporate governance in banks.

Article 2:

Each Islamic bank shall establish a special unit called “**Corporate Governance Unit**” that is independent from the bank’s operational management and has no executive power, with the purpose of overseeing the implementation and development of internal rules on corporate governance. This Unit shall include at least:

- A member from the bank’s Board who has no executive functions, or more than one member.
- A member of the Consultative Body established at the Islamic bank, according to Article 9 of Law 575 of February 11, 2004, or more than one.
- The Chief of the Internal Auditing Unit, stipulated in Basic Decision No 7737 of December 15, 2000, on Internal Control of Banks.
- The Chief of the “Sharia Auditing Unit”, specified in Article 9 of this Decision.

Article 3:

The Corporate Governance Unit shall:

- Supervise, coordinate and develop the necessary internal regulations concerning corporate governance, and monitor their implementation by the various departments of the bank and by the Consultative Body.
- Protect the interests of the bank's customers, by submitting proposals to its Executive Management on the issuing of internal instructions and guidelines concerning all aspects of the relationships between the bank and its customers, including disclosure, transparency and profit distribution.
- Submit to the Board of Directors every six months, or when necessary, reports and recommendations, based on the results of its work.

Article 4:

The Board of Directors of the Islamic bank shall:

- Appoint the Chief of the Corporate Governance Unit, determine his remuneration, and inform the Banking Control Commission about his name, and about any change in the future.
- Hold a meeting, at least once a year, or when necessary, for discussing the reports and/or recommendations of the Corporate Governance Unit.

Article 5:

With due regard to legal and regulatory texts on transparency and disclosure, particularly those related to all kinds of deposits received by the bank, Islamic banks must abide by disclosure requirements, as specified in the attached Form.

Article 6:

Islamic banks must adopt a sound investment strategy, taking into account investment risks, the risks accepted by the customer and the expected returns, in addition to distinguishing between the two types of investment accounts (unrestricted and restricted).

Article 7:

The General Management of the Islamic bank is responsible for verifying that the bank is operating in accordance with the provisions and principles of Islamic Law (Sharia). Consequently, the Consultative Body is only responsible for delivering independent opinions about compliance with the Sharia.

Article 8:

Islamic banks must:

- 1- Prepare a summary report of the opinions delivered by the Consultative Body, for submission to the shareholders who participate in the annual meeting of the General Assembly and for allowing all shareholders to take cognizance of the unabridged texts of the various opinions and reports prepared by the Consultative Body.
- 2- Publish annually in a daily newspaper, a summary of opinions and reports prepared by the Consultative Body, with a clear indication that the unabridged texts of these opinions and reports shall be, upon their publication, available to the public on the bank's website.

Article 9:

Each Islamic bank must create an independent administrative unit called "Sharia Auditing Unit" whose function is to verify, evaluate and monitor the compliance of its banking operations with the opinions of the Consultative Body.

The Board of Directors shall appoint the Chief of the Sharia Auditing Unit, determine his remuneration, and inform the Banking Control Commission about his name, and about any change in the future, provided this Chief is not a member of the Consultative Body.

This Unit shall submit, every three months, or when necessary, a report to the Board of Directors and to the Consultative Body established at the bank.

Article 10:

Islamic banks are governed by the provisions of this Decision and, unless otherwise provided for, by all the provisions, regulations and principles applicable to banks.

Article 11:

This Decision shall be effective upon its issuing.

Article 12:

This Decision shall be published in the Official Gazette.

Beirut, September 27, 2007

The Governor of the Banque du Liban

Riad Toufic Salamé

DISCLOSURE REQUIREMENTS FORM

A- Disclosure of the following is to be made on a quarterly basis:

- The policy of distributing investments, their risks and their expected returns.
- The ratio of direct and indirect participation of the bank in projects and investments.
- Updating the redistribution of investments.

B- Disclosure of the following mechanisms is to be made periodically (every six months at least):

- Computation and distribution of profits on unrestricted and restricted accounts.
- Deduction of the “average profit reserve”
- Distribution of the deducted “average profit reserve”

C- Disclosure of opinions and reports prepared by the Consultative Body is to be made periodically:

The following disclosure methods shall apply to the above-mentioned information:

- Required disclosures must be published in Arabic and may be published also in another language (in addition to Arabic), if deemed necessary by the bank.
- All disclosures must be published in a daily newspaper and/or a special booklet, and/or in the Annual Report, and/or on the bank website, or on any other specialized site on the Internet.
- All bank customers must be informed, through a notice published in a daily newspaper, about the method or methods of disclosure.
- The above-mentioned methods shall apply, when necessary, to the disclosure of important and urgent information, regardless of prescribed time limits.