***Note*: This version does not include the amendments of Intermediate Circular No. 396 of September 8, 2015**

BANQUE DU LIBAN

Basic Circular No 115 to Banks

Attached is a copy of Basic Decision No 9794 of December 14, 2007, relating to the distribution of main credit portfolios.

Beirut, December 14, 2007

The Governor of the Banque du Liban

Riad Toufic Salamé

BANQUE DU LIBAN

Basic Decision No 9794

Distribution of Main Credit Portfolios

The Governor of the Banque du Liban,

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

Pursuant to Basic Decision No 9302 of April 1, 2006, on Implementing the Basel II Capital Adequacy Accord; and

Pursuant to the Decision of the Central Council of the Banque du Liban, taken in its meeting of December 12, 2007,

Decides the following:

Article 1:
Banks operating in Lebanon must distribute loans and credits in accordance with the following main portfolios:

1- **Retail Portfolio**

First: The retail portfolio comprises:
- a- consumer loans (including car loans, student loans, educational loans…)
- b- revolving credits (including credit cards and current accounts).

Second: These loans must meet the following conditions:
- a- They must be granted to a single person or to several interrelated persons.
- b- The volume of loans granted to a single person or to several interrelated persons must not exceed the equivalent of USD 100,000. Interrelated persons shall mean several debtors whose debts are settled through accounts held directly or indirectly by a single person.

2- **Small and Medium Entities Portfolio**

The Small and Medium Entities Portfolio comprises:
- a- Loans granted to liberal professions such as doctors, engineers and lawyers in order to finance their professional activities.
- b- Loans granted to sole proprietorships or to corporations (general partnerships, limited partnerships, jointly-owned companies, joint-stock companies including holdings, partnerships limited by shares,

limited liability companies or offshore companies) whose annual turnover does not exceed the equivalent of USD 5 million.

3- Corporate Portfolio

The Corporate Portfolio comprises:

a- Loans granted to sole proprietorships or to corporations (general partnerships, limited partnerships, jointly-owned companies, joint-stock companies including holdings, partnerships limited by shares, limited liability companies or offshore companies) whose annual turnover exceeds the equivalent of USD 5 million.

b- Loans granted to insurance companies, regardless of their turnover.

4- Housing Portfolio

The Housing Portfolio comprises:

a- Loans granted to persons who acquire houses in order to live in them

b- Loans granted to persons who acquire houses in order to rent them

5- Public Sector Entities Portfolio

The Public Sector Entities Portfolio comprises loans granted to public entities that are autonomous legal entities or are authorized by public law or their establishment law or any other special law to borrow from banks. Public entities may be divided into two types:

a- The central State and local authorities (such as municipalities) and their affiliated institutions, which are empowered to collect revenues or income on a regular and continuous basis and whose bankruptcy cannot be declared due to their special legal form.

b- Public entities of a commercial and industrial nature, which work in competitive commercial markets or services markets.

6- Claims secured by Commercial Real Estate

This portfolio comprises claims secured by commercial real estate such as lands or commercial buildings, so that the main source for the loan settlement would be the cash inflows stemming from the income of this real estate surety.

Cash inflows shall mean any profit stemming from one of the following operations carried out on the real estate given to the bank as a surety: sale, rent, investment, lease, participation, shareholding, establishment of real estate investment funds, or any other kind of investment activity.

Article 2:

In order to compute credit risks according to the Standardized Approach mentioned in Article 3 of Basic Decision No 9302 of April 1, 2006, the Regulatory Retail Portfolio, which comprises both the Retail Portfolio and the Small and Medium Entities Portfolio, must meet the following conditions cumulatively:

1. the loan must be accepted within both the Retail Portfolio and the Small and Medium Enterprises Portfolio, in accordance with paragraphs 1 and 2 of Article 1 above.
2. the Regulatory Retail Portfolio must be characterized by a certain degree of granularity, so that total retail loans and small and medium entities loans granted to a single natural or moral person or to an interrelated group, under the concept specified in the BDL regulatory texts, does not exceed 0.2% of the total regulatory retail portfolio, after the exclusion of bad loans defined in Article 3 below, so that all debts exceeding 0.2% of the total portfolio are excluded and the percentage of each debt from the new total is recomputed, in order to have a sufficiently diversified regulatory retail portfolio free of any debt exceeding 0.2% of debts constituted for this portfolio.
3. the ceiling of total facilities (in and off balance sheet) granted to a single natural or moral person or to an interrelated group, must not exceed the equivalent of USD 750,000, before taking into account any accepted guarantees or sureties.
   In case of many institutions or companies affiliated to a small group, the ceiling shall be applied to the total balance of facilities granted to the group as a whole.
4. loans must not be particularly granted to a person or to a small or medium entity in order to finance the purchase of listed or unlisted securities (such as bonds, shares…).
5. this portfolio must not include loans complying with the definition specified in subparagraph 6 of Article 1 above.

Article 3:

In order to implement the provisions of this Decision, the debtor is considered as defaulting, within any of the above-mentioned portfolios, in any of the following cases:

1. if it appears that the debtor has become unable to fulfill any of his/her/its obligations towards the bank, even if the latter, in order to sue the client, does not resort to its legal right in acquiring or liquidating or executing the guarantees, sureties or commitments submitted by the debtor upon obtaining the loan.
2. if more than 90 days have elapsed since the debtor has failed to settle his/her/its liabilities to the bank.

   In addition to the abovementioned cases, the overdraft debtor is considered as defaulting, if 90 days have elapsed after he/she/it exceeded the ceiling of facilities obtained under the original, debit account contract or under the renewed and duly documented debit account contract. This shall also apply to credit accounts that become debit accounts by chance and that are not settled after 90 days.

<u>Article 4:</u>

This Decision shall come into force upon its issuance.

<u>Article 5</u>:

This Decision shall be published in the Official Gazette.

Beirut, December 14, 2007

The Governor of the Banque du Liban

Riad Toufic Salamé