

BANQUE DU LIBAN

**Basic Circular No 81
Addressed to Banks and Financial Institutions¹**

Attached is a copy of Basic Decision No 7776 of February 21, 2001 on Operations relating to Credit, Investment, Shareholding, and Participation.

Beirut, February 21, 2001

The Governor of Banque du Liban

Riad Toufic Salamé

Old numbering: 1892

¹- Addressed to financial institutions by Intermediate Decision No 8882 of November 8, 2004 (Intermediate Circular No 69).

Basic Decision No 7776

Operations relating to Credit, Investment, Shareholding, and Participation

The Governor of Banque du Liban,

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

Pursuant to the Decision of the Central Council, taken in its meeting of February 21, 2001,

Decides the following:

Article 1¹:

- 1- All decisions taken by banks operating in Lebanon concerning credit granting, liquid asset investments, real estate investments, shareholdings, participations, and operations performed for their own account on structured financial instruments or derivatives, must be submitted to the prior approval of one or more committees specialized in the setting up of efficient strategies for the management, follow-up and development of the bank's activities, whether at the level of the bank or the banking group, as applicable.
- 2- The Board of Directors of the Lebanese bank or the Management of the branch of the foreign bank or the affiliated banking group, must, as applicable, and according to its volume of activities:
 - a- Establish the necessary specialized committees, which shall be chaired by the Chairman of the Board or his/her deputy or a member delegated by the Chairman or an expert, and whose members shall be selected from the Bank's Senior Management, according to their field of specialization. Each committee shall be composed of at least three members, of which the Chairman, in line with a system specifically set for this purpose.
 - b- Adopt working rules for each specialized committee.
 - c- Ensure that the tasks distributed among these committees constitute an adequate and comprehensive framework, in a way that risk management policies cover all of the bank's activities.
 - d- Confer to these committees the powers needed for their work, including the power to propose plans and supervise the execution of the tasks specified in their working rules.

¹- The last amendment to this Article was made by Article 1 of Intermediate Decision No 9419 of September 29, 2006 (Intermediate Circular No 116).

- 3- Each specialized committee is required, as far as it is concerned:
- a- To describe accurately the above-mentioned operations (type, features, terms, etc).
 - b- To set up a scheme that protects the bank from unbearable risks associated with these operations or with their consequences.
 - c- To assess the economic feasibility of the above-mentioned operations in terms of future returns, and to submit the bank to stress testing scenarios that measure its ability to bear risk volatility (market data, prices of currencies, shares, bonds, or other financial instruments...) and its impact on the bank's financial situation.
 - d- To communicate to the Board of Directors of the Lebanese bank or to the Management of the branch of the foreign bank, periodically and at least quarterly, its recommendations on any above-mentioned operation that exceeds 1% of the bank's net Tier 1 capital or the equivalent of one million US dollar, whichever is lower, with regard to each customer or to several customers forming a single economic group or a connected group, as defined in BDL regulatory texts.
 - e- To comply with applicable regulations and laws, and with the directives issued by Banque du Liban and the Banking Control Commission.
 - f- To study the bank's credit risk exposure, and to set the caps and restrictions that guarantee the balanced distribution and diversification of this risk, particularly at the level of economic sectors and geographical regions.
 - g- To study and compare the risks associated with the bank's financial sources and utilizations, notably their maturity dates (liquidity risk), and their vulnerability to interest rate volatility (market risk), etc.
 - h- ¹To ensure the implementation of International Financial Reporting Standards (IFRS) and International Accounting Standards (IAS), particularly IFRS 9 (Financial instruments), in terms of classification, reclassification and measurement of financial instruments, and the ensuing impact on the bank's liquidity, profitability and solvency, and on the transparency of its financial position, in light of the stress testing scenarios results.
 - i- To regularly hold periodic meetings, and as needed.
 - j- To provide the Board of Directors with the requested reports or with those specified in the banking regulations in force, on a periodic basis and as needed.

4²- Lebanese banks and financial institutions are prohibited from:

- a- Acquiring shares or participations that entail unlimited responsibilities on them.
- b- Directly or indirectly concentrating their shareholdings and participations: none shall exceed 10% of their Tier 1 capital and they shall be distributed among various companies and sectors.

The provisions of this Paragraph shall not apply to shareholdings and participations in banks, financial institutions, leasing companies, financial intermediation institutions, collective investment schemes and insurance

¹- This Paragraph was amended by Article 2 of Intermediate Decision No 12714 of November 7, 2017 (Intermediate Circular No 476).

²- This Paragraph was added by Intermediate Decision No 9891 of April 18, 2008 (Intermediate Circular No 159) then amended by Article 1 of Intermediate Decision No 10390 of March 8, 2010 (Intermediate Circular No 217).

companies, in Lebanon and abroad, as shareholdings and participations in each of these entities shall remain governed by their own legal and regulatory texts.

Banks and financial institutions whose situation is inconsistent with the provisions of this Paragraph are granted a time-limit ending on December 31, 2010 to adjust their situation accordingly.

- c- ¹ Granting their customers credits against a guarantee consisting in more than 5% of shares of Lebanese banks or financial institutions, unless Banque du Liban has already been notified and provided with a copy of the intended mortgage contract or usufruct contract, as well as the estimated value of the concerned shares based on their market price. Banque du Liban may, within a period of one month, object to the recording of the mortgage or usufruct right on these shares.
- 5- ² Commercial banks are prohibited from lending a specialized bank or an Islamic bank belonging to the same economic group.
This prohibition applies to the deposits of a commercial bank in a specialized bank or an Islamic bank belonging to the same economic group; however, the specialized bank or the Islamic bank may have deposits in the commercial bank.
Banks whose situation is inconsistent with the provisions of this Paragraph are granted a time-limit ending on June 30, 2011 to adjust their situation accordingly.
- 6- ³ Banks and financial institutions are prohibited from lending, directly or indirectly, any of the specialized lending entities (Comptoirs) governed by the provisions of Articles 183 and 184 of the Code of Money and Credit.
- 7- ⁴ Banks and financial institutions are prohibited from performing any kind of banking or non-banking or financial or non-financial operations, whether recorded in or off-balance sheet, with companies or mutual funds whose shares and participations are totally or partially issued in bearer form, or with companies or mutual funds that are directly or indirectly owned by companies or mutual funds whose shares and participations are totally or partially issued in bearer form.

¹- This Paragraph was added by Article 1 of Intermediate Decision No 10986 of April 30, 2012 (Intermediate Circular No 298) whose Article 2 reads as follows:

“Banks and financial institutions must provide Banque du Liban, by June 30, 2012, with information on the shares of Lebanese banks and financial institutions on which they benefit, at the said date, of a mortgage or usufruct right, and to which apply the provisions of Article 1 of this Decision.”

²- This Paragraph was added by Article 2 of Intermediate Decision No 10390 of March 8, 2010 (Intermediate Circular No 217), then amended by Article 1 of Intermediate Decision No 10621 of December 30, 2010 (Intermediate Circular No 240).

³- This Paragraph was added by Article 1 of Intermediate Decision No 12175 of January 21, 2016 (Intermediate Circular No 410).

⁴- This Paragraph was added by Article 1 of Intermediate Decision No 12194 of February 29, 2016 (Intermediate Circular No 411) whose Article 9 reads as follows:

“Banks and financial institutions whose situation is inconsistent with the provisions of Articles 1, 2 and 3 of this Decision, must adjust their situation within two years from its issuance date”.

- 8- ¹ Banks and financial institutions are prohibited from performing any kind of banking or non-banking or financial or non-financial operations, whether recorded in or off-balance sheet, with any of the parties below:
- Persons or institutions performing exchange operations or lending operations in accordance with Articles 183 and 184 of the Code of Money and Credit, unless they are registered on the List of Exchange Institutions or the List of Specialized Lending Entities (Comptoirs).
 - Persons holding shares or participations in any institution that is not recorded on the above-mentioned Lists, or any of the managers of such institution.

Dealings with any institution registered on the List of Exchange Institutions or the List of Specialized Lending Entities (Comptoirs) shall be subject to the laws and regulations governing the functioning of any such institution.

Banks and financial institutions whose status is inconsistent with the provisions of this Paragraph are granted a time limit ending on November 30, 2016 to adjust their situation accordingly.

- 9- ² Banks and financial institutions are required, whenever asking for the financial statements of companies applying for facilities, to obtain from these companies copies of the balance sheets and income statements submitted to the tax authority, stamped by the latter and signed below the expression “certified copy”.

- 10- ³First: Banks and financial institutions are prohibited from granting or renewing facilities to any business or company whose annual volume of activities equals or exceeds the equivalent of one billion five hundred million Lebanese pounds, except if both the conditions below are concurrently met:
- The business or company has submitted duly audited financial statements (balance sheet, income statement, cash flow statement) in a way that the study of the credit file is conducted on the basis of such statements.
 - These statements are conform to those submitted to the tax authority.

Second: Banks and financial institutions whose status is inconsistent with the provisions of Paragraph 10-Subparagraph “First” above, are granted a time limit ending on September 30, 2020 to adjust their customers’ credit files accordingly.

Banks and financial institutions must request the immediate repayment of each loan whose situation was not adjusted during that time limit. Otherwise, they shall deposit, in a non-interest-bearing blocked account at Banque du Liban, a special reserve that is equal to the amount of the loan and in the same currency as the loan, until the loan situation is adjusted.

¹ - This Paragraph was added by Article 1 of Intermediate Decision No 12321 of August 16, 2016 (Intermediate Circular No 432).

² - This Paragraph was added by Article 1 of Intermediate Decision No 12667 of September 13, 2017 (Intermediate Circular No 472).

³ - This Paragraph was added by Article 1 of Intermediate Decision No 13087 of July 18, 2019 (Intermediate Circular No 521).

Article 1 bis¹:

- 1- Total net credits in Lebanese pounds granted by a bank to the private sector must not exceed 25% of its clients' total deposits in Lebanese pounds.
- 2- Banks must deposit the equivalent of any amount exceeding the percentage specified in Paragraph 1 of this Article in a non-interest-bearing blocked account at Banque du Liban, until the settlement of this excess amount.
- 3-² Banks whose situation is inconsistent with the provisions of this Article are granted a time-limit ending on December 31, 2020 to adjust their situation accordingly.
- 4-² Banks that find it difficult to adjust their situation within the aforementioned time-limit may refer to the Central Council before December 31, 2020.

Article 2³:

Lebanese banks and financial institutions are required, whenever granting any of the credits specified in Article 152 (4) of the Code of Money and Credit, to comply with the relevant regulations issued by Banque du Liban.

Article 2 bis⁴:

First-⁵:

- Second-⁶ Banks operating in Lebanon must constitute a collective provision, which is not eligible in any capital components, and is equivalent to 2% of the credit risk-weighted assets for all credit portfolios, including retail loans, pursuant to the IFRS 9 requirements that come into force on January 1, 2018, provided that:
- -The weighted assets are adopted on a consolidated basis, according to the position closed on December 31, 2016.
 - The provision is constituted at the end of 2016. If this proves to be difficult, the remaining balance shall be constituted at most during 2017.

¹- This Article was added by Intermediate Decision No 9928 of June 23, 2008, then repealed by Intermediate Decision No 11706 of February 28, 2014 (Intermediate Circular No 354), and then added by Intermediate Decision No 12857 of August 10, 2018 (Intermediate Circular No 503).

² This paragraph was amended by Intermediate Decision No 13149 of November 19, 2019 (Intermediate Circular No 534).

³- The last amendment to this Article was made by Intermediate Decision No 11718 of March 8, 2014 (Intermediate Circular No 361).

⁴- This Article was added by Intermediate Decision No 11891 of November 1, 2014 (Intermediate Circular No 376), then amended by Article 1 of Intermediate Decision No 11917 of December 24, 2014 (Intermediate Circular No 383).

⁵- This Paragraph was removed by Article 1 of Intermediate Decision No 12849 of August 3, 2018 (Intermediate Circular No 501).

⁶- This Paragraph was added by Article 2 of Intermediate Decision No 12372 of November 8, 2016 (Intermediate Circular No 439).

Article 3¹:

First: Banks and financial institutions operating in Lebanon are prohibited from:

- a- Granting their customers facilities for the purpose of funding fixed assets (real estate, machinery, equipment, and any other fixed assets), except in the form of term loans, on condition that they have considered the economic feasibility of the project to be funded and the customer's financial situation, and that they have set the repayment schedule in line with the customer's cash flow.
- b- Granting their customers current account facilities, except for the purpose of funding current operations or operations linked to the working capital*, on condition that they have taken cognizance of the total facilities granted to the customer by all banks and financial institutions, notably the current account facilities specified in item "Z1" of Table "CTC01" (loan type codes) attached to the Regulations governing the Central Office for Credit Risk (Centrale des Risques), without prejudice to the provisions of applicable laws and regulations.
- c- ²Granting a single customer current account facilities that exceed 70% of the latter's working capital. In all cases, these facilities must not exceed five times the customer's own capital** or five times the investor's account if the customer is a natural person or a sole proprietorship.

If these facilities exceed the above-mentioned limit, the excess shall be turned into a term loan or into promissory notes in favor of the concerned bank or financial institution, to be scheduled in line with the customer's cash flow.

The calculation of this limit shall not include the following elements:

- Bank acceptances and operations linked to documentary credits.
- Facilities granted against cash guarantees or bank guarantees or guarantees issued by financial institutions registered on BDL List.

¹- Article 3 was repealed by Article 2 of Intermediate Decision No 11718 of March 8, 2014 (Intermediate Circular No 361). The numbering of "Article 2 bis" that was added by Intermediate Decision No 8882 of November 8, 2004 (Intermediate Circular No 69) and amended by Intermediate Decision No 9040 of June 1, 2005 (Intermediate Circular No 85), was modified to become "Article 3", pursuant to Article 3 of Intermediate Decision No 11718.

* The working capital is formed of the following components: the stock + advances paid to suppliers + customers + various receivables + pre-computed charges, less (advances collected from customers + suppliers + various payables + pre-computed revenues).

²- The last amendment to this Paragraph was made by Article 1 of Intermediate Decision No 9193 of November 16, 2005 (Intermediate Circular No 96).

** The own capital is formed of: the capital, the issue premiums, the reserves, the retained earnings and other legally eligible components.

Notwithstanding the provisions of this Paragraph, a single customer may be granted, for a period ending on December 31, 2007¹, current account facilities that do not exceed 100% of the his/her/its working capital. In all cases, these facilities must not exceed seven times the customer's own capital or seven times the investor's account if the customer is a natural person or a sole proprietorship.

- d- Authorizing any excess on current account facilities granted to customers, except accidentally or temporarily, on condition that the excess, if approved, does not surpass 10% of the facilities granted to the customer, and that the aggregate amount formed of total facilities and accidental excess does not exceed the limit specified in Subparagraph (c) above.
- e- ²Imposing any compensation or fine or additional increase in the interest rate or commission or expenses, with regard to excesses approved by the bank or financial institution, except if the customer fails to meet the commitments or obligations stemming from the accidental excess, within a period of 90 days. In that case, the bank or financial institution may impose an additional penalty interest that shall cap at 2% of the excess, starting from the day of its occurrence.

In all cases, the excess shall be settled, with the customer's consent, within one year from the date of its occurrence, through one of the following procedures:

- Repayment by the customer.
 - An increase in the facilities granted to the customer, if the bank or financial institution considers that the latter's financial situation allows such increase.
 - A re-classification of the account under the category (4) or (5) specified in Basic Decision No 7159 of November 10, 1998, as a result of which the facilities granted to the customer are suspended.
- f- Increasing the interest rate applied to the utilized facilities, when they are classified under the category (4) and (5) specified in Basic Decision No 7159 of November 10, 1998.
 - g- ³ Granting their customers real estate facilities that exceed any of the percentages below, whichever is lower:
 - 60%, at most, of the value of the real estate to be purchased or of the current value of the ongoing real estate project.
 - 60% of the value of the guarantee provided.

¹ - This Paragraph was added by Article 6 of Intermediate Decision No 9457 of November 9, 2006 (Intermediate circular No 127).

² - The last amendment to this Paragraph was made by Article 1 of Intermediate Decision No 9193 of November 16, 2005 (Intermediate Circular No 96).

³ - This Paragraph was added by Intermediate Decision No 9958 of July 21, 2008 (Intermediate Circular No 177) and was last amended by Article 2 of Intermediate Decision No 11891 of November 1, 2014 (Intermediate Circular No 376).

These percentages shall exclude:

- Housing loans to which the percentages specified in Article 3 bis above apply.
 - Loans granted to the Public Housing Institution for the purpose of building houses to be rent to low-income individuals.
 - Loans granted to the Housing System for Military Volunteers, to be used for purchasing real estate, building houses and selling them to the military.
- h- ¹ Undertaking any form of real estate brokerage operation, or funding real estate speculations or the purchase of built or unbuilt properties for resale purposes.
- i- ² Notwithstanding the provisions of Subparagraph (h) above, banks and financial institutions may lend real estate companies, provided that:
1. The objects of the real estate company are restricted to the purchase in Lebanon of built properties or parts thereof, already subdivided or under subdivision, whose construction is funded by banks or financial institutions operating in Lebanon through ongoing facilities equivalent at least to 50% of the value of the properties to be acquired.
 2. The bylaws of the real estate company specify the mandatory liquidation of the acquired properties within ten years at most from their acquisition date.
 3. The built properties have neither been sold nor given as a guarantee against any facilities other than those mentioned in Subparagraph (i-1).
 4. The facilities granted by banks and financial institutions to the real estate company meet all the credit requirements specified in applicable laws, and in the regulations and implementation regulations issued by Banque du Liban and the Banking Control Commission.
 5. The real estate company pays the cost of the acquired properties in the following proportions:
 - 40% at least from its non-borrowed own capital.
 - 60% at most by way of facilities granted by banks or financial institutions, which may include the irrevocable discount of promissory notes that the concerned real estate company may sign in favor of the owners of the built properties mentioned in Subparagraph (i-1).
 6. By order of priority, facilities mentioned in Subparagraph (i-1) are repaid from the proceeds of the purchase made by the concerned real estate company.
 7. By order of priority, facilities mentioned in Subparagraphs (i-4) and (i-5) are repaid from the proceeds of the sale by the concerned real estate company of acquired properties.
 8. Properties acquired by the concerned real estate company are part of the guarantees to be given against the facilities granted by banks or financial institutions to the concerned real estate company, and mentioned in Subparagraph (i-4).

¹- This Paragraph was added by Article 1 of Intermediate Decision No 9958 of July 21, 2008 (Intermediate Circular No 177).

²- This Paragraph was added by Article 1 of Intermediate Decision No 12286 of June 21, 2016 (Intermediate Circular No 427).

9. The purchase of properties is conducted pursuant to custom and to the conditions applied in similar processes (at Arm's Length).

10. The real estate company complies with applicable laws, notably the Law implemented by Decree No 11614 of January 4, 1969 on the Acquisition by non-Lebanese of property rights in Lebanon.

j- ¹Banks and financial institutions are prohibited from establishing or contributing to the establishment of the real estate companies mentioned in Subparagraph (i-1) above, or from directly or indirectly acquiring shares therein.

Second: Banks and financial institutions whose status is inconsistent with the provisions of Paragraph First (a), (b), (c), and (d) of this Article, are granted a time limit ending on December 31, 2006, to comply with these provisions.

Third²: Banks and financial institutions are required:

a- To verify in a strict manner the purpose of the facilities granted to their customers and the implementation of the provisions of Article 161 of the Code of Money and Credit; and also to reconsider the amount of these facilities at least once a year and as needed, in a way to ensure that the facilities granted to each customer are properly utilized, in conformity with available data on the customer's financial situation and volume of activities.

b- Whenever they examine a real estate credit file, to verify on their own responsibility the purpose and the repayment sources of the requested facilities.

c- In case a construction project is funded, to verify the validity of the sale contract concluded between the owner and the purchaser; and to also monitor the project's cash flows, and the purchaser's repayment of installments according to the agreed schedule.

Fourth: Banks and financial institutions' officers in charge of granting and monitoring facilities must verify, through audited balance sheets, the quality of the items in the customer's working capital and own capital, and shall request from the latter any additional information, as needed.

Fifth³ : The Banking Control Commission shall refer to BDL Central Council any violation by a bank or financial institution of Paragraph First (g) and (h) above. The Central Council is entitled to request from the infringing bank or financial institution to deposit at Banque du Liban, in a special non-interest-bearing account, a special

¹ - This Paragraph was added by Article 1 of Intermediate Decision No 12286 of June 21, 2016 (Intermediate Circular No 427).

² - This Paragraph was amended by Article 2 of Intermediate Decision No 9958 of July 21, 2008 (Intermediate Circular No 177).

³ - This Paragraph was added by Article 3 of Intermediate Decision No 9958 of July 21, 2008 (Intermediate Circular No 177).

minimum reserve determined according to the case, and/or to take against the said bank or institution any other measures deemed necessary.

Article 3 bis¹

First:

For the purposes of this Article, retail loans shall mean:

- All consumer loans (including car loans, student loans, education loans, and other consumer loans).
- Revolving credits (including credit cards, and loans granted only for consumption or personal purposes and not for professional or commercial purposes).
- Housing loans.

Second:

Banks and financial institutions are required, when granting their customers retail loans:

1- To comply with the following:

- a- A clear policy must be set to grant retail loans.
- b- ²The car loan or the housing loan must not exceed 75% of the price of the car or the house to be purchased through the loan, with the exception of:
 - Loans granted by the Housing Bank.
 - Loans granted under the Protocol signed with the Public Housing Institution, the Housing System for Military Volunteers, the Ministry of Displaced, the Cooperative Fund of Judges, the General Directorate of Internal Security Forces, the General Directorate of General Security, the General Directorate of the State Security, and the Customs Police.
 - Loans granted under the Home Savings Plan specified in Basic Decision No 6180 of May 31, 1996.

Banks and financial institutions may, as of January 1, 2015, and at their own responsibility, compute the value of the number plate of a taxi car or a taxi van as part of the vehicle value.

c- The total monthly installments of all loans must not exceed 35% of the family income.

This percentage may be raised to 45% at most in case the loans granted include a housing loan, on condition that the monthly installments of the housing loan do not exceed 35% of the family income.

To calculate these two percentages, the family is considered to be formed of a husband and wife.

¹- This Article was added by Intermediate Decision No 11831 of August 21, 2014 (Intermediate Circular No 369), then amended by Article 3 of Intermediate Decision No 11891 of November 1, 2014 (Intermediate Circular No 376).

²- The last amendment to this Paragraph was made by Intermediate Decision No 12133 of November 20, 2015 (Intermediate Circular No 407).

- d- ¹With regard to housing loans, the cost of insurance policies must be calculated on a yearly basis, and such cost paid in one several installment(s) during the year.
For car loans, the cost of insurance policies must be calculated for the whole duration of the loans, and such cost paid in several installments throughout the loan duration, unless the customer requests to pay it in one installment.

2- ²

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5- ²

Third:

- 1- The provisions of Paragraph Second (1) above shall apply to retail loans granted after October 1, 2014.
- 2- Banks and financial institutions whose situation on October 1, 2014 is inconsistent with the provisions of Paragraph Second 1(c) above, must not grant the concerned customers any new retail loans, before abiding by the two percentages specified therein.

Fourth:

It is prohibited to use any portion of the commercial facilities for personal and consumption purposes. Therefore, facilities granted for personal or consumption purposes must be included in separate accounts within the portfolio of retail loans.

Article 4:

Banque du Liban shall collect from banks that do not comply with the provisions of Article 3 above, a penalty interest that is computed according to the provisions of Article 77 of the Code of Money and Credit and to the relevant regulations issued by Banque du Liban.

Article 5:

Any bank whose bylaws are inconsistent with the provisions of this Decision, particularly Article 1 thereof, must amend its bylaws accordingly, by June 30, 2001.

Article 6:

This Decision shall come into force upon its issuance.

¹ This Paragraph was added by Intermediate Decision No 12013 of June 15, 2015 (Intermediate Circular No 392), then amended by Intermediate Decision No 12022 of July 10, 2015 (Intermediate Circular No 394).

² This Article was repealed by Article 1 of Intermediate Decision No 12849 of August 3, 2018 (Intermediate Circular No 501).

³ This Article was repealed by Article 3 of Intermediate Decision No 12714 of November 7, 2017 (Intermediate Circular No 476).

Article 7:

This Decision shall be published in the Official Gazette.

Beirut, February 21, 2001

The Governor of Banque du Liban

Riad Toufic Salamé