

[From the Official Gazette –Number 9 of February 13, 2004]

**LAW No 575**

**Establishing Islamic banks in Lebanon**

The President of the Republic,

is hereby promulgating the following Law voted by the Parliament:

**Single Article:**

The draft law submitted by Presidential Decree No 9351 of December 27, 2002, on the Establishment of Islamic banks in Lebanon is adopted, as amended by the Commission on Finance and Budget.

This law shall enter into force on its publication date in the Official Gazette.

Baabda, February 11, 2004

Signed: Emile Lahoud

Promulgated by the President of the Republic

The President of the Council of Ministers

Signed: Rafic Hariri

The President of the Council of Ministers

Signed: Rafic Hariri

## **Law on Establishing Islamic banks in Lebanon**

### **Article 1:**

Islamic banks are banks whose Articles of Association require them to comply, in their operations, with the provisions of Islamic Law (Sharia), particularly with the prohibition to pay or receive interest.

Unless otherwise specified in this Law, Islamic banks shall be governed by all legal and regulatory provisions in force in Lebanon, particularly those related directly or indirectly to banks, including the Code of Land Trade, the Code of Money and Credit, and the Banking Secrecy Law.

### **Article 2:**

The establishment, in Lebanon, of an Islamic bank or a foreign Islamic bank's branch requires an authorization from the Central Council of the Banque du Liban (hereinafter BDL).

The BDL Central Council shall prescribe, through a special regulation, all the conditions required to obtain such an authorization.

The BDL Central Council shall grant its authorization when deemed serving the public interest. In this matter, the Council has discretionary power and its decision to grant or refuse the authorization is not subjected to any ordinary or extraordinary recourse, whether administrative or judicial, including the recourse for excess of power.

Non-Islamic banks operating in Lebanon may establish or take part in the establishment of Islamic banks, or hold shares in Islamic banks established in Lebanon, provided they:

- 1- obtain a prior approval from the BDL Central Council; and
- 2- comply with the provisions of Article 153 of the Code of Money and Credit.

### **Article 3:**

Islamic banks are entitled to offer and provide all banking, commercial, financial and investment services and operations, including the establishment of corporations and the participation in established projects or projects under establishment.

Unless agreed with clients to link their deposits to the bank's annual results or to the results of its operations according to a procedure set for this purpose by the BDL Central Council, cash deposits received by Islamic banks are governed by the provisions of Article 307, Par. 1 and 2, of the Code of Land Trade, and by the provisions of Section 2 of Law 28/67 of May 9, 1967.

Deposits received in accordance with Article 3, Par. 2, of this Law, and in accordance with Article 307, Par. 1 and 2, of the Code of Land Trade, should have a minimum term of six months. However, Islamic banks are entitled to open checking accounts in the names of their clients for recording cash deposit and withdrawal operations, securities purchase and sale operations, and other Islamic banks' operations.

**Article 4:**

Islamic banks are exempted from complying with the provisions of Article 153, Par. 1 and 2, of the Code of Money and Credit. They are authorized to make participations or acquisitions without being bound by the provisions of Article 153 of the said Code, provided they use their total capital or, with a written approval from their owners, the deposits governed by Article 307, Par. 1 and 2, of the Code of Land Trade.

The BDL Central Council is entitled to issue regulations governing each and all operations of Islamic banks. The Council is also entitled, whenever deemed necessary, to determine and modify the working rules of these banks, and the ratios required between their balance sheet and off-balance-sheet items. These ratios must be maintained by Islamic banks in order to achieve their objectives, protect their depositors and clients, and safeguard their liquidity and solvency.

**Article 5:**

In addition to real estate rights that commercial banks may acquire, notwithstanding the provisions of the Law implemented by Presidential Decree No 11614 of January 4, 1969, and its amendments (on ownership of real estate rights by non-Lebanese in Lebanon), Islamic banks may acquire real estate rights for the sole purpose of investment projects. Any such acquisition must be authorized by the BDL Central Council, which must verify the seriousness of the project and determine its execution period, provided the said rights are acquired for a non-renewable maximum period of twenty-five years and are within the limits of real estate ownership by non-Lebanese, as authorized by law in each District (Mohafazat).

The authorization shall not become effective before the approval of the Council of Ministers.

**Article 6:**

Investments in Lebanon must account, at least, for 50% (fifty per cent) of the assets and rights included in the balance sheet items of an Islamic bank.

The BDL Central Council is entitled, in conformity with public interest requirements, to increase the above-mentioned ratio and to decide on whether certain balance sheet items may or may not be included in it. In this matter, the decision of the Council is not subjected to any ordinary or extraordinary recourse, whether administrative or judicial, including the recourse for excess of power.

**Article 7:**

Clients of Islamic banks, particularly those holding result-linked deposits, must be periodically notified in writing, every three months at least, about the kind, nature, risks and results of the operations and investments undertaken by their banks, as well as about the size of their direct or indirect participation to such undertakings.

**Article 8:**

Islamic banks must keep their client accounts in a manner that separates the deposit accounts, opened under Article 307, Par. 1 and 2, of the Code of Land Trade, from the result-linked deposit accounts, opened under Article 3, Par. 2, of this Law.

The Banking Control Commission at the Banque du Liban shall ascertain that Islamic banks are complying with this obligation. For this purpose, the provisions of the Banking Secrecy Law of September 3, 1956 are not applicable.

**Article 9:**

The Constituent Assembly of an Islamic bank and, thereafter, each Ordinary General Assembly, shall appoint, for a renewable three-year period, a consultative body consisting of three experts in Islamic Law, Islamic doctrine, and banking and financial operations.

The consultative body shall give its opinion about the bank's compliance, in its operations, with the prescriptions of Islamic Law (the Sharia). For this purpose, it shall submit a report to both the Board of Directors and the Shareholders' General Assembly.

The consultative body may, on its own initiative, submit to the Shareholders' General Assembly and the Board of Directors any proposal it deems useful for properly achieving the bank's objectives pursuant to the prescriptions of the Sharia.

**Article 10:**

This Law shall enter into force on its publication date in the Official Gazette.