

## **MAIN CHARACTERISTICS OF LEBANON'S BANKING SECTOR**

The Lebanese banking system is endowed with several characteristics that promote the role of Beirut as a regional financial center, in terms of ensuring protection for foreign capital and earnings.

### **FREE EXCHANGE SYSTEM AND FREE MOVEMENT OF CAPITAL AND EARNINGS**

The Lebanese currency is fully convertible and can be exchanged freely with any other currency. Moreover, no restrictions are put on the free flow of capital and earnings into and out of the Lebanese economy.

### **THE BANKING SECRECY LAW**

The passing of the banking secrecy law in September 3rd 1956, subjected all banks established in Lebanon as well as foreign banks' branches to the "secret of the profession".

All banks managers and employees who are exposed to the banks activities, cannot reveal what they know concerning their clients names, assets or holdings to any party whatsoever whether individuals or public authority, be it administrative, military or judicial. Such information is released only when granted written authorization by the client or his/her heirs, in case of bankruptcy, or in case of any litigation between the bank and the client.

The law however, in order to ensure the security of banks' investments, allows for mutual communication among banks, and under the provision of bank secrecy, of information related to the debtor accounts of their clients.

Moreover, in case of request presented by the judiciary authorities for cases of illicit accumulation of wealth, banks cannot refrain from revealing the necessary information.

### **INCOME TAX**

According to the Income Tax Act (Legislative Decree No. 144/59 and its amendments) the following shall be subject to an income tax at the rate of five percent (5%):

1. Interests, revenues and income from all credit accounts opened in banks, including savings accounts, except for accounts opened in the name of the government, the municipalities, the public institutions, the diplomatic missions and foreign consulates in Lebanon.
2. Interests and revenues from deposits and other bank liabilities in any currency, including those belonging to non-residents.
3. Interests, income and revenues from fiduciary and portfolio management accounts.
4. Revenues and interests from certificates of deposit issued by all banks and debt securities issued by joint-stock companies.
5. Interests and revenues from Lebanese Treasury bonds

#### **IV- THE FREE BANKING ZONE**

On the first of April 1975, decree No. 29 established a free banking zone by granting the Lebanese government the right to exempt nonresidents' deposits and liabilities in foreign currency from :

- The income tax on interest earned,
- The required reserves imposed by the Banque Du Liban by virtue of article 76 of the Code of Money and Credit,
- The premium of deposit guarantee imposed on bank deposits to the profit of the National Deposit Guarantee Institution.

#### **OPENING OF JOINT ACCOUNTS**

The law of December 1961 allows for the opening of joint accounts. These accounts are opened in the name of several persons and can be used by any one of these persons.

- In case of death of any one of the account owners, his/her partner can use the account without being subject to heirs procedures.
- In case one of the account holders is declared bankrupt, the account becomes the ownership of the bankrupt party, unless it is proven otherwise.
- The bank can't do any clearing for the different accounts of any account holder without the written approval of all other partners.
- The lifting of bank secrecy on the account is non-operational without it being declared by all partners.
- In case any litigation occurs among the different holders of the account, the bank shall freeze the account from the day it receives notification of the litigation and until it is settled by the courts.

#### **MONEY LAUNDERING**

Lebanon has been aware of the necessity to combat money laundering particularly because the banking secrecy law could be used as a means for such illegal operations. Due to this and with respect to the banking secrecy law, the Association of Banks in Lebanon (ABL) set a Due Diligence Convention which was signed by the member banks. This convention aims to prevent money laundering operations. Lately, the Lebanese banks association issued new due diligence measures to be applied by banks.