

DECREE No 1423

Regulations on the mechanism and criteria of soft loans granted under Article 6 of Law No 192 of January 4, 1993, and its amendments, on Facilitating Bank Merger

Article 1:

Soft loans are granted by the Central Council of the Banque du Liban (BDL) under Article 6 of Law No 192 of January 4, 1993, and its amendments, in order to cover charges resulting from the merger operation, including the negative net asset value of the merged bank, if any.

Article 2:

In case the merged bank's net asset value is positive after revaluation of its balance sheet items by the Banque du Liban, or the party designated by the BDL for this purpose (without computing the value of the license granted to the merged bank as part of its assets), the value of the charges incurred by the merging bank as a result of the merger will be adopted as a basis to compute the amounts of soft loans that can be granted to the merging bank by the BDL Central Council under the provisions of Article 6 of Law No 192/93 and its amendments, based on the following elements:

- The value of the merged bank's license to be cancelled due to the merger, as estimated by the Banque du Liban, provided it does not exceed five million US dollars.
- The additional compensations paid to the merged bank's employees whose employment contracts have been terminated, up to a ceiling equivalent to total additional compensations granted to all employees of the merged bank, computed under the provisions of Article 4, Paragraph 3, Subparagraph (c) of Law No 192 of January 4, 1993 and its amendments, once the BDL has verified their value and rightfulness.
- A lump sum compensation for all costs resulting from the merger operation (cost of systems restructuring, relocation of branches, standardization of accountancy programs and computer software, rehabilitation and training of employees, miscellaneous costs and fees relating to the merger operation...), computed as a ratio of the merged bank's net asset value, after revaluation of its balance sheet items by the Banque du Liban, or the party designated by the BDL for this purpose, provided this ratio does not exceed twenty percent of the said net value.

Article 3:

In case the merged bank's net asset value is negative after revaluation of its balance sheet items by the Banque du Liban, or the party designated by the BDL for this purpose, the value of the charges incurred by the merging bank as a result of the merger will be adopted as a basis to compute the amounts of soft loans that may be granted to the merging bank by the BDL Central Council, under the provisions of Article 6 of Law No 192/93 and its amendments, based on the following elements:

- The additional compensations to the merged bank's employees whose employment contracts have been terminated, paid in excess of the limit stipulated in Article 4, Paragraph 3, Subparagraph (c) of Law No 192 of January 4, 1993 and its amendments, once the BDL has verified their value and rightfulness.

- The negative net asset value of the merged bank after revaluation of its balance sheet items by the Banque du Liban, or the party designated by the BDL for this purpose.
- Any additional amount that might be approved by the BDL Central Council upon request by the merging bank, in order to cover assets whose collection is doubtful at the time of granting the soft loan, provided the merging bank returns to the Banque du Liban 90% (ninety per cent) of that amount in case of collection, and that all possible efforts have been made by the said bank for the purpose of collection.

Article 4:

Soft loans may not be granted by the BDL Central Council under the provisions of Article 6 of Law No 192/93, and its amendments, in case their aim is to cover:

- The purchase price of the merged bank's shares.
- The reserves for impairment of the merged bank's securities portfolio in case purchased securities are to be kept until maturity, unless an impairment test, approved by the Banking Control Commission, confirms portfolio losses at the time of merging.
- The value of missed investment opportunity on the balance of net zero-interest loans, and on the balance of net tangible fixed assets, taken as debt collection.

Article 5:

Upon request by the merging bank, and within six months from the date of the final decision on the merger, the BDL Central Council may approve an increase in the value of soft loans, or the granting of additional soft loans, for the purpose of covering:

- The liabilities, obligations and charges that are not noticeable or mentioned in the merged bank's financial statements, in case they are ascertained subsequently.
- Charges that are, after the granting of the soft loan, confirmed as due.

Article 6:

According to the case, the BDL Central Council shall compute the cost of the merger, based on the criteria specified in this Decree. Consequently, the Council shall determine the amount of soft loans according to the mechanism it has adopted for this purpose.

Article 7:

In case the BDL Central Council decides, pursuant to the provisions of laws and regulations in force, to exempt the merging bank from specific banking ratios, the present value of these exemptions shall be deducted from the amount on which the computing of the soft loans is based, as stipulated in this Decree.

Article 8:

In its final decision on the merger between two banks or more, the BDL Central Council shall set all soft loan conditions, such as interest, duration, margin, and guarantees.

Article 9:

The merging bank must invest the soft loans in Treasury bills subscribed to in the official market. In case no Treasury bills are issued, soft loans may be invested in accounts, operations or securities that are approved by the BDL Central Council.

Any of these investments may constitute a sufficient guarantee of the soft loan, provided the concerned investment and its percentage are accepted by the BDL Central Council.

Article 10:

In accordance with the mechanism adopted by the BDL Central Council, the margin realized by the merging bank on the soft loan investments shall be computed without interest paid on these loans, so as to guarantee that the merging bank will achieve the coverage initially decided by the Council. The margin shall be recomputed at each maturity date of those investments and in the year preceding the soft loans' maturity date, or may be done annually upon the merging bank's request, in accordance with the above-mentioned mechanism, so as to reflect changes in market interest rates, and the difference between effective interest rates and those assumed when determining the margin, as well as compared to previous periods, if necessary.

Article 11:

This Decree shall be published and notified as needed, and shall come into force upon its publication in the Official Gazette.

Baabda, February 23, 2009

Signed: Michel Sleiman

Promulgated by the President of the Republic
The President of the Council of Ministers
Signed: Fuad Siniora

The Minister of Finance
Signed: Muhammad Chatah