

BANQUE DU LIBAN

**Intermediate Circular No 331
addressed to Banks and Financial Institutions**

Attached is a copy of Intermediate Decision No 11512 of August 22, 2013 amending Basic Decision No 6116 of March 7, 1996 (Facilities that may be granted by Banque du Liban to Banks and Financial Institutions) attached to Basic Circular No 23.

Beirut, August 22, 2013

The Governor of Banque du Liban

Riad Toufic Salamé

Intermediate Decision No 11512

Amending Basic Decision No 6116 of March 7, 1996

Facilities that may be granted by Banque du Liban to Banks and Financial Institutions

The Governor of Banque du Liban,

Pursuant to the Code of Money and Credit, namely the provisions of Articles 70, 153, 174, and 177 thereof;

Pursuant to Basic Decision No 6116 of March 7, 1996 and its amendments, relating to Facilities that may be granted by Banque du Liban to Banks and Financial Institutions; Pursuant to Basic Decision No 6938 of March 25, 1998 and its amendments, relating to the Capital of Banks, and

Pursuant to the Decision of the Central Council of Banque du Liban, taken in its meeting of August 21, 2013,

Decides the following:

Article 1: “Article 8 bis” shall be added to Basic Decision No 6116 of March 7, 1996, and shall read as follows:

-“For the purposes of the implementation of this Article, the Company or Companies shall mean:

- 1- The Startup companies.
 - 2- The Incubators and Accelerators whose objects are restricted to supporting the development, success and growth of Startup companies in Lebanon by offering such companies administrative support, networking, mentoring, training, and know-how, in addition to a range of support resources and services (offices, logistics...) and/or by participating in such companies.
 - 3- Companies whose objects are restricted to investing venture capital in Startup companies in Lebanon where they foresee in them and through them a possibility of growth and profit-making, especially upon the transfer of their participation in such companies.
- Banks may benefit from interest-free facilities granted for a maximum period of seven years for their participation, at their full responsibility, in the capital of Companies, according to the following:

I: Participation in Companies

- 1- Facilities shall be granted to a bank for its participation in a Company, upon BDL Central Council approval, provided that:
 - a- The Company is a Lebanese joint-stock company with nominal shares.

- b- The Company is not a financial company or an offshore company.
 - c- The Company's shareholders are not governed, whether directly or indirectly, by the provisions of Article 158 of the Code of Commerce and by Article 152, Par. (4) of the Code of Money and Credit. The concerned bank shall ensure at its own responsibility compliance with this provision.
 - d- The concerned bank undertakes to transfer its shares in the capital of the Company, within a period not exceeding seven years. Notwithstanding this commitment and in justifiable cases, the BDL Central Council may approve the request submitted by the concerned bank to exceed this time limit.
- 2- The approval of the BDL Central Council on the facilities granted under this Article is contingent on the impact of the Company's project on economic and social growth, and job creation in the Lebanese market thereby enriching the Lebanese national wealth. This approval is also contingent on the project's reliance on knowledge economy and support of creative intellectual skills (Intellectual Capital).
- 3- The BDL Central Council may in exceptional cases and within the conditions it specifies on a case by case basis:
- Approve the participation of several banks in the capital of a single Company.
 - Approve the facilities granted under this Article to the banks for their participation in collective investment schemes established in Lebanon whose objects are limited to financing and investing in Companies.
- 4- The participation of banks governed by the provisions of this Article may not exceed, at any time, 80% of the capital of a single Company.

This percentage may be exceeded if the founders of the project for which the Company was established are granted stock options entitling them to subscribe to shares held by the concerned banks and exceeding the above-mentioned 80%.

- 5- Total participations of any bank in Companies may not exceed 3% of the bank's capital, provided the participation of any bank in a single Company does not exceed 10% of the aforementioned 3%. However, the BDL Central Council may, on justified grounds, grant its approval to exceed any of these percentages.

For the purposes of this Article, funds allocated to participations in Companies are considered as being part of the capital.

- 6- The concerned banks must play an active role in the development of the Company's business and in the support of its continuous growth and good governance.

II: Facilities granted by Banque du Liban

- 1- The concerned banks shall invest the facilities granted by Banque du Liban pursuant to the provisions of this Article in Treasury bills subscribed to in the primary market.

In case no Treasury bills are issued, these facilities may be invested in accounts or operations or securities approved by the BDL Central Council. These investments represent the sufficient guarantees required against the granted facilities, provided the guarantees and their percentage are accepted by the Central Council.

- 2- The margin realized by the benefiting bank as a result of the investment of the granted facilities, shall be calculated in a way that guarantees to the concerned bank a coverage amounting to 75% of its participation in the Company.

The amount of granted facilities shall be determined in a way that the net yield on the facilities invested by the benefiting bank shall be equivalent to 75% of the value of its participation in the Company.

However, the BDL Central Council may authorize the concerned bank to exceed this percentage in case of insufficient capital and based on the importance of the Company's project.

- 3- The amount of the facilities granted to finance the participation of a bank in the Company pursuant to the provisions of this Article shall be automatically reimbursed at their maturity date, upon the discount of bonds invested therein, or upon the transfer of the shares held by the said bank in the Company's capital.
- 4- All the conditions of the facilities, particularly their duration, shall be set in the contracts to be signed with the concerned banks.
- 5- The abovementioned facilities may be increased whenever the bank intends to subscribe to new shares in the same Company, without prejudice to the provisions of this Article, particularly the provisions of Sub-paragraphs 4 and 5 of Paragraph "I".

III: Transfer of the Company's shares and rights of Banque du Liban

- 1- Prior to the transfer of any share in the Company, the concerned bank must notify Banque du Liban thereof and provide it with a report prepared by the Company's external auditor that shows the value of the shares to be transferred. Banque du Liban may appoint one expert or more, at the expense of the concerned bank, to assess the shareholders' rights in the Company.

In case the concerned bank objects to this assessment, the dispute shall be settled by ordinary arbitration, in accordance with the rules specified in Article 155 of the Code of Money and Credit.

- 2- The concerned bank must pay to Banque du Liban 50% of the profits that may be realized through the sale of the Company's shares and through the distribution of any dividends by the Company.

- 3- The amounts and revenues resulting from the sale of shares, excluding the percentage of profits due to Banque du Liban, shall be used either by reinvesting them within a maximum six-month period in shares of new Companies, in accordance with the provisions of this Article and throughout its implementation period, or by increasing the capital of the concerned bank.

IV: Conditions for BDL approval and required documents:

- 1- The concerned banks wishing to obtain the Central Council's approval to benefit from the provisions of this Article, must submit a request to the Governor's office in three copies, one of which being the original, along with the following documents:
 - a- A document evidencing the identities of the Company's shareholders or founders, the persons intending to participate in the capital subscription and the persons holding or expected to hold senior managerial positions (an individual extract from the Civil Status Register, an identity card, a passport, or a copy of the registration file at the Trade Register if any of the founders or shareholders is a legal entity).
 - b- Statements signed by each of the above-mentioned persons, including their curriculum vitae (degrees, experience and other material information), an accurate assessment of their net worth and all types of companies, in which any of them participate, whether directly or indirectly, or manage, along with the company type and relationship therewith (Chairman of the Board of Directors - member of the Board of Directors - Director - shareholder - partner - general partner - etc. ...).
 - c- A criminal record for each of the above-mentioned persons not more than three months old.
 - d- A statement specifying the percentage of participation of each shareholder or person intending to participate in the Company's capital.
 - e- The Company's bylaws or draft bylaws, and the administrative structure adopted or to be adopted.
 - f- An economic feasibility study regarding the Company and its prospective operations that fall within its scope of work, provided it covers the coming three-year period and includes the balance sheet, income statement, cash flow projections, and the employment opportunities created in the Lebanese market.
 - g- The financial statements of the last three years, as applicable, for previously established Companies.
 - h- The number of employees or persons expected to work in the Company.
 - i- The procedures followed or to be followed by the Company to comply with Corporate Governance principles.
 - j- Any other documents deemed necessary by Banque du Liban.
- 2- The benefiting bank must submit to Banque du Liban, on an annual basis, the Company's following documents:
 - Financial statements

- List of shareholders
 - List of the members of the Board of Directors, general managers and external auditors.
 - The external auditors' report on the Company's business.
- 3- Banque du Liban may, at any time, object to the appointment of a specific person as the Company's external auditor.

V: Follow-up and sanctions

- 1- The external auditor of the concerned banks shall verify the sound implementation of the provisions of this Article and shall promptly notify the BDL Governor and the Chairman of the Banking Control Commission of any detected violation or discrepancy.
- 2- The Banking Control Commission shall control the sound implementation of the provisions of this Article and shall immediately notify the BDL Governor of any violation thereof.
- 3- Any bank that violates the provisions of this Article shall:
 - a- Immediately reimburse the amount of facilities granted by Banque du Liban for any participation infringing the provisions of this Article.
 - b- Pay an interest amounting to 15% of the value of these facilities, accrued from their granting date until their effective settlement or until the detection of the violation, as decided by Banque du Liban.

Article 2:

Table IN13 attached to Basic Decision No 6116 of March 7, 1996, shall be repealed and replaced with the new attached text.

Article 3:

This Decision shall enter into force upon its issuance.

Article 4:

This Decision shall be published in the Official Gazette.

Beirut,

The Governor of Banque du Liban

Riad Toufic Salamé

BDL – Financing Unit

Statement of Decision No 6116 of March 7, 1996 - Basic Circular No 23

Form IN13

| Serial Number | Code of Loan Category | Loan Category | Code of Loan Type | Interest Rate | Total Loans granted by all Banks | Ceiling of Facilities granted by BDL |
|----------------------|------------------------------|---|--------------------------|---|---|---|
| ١ | PRDB | Loans granted to productive sectors and benefiting from an interest rate subsidy, excluding loans granted with a guarantee from Kafalat S.A.L. | | | LBP 333 billion | LBP 50 billion |
| | | - of which those granted in Lebanese pound | a3 | Yield of 2-year Lebanese TBs + 1.075% | | |
| | | - of which those granted in foreign currency | a3 | Three-month Libor rate + ٧.٧٥% | | |
| ٢ | RDEV | Loans granted in Lebanese pound for research and development purposes in productive sectors | rd | ٠.٧٥% | LBP 6.6 billion | LBP 10 billion |
| ٣ | ENVE | Loans granted in Lebanese pound to finance eco-friendly energy projects, which do not exceed 30 million Lebanese pounds each and do not benefit from an interest rate subsidy | ev2 | ٣.٧٥% - (50% of the yield of 1-year Lebanese TBs) | LBP 150 billion | LBP 225 billion |
| ٤ | ENVB | Loans granted in Lebanese pound to finance eco-friendly projects, which exceed the amount of 30 million Lebanese pounds each and benefit from an interest rate subsidy | a35 | Yield on 2-year Lebanese TBs + ٠.١٥% | LBP 50 billion | LBP 15 billion |
| ٥ | INFE | Loans granted to finance eco-friendly energy projects and financed by the EIB (European Investment Bank) and AFD | | | LBP 160 billion | LBP 240 billion |
| | | - of which those that do not benefit from an interest rate subsidy | a12 | Margin of EIB and AFD + 0.5% BDL commission + 3.75% bank margin less (150% of interest on 1-year TBs) | | |

| | | | | | | |
|---|------|---|---------------|---|-------------------|-----------------|
| | | - of which those that benefit from an interest rate subsidy | a35 | <p><u>The following rate shall be applied during the subsidy period:</u></p> <p>Margin of EIB and AFD + 0.5% BDL commission + ٣.42% bank margin less (70% of interest on 1-year TBs)</p> <p><u>The following rate shall be applied after the subsidy period:</u></p> <p>Margin of EIB and AFD + 0.5% BDL commission + ٣.42% bank margin <u>less</u></p> <p>1- (70% of interest on 1-year TBs) <u>for the portion of the balance that equals 5/8 of the loan, and for eight years at most.</u></p> <p>2- (150% of interest on 1-year TBs) <u>for the portion of the balance that equals 3/8 of the loan, and for five years at most.</u></p> | | |
| 6 | WBEV | Loans granted to finance eco-friendly projects for pollution reduction and financed by the World Bank | a11, a12, a35 | Margin of World Bank + 0.5% BDL commission + ٣.٥% bank margin less (100% of interest on 1-year TBs) | LBP 23 billion | LBP 23 billion |
| 7 | IN09 | Non-housing loans granted in Lebanese pound in accordance with the stipulations of Par. I of Article 10 bis of Basic Decision No 7835 of June 2, 2001 | n09, n19 | 40% of yield on 1-year Lebanese TBs + ٣.٣% | LBP 583.3 billion | LBP 350 billion |
| 8 | KAFB | Loans granted to productive sectors in Lebanese pound with a guarantee from Kafalat S.A.L. and benefiting from an interest rate subsidy | q2 | 40% of yield on 1-year Lebanese TBs + ٣.٣% | LBP 83.3 billion | LBP 50 billion |

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|----|------|---|-----|--|-----------------|------------------|
| 9 | HIN9 | Housing loans granted in Lebanese pound in accordance with the stipulations of Par. I of Article 10 bis of Basic Decision No 7835 of June 2, 2001 | n29 | 40% of yield on 1-year Lebanese TBs + ٣.٣% | LBP 667 billion | LBP 400 billion |
| 10 | HEPH | Housing loans granted in Lebanese pound under the Protocol signed with the Public Housing Institution | p | 20% of yield on 2-year Lebanese TBs + ٣.9% | LBP 600 billion | LBP 480 billion |
| 11 | HMLT | Housing loans granted in Lebanese pound under the Protocol signed between banks and the Housing System for Military Volunteers | m1 | ٢.١٢٨% | LBP 62 billion | LBP 62 billion |
| 12 | HJUR | Housing loans granted in Lebanese pound under the Cooperation Protocol signed between banks and the Cooperative Fund of Judges | jr | ٢.١٢٨% | LBP 22 billion | LBP 22 billion |
| 13 | HDPL | Housing loans granted to displaced under the Cooperation Protocol signed between banks and the Ministry of Displaced | dp | ٢.١٢٨% | LBP 30 billion | LBP 30 billion |
| 14 | HFSI | Housing loans granted in Lebanese pound under the Cooperation Protocol signed between banks and the General Directorate of Internal Security Forces | fs | ٢.١٢٨% | LBP 50 billion | LBP 50 billion |
| 15 | HDSG | Housing loans granted in Lebanese pound under the Cooperation Protocol signed between banks and the General Directorate of General Security | sg | ٢.١٢٨% | LBP 30 billion | LBP 30 billion |
| 16 | EDUS | Loans granted in Lebanese pound for the purpose of continuing studies in higher education institutions | u | ٣.٥% | LBP 30 billion | LBP 30 billion |
| 17 | EVES | Loans granted in Lebanese pound to finance eco-friendly energy projects and which do not exceed 30 million Lebanese pounds each and do not benefit from an interest rate subsidy | ev2 | ٠.٧٥% | LBP 10 billion | LBP 15 billion |
| 18 | EVER | Loans granted in Lebanese pound to finance the purchase of solar energy systems in rural areas at cost price, with UNDP cooperation, and which do not exceed 30 million Lebanese pounds each and do not benefit from an interest rate subsidy | ev2 | ٠.٧٥% | LBP 10 billion | LBP 15 billion |
| 19 | ENTP | Loans granted in Lebanese pound to entrepreneurs in order to develop new projects in | cin | ٠.٧٥% | LBP 7 billion | LBP 10.5 billion |

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|----|------|--|-----------------|--|------------------|------------------|
| | | the field of knowledge and innovation | | | | |
| 20 | HABT | Housing loans granted in Lebanese pounds by the Housing Bank | a7 | | LBP 80 billion | LBP 80 billion |
| 21 | MICR | “Micro-loans” granted in Lebanese pound with the consent of “micro-lending institutions” and “micro-loans” financed through facilities granted in Lebanese pound to these institutions or to financial institutions. | h1, h21, h22 | | LBP 22.5 billion | LBP 22.5 billion |

