

LAW NO. 308
ON BANK SHARE ISSUING AND TRADING,
BANK BOND ISSUING, AND BANK OWNERSHIP OF REAL ESTATE

The Parliament has adopted, and

The President of the Republic is promulgating the text of the following Law:

Article 1:

- 1- The shares that form the equity capital of a Lebanese bank constitute a single category governed by a single legislation covering ownership and trading.
- 2- All bank shares shall be registered and safeguarded at Midclear SAL, the central depository agency. Proofs of ownership, trading operations, share pledging, and the institution of other rights over bank shares shall be effected through the books of Midclear.
- 3- Trading in Lebanese bank shares shall be subjected to no legal restrictions, except those stipulated by Articles 89 and 147 et seq. of the Code of Commerce.

Article 2:

- 1- Subject to approval by the Banque du Liban, the shareholders' extraordinary meeting of a Lebanese bank may issue, in addition to ordinary shares, preferred shares that enjoy privileges, rights or priorities to be determined by the said extraordinary meeting. The provisions of Article 1, Par. 2 of this Law, shall govern preferred shares.
- 2- Preferred shares shall enjoy all rights stipulated by Article 105 of the Code of Commerce, except the right to participate in debates and the right to vote at the shareholders' meetings, and the right of membership of the Board. The bank's management, however, must provide the owners of preferred shares with the information and documents that are available to other shareholders.
- 3- The chairman and members of the Board, the general managers, their spouses and their children under age are prohibited from holding preferred shares, either

directly or indirectly, or under the umbrella of a natural or moral person, or by any other means.

- 4- Each time preferred shares are issued, their owners shall constitute by themselves a representative body whose task is to safeguard the rights of the said owners.

This representative body shall appoint one or several delegates. It shall take its decisions with the quorum and majority specified in Articles 198 and 199 of the Code of Commerce, except that the decisions specified in Article 111 of the said Code should be taken with the quorum and majority stipulated by Articles 202 and 204 of the said Code.

The delegates of preferred shares' owners are entitled to attend the shareholders' meetings, and to express the views of the said owners on issues to be decided by vote, but without exercising any voting right.

- 5- Contrary to the provisions of Paragraph 2 of this Article:
- (a) At shareholders' meetings, the owners of preferred shares may participate in the debate and may vote in proportion to their aggregate share in the bank's capital when the agenda includes the discussion of such issues as: (i) a change in the object or the legal form of the bank; (ii) the paying-up in kind of a capital increase; (iii) the dissolution of the corporation before term; or (iv) a merging or acquisition scheme in which the bank is a party.
 - (b) In case the shareholders' extraordinary meeting, mentioned in Paragraph 1 of this Article, decides a minimum ratio of profits to be distributed each year to the owners of preferred shares, and in case the said ratio has not been entirely paid for three consecutive financial years, the owners of preferred shares shall enjoy the same voting rights as other shareholders. This voting right at shareholders' meetings shall be exercised until the end of the financial year in which the dividends are paid in full for the said financial year, and for all the preceding years.

Article 3:

- 1- Subject to approval by the Banque du Liban, the shareholders' extraordinary meeting of a Lebanese bank may authorize the Board to grant its chairman and the members of the Board who serve in management positions, as well as the bank's

managers and employees or some of them, free option rights that would entitle them to subscribe to a number of the bank's shares.

- 2- The bank's Board shall set the conditions of granting option rights, their maturity dates, the time limits to use them, and the share subscription prices.
- 3- Option rights granted by the Board in virtue of this Article are not tradable, and the beneficiary may exercise his rights within the specified time limit. In case of death of the option right holder, this right will be transferred to his heirs or to his legatees. If death occurs during the period specified for exercising the option right, the heirs or the legatees may exercise the said right within a six-month period from the death date.
- 4- When option rights are exercised, the corporation must increase its capital by an amount equal to the nominal value of the resulting subscriptions. However, instead of increasing the capital in total or in part, the bank's Board may decide to assign a number of the bank's shares at subscription prices, in case these shares are available in its portfolio under the provisions of Article 5 of this Law, or if they are, for this specific purpose, purchased by the bank by using its accumulated, free profits.
- 5- Profits realized from exercising option rights by the Bank's employee, manager, or chairman shall be taxed according to the provisions of Chapter III of the Tax Code. They shall be, however, exempted from paying participation fees to the National Social Security Fund.

The said profits shall not be included in the computation of severance or separation pay.

Article 4:

- 1- In the following cases, subscribing to and trading in Lebanese banks' shares are subject to prior approval by the Central Council of the Banque du Liban:
 - (a) When the subscriber or the assignee acquires directly, or through a fiduciary contract in accordance with Law 520 of June 6, 1996, more than 5% (five percent) of the total shares of the bank or of the voting rights, whichever is higher.

- (b) When, upon assignment of the shares, the assignee holds 5% (five percent) or more of the total shares of the bank or of the voting rights, whichever is higher.

The above-mentioned portion of five percent includes the participation of the spouse and children under age, as well as the participation of any economic entity, as defined in the regulations issued by the Banque du Liban.

- (c) Apart from the number of assigned shares, when the assignor or the assignee is a member or member-elect of the Board.

- 2- The transfer of shares through inheritance or by will is not considered an assignment, as defined by this Article.
- 3- The provisions of Paragraph 1 of this Article are not applicable to shares subscribed by shareholders for the purpose of increasing the bank's capital, whether the increase is irreducible or not.
- 4- The provisions of this Article are not applicable to the assignment of preferred shares mentioned in Article 2 of this Law, even if the assignment is effected through a fiduciary contract in accordance with Law 520 of June 6, 1996. Moreover, these shares are not included in computing the proportion specified in Paragraph 1 of this Article.

Article 5:

Contrary to any other legislative text, the listing on organized financial markets of the shares of a Lebanese bank that is being established or those of a Lebanese bank registered on the Official List of Banks, or the purchasing by a bank of any portion of its own shares, is forbidden without an authorization from the Central Council of the Banque du Liban.

For such an authorization to be granted, the following conditions should be met as a minimum:

- 1- The shares of the concerned bank should be, in total and not in part, open to public subscription and tradable on organized financial markets, in accordance with its statutes or with the decisions of the shareholders' extraordinary meeting.
- 2- The Bank's statutes or the shareholders' extraordinary meeting should determine:

- The proportion of shares specified in Paragraph 1 of this Article that is open in effect to public subscription and tradable on organized financial markets.
 - The trading system applicable to shares not listed on these markets.
- 3- The bank that intends to purchase a portion of its own shares, that are listed in effect on organized financial markets, should prove that it holds enough free reserves to carry out the transaction.

The authorization granted by the Banque du Liban does not exempt the concerned bank from complying with laws and regulations that govern organized financial markets and are not contrary to the provisions of this Law.

Article 6:

When the authorization of the Banque du Liban is required, the Central Council shall ascertain, before deciding on the establishment of a bank or on the transfer of a bank's shares, the capacity, material capabilities, and moral integrity of the founders, subscribers and assignees.

Article 7:

The Central Council of the Banque du Liban has the right to object:

- 1- To any assignment of a Lebanese bank's shares that may cause, directly or indirectly, any shareholder or economic group (as defined by the regulations of the Banque du Liban) to lose effective control, even though relatively, over the management of the bank or over the shareholders' voting rights.
- 2- To the election of the chairman or any member of the board of Lebanese banks, or to the continuation of the mandate of any chairman or member.

The concerned bank and its shareholders shall comply with the objections of the Banque du Liban. In this respect, the Central Council shall have discretionary powers, to be exercised in accordance with public interest.

Article 8:

- 1- Any legal action that aims at enabling an assignee to acquire shares of a Lebanese bank in violation of the provisions of Paragraph 1 of Article 4 of this Law shall be null and void.

The Governor of the Banque du Liban has the authority to freeze trading in such shares and the exercising of relevant voting rights. Such a decision shall be notified to Midclear, with a request to sell the said shares, by auction or through organized financial markets, on behalf of the assignee and under his own responsibility.

- 2- Any person who undertakes, participates, or intervenes in any manner, whether on purpose or with bad faith, to acquire shares of a Lebanese bank in violation of the provisions of Paragraph 1 of Article 4 of this Law, is punishable with imprisonment for a period of six months to three years, and with a fine ranging between the value of the transaction and an amount threefold this value.

The violator shall be prosecuted according to the procedures specified in Article 206 of the Money and Credit Code.

- 3- Any agreement that aims to guarantee such an assignment of shares or to enforce compensation in case of non-execution shall be null and void.

Article 9:

Contrary to any other legislative text, namely the provisions of Article 124 of the Code of Commerce, the Central Council of the Banque du Liban has the authority:

- 1- To authorize any bank, financial institution or leasing company registered with the Banque du Liban to issue bonds in any currency.
- 2- To approve, under special regulations to be established for this purpose, the maximum value of bonds that may be issued by a bank, financial institution or leasing company registered with the Banque du Liban.

Article 10:

Lebanese banks operating in Lebanon shall be considered as purely Lebanese companies regarding the ownership of real estate or the holding of real estate rights in buildings to be

used as headquarters, regional departments or branches. This ownership is, however, subject to the approval of the Central Council of the Banque du Liban, in compliance with the provisions of Article 153, Paragraph 2 of the Money and Credit Code.

Article 11:

The temporary acquisition by banks, in virtue of Article 154 of the Money and Credit Code, of real estate properties or real estate rights for the purpose of recovering doubtful debts, shall be subjected to a registration fee equivalent to 2% (two percent) of the value of the assessment, as approved by the Banque du Liban in consultation with the Banking Control Committee.

Article 12:

- 1- Within one year from the enforcement of this Law, Lebanese banks having already issued special shares for subscription and trading on organized financial markets must conform with the provisions of this Law, namely those of Article 5.
- 2- The statutes of any Lebanese bank may be amended through the decisions of a shareholders' extraordinary meeting, taken with the quorum and majority that are required for an ordinary meeting, provided the amendment is restricted to canceling the categories of shares that were issued according to the concepts adopted before the promulgation of this Law.

Article 13:

The Central Council of the Banque du Liban shall set out the necessary regulations to implement the provisions of this Law.

Article 14:

Upon the entry into force of this Law, the following legislative texts shall be repealed: (a) the Legislative Decree No. 87/83 of September 16, 1983, on the regulation of trading in bank shares, as amended by Law No.32 of February 11, 1991; and (b) Law No. 521 of June 6, 1996, on determining the form of and trading in Lebanese bank shares, and on bond issuance. Upon issuing preferred shares or option rights by Lebanese banks, all legislative and regulatory texts that are partly or entirely inconsistent with the provisions of this Law shall cease to be operative, especially the provisions of Articles 104, 105, 185, 265 (Par.2), and 455 of the Code of Commerce, and the provisions of Articles 112 and 113 of the said Code.

Article 15:

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

Babda, April 3, 2001

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