

**Banking Law
No. (2) of 2002**

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President of the Executive Committee of the Palestinian National Authority

President of the Palestinian National Authority

After reviewing Exchange Law No. 26 of 1941, with its amendments regarding Gaza Province,

and reviewing Temporary Bank Law No. 94 of 1966, pertaining to the West Bank Province,

and Law No. 2 of 1997, regarding the Palestinian Monetary Authority,

and based on the proposal by the Monetary Authority,

and on the Draft Law presented by the Council of Ministers,

and after ratification by the Legal Council in a session held on September 15, 2001,

We hereby issue the following law:

Chapter One

Definitions and General Provisions

Article (1)

1. In applying the provisions of this law, the following words and phrases shall have the meaning described below, unless the context demands otherwise:

Monetary Authority	Palestinian Monetary Authority;
Governor	Governor of the Palestinian Monetary Authority;
bank	Any publicly owned company or institute licensed to engage in financial transactions according to law in force in Palestine;
Islamic bank	Any publicly owned company whose objective is to compile the savings of corporeal and non-corporeal persons for use in funding and investment for the benefit of the person or group in accordance with the rulings of Islamic law;
joint bank	A bank that includes the participation of one or more foreign bank branches with one or more licensed banks, where the percentage of participation by the foreign bank is no more than 49 percent, and the participation by the licensed bank is at least 51 percent.
licensed foreign branch	Any branch of a foreign bank licensed by the Monetary Authority to make financial transactions in Palestine according to the provisions of this law;
branch	Any work place, in part or whole, that forms a subordinate part, for legal purposes, of a standing bank and which conducts financial business.
financial company	Any company formed and registered for the purpose of making financial transactions for funding development projects, investments, investment management, or brokerage according to the provisions of this law.
financial operations	All financial services, to include receiving deposits, using these deposits, either whole or in part, with

	other bank resources for investments, loans, or any other manner permitted by this law;
representative offices	Offices which represent foreign banks in Palestine. Their activity is restricted to studying markets and investment opportunities, without engaging any commercial or financial transactions;
person	Any real or artificial person;
home country	Any country, other than Palestine, in which the headquarters for a foreign bank is located and in which it engages in business;
oversight and monitoring agency	The agency directly responsible for monitoring the financial operations in the home country and the foreign bank branches operating in Palestine, without contravention of any powers of the Monetary Authority in oversight and monitoring;
important share	Any direct or indirect possession of ownership rights by a corporate body or project which constitutes 5 percent or more of the capital and which may lead to the same corporate body or project practicing a large amount of control of administration of policy;
control	Direct or indirect power to exercise real influence over the acts and decisions of another person;
influential interest	Control over at least 10 percent of the capital of a corporate entity;
subsidiary	Any corporate entity in which a person or group of persons, working in agreement, owns the equivalent of 51 percent or more of the voting shares or shares that allow that person or group of persons to exercise effective control over the administration and policy of the subordinate institution;
unimpaired capital	Any capital after correction for actual or anticipated losses and non-performing or bad debt. This includes allocations for all items in the general budget and all off-budget items, and any actual or

- anticipated reduction in the value of the bank's holdings;
- foreign branch capital Money transferred to Palestine in response to instructions from the Monetary Authority to the licensed foreign branch to allow it to engage in financial operations within Palestine;
- deposit The amount of money resulting from the deposit of cash currency, the return on a check, promissory note, or any other instrument. This term is also used for specie deposits delivered to the bank for a safekeeping fee. These deposits are executed by an agreement between the bank and the customer, which determines the nature of the deposit and the amount of interest, if any;
- credit All the facilities offered by the bank to its customer against a return or return with interest and/or any other rights;
- conservator The director appointed by the Monetary Authority to act as general manager in the event a bank encounters difficulties;
- administrative committee The committee appointed by the Monetary Authority to provide consultations to the delegated director if the bank encounters difficulties.
2. Any reference to the application of accounting principles means the International Accounting Standards issued by the International Accounting Standards Board (IASB).

Article (2)

1. The provisions of this law shall apply to all banks and financial institutions engaging in banking activities in Palestine.
2. In applying the provisions of this Law, all branches in Palestine belonging to a single bank shall be considered a single bank.

Article (3)

1. The Monetary Authority is the only agency authorized to grant necessary licenses in accordance with the provisions of this law. It may confirm through any necessary

and appropriate means that companies and institutions engaging in financial transactions are not in violation of the provisions of this law.

2. The Monetary Authority is the sole agency authorized to execute the provisions of this law and to issue rules and instructions to implement its requirements.

Article (4)

No individual or legal entity shall engage in any banking activities without previous written authorization of the Monetary Authority.

Article (5)

No person shall use the term “bank” or any equivalent or similar expression in any language in its documents, publications, commercial address, name, or publicity, unless authorized by the Monetary Authority.

Article (6)

1. The Monetary Authority shall keep a record of all licensed banks, licensed foreign branches, representative offices and finance companies in a separate register it maintains for this purpose. The register shall record all relevant information.
2. The Monetary Authority shall publish periodically in the Official Gazette a list of all banks and financial corporations engaged in the banking business in Palestine.

Chapter Two

Licensing

Article (7)

License applications shall be prepared and submitted in the manner determined by the Monetary Authority.

Article (8)

The conditions for issuing licenses are as follows:

1. a. All banks requesting a license shall be joint-stock public companies, in accordance with the laws in force in Palestine. Branches of foreign banks are not required to have this form, but must be registered as a foreign company in accordance with the Corporation Law.
- b. Jointly owned banks may be exempted from the requirement to be a joint-stock public company. The Monetary Authority shall determine in its directives the percentage of participation in both domestic and foreign banks.

2. a. The shares of the founders of a bank shall at least 20 percent of the capital and not more than 50 percent, and the remaining capital shall be allocated for public subscription. The participation of individuals, legal entities, and groups with common interest shall not exceed a percentage of the capital, to be determined by the Monetary Authority in directives issued for this purpose.
- b. If the capital is not fully subscribed, the Monetary Authority may authorize the founders to cover the remaining capital, provided they comply with the provisions of the preceding paragraph.
- c. The Monetary Authority shall approve the proposed articles of incorporation and by-laws or similar organizational documents of all licensed banks, and the proposed management contracts with any team to be entrusted with management responsibilities for such banks. No amendment to the articles of incorporation or by-laws of such banks shall be made without prior approval of the Monetary Authority. The Monetary Authority shall also approve any renewal or change in the management contract. This provision shall apply to foreign banks operating in Palestine.
- d. The applicant will provide documentation to confirm the following:
 1. Compliance with this law and laws, directives, instructions, and decisions in force in Palestine;
 2. That the proposed capital is appropriate for the type and volume of banking activity requested, and that the capital is no less than the minimum requirement in instructions from the Monetary Authority;
 3. That the amount and nature of assets currently or expectantly accountable is sufficient to support the nature and volume of banking activity requested, according to the instructions issued by the Monetary Authority on this topic;
 4. That the directors, auditors, and competent officials have the banking experience to ensure that the banking operations are conducted in a secure manner, according to the determinations of the Monetary Authority;
 5. Possession by the applicant of detailed and appropriate ledgers and records for engaging in financial activity, and sufficient for preparing financial statements according to the requirements of this law and in conformity with international accounting standards;
 6. Presentation of a feasibility study that the bank and branch operations will be appropriate and profitable, and that they will maintain sufficient liquidity at all times to ensure good-faith operations in the bank or branch;

7. Satisfaction of any condition or request the Monetary Authority deems necessary and appropriate in light of the specific request.

Article (9)

1. The Monetary Authority shall decide on the application within three months of the date of submission, and inform the applicant in writing in the event of approval, or by registered mail (or other suitable means) in the event of denial.
 - a. Upon preliminary approval, the Monetary Authority shall grant the applicant a period of six months in which to complete the procedures for commencing operations. At the end of this period, the situation will be reviewed to determine whether final approval should be granted.
 - b. The Monetary Authority may extend the above-mentioned deadline, as needed, for an additional period not to exceed six months.
 - c. Upon obtaining final approval, banks shall commence their activities within 30 days of the date on which said approval was granted. An additional 30 days may be granted if necessary.
 - d. If a bank fails to commence banking business within the prescribed deadline as stated in Paragraph (c) above, including extensions, its license shall be automatically nullified.
3. A decision to refuse a license application must be justified, and applicants may appeal decisions to a competent legal authority within one month of its date of issue.
4. If the applicant does not fulfill the application requirements or execute the requests of the Monetary Authority according to the paragraphs of this article, the applicant will be considered to have relinquished his application.

Article (10)

1. A licensed bank with headquarters in Palestine may not open, relocate, or close a branch inside or outside Palestine, or open a representative office abroad, without first securing the written approval of the Monetary Authority. The application shall include a feasibility study and justification in support of the proposed action.
2. The Monetary Authority shall have the right to approve or reject applications for opening bank branches within three months of the date of application. Denials must be justified.

Article (11)

1. No foreign bank may open a branch banking office in Palestine unless it has obtained a license to do so from the Monetary Authority.

2. Granting the above-mentioned license shall be subject to the following conditions:
 - a. Specification of the location and nationality of the main office of the bank requesting a license;
 - b. The branch must be subject to supervision and control by the competent agency in its home country and must have obtained written approval from said agency and its headquarters;
 - c. There must be reciprocal treatment concerning the opening of branches in Palestinian and the foreign country, unless the Monetary Authority instructs otherwise;
 - d. The branch of the foreign bank must be registered in Palestine as a foreign subsidiary of the parent company located outside Palestine. Its registration in Palestine must be in accordance with the law;
 - e. The licensed foreign branch must present a written pledge from its administration in the home country stating its liabilities in the operation of the branch according to current laws in Palestine and instructions of the Monetary Authority. The licensed foreign branch shall be subject to direct oversight, monitoring and inspection by the Monetary Authority in Palestine;
 - f. The foreign bank must submit a pledge confirming its responsibilities to the liabilities of its branch in Palestine;
 - g. The foreign bank shall obtain a letter from the supervision and control agency in the home country confirming compliance with all the requirements of the oversight and Monetary Authority. This letter must also state that the oversight and monitoring agency takes note of the written pledge as explained in the paragraph above;
 - h. The Palestinian Monetary Authority shall review the current oversight instructions in the home country of the licensed foreign branch to ensure their sufficiency and compliance with generally accepted oversight procedures.

Article (12)

The Monetary Authority may authorize foreign banks and financial institutions not registered in Palestine to establish representative offices in Palestine, in accordance with the instructions and directives it shall establish for this purpose.

Article (13)

If a group of persons desires to establish a company that engages in financial transactions, they may only register this company according to the Corporation Law after obtaining initial approval from the Monetary Authority.

Article (14)

The Monetary Authority shall collect fees for license fees payable to the general treasury account for all fees, to include annual fees, fees for establishing branches, and any other fees or decrees it imposes on the provision of banking services in all branches and forms, according to directives issued for this purpose.

Chapter Three

Permitted and Prohibited Financial Transactions

Article (15)

All banks may engage in the following activities:

1. Accept all types of deposits, with or without interest or other return;
2. Offer direct and indirect credit facilities, in accordance with the directives issued by the Monetary Authority;
3. Purchase and sell, on their own behalf or on behalf of others, money market instruments approved by the Monetary Authority, futures, and debt securities;
4. Offer money transfer services;
5. Purchase and sell foreign currencies;
6. Issue and manage means of payment, including credit/debit cards, and all forms of checks, after obtaining prior approval from the Monetary Authority;
7. Discount bills of exchange and other commercial instruments;
8. Provide banking services in accordance with Islamic law after obtaining permission from the Monetary Authority;
9. Maintain and manage valuable property, including securities;
10. Provide information and trust funds services;
11. Provide services as investment portfolio manager or financial agent, in accordance with the directives issued by the Monetary Authority;
12. Provide banking consultation services to customers;
13. Provide services involving documentary credits and letters of credit;

14. Any other banking activities not in contravention of the provisions of this law.

Article 16

1. No licensed bank shall, either alone or in concert with one or more other parties:
 - a. Hold a share in a legal entity or project of more than 10 percent, or hold a share in a group of legal entities or projects that exceeds 50 percent of the base unimpaired capital. If a bank wishes to hold a higher percentage of shares, it must obtain approval from the Monetary Authority;
 - b. Grant a credit to a person or legal entity equal to over 10 percent of the bank's unimpaired capital, without the written approval of the Monetary Authority. In no case may the value of a credit granted exceed 25 percent of the bank's unimpaired capital.
2. Banks shall not be permitted to:
 - a. Enter into any transaction or engage in any practice that constitutes, individually or jointly with other entities, domination and control of the banking, money, or foreign exchange markets in Palestine, in opposition to the provisions of this law;
 - b. Enter into contracts with customers without obtaining sufficient information on them, which may result in economic losses to the bank and its customers;
 - c. Engage in any commercial or industrial activities, or own any goods or property, except in payment of a debt. Such goods must be disposed of within a period of two years from the date they were acquired, in accordance with Article 17 of this law.
 - d. Deal in real or movable property by way of buying, selling, or barter, except for:
 1. Property used in carrying out its activities or providing services to its employees. Such property may not exceed such percentage of the unimpaired capital of the bank as may be specified in directives issued by the Monetary Authority;
 2. Real or movable property owned by the bank in accordance with Article 17;
 3. Notwithstanding the provisions of Article 17, real property owned by a bank may not be transferred in payment of a debt owed to another party without the permission of the Monetary Authority.
 - e. Grant credit to any person with a direct or indirect relationship with the bank without obtaining prior permission from the Monetary Authority. For purposes of this article, persons with a relation to the bank are:

1. Chairman of the board, members of the board of directors, the general manager, and his secretary;
 2. Any person with a commercial interest in the bank, or blood relation twice removed, or relation through marriage, with any member or members of the board of directors, any director or any employee with responsibility over the policy and administration of the bank.
- f. Offer credit to any person with a direct or indirect relation to the bank where this person holds a commercial or material interest in the bank of 5 percent of the unimpaired capital, except after obtaining prior permission from the Monetary Authority;
- g. Grant credit to a person or a group of persons working together that hold 10 percent or more of its unimpaired capital or in whose capital the bank holds a significant interest, without the approval of the Monetary Authority;
- h. Grant credit to guarantee the bank's own shares.

Article (17)

As an exception to the provisions of the preceding article, banks may hold shares or any other property obtained as collateral in fulfillment of credits granted by them or debts owed to them, even if their value is in excess of the percentage stipulated in the preceding article. In such cases, banks shall dispose of any such shares or movable property within two years from the date of its acquisition. This period may be extended with the approval of the Monetary Authority for up to five years.

Article (18)

Any licensed bank that discovers in its current activities an infraction of the provisions of Articles 16 and 17 above shall notify the Monetary Authority of such infractions within three months of the effective date of this law, and shall rectify its situation within the deadline determined by the Monetary Authority.

Article (19)

No bank shall provide loans or credit facilities of any kind to its auditors or their wives or children, or to any concern in which they, individually or collectively, are partners or members of the board of directors. This prohibition shall apply whether they are involved directly or as guarantors, and any facilities granted to them with collateral other than personal guarantees shall be subject to the approval of the Monetary Authority.

Article (20)

No bank may terminate or interrupt its operations in Palestine, or cease its performance, without the prior approval of the Monetary Authority, which may establish the manner and conditions applicable to such action in order to protect the interests of depositors.

Chapter Four

Bank Management

Article (21)

1. The articles of incorporation and by-laws of each licensed bank shall set forth its name, address, objectives, scope of authority and powers of its board of directors, its authorized, subscribed and paid-up capital, its share categories (including their numbers and nominal value), and the voting rights associated with the share categories.
2. Banks must obtain the prior approval of the Monetary Authority for the date of the general assembly with sufficient time for the Monetary Authority to grant approval. A representative of the Monetary Authority shall attend the initial session and general assembly as an observer. He shall report to the Monetary Authority and shall have the right to make any comments or recommendations to the shareholders that he considers appropriate.
3. Each licensed bank shall establish internal regulations to ensure that its operations are consistent with its articles of incorporation and by-laws.

Article (22)

1. The overall direction of the management of each licensed bank shall be undertaken by a board of directors formed in accordance with the laws in force in Palestine. The majority of the board members shall be permanent residents of Palestine. Neither the chairman nor any member of the board of directors may serve as general manager, deputy general manager, or any other senior position in the bank, with or without payment, unless approved by the Monetary Authority.
2. Licensed banks shall provide the Monetary Authority with the names of the nominees for the board of directors and the executive committee.
3. All nominees for membership on the board of directors shall meet the conditions specified by the Monetary Authority.
4. The Monetary Authority shall have the right to object to any candidate for membership or member on the board of directors.

5. No person shall serve as a member of the board of directors or in a leadership position of more than one licensed bank in Palestine without the prior approval of the Monetary Authority.
6. The Monetary Authority shall be responsible for supervising the activities of the founding committees of licensed banks, prior to the establishment of the board of directors.

Article (23)

- A. No person shall serve as a director, general manager, deputy general manager, or other senior management official of a licensed bank unless he meets the following conditions:
 1. Must be of good reputation;
 2. Must have appropriate technical skills and experience;
 3. Must not have been convicted of any crime of fraud or dishonesty for which he has not regained his honor;
 4. Must not have been responsible for the collapse or attachment of grave loss to a banking institution in which he served as director or member of the board of directors;
 5. Must not have declared bankruptcy or failed to repay his debts;
- B. Members of the board of directors are exempt from the provisions of Paragraph A (2) above.
- C. The provisions of this article shall apply to all management staff of authorized foreign branches and Islamic banks.

Article (24)

1. The board of directors of a licensed bank shall have the following responsibilities:
 - a. Determine the bank's policies and regulations;
 - b. Supervise the bank's activities, in accordance with current law, directives, and instructions;
 - c. Elect the board chairman and one or more deputy chairmen;

- d. Appoint the general manager and deputy general manager of the bank, subject to the approval of the Monetary Authority, which shall provide justification for any rejection;
 - e. Any other responsibilities stipulated by the relevant legislation or the bank's by-laws;
 - f. Elect an internal audit committee from the members of the board.
2. All members of the board of directors of a licensed bank shall carry out their duties faithfully and confidentiality, and shall be held individually or jointly responsible for any negligence resulting from the failure to carry out their prescribed duties.

Article (25)

The general or regional manager of a licensed bank shall be responsible for the day-to-day management of the bank and execution of the policies adopted by its board of directors.

Article (26)

1. All present and former directors, officers, and employees of banks operating in Palestine shall retain in strict confidence all information and documents pertaining to any customer of the bank and acquired by them in the course of performing their duties. No such person shall disclose any such information or enable a third party outside the bank to have access to it, unless disclosure is made:
 - a. With written consent of the customer;
 - b. In compliance with a court order.
2. All violations of this article shall be punished with penalties as stipulated in this law.

Article (27)

1. Any person who serves as the chairman or member of the board of directors, general manager or his deputy, regional manager or his deputy, or other employee of a licensed bank shall cease to hold such office or serve in such capacity if he is convicted of any offense involving theft, fraud, embezzlement, forgery, fabrication, bribery, or breach of trust, or if he is unable to pay his debts owed to the bank.
2. No board member or bank employee may be employed in any capacity by another bank or financial institution.

Chapter Five

Capital, Reserves, and Other Accounts of Banks

Article (28)

1. The Monetary Authority shall determine the minimum capital requirements for banks, whose capital shall not be increased or decreased without the approval of the Monetary Authority.
2. No individual or group of individuals working together shall own more than 10 percent of the capital of a licensed bank without the written approval of the Monetary Authority.

Article (29)

1. All licensed banks shall maintain adequate capital in accordance with the nature and scope of their activities and those of their branches and subsidiaries, in compliance with the directives and regulations issued by the Monetary Authority.
2. No licensed bank may reduce its capital by repurchasing shares, without the prior approval of the Monetary Authority.

Article (30)

No bank operating in Palestine may participate in the capital of another bank without the written approval of the Monetary Authority.

Article (31)

1. Each licensed bank shall appropriate 10 percent of its net annual profits to a legal reserve account until such account equals the minimum authorized capital of the bank.
2. The appropriation required by Paragraph (1) of this article shall apply to the licensed foreign branches of foreign banks operating in Palestine, and such reserves may not be transferred outside Palestine.
3. The Monetary Authority may require any bank to allocate additional reserves, in light of the prevailing conditions, to ensure that the bank maintains a sound financial position.
4. The Monetary Authority may require banks to allocate a certain percentage of profits, at least 1 percent but not more than 2 percent, for scientific research, training, and development, as determined by the Monetary Authority.

Article (32)

No bank shall distribute profits to its shareholders without the prior permission of the Monetary Authority, after deducting the required allotments to meet its obligations and cover founding expenses.

Licensed branches of foreign banks may not transfer their profits without the prior approval of the Monetary Authority.

Article (33)

The Monetary Authority shall determine the capital adequacy ratio and may require banks to comply with this ratio.

Article (34)

The Monetary Authority shall determine the rules for calculating the ratio and other risk criteria with which each bank must comply with respect to its capital, assets, liquidity, capital components, and required reserves, in accordance with the circumstances of each bank and the opinion of the Authority concerning the total risks in its banking activities.

Article (35)

The Monetary Authority may determine appropriate rules concerning credit ceilings, expenditures, tariffs, and related conditions.

Article (36)

The Monetary Authority shall determine the required liquidity ratios in accordance with the activities of each bank, as well as the minimum requirement for liquid assets, the specific categories thereof, and the method of determining this liquidity level.

Article (37)

1. The Monetary Authority shall determine the required reserves for banks and the return to be paid to banks by the Authority on these reserves.
2. The required reserves shall be deposited with the Monetary Authority in accordance with the instructions to be issued by the Authority for this purpose.

Article (38)

The Monetary Authority shall determine instructions for the following:

1. Requirements concerning the aggregate value for some of the bank's investments.

2. Requirements concerning the classification and evaluation of assets in the composition of allocations for substandard and nonperforming loans, and the method of calculation interest on them.
3. Restrictions or conditions concerning:
 - a. The types and forms of credits granted by the bank;
 - b. Matching maturity rates of assets and liabilities;
 - c. Disturbances resulting from uncovered positions in foreign exchange or precious metals, in excess of the permitted ceiling.
4.
 - a. The types of banking services and activities permitted in accordance with the provisions of this law;
 - b. To ensure the accuracy of data provided to bank customers, prevent misleading or inaccurate information, ensure the protection of banking secrecy and the exchange of information between banks and their customers;
 - c. Conditions and directives related to the exchange of services provided by banks;
 - d. Treatment of complaints by bank customers;
 - e. Any other elements of risk.

Chapter Six

Accounts and Reports

Article (39)

The fiscal year of all banks operating in Palestine shall begin January 1 and end December 31 of each calendar year.

Article (40)

All banks operating in Palestine shall keep accurate and current financial books and account records. Following the end of each fiscal year, it shall prepare financial statements accurately reflecting the results of its operations during that year and its financial condition at the end of such year, in accordance with International Accounting Standards (IAS).

Article (41)

1. All licensed banks shall have an audit committee of directors appointed by the board of directors. A majority of the members of the audit committee shall not be officers or employees of the bank.
2. The responsibilities of the audit committee shall include:
 - a. Review of the annual financial statements of the bank and other financial information provided to shareholders of the bank;
 - b. Ensure that the bank's activities are in compliance with applicable law;
 - c. Review of recommendations made by the bank's independent auditors and internal auditors concerning accounting methods and internal controls, and the submission of recommendations to the board of directors of the bank concerning such matters;
 - d. Review of reports by internal auditors or other compliance officials of the bank, and the conduct of independent inquiries the committee deems appropriate concerning compliance by management with legal provisions and with the bank's business practices, procedures and by-laws;
 - e. Recommend the choice of external auditors to the board of directors for presentation to the shareholders;
 - f. Any other responsibility set out in regulations issued by the Monetary Authority.

Article (42)

1. The financial statements, books, and account records of every bank shall be audited by qualified auditors appointed at the annual meeting of the bank and licensed by the competent authority. Auditors must have the required skills and experience to carry out their duties, and must not be indebted to the bank or have an interest in it, nor be employed by the bank as manager, employee, vendor, or agent. Deposits by the auditor of moneys or possessions of less than 2 percent of his shares are not considered holding interest in the bank. Auditors shall be approved by the Monetary Authority.
2. If the bank delays for over three months in appointing an auditor, the Monetary Authority shall appoint one and determine his compensation, which shall be paid by the bank.
3. The independent auditor of a bank operating in Palestine shall:

- a. Comply with the terms and conditions that govern the auditing profession, in accordance with international auditing standards;
 - b. Respect the complete confidentiality of information obtained through his work, even after the completion of his work with the bank;
 - c. After notifying the Monetary Authority, the external auditor must present an annual report to the bank's general assembly, stating that the audit was conducted on the bank operations and its accounts in accordance with International Accounting Standards. The report will state that the bank's financial statement, in his opinion, represents a fair and trustworthy picture of the bank's financial position on the date of the general budget as well as the results of its operations and cash flows for the year ending on that date, in accordance with International Accounting Standards;
 - d. The external auditor must present in his report (or in a separate report) any violation of the law, to include regulations, instructions, decrees, and instructions specifically from the Monetary Authority;
 - e. The external auditor must ensure the efficiency of internal oversight for the bank, in addition to investigating the efficiency of allocations against possible risks in assets and liabilities;
 - f. Provide the board of directors with a detailed report on any weak citizen in the system of internal accounting and supervision, or any other matters discovered in the course of the audit that require attention;
 - g. Verify the accuracy of the data provided to him during the audit.
4. The bank must send a report with all financial statements attached to the Monetary Authority at least two months prior to the annual general assembly
 5.
 - a. The external auditor must provide the Monetary Authority a copy of any report prepared for the bank in the scope of the investigative function for which he was appointed and which may be requested by the Monetary Authority.
 - b. The Monetary Authority may require the auditor to provide any data or explanations it deems necessary, and may assign to him or another party any tasks it deems necessary. The auditor may consult with the Monetary Authority whenever necessary.

Article (43)

The Monetary Authority shall establish regulations governing the confidentiality of accounts at banks and on the indebtedness and credits granted to their customers in a way

that ensures its confidentiality and the exchange of data necessary for sound extension of credit.

Article (44)

Each licensed bank shall file with the Monetary Authority a copy of each report submitted to its shareholders concerning its activities or financial condition within one week after the date of submission of any such report to its shareholders. Each licensed bank also shall provide the Monetary Authority a copy of the minutes of each annual or special meeting of the shareholders' general assembly within 30 days after the date of such meeting.

Article (45)

After approval by the Monetary Authority of its balance sheet and of its profit and loss statement each year, every bank shall publish these annual accounts together with its auditor's report in at least two daily newspapers of general circulation in Palestine no later than June 30 of the year in which the accounts were prepared.

Article (46)

All banks shall submit reports, financial statements, and other information on their activities and those of their subsidiaries on a regular basis to the Monetary Authority, in accordance with the directives of the Authority.

Chapter Seven

Inspections and Handling of Difficulties

Article (47)

1. The Monetary Authority may send one or more inspectors at least once a year to examine and inspect the books, records and financial statements of each bank. The purpose of the examination shall be to verify the soundness of its financial position, its capital adequacy, quality of assets, efficiency of operations and management of the bank, and the adequacy of its liquidity to meet its legal and operational requirements.
2. All banks shall provide representatives of the Monetary Authority entrusted with such examination and inspection full access to all books, registers, accounts and documents, and any other facilities they request for completion of the examination or inspection.
3. The examination and inspection shall include, but not be restricted to, assessment of the performance of internal controls, preventive measures, corrective actions, and financial controls in place at the bank.

4. The Monetary Authority may conduct inspections of the branches of licensed banks operating abroad and of licensed foreign branches of foreign banks operating in Palestine.
5. The Monetary Authority may appoint investigative specialists to assist it with respect to the examination or inspection of any matter or operation tied to any bank. The specialist will be assigned, if necessary, outside the circumstances of the inspection and normal documentation. The bank will be required to pay for this investigation.

Article (48)

Upon completion of the inspection, if the Monetary Authority believes that the bank has violated any of the provisions of this law or its related orders and directives, or that the bank operated against the best interest of the depositors, it may take necessary measures to deal with such violations.

Article (49)

1. If the Monetary Authority determines that a bank is facing serious difficulties that affect citizens' deposits or has committed infractions that affect the solvency of the bank or undermine the stability of the banking system in Palestine, it may take one or more of the following actions:
 - a. Suspend or remove the general manager or any administrator or employee of the bank;
 - b. Suspend the board of directors, its chairman, or any of its members;
 - c. Appoint a conservator to monitor the activities of the bank;
 - d. Appoint a special administrative committee to the bank to provide consultations and advice to the conservator. The board of directors may not exercise its authority during the tenure of the special administrative committee. The conservator shall be president of the committee;
 - e. Appoint a private monitor to oversee administration of the bank.
2. The Monetary Authority may pass any resolutions and take any appropriate actions to remedy the situation of the bank in question without consultation with the bank. It also may define the duties and remuneration of any administrators and employees it appoints (at the bank's expense), and may require them or employees of the bank to provide any documents, registers, or data required in connection with the management of the bank.
3. Any bank director, officer, or employee removed from his position (by the Monetary Authority pursuant to this article) shall not be entitled to perform any activity on

behalf of the bank and shall be suspended from work for a certain period or indefinitely, as determined by the Monetary Authority. Such a person shall not receive any salary or other compensation from the bank during the period of suspension.

Chapter Eight

Infractions, Penalties, and Revocation of Licenses

Article (50)

Any person who violates any provision of articles 3 or 4 of this law shall be subject to a fine by the Monetary Authority of not less than US\$5,000 or its equivalent in transferable currency and not more than \$200,000 or its equivalent in transferable currency, or imprisonment for no more than three years, or both.

Article (51)

Any person who violates any provision of articles 8/2/c, 10/1, 16, 18, 19, 20, 28, 29, 30, 31, 32, or 37 of this law shall be subject to a fine by the Monetary Authority of not less than JD 5,000 and not more than JD 150,000, or imprisonment for no more than two years, or both.

Article (52)

Any violation of any provision of articles 26, 40, 42, 43, 44, 45, or 46 of this law shall be subject to a fine of not less than JD 5,000 and not more than JD 100,000, or imprisonment for up to one year, or both.

Article (53)

1. The Monetary Authority shall issue directives establishing monetary penalties to be assessed on any bank failing to maintain the liquidity requirements established pursuant to this law, which penalty shall continue to be assessed for as long as the deficit continues. The penalty shall be collected according to the provisions of this law.
2. In addition to the stipulations of Paragraph 1 above, in the event of any repeated violation of the liquidity requirement by a bank, the Monetary Authority may take any of the actions specified in articles (49) and (56) of this law against an individual or group in a manner that is not in violation of this law.

Article (54)

Notwithstanding the provision of articles (49) and (56), anyone who violates the provisions of Article (37) of this law shall be subject to a fine to be determined by the Monetary Authority.

Article (55)

In the event the bank does not comply with Article (49) of this law, the Monetary Authority may:

1. Impose on the bank a fine of not more than JD 200,000 or its equivalent in transferable currency;
2. Impose on the chairman of the board, board member, general manager, deputy general manager, or any employee of the violating bank a fine of not more than JD 5,000 or its equivalent in transferable currency.

Article (56)

In the event of a breach of the provisions of this law and repeated violations, the board of directors of the Monetary Authority may take any of the following actions:

1. Notify the bank and warn it against continuing the violation, order it to cease and desist from such violation and to take appropriate action to correct the situation;
2. Reduce or adjust the terms of facilities available or granted to the bank;
3. Prevent the bank from conducting certain operations or activities, or restrict the extension of credit by the bank;
4. Require the violating bank to deposit funds with the Monetary Authority without interest for the period of time it deems appropriate, in addition to the above-mentioned reserve requirement;
5. Require the chairman of the board of directors to call the board and hold discussions on the infractions in question and to take measures to remedy the situation. One or more representatives from the Monetary Authority shall attend the meetings of the board of directors to monitor them;
6. Appoint a temporary overseer to monitor bank operations;
7. Appoint a conservator to administer the bank for a period of six months, renewable for another six months. During this period, the conservator shall present the matter to the general assembly to assign a new board of directors;
8. Appoint an administrative committee to the bank to advise the general manager;
9. Revoke the bank's license and remove it from the register of licensed banks.

Article (58)

1. The Monetary Authority may close a bank or merge it with another bank in any of the following circumstances:
 - a. At the request of the bank;
 - b. If the bank fails to start business within one year from the date of announcing its registration;
 - c. If the bank declares bankruptcy or decides to liquidate;
 - d. If it is merged with or acquired by another bank without the prior approval of the Monetary Authority;
 - e. If it repeatedly fails to comply with the provisions of this law, decrees, directives, or other relevant legislation in such a way that threatens the interest of its depositors or the stability of the banking system in Palestine.
2. Any decision by the Monetary Authority to revoke the license of a bank shall be effective from the date on which the bank is notified by the Monetary Authority.
3. In view of the contents of this law, the affected bank shall have the right to appeal before the court the decision to close the bank. The Monetary Authority's decision shall remain in effect pending the court's final ruling.
4. The Monetary Authority shall have the authority to revoke the license in the following cases:
 - a. If the bank obtained its license on the basis of false or deceptive information;
 - b. If the bank stops receiving deposits or other funds repayable on demand from the public or granting credit for a period in excess of three months;
 - c. If it effects any material change in the nature of its activity and business that is contrary to the conditions of the license granted to it;
 - d. If it no longer maintains the minimum amount of capital and reserves as determined by the Monetary Authority or is unable to fulfill its obligations towards its creditors;
 - e. If any person of coordinated group acquires more than 10 percent of the capital of a licensed bank without the approval of the Monetary Authority;
 - f. If the public interest should so require.
5. Regarding foreign bank branches, the license may be revoked, in addition to the stipulations of Paragraph (4), if the bank is unable to engage in business or meet the

demands of the public in its home country and in Palestine. No branch of a foreign bank operating in Palestine may dispose of its assets or transfer its possessions until it has met all its obligations in Palestine and has obtained the approval of the Monetary Authority.

Article (59)

1. If the Monetary Authority decides to revoke or terminate any license, it also shall specify the date on which the decision is to become effective. On and after such date, the bank or the branch, as the case may be, shall not be authorized to engage in the banking business in Palestine, except as may be expressly authorized in the decision of the Monetary Authority. Nevertheless, the bank or branch shall remain subject to the provisions of this law and all regulations hereunder, pending fulfillment of all of its commitments and refunding of all deposits.
2. Any decision by the Monetary Authority to revoke or terminate a license shall be made only for good cause.
3. The decision of the Monetary Authority may also include other measures to be taken, including provisions for the attachment or confiscation of funds of any director, officer, or employee of the bank established to be personally responsible for the losses of the bank, or temporarily freezing the funds of depositors and clients of the bank for purposes of implementing this law.
4. All decisions shall be published in the Official Gazette and in at least two daily newspapers of general circulation in Palestine.

Chapter Nine

Conservatorship on Banks

Article (60)

The Monetary Authority may appoint a conservator to for the following purposes:

- A. To preserve and safeguard the bank's assets for its depositors and other creditors;
- B. To assess the bank's financial condition;
- C. To explore the sale of the bank to a financial institution or its merger or combination with another financial institution, or the recapitalization of the bank, taking into account the amounts determined for shares of the founders, in accordance with the provisions of this law;
- D. To recommend to the Monetary Authority that the bank be liquidated.

Article (61)

- A. The conservator of a licensed bank shall have full power to manage the bank as authorized by the Monetary Authority, in accordance with the regulations and orders issued from time to time.
- B. The conservator shall operate the bank in what he considers the best way to restore its financial soundness.
- C. The conservator shall be subject to the same rights and obligations applicable to administrators, officers, or employees of the bank.
- D. The powers and rights of the shareholders, administrators, members of the board, and other officials of the bank shall be suspended unless the conservator requests them to carry out particular activities.
- E. The conservator may, with approval of the Monetary Authority, allocate amounts to be withdrawn from depositors to pay debts, should this be necessary.
- F. All depositors and other creditors of the bank with the same level of interest in the bank's assets shall receive equal treatment.
- G. The conservator shall report regularly to the Monetary Authority on the progress of the conservatorship.

Article (62)

The conservatorship shall cease:

- a. Upon expiration of the specified term;
- b. If the Authority has determined that the bank can return to normal operations in a safe and sound manner;
- c. Upon the decision of the Monetary Authority to liquidate the bank.

Chapter Ten

Liquidation

Article (63)

In a manner consistent with pertinent law, the Monetary Authority shall issue a decree to liquidate a bank in the event that its license is revoked and it is removed from the registry of licensed banks.

Article (64)

The general assembly may only decide to liquidate the bank after consulting the Monetary Authority and obtaining its permission.

Article (65)

In a manner consistent with any other pertinent law, the Monetary Authority has full authority and oversight prerogative to liquidate a bank and take the necessary actions in this regard. It may assign who it wishes to undertake this task. The Monetary Authority shall abide with the nature and rulings of Islamic banks when issuing a liquidation decree.

Article (66)

All foreign bank branches must deposit (5-10 percent) of their capital in the Monetary Authority. This deposit may only be withdrawn when necessary and with the approval of the Monetary Authority. In the event of liquidation, no assets, possessions, or transfers of the foreign bank branch may be taken out of the country until all of its obligations within Palestine are met.

Article (67)

The distribution of liquidation moneys will be as follows:

1. Compensation of the liquidator and costs of liquidation;
2. Wages and salaries of bank employees;
3. Taxes and fees payable by the bank;
4. Rights of the depositors;
5. Outstanding creditors;
6. Regular creditors;
7. Shareholders;
8. Any other rights.

Chapter Eleven

Bank Mergers

Article (68)

- A. The Monetary Authority may issue an order to merge a bank with another bank, if required in the public interest, upon the recommendation of the conservator and upon the approval of the bank with which the other bank is to be merged.
- B. No bank shall be merged with another bank without the approval of the Monetary Authority.

Article (69)

- A. The Monetary Authority shall determine the appropriate methods for carrying out mergers in accordance with the relevant legislation.
- B. The Monetary Authority shall select the expert advisors and specialists to evaluate the bank that is to be merged.

Chapter Twelve

Islamic Banking

Article (70)

The Monetary Authority may issue any regulations and directives it deems necessary to regulate the activities of Islamic banks.

Article (71)

All activities of an Islamic bank shall be consistent with the principles of Islamic Law.

Article (72)

- A. Islamic banks shall be subject to all provisions of this banking law unless otherwise specifically stated in this chapter.
- B. The Monetary Authority shall issue directives specifying the activities in which Islamic banks may engage, together with the permitted ceilings and percentages for all Islamic banking practices, to protect and enhance the stability of such banks.
- C. An Islamic bank may not:

1. Provide financing in any form to any individual or legal entity in excess of 10 percent of the unimpaired capital of the bank, without the written approval of the Monetary Authority;
2. Provide financing in any form to any individual or legal entity not resident in Palestine, unless it has obtained the prior written approval of the Monetary Authority.

Article (73)

In order to achieve their goals, Islamic banks may engage in the following activities:

- A. Banking activities consistent with Islamic law in Palestine and abroad;
- B. Serve as an agent for providing social services;
- C. Serve as an executor to manage companies and execute wills;
- D. Any other activities in accordance with the decrees and orders issued by the monetary fund, provided that they do not conflict with Islamic law.

Article (74)

Islamic banks shall carefully explain to their account holders the nature and permitted uses of the funds deposited with them.

Article (75)

- A. Each Islamic bank shall appoint a Shariah Control Board prior to beginning its operations. The board shall be composed of at least three persons, and its decisions with regard to all activities shall be binding.
- B. The Shariah board shall be appointed by the General Assembly of the bank with the approval of the Monetary Authority. No member of the Shariah Control Board may be removed from office without the approval of the Monetary Authority.
- D. The Shariah Control Board shall be responsible for ensuring that all the bank's operations and activities are in accordance with Islamic law prior to commencing such activities and during their execution, as well as during the process of liquidation.

Chapter Thirteen

Final and Transitional Provisions

Article (76)

- A. The Monetary Authority shall determine, in accordance with the provisions of this law, the days and hours of operation for banking business, as well as the official holidays during which banks and branches are to be closed.
- B. Any commitment or other transaction to be performed by a bank on a date when the bank is closed shall be considered due when the bank opens on the subsequent business day.

Article (77)

Upon enactment of this law, all banks operating in Palestine shall be considered to be licensed banks, as if they had been issued licenses in accordance with the provisions hereof. However, all such banks must conform to the provisions of this law within one year from the date of its enactment, or such other date or dates as the Monetary Authority may specify.

Article (78)

- A. The Monetary Authority may, in cooperation with other banks operating in Palestine, establish associations and unions associated with the financial industry.
- B. The Monetary Authority may, in cooperation with other banks operating in Palestine, establish training institutes associated with the banking business.
- C. The Monetary Authority may, in cooperation with other banks operating in Palestine, establish institutes to insure loans and deposits.
- D. Other banking institutions may establish training centers with the prior written approval of the Monetary Authority.

Article (79)

Within six months, the Monetary Authority shall issue the required directives to implement this law, issued by decree of the President of the Palestinian National Authority and published in the Official Gazette. Pending their issuance, the provisions of existing regulations and decisions shall continue to be in effect to the extent that they are not inconsistent with the provisions of this law.

Article (80)

Interim Banking Law No. 94 of 1966, in force in the West Bank Province, and Interim Banking Law No. 26 of 1941, and any of its amendments that contradict the provisions of this law, are hereby rescinded. Likewise, all rulings in contradiction to the provisions of this law are rescinded.

Article (81)

All pertinent agencies are obligated to execute the provisions of this law, which shall enter force three days after its publication in the Official Gazette.

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Yasser Arafat

**President, Executive Committee of the Palestine
Liberation Organization and Chairman of the
Palestinian National Authority**