

## Law 21 of 1996 on Islamic Banks

The Law consists of 28 articles, and the Central Bank of Yemen (CBY) is in charge of monitoring the banks which are licensed in accordance with the Law; the Law has been issued and enforced since 29 July 1996.

Article 3:

b) The banks shall have a legal entity and shall be subject, in addition of the provisions of the Law, to the provisions of the CBY Law, the Banks Law, and the Companies Law, with no contravention to the Islamic (*SHAREA'A*);

c) Banks may establish branches, subsidiaries, and agencies in the Republic of Yemen and abroad in accordance with the enforced laws and the approval of the CBY;

d) The licensed banks operating according to usual formulas which would like to acquire a license to operate in accordance with the formulas applied by Islamic banks, shall have to modify their rudimentary regulations to allow them operate according to the formulas employed by Islamic banks as a part of their activities.

### ***Objectives and mandates:***

Article 4: Islamic banks aim at achieving the following objectives:

- a) Expand the extent of work with the banking sector through providing the banking services, while taking into account the introduction of services aiming at increasing organized social solidarity on the basis of shared benefits;
- b) Improve the methods for attracting funds and savings, and optimally invest them;
- c) Finance and operate in national or foreign trading activities, and contribute to the development projects, i.e. agricultural, industrial, extracting, constructive, tourist, and housing, and so forth;
- d) Take care of small craftsmen, investors, and small-industry owners; and help them provide the funds required for their projects;
- e) Entitle Islamic banks to establish an investment fund and savings; and issue bonds and debts in accordance with the provisions of Islamic (*SHARE'A*);

Article 5: Islamic Banks shall undertake all transactions and the funding and investment operations which are required to fulfill its goals in accordance with the enforced laws; these goals include:

- a- Carry out all financing and investment operations in various and activities through financing by participation, speculation, etc
- b- Issue contracts and agreements with individuals, institutions, agencies inside and outside Yemen;
- c- Establish companies in various aspects which are complementary to the work of the Islamic banks, and contribute to the existing companies;
- d- Contribute in the capital of any bank, inside or outside Yemen, which operates;
- e- Possess fixed and movable assets in order for the investment projects to be carried out;
- f- Carry out all banking services and works.

### ***Capital***

#### Article 6:

- a- The authorized capital shall be, at least, equal to one billion Yemeni Rials;
- b- The paid-in capital shall be equal to half the authorized capital;
- c- The basic system shall define the way for the bank's capital to increase;
- d- Non-Yemenis may contribute in the capital of an Islamic bank established in accordance with the Law, provided the contribution shall not exceed 20 percent of the authorized capital of the bank.

Article 7: Banks which are established in accordance with the Law shall maintain a legal reserve account not less than 10 percent of the net profits of the bank, which can be distributed until the reserve capital is equal to the paid-in capital.

Article 8: Islamic banks operate in accordance with the recognized banking laws and norms;

Article 10: The CBY shall establish a unit in order to monitor the banks licensed in accordance with the Law.

#### Article 11:

- a- Islamic banks shall abide by the financing limits accorded to any legal or natural person as for the single person in accordance with the Law;

- b- Islamic banks may directly invest in projects which the banks implement by themselves in 25 percent of the total capital and reserve capital of the bank.

Article 12: Banks established in accordance with the Law shall abide by the instructions and disciplines issued by the CBY in respect of dealing in foreign currency and exchange rates.

Article 13:

- a- Islamic banks shall be subjected to the same reserves as set forth in the Banks Law, provided the CBY does not use them on the profit basis;
- b- Islamic banks shall not be subjected to the deduction price as it is interest-based.

Article 16: The General Assembly is the supreme authority for any Islamic bank and shall undertake to:

- a- discuss and ratify the basic system of the bank and its annual plan;
- b- elect the members of the board of director and determine their allowances;
- c- approve the final annual account of the bank and assign the legal auditor of the bank and determine his fees; the CBY shall approve of the legal auditor who is assigned to audit the bank's accounts.
- d- approve the percentage of dividends to be distributed.

Article 17:

- a- The bank shall have a monitoring body which consists of three to seven specialized competent persons;
- c- The opinion of the sharia monitoring body shall be deemed final in respect of the validity of the formulas the bank deals with, and shall oblige the bank; the monitoring body shall issue an annual report on the bank's conformity to the legal formulas; the bank shall annually distribute the report to the contributors.