

# **A Crisis Within a Crisis: Al-Qard Al-Hassan Amid the 2024 Israel – Hezbollah Conflict**

Sharon Gal and Neta Ashkenazi Dagan

11 Nov 2024

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# **A Crisis Within a Crisis: Al-Qard Al-Hassan Amid the 2024 Israel – Hezbollah Conflict**

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## **General Background**

Al-Qard al-Hassan (translated from Arabic as "The Benevolent Loan", hereinafter referred to as **AQAH, the institution, or the bank**) was established in 1982, during the early days of Hezbollah's activities in Lebanon. Originally part of Hezbollah's welfare system, the institution emerged in response to Lebanon's economic and social crisis and the collapse of the traditional banking system. Its activities focused on providing small, interest-free loans secured against gold and assets, specifically addressing the needs of the Shiite community, which had been marginalized by the traditional Lebanese banking system.

In 1987, the Lebanese Ministry of the Interior granted AQAH a license as a non-profit organization. Under the management of Adel Mohamad Mansour, who was later designated as a terrorist by the United States, AQAH benefited from legal status and tax exemptions while avoiding traditional banking oversight. AQAH mainly operated under Hezbollah's full sponsorship, which ensured its protection and resilience against external influences<sup>2</sup>.

This situation, as noted by Dr. Mohammad Fakhili, a strategic expert on banking and economic risks, in an interview with Alhurra, created a paradox: on one hand, AQAH operated within a legal framework, yet it was exempt from traditional banking oversight, granting it unprecedented freedom<sup>3</sup>.

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<sup>1</sup> Sharon Gal is the CEO of CENTEF, Neta Ashkenazi Dagan is the Operations Manager of CENTEF.

<sup>2</sup> Journalist Tony Boulos: "We were promised that our money was safer than in regular banks, but in the end, only those with connections managed to save their money."  
<https://www.facebook.com/zeinab.assidi/posts/pfbid023TyHs2XEr7VvsrkyumYWBGVfAj52RLfAdv7qeTyEGDxZHKw8GbrPxZAgjJBzg2MEI>

<sup>3</sup> <https://www.alhurra.com/lebanon/2024/10/23/%D8%AE%D9%81%D8%A7%D9%8A%D8%A7-%D8%A7%D9%84%D9%82%D8%B1%D8%B6-%D8%A7%D9%84%D8%AD%D8%B3%D9%86-%D9%8A%D9%84%D8%B9%D8%A8-%D8%AD%D8%B2%D8%A8-%D8%A7%D9%84%D9%84%D9%87-%D8%AD%D8%A8%D9%84->

## **Development and Expansion: Building a Financial Empire**

AQAH's role as Hezbollah's financial arm strengthened after Hezbollah was designated a terrorist organization, Lebanon's banking crisis in 2019, and other events. Following Hezbollah's designation as a terrorist group, the organization struggled to conduct regular banking activities within Lebanon's normative banking system. Consequently, a significant portion of Hezbollah's operational activities - such as salaries for members and payments to suppliers - shifted to AQAH's banking network, which operated as a commercial retail bank, but outside the legitimate banking system and without relevant regulatory oversight.

The 2019 crisis marked a pivotal point in AQAH's development. When the Lebanese banking system froze approximately \$100 billion in depositor funds, AQAH found itself in a unique strategic position. According to data disclosed in an interview with FRANCE 24<sup>4</sup>, AQAH's operational scale increased significantly - from \$3.5 billion before the crisis to \$4.3 billion afterward, with over 400,000 active accounts.

Over three decades, AQAH evolved from a small lending institution into a substantial financial empire. Its geographic spread of 31 branches across Lebanon was not coincidental. According to banking experts<sup>5</sup>, AQAH operated strategically, initially focusing on Shiite-dominated areas and gradually expanding to mixed areas.

## **Business Model and Operations**

AQAH's business model was sophisticated in its simplicity: small, interest-free loans, in accordance with Islamic Sharia principles, targeting the needs of the Shiite community underserved by the banking sector. Loans were provided for personal use (dowries, weddings, home construction, car purchases) or for commercial purposes (business establishment, business operating funds). Most loans required collateral, such as gold, jewelry, precious stones, or handing over of real estate ownership documents. Many of these collateral items were family assets passed down through generations<sup>6</sup>.

In practice, AQAH's branches throughout Lebanon contained significant amounts of cash, gold, precious stones, jewelry, and real estate deeds - often to a degree exceeding regular banks. This was due to:

1. AQAH's practice of holding physical assets as collateral for loans.
2. AQAH's operating in a cash-based economy, driven by cultural and traditional factors in southern Lebanon.

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<sup>4</sup>[https://www.youtube.com/watch?v=AUYdqeSwOy0&ab\\_channel=%D9%81%D8%B1%D8%A7%D9%86%D8%B324%2FFRANCE24Arabic](https://www.youtube.com/watch?v=AUYdqeSwOy0&ab_channel=%D9%81%D8%B1%D8%A7%D9%86%D8%B324%2FFRANCE24Arabic)

<sup>5</sup> <https://www.youtube.com/watch?v=Hf64Lowcius&t=1446s&pp=2AGmC5ACaq%3D%3D>

<sup>6</sup> Based on Centef research.

3. AQAH's inability to provide recognized credit cards (like Visa or Mastercard), instead offering its own bank cards that allowed clients to withdraw cash from its ATMs but could not allow transactions that require clearance within the normative banking system.

### **The Covert Financial Network**

As revealed in a 2021 U.S. Treasury Department report<sup>7</sup>, AQAH operated a sophisticated clandestine network of money transfers and money laundering. AQAH developed a complex web of financial connections, involving front companies in Africa and Latin America and private accounts within the formal banking system that helped obscure its financial activities. Over the years, reports indicated that beyond small loans, AQAH acted as a conduit for transferring funds between Iran, Hezbollah, and various entities worldwide, using diplomatic channels to bypass international sanctions.

Despite international designations and sanctions, AQAH continued to operate and provide services within the Lebanese community. Its disconnection from the global financial system limited the impact of sanctions, similar to the case of Hezbollah's Al-Amana gas station network, and unlike the Jamal Trust Bank - a financial institution designated by the U.S. Treasury in August 2019 that closed shortly afterward. Jamal Trust, which provided financial services to Hezbollah officials and Iran's Martyrs Foundation, illustrates that sanctions can be more effective when international financial institutions are involved.

On October 25, 2024, the FATF (Financial Action Task Force) added Lebanon to its "Gray List" of countries under increased surveillance<sup>8</sup>. This move was partly due to AQAH's unregulated activities and insufficient enforcement against money laundering and terrorist financing within the Lebanese financial system. This decision effectively requires Lebanon to implement significant reforms, including increased oversight of unregulated financial institutions like AQAH.

### **From People's Bank to Community Crisis: The Impact of Strikes on AQAH in October 2024**

#### **Community Trust Erosion**

The Israeli strikes on AQAH branches in October 2024 did more than damage physical infrastructure; they exposed deep fractures in Hezbollah's complex relationship with its community. According to an interview on the Lebanese media station - MTV<sup>9</sup>, a significant gap in the treatment of different depositors was revealed: while senior Hezbollah members and associates were given priority access to their funds, ordinary citizens found themselves without access to their life savings and with no place to turn.

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<sup>7</sup> <https://home.treasury.gov/news/press-releases/jy0193>

<sup>8</sup> <https://www.fatf-gafi.org/en/countries/detail/Lebanon.html>

<sup>9</sup> <https://www.youtube.com/watch?v=Hf64Lowcius&t=1446s>

"This isn't just an economic crisis; it's a crisis of trust," noted one financial expert in an interview with Alhurra. "People believed Hezbollah would protect their money better than the traditional banking system, but it turned out there were no real guarantees here either."<sup>10</sup>

While insiders received early warnings and the opportunity to withdraw their funds, the hardest-hit were displaced residents of southern Lebanon, who suffered both the loss of their homes and their savings. "These are people who invested their entire life savings in AQAHA," explained an economic expert in an interview with FRANCE 24, "and today they find themselves without a roof over their heads and without means to secure alternative housing."

The anger over this discrimination is echoed in the words of a southern Lebanon resident quoted by journalist Tony Boulos: "They promised us our money was safer here than in regular banks, but in the end, only insiders managed to save their funds."<sup>11</sup>

Adding to these testimonies, the crisis has resonated strongly in the Lebanese political arena. In a social media post, Georges E. Hayek, a senior member of the Lebanese Forces party and head of the Cultural Department in its Media and Information apparatus, reveals the alarming scope of civilian impact: 'It is not enough that people's homes were destroyed and their blood was spilled, they have also lost their money. No less than 300,000 depositors in Al-Qard Al-Hassan may not receive their deposits back!'<sup>12</sup>. This assessment by Hayek illustrates the depth of the financial crisis created in the wake of the strikes, with hundreds of thousands of citizens potentially finding themselves without access to their life savings.

### **Comparison to the 2006 Crisis**

The Israeli strikes on AQAHA branches in October 2024 created an unprecedented crisis, with damages estimated at ten times those of the 2006 crisis<sup>13</sup>. AQAHA operated as a cash-based bank, making damage to its branches and cash holdings significant. Moreover, as an institution that secured many of its loans with physical assets, the loss of collateral created a crisis of trust between AQAHA, its Hezbollah patron, and the population it served. The damage to AQAHA's gold and cash reserves led to mass withdrawals, intensified by AQAHA's inability to promptly meet depositor demands. Unlike 2006, when compensation was relatively quick, AQAHA now struggles to handle the volume of requests.

<sup>10</sup> <https://www.alhurra.com/lebanon/2024/10/23/%D8%AE%D9%81%D8%A7%D9%8A%D8%A7-%D8%A7%D9%84%D9%82%D8%B1%D8%B6-%D8%A7%D9%84%D8%AD%D8%B3%D9%86-%D9%8A%D9%84%D8%B9%D8%A8-%D8%AD%D8%B2%D8%A8-%D8%A7%D9%84%D9%84%D9%87-%D8%AD%D8%A8%D9%84-%D8%A7%D9%84%D8%AA%D9%85%D9%88%D9%8A%D9%84-%D8%A7%D9%84%D8%A3%D8%B3%D9%88%D8%AF%D8%9F>

<sup>11</sup> [https://www.youtube.com/watch?v=Hf64Lowcius&t=1446s&ab\\_channel=MTVLebanonNews](https://www.youtube.com/watch?v=Hf64Lowcius&t=1446s&ab_channel=MTVLebanonNews)

<sup>12</sup> <https://x.com/georgeshayek712/status/1855673921669878210?t=P7ey6NFie--xSiz2-L12sg&s=08>

<sup>13</sup> [https://www.youtube.com/watch?v=AUYdqeSwOy0&ab\\_channel=%D9%81%D8%B1%D8%A7%D9%86%D8%B324%2FFRANCE24Arabic](https://www.youtube.com/watch?v=AUYdqeSwOy0&ab_channel=%D9%81%D8%B1%D8%A7%D9%86%D8%B324%2FFRANCE24Arabic)

In an attempt to reassure the public, AQAH announced that deposits, including gold reserves, were moved to secure locations. However, lacking transparency and oversight mechanisms, and in light of discriminatory practices favoring Hezbollah elites over regular clients, the credibility of this announcement remains questionable.

### **Impact of the Strikes on Hezbollah**

The damage to AQAH branches is expected to impact Hezbollah's welfare activities in southern Lebanon and its operational finances. However, Hezbollah's budget is not expected to be significantly affected, as it relies heavily on state funding from Iran and Lebanon, as well as revenue from its global criminal activities. Nonetheless, the blow to AQAH represents a hit to Hezbollah's prestige and perceived invulnerability within Lebanon. The main impact lies in the unwritten social contract between Hezbollah and its community, potentially undermining the wide support the organization enjoys among Lebanon's Shiite population. As one financial expert on FRANCE 24 concluded: "Buildings can be rebuilt, but it's much harder to restore broken trust."