

# Corporate Governance Code

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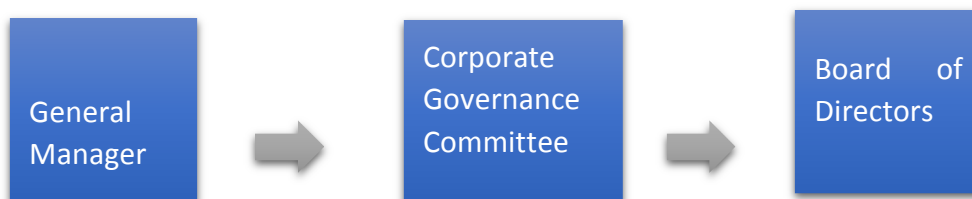
#### Version

Version	Owner	Custodian	Author	Date Issued	Co-Author (s)
1.0	Risk Group	VCGM Office	Risk Group	June 2017	

#### Revision

Version	Reviewed By	Date
1.0	Vice Chairman & General Manager	

#### Approval Chain



### Distribution List

- Published on Intranet, accessible to all BLC Bank employees
- Published on the bank website
- Circulated to all Board Members

## Introduction

The Basel Committee on Banking Supervision defines Corporate Governance as a set of relationships between a Bank's management, its Board of Directors, its Shareholders and other Stakeholders.

Corporate Governance provides the structure through which the objectives of the Bank are set, and the means of attaining those objectives and monitoring performance are determined. It defines the rights of shareholders and in addition, it specifies the rights and responsibilities attributed to the directors and managers, and spells out the rules and procedures for making decisions on corporate affairs.

Good Corporate Governance shall provide the proper incentives for the Board and management to pursue objectives that are in the interest of the Bank, its Shareholders and other stakeholders which in turn, facilitates the process of effective monitoring.

The Bank's Board of Directors has adopted a Corporate Governance Code, which reflects its commitment to implement sound Corporate Governance, focusing on the following core values:

- Fairness in the treatment of all concerned parties including shareholders, depositors, creditors, employees, managers, and other parties.
- Transparency, in a way that allows the concerned parties, shareholders and other stakeholders to assess as much the performance of the bank as its conformity with regulatory requirements.
- Accountability in the relationship between the Executive Senior Management and the Board, between the Board and Shareholders, and between the Board and other Stakeholders.
- Responsibility, in terms of the existence of clear lines of responsibilities and delegations of authorities.

The Code delineates a Corporate Governance framework in line with the regulatory requirements and international good practices.

## 1. Rights of Shareholders

The Lebanese Code of Commerce has defined the rights of Shareholders, including the right to vote at Assemblies, the right to receive dividends, the right to assign their shares, the right to subscribe to capital increases, and in the event of dissolution of the Bank and where sufficient assets remain, the right for refund of the nominal amount of their shares on a pro rata basis with all the other shareholders, without prejudice to the anteriority rights of priority shares.

The Bank applies the rules and regulations stipulated by the Lebanese Code of commerce and as otherwise included in the Articles of Association (By-Laws).

## 2. Mission of the Board of Directors

The Board of Directors is entrusted with the duty of ensuring the proper management of the Bank in the best interest of its shareholders, depositors, and other stakeholders, in accordance with applicable laws and regulations.

This duty is not subject to any delegation and is proper to the Board who shall assume the final responsibility towards the shareholders and all stakeholders regardless of whether the Board constitutes special committees or empowers other persons or entities to undertake specific tasks or responsibilities.

The members of the Board are made aware of the text of laws related to the civil and criminal responsibilities that they will assume while carrying out their duties.

## 3. Board Organization

### 3.1 Election of the Directors

- The members of the Board of Directors are elected by the Ordinary General Assembly in accordance with the stipulations included in the Bank’s By-Laws, established in line with the Lebanese Code of Commerce
- Each Board member must possess the minimum number of ordinary shares stipulated in the Bank’s By-Laws, to be taken against the responsibilities entrusted to them. These shares may not be assigned unless after the discharge of members of the Board.
- Directors by virtue of the By-Laws are elected for a maximum period of three (3) years, renewable.
- Shareholders are entitled, through the General Assembly, to revoke Directors ad nutum, at any time and without cause, even before the expiration of their directorship.

### 3.2 Composition of the Board

- The Board of Directors shall comprise a minimum of three (3) members and a maximum of twelve (12) members.
- The Directors should comply with the conditions stated in the Code of Commerce and the Code of Money and Credit.
- The majority of the Board should be formed of members of Lebanese nationality.
- The majority of the Board of Directors shall be formed of non-executive members.

A non-executive Board member is the one who:

- a. has no administrative function at the Bank;
- b. is not assigned with any executive tasks in the Bank or at any of its subsidiaries in Lebanon or abroad;
- c. does not currently perform any consultative work to the “Executive Senior Management” or has not carried out any assignment during the past two (2) years preceding his/her nomination as a board member.

*NOTA : Under the terms of BDL circular 118, a Board Member, who is nominated at any of the Bank's foreign subsidiaries, will not be considered "Executive" in case the laws in the foreign country where this subsidiary operates, does not consider him as an executive member.*

- The Board shall include "Independent" members whose qualifications will be aimed towards promoting the effectiveness of the Board. At least two (2) independent members shall be elected, in the light of the size and complexity of the Bank's operations, its risk structure as well as any applicable regulatory framework.

An independent Board member is the one who meets all of the following characteristics:

- a. Is a Non-Executive Board Member
- b. Is not a major shareholder who owns, directly or indirectly, more than 5% of the Bank's total shares or voting rights related to these shares; whichever is greater.
- c. Is independent of any person from the Bank's "Executive Senior Management" and of its major shareholders in the sense that there is no work relationship with anyone of them currently or during the past two years preceding his/her election as a Board member
- d. Has no family-relationship with any of the major shareholders until the fourth degree.
- e. Is not any of the Bank's debtors.

### **3.3 Fundamental Duties**

The Board of Directors shall promote an environment of transparency. The conduct of Board members will reflect the principles of integrity and ethical values. Each Board member will abide by the following fundamental duties towards the Bank:

- **Duty of Care:** Board members must be fully aware of all relevant issues and their decisions made independently when voting on certain matters.  
Board Members should devote the necessary time and effort to fulfill their tasks and responsibilities.  
Newly elected Board members shall upon their election, familiarize themselves with the Bank structure, Management and all other information enabling the said Board member to assume his/her role and responsibility.
- **Duty of Loyalty:** Board members owe a duty of loyalty to the Bank. This requires Board members to safeguard the interests of the Bank.  
Board members should not have any potential conflict of interest that would constitute a violation to the applicable laws and regulations.
- **Duty of Compliance with Authorities:** Board members must act within the scope of authority entrusted to them under the Bank's By-laws and the applicable Lebanese laws and regulations.

### 3.4 Confidentiality

Directors are bound by their confidentiality obligations even after their tenure on the Board ends and by the Banking Secrecy Law.

Information regarding the strategy and business of the Bank or any other information that a Board member had access to during his / her term or afterwards, cannot be, in any way, disclosed.

Also, Board members shall not utilize such information for their private benefit in a way detrimental to the Bank's stakeholders.

### 3.5 Chairman of the Board

#### *Election*

The Board of Directors elects the Chairman from among its members in conformity with article 144 of the Code of Commerce and the Bank's By-Laws, for a period that may reach that of the member's term.

The Board of Directors may elect a Deputy Chairman, empowered to set the Board Agenda, convoke and chair Board meetings in the absence of the Chairman.

#### *Role of the Chairman*

As per the Lebanese law, the Chairman of the Board is also the General Manager.

The Chairman provides leadership to the Board and is responsible for the Board's effective overall functioning. He shall ensure that Board decisions are taken on a sound and well-informed basis and should encourage and promote critical discussion and ensure that dissenting views can be expressed and discussed within the decision making process.

The Chairman is responsible for implementing the Board's decisions and overseeing the daily business of the Bank. He may delegate all or part of his powers to the Deputy Chairman.

Also, the Chairman may suggest to the Board the appointment of one or more General Manager(s) and grant them powers to that effect, who shall act for account and under the full responsibility of the Chairman.

### 3.6 Meetings' Frequency

The Board of Directors shall hold regular meetings (not less than four (4) meetings per year), of which two (2) meetings at least shall be held in Lebanon. Directors are expected to attend the Board meetings and meetings of Committees on which they serve, and to spend the time needed and meet as frequently as necessary to properly discharge their responsibilities.

The Board can convene immediately for exceptionally urgent cases.



## 4. Board Responsibilities and Authorities

The Board has the duty to implement the General Assembly's decisions and to carry out all activities required for the proper functioning of the Bank, which are not categorized as daily activities.

In accordance with the applicable laws and regulations and in fulfilling its overall duties, the Board of Directors shall, inter alia:

- Safeguard the interest of Shareholders and all other Stakeholders including customers, employees and the community
- Convene the Shareholders' General assemblies and execute the related decisions
- Adopt a Corporate Governance framework in line with the regulatory requirements and international best practices
- Establish the tone at the top in setting professional standards and corporate values that promote integrity for itself, Senior Management and other employees
- Review at the end of each financial year, the Bank's audited balance sheet and profit and loss account, to be submitted for approval to the Ordinary General Assembly of Shareholders. These shall be subsequently published in the official gazette, in an economic newspaper and in a local daily newspaper
- Review and approve the Bank's policies and the internal control systems

The Board has overall responsibility of the Bank, including adopting and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values, in addition to ensuring that adequate, effective and independent controls are in place as depicted hereafter :

### 4.1 Planning Activities

The Board shall approve the overall business strategy of the Bank, taking into account its long-term financial interests and safety.

The Board should set performance objectives for Senior Management consistent with the long-term goals, strategy and financial soundness of the Bank, and monitor their performance against these objectives.

### 4.2 Oversight Role

The Board shall ensure that an appropriate management structure is in place that is commensurate with the size and complexity of the Bank and its business.

The Board shall regularly monitor, question and critically review Senior Management's actions to ensure that they are consistent with the strategy and policies approved by the Board, including the risk tolerance/appetite.

The Board shall regularly review processes and controls with Senior Management and/or internal control functions (including internal audit, risk management and compliance) in order to identify and address significant risks and issues as well as to determine areas needing improvement.

Ensure that the control functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.

Any meetings or contacts that a Board member wishes to initiate with the Bank's Senior Management shall be arranged through the Chairman or the Deputy Chairman or the Board Committees;

#### **4.3 Appointment and Dismissal of Key Positions**

Based on the suggestion of the Board Chairman, the Board shall appoint one or more General Managers, Deputy and/or Assistant General Managers, who possess integrity, professional competence and financial experience. The remuneration of the General Manager(s) and Deputy General Manager(s) will be decided by the Board of Directors based on the suggestion of the Remuneration Committee.

In addition, and as required by the regulation, the Board will approve the designation of the Chief Risk Officer and the Head of the Internal Audit. Also, the Board shall take note of the appointment and removal of some other key positions at the Bank mainly the Chief Financial Officer and Chief Compliance Officer.

The appointment, compensation and dismissal of external auditors, is decided by the Shareholders' General Assembly, based on the proposal of the Board as recommended by the Audit Committee;

#### **4.4 Reporting**

The Board of Directors and the External Auditors shall regularly provide reports to Shareholders, as stipulated by the Lebanese laws & regulations

The Board of Directors shall publish within the two months period that follows the approval of the end of year Bank accounts by the General Assembly of Shareholders, the names of the Board members and the External Auditors, the Bank's balance sheet, along with the main financial information, in the official gazette, in an economic newspaper and in a local daily newspaper.

The Directors, through the Board Chairman, shall receive all documents / reports addressed to them, emanating from the External Auditors, Banque du Liban and the Banking Control Commission.

#### **4.5 Liabilities of Board Members**

Board members shall be liable for the proper conduct of the business entrusted to them in accordance with the provisions of Article 166 and 167 of the Code of Commerce.

The Board members whether individuals or institutions are held responsible for their directorship term, on all their assets whether movable or immovable and these assets may be provisionally seized in case the Bank is in default of payment in conformity with law No. 2/67 of 16 January 1967

#### **4.6 Board Committees**

The Board shall establish Committees, from among its members, to assist it in carrying out its responsibilities and shall fix the remuneration of the Committee members.

The Board shall have, at a minimum, five Board Committees as listed hereafter, in line with the regulatory requirements and international best practices. The Board shall establish other Board Committees as deemed necessary to help it discharge its responsibilities.

A Charter will be enacted for each Committee to define its scope of work, membership, organization, authority and responsibility.

##### ***Audit Committee***

Assist the Board in its oversight responsibilities regarding the evaluation of the internal control regulations and procedures, assessment of Internal and External Auditors, integrity of financial statements and review of the Bank's disclosure standards.

##### ***Board Risk Committee***

Assist the Board in fulfilling its risk-related duties and to oversee the proper implementation of the risk management principles.

##### ***Corporate Governance Committee***

Provide oversight of all material Corporate Governance issues affecting the Bank and its subsidiaries and ensure that the Bank's Corporate Governance practices are in line with the regulatory requirements and international best practices.

##### ***Remuneration Committee***

Ensure that the Bank has established comprehensive Remuneration policies & procedures and submit to the Board proposals about Senior Executive Management remunerations.

##### ***AML / CFT Board Committee***

Support the Board of Directors in fulfilling its responsibilities and oversight role with respect to fighting money laundering and terrorist financing.

#### **4.7 Board and Management Remuneration**

The Board shall ensure that remuneration policies and practices are consistent with the Bank's corporate culture, long-term objectives and strategy.

Remuneration of Board members is decided by the Ordinary General Assembly in compliance with the applicable Lebanese Laws and the Bank's By-Laws.

Board members shall receive attendance fees for their service as Board members

#### 4.8 Succession Plan

The Board shall ensure that a succession plan is in place, generally for all Senior Executive Management and key positions.

#### 4.9 Board Self-Evaluation

The Board shall carry out annual self-evaluations, more particularly before July of each year, by completing a Board Self-Evaluation questionnaire with the aim to assess the functions considered to influence the Board governance, determine where improvements may be needed and decide the appropriate actions and their timing.

### 5. Senior Management, Roles and Responsibilities

Senior Management undertakes and manages the Bank's activities under the direction and oversight of the Board. Members of Senior Management are responsible and are held accountable for overseeing the day-to-day management of the Bank.

Senior Management shall have the necessary experience, competencies and integrity to manage the businesses and people under their supervisions.

These individuals contribute to the Bank's sound Corporate Governance through personal conduct; i.e., by helping to establish the "tone at the top" along with the Board.

In order to fulfill its responsibilities, Senior Management shall:

- Provide adequate oversight of those they manage
- Ensure that the Bank's activities are consistent with the business strategy, risk appetite and policies approved by the Board
- Delegate duties to the bank's staff and establish a management structure that promotes accountability and transparency throughout the Bank
- Implement business strategies, risk management systems, risk culture, processes and controls for managing the risks to which the Bank is exposed
- Provide the Board with the information it needs to carry out its responsibilities and keep it regularly and adequately informed of material matters.

Senior Management will execute its responsibilities through specialized Committees, approved by the Board of Directors, in matters of investment and lending, such as the Executive Committee, Credit Committees and Assets & Liabilities Management Committee. Members of these Committees will include senior staff, having the responsibility to set strategies and take decisions as necessary for the development of the Bank's activities.

## 6. Ethics and Values

### 6.1 Conflicts of Interest and Transactions with Related Parties

Conflict of interests arises from the activities and transactions undertaken by the bank and its stakeholders. A related party transaction is any direct or indirect transaction between the bank and members of its Board of Directors, persons in charge of its management, its major shareholders and their relatives.

The Board's responsibility is to ensure that the bank has developed and implemented policies to identify and manage potential conflicts of interest based on the permissibility of relationships or transactions under sound corporate policies, consistent with the Lebanese laws and regulations, mainly the Code of Commerce and the Code of Money and Credit.

In addition, the Board has to ensure that related party transactions are performed at arm's length and approved by the Board and the Shareholders in compliance with applicable laws and regulations governing the transactions with related parties mainly the provisions of article 152 of the Code of Money and Credit and article 158 of the Code of Commerce.

Both of the Board and External Auditors, separately, shall submit a report to the Shareholders Assembly concerning the proposed transactions with related parties, upon which, Shareholders approve, amend or reject such transactions.

### 6.2 Employees Conduct

The Bank shall adopt at all times an Employee Handbook, which comprises a set of corporate values as well as professional conduct and ethics guidelines. It shall articulate the minimum standards for ethical business conduct that is expected from its employees to follow, and guide all interactions with internal and external stakeholders.

Conflicts of Interest arising between the personal interests of an employee on the one hand and the Bank's interest on the other, are also identified and addressed within the Employee Handbook set by the Bank.

In this vein, the Bank prompts its staff members to maintain a strong, positive compliance culture, in which they strictly adhere to policies and respect all applicable laws and regulations. Their dealings with the clients, supervisors, and colleagues should be carried out in a professional and ethical manner that will reflect on the bank's reputation and image, avoiding entering into debates over topics of sensitive nature such as religion, politics, etc.

The Bank encourages employees to report any observed errors or gross negligence that could harm the bank, or suspected illegal or unethical behaviors, to their supervisors, or to the Senior Management.

The Bank will ensure that employees at all levels understand the core values of the Bank and that they will be held accountable for their actions.

## 7. Internal Control Framework

Internal control is an essential component of Bank's management for safe and sound operations. Senior Management promotes the good implementation of an effective internal control framework by ensuring a proper segregation of duties and separation of functions.

Senior Management is responsible for designing, developing and maintaining a strong and comprehensive internal control framework, including appropriate controls that govern the Bank's organizational and operational structure, reporting processes and independent internal control functions.

The internal control system is based on the following five interrelated components, which are integrated with the management processes:

- Internal Environment, mainly through the adoption of a clear and documented organizational structure that respects the separation of duties and the non-conflict of interest; and the dissemination of a control culture among the Bank's staff. *(Refer to Annex 1 – Governance Structure)*
- Assessment of Risks, through the identification of risks that face or might face the bank, control and manage them appropriately.
- Internal Control Policies and Procedures, which shall be developed in line with the results of risk identification and assessment processes.
- Control Systems, such as an accounting system, a system for risk assessment and monitoring, an archive system and a management information system (MIS).
- Continuous Monitoring, through reporting any identified weakness or any violation to the existing policies and procedures.

### 7.1 Internal Control Functions

The Board of Directors recognizes the importance of implementing sound control functions at the Bank and therefrom, the functions of Risk Management, Internal Audit and Compliance have been established.

These Internal Control functions are independent of the business and support units they control as well as organizationally independent from each other.

The Board will ensure that each internal control function shall have sufficient qualified human resources to carry out its tasks and responsibilities efficiently.

#### ***Risk Management***

The primary goals of Risk Management are to ensure that the outcomes of risk-taking activities are consistent with the Bank's strategies and risk appetite, and that there is an appropriate balance between risk and reward in order to maximize shareholders returns.

The ultimate responsibility for the risk management function rests with the Board of Directors. The Board delegates this function to the Risk Management Committee.

The Chief Risk Officer (CRO), who is appointed by the Board of Directors, has the primary responsibility for overseeing the development and implementation of the Bank's Risk Management function through the Risk Management Division. That includes the development and regular review of all risk related policies and limits and ensuring that all material risks are identified, measured, properly monitored and reported at an individual and Group levels with the proposed remediation plans if need be.

#### *Internal Audit*

The Internal Audit provides an independent assurance to the Board of Directors via the Audit Committee and to the Senior Management on the quality and effectiveness of the internal control systems and for reviewing the accuracy and reliability of the accounting records and financial reports, including those required by the Central Bank of Lebanon and the Banking Control Commission.

The Internal Audit reports directly to the Audit Committee. The independence and authorities of the Internal Audit function are documented in the Internal Audit Charter, which is approved by the Audit Committee and by the Board.

The Internal Audit performs its audit assignments on its own initiatives in all business areas and functions of the Bank, in accordance with the set Audit Plan, which should be risk-based and dynamic.

#### *Compliance*

The compliance function is responsible for ensuring that the Bank operates in compliance with applicable laws, regulations and internal policies, notably those related to combatting the financing of terrorism and anti-money laundering.

This function must establish, implement and maintain appropriate mechanisms to promote and sustain a corporate culture of compliance within the Bank.

Senior Management shall set a mechanism that enables the Internal Audit, Risk Management and Legal Department to have access to the Compliance Department's reports. In turn, the Internal Audit has to inform the Compliance of the main violations and breaches detected in the course of the audit work.

## **7.2 External Audit**

External Auditors are appointed by the Shareholders' General Assembly for a renewable three-year period, provided that the principle of partner rotation is adopted by the audit firm, i.e. changing the partner in charge every five years. In addition, the bank is required by the Central Bank to appoint two audit firms for auditing its accounts jointly and separately.

External Auditors have an important impact on the quality of internal control through their audit activities, including discussions with management and feedback on the effectiveness of the internal control system.

External auditors are required to prepare an annual report on the Bank's compliance with the internal control and internal audit regulations stipulated by the Supervisory Authority and to submit this report to the Banking Control Commission.

## 8. Group Governance Structure

### 8.1 Responsibilities of the Parent Bank

The Bank's Board of Directors has the overall responsibility to ensure the implementation of adequate and sound Corporate Governance across the Group's activities and that each entity of the Group, adopts Corporate Governance policies and mechanisms appropriate to its structure, business and risks. (Refer to Annex 2 – Group Structure)

In order to fulfill its Corporate Governance responsibilities, the Board shall exercise adequate oversight over subsidiaries, while respecting the independent legal and governance responsibilities that might apply to regulated subsidiary Boards. In particular, it shall:

- Establish a governance structure which contributes to the effective oversight of subsidiaries.
- Ensure that enough resources are available for each subsidiary to meet both Group standards and local governance standards.
- Have appropriate means to monitor that each subsidiary complies with all applicable governance requirements.
- Ensure that internal control in all local and foreign subsidiaries is adequate and covers all the departments, activities and operations.
- Ensure that all its local and foreign subsidiaries, in addition to their activities and operations are subject to an on-going, comprehensive, adequate and effective internal auditing.

### 8.2 Responsibilities of the Subsidiaries

The Board of a banking subsidiary shall adhere to the corporate values and governance principles adopted by the Bank, taking into consideration the nature of the subsidiary's business and the applicable legal requirements.

The Board of the subsidiary has to assess the compatibility of the Group policy with local legal and regulatory requirements, and where appropriate, amend those policies. In addition, it shall retain and set its own Corporate Governance responsibilities, evaluate any group-level decisions or practices to ensure that they do not put the regulated subsidiary in breach of applicable legal or regulatory requirements.



## 9. Disclosure and Transparency

The Bank's governance should be adequately transparent to its Shareholders, Depositors and other Stakeholders.

The Bank is committed to support a transparent financial system and to promote sound governance, and accountability, as well as to facilitate the access to information to third parties.

In that respect, the Bank shall, at a minimum, disclose in its Annual Report the following key information:

- Material information on the Bank's objectives, governance structures and policies, major share ownerships and voting rights, balances / transactions with related parties.
- A detailed list of the names of the Bank's major shareholders and Board members.
- A list of the Bank's affiliates, their purpose, the names of their Board members.
- The committees that the Board has formed, their mandates, their composition and their members.
- Information related to the remuneration of Bank employees in line with the requirements of BDL basic circular 133- article 13.
- Also, the Bank shall publish on its website the adopted Corporate Governance principles.

## 10. Code Review

The Corporate Governance Code shall be reviewed every five years and updated when need be to respond to any new regulatory requirements.

The Code shall be submitted to the Board for approval.

## Documents of Reference

BCBS Guidelines d328 dated July 2015 : Corporate Governance Principles for Banks

Lebanese Laws & Regulations:

- Code of Commerce, Decree 304 dated 24.12.1942 and its amendments
- Code of Money & Credit, Decree 13513 dated 01.08.1963 & its amendments
- Law no. 2/67 dated 16.01.1967 : Special regulations covering defaulting banks
- Law no. 308 dated 03.04.2001 Articles 3-1&2 : Bank share issuing and trading, bank bond issuing and bank ownership of real estate
- Banque du Liban Basic Circular 7 dated 27.05.1982 : The legal documents and annual reports to be provided to BDL
- Banque du Liban Basic Circular 77 dated 15.12.2000 : Internal Control and Internal Audit in Banks and Financial Institutions
- Banque du Liban Basic Circular 106 dated 26.07.2006 : Corporate Governance
- Banque du Liban Basic Circular 118 dated 21.07.2008 : Boards of Directors and Boards Committees in Lebanese Banks
- Banque du Liban Basic Circular 122 dated 13.08.2009 : Rules and procedures for auditors' appointment
- Banque du Liban Basic Circular 128 dated 12.01.2013 : Compliance Department
- Banque du Liban Basic Circular 132 dated 08.03.2014 : Loans and advances to the persons governed by the provisions of Par. 4 of Article 152 of the CMC
- Banque du Liban Basic Circular 133 dated 06.08.2014 : Remunerations and Bonuses granted to bank employees
- Banking Control Commission Circular 242 dated 30.06.2004 : Basis of Risk Management in Banks and Financial Institutions
- Banking Control Commission Circular 262 dated 15.12.2009 : Function of Risk Management
- Banking Control Commission Circular 271 dated 21.09.2011 : Internal Control and Internal Audit

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