Lebanese Islamic Bank

Summary of the Code of Corporate Governance

June 4, 2012
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Board of Directors

Approval of the

Code of Corporate Governance for Lebanese Islamic Bank

Given the financial intermediation role of Lebanese Islamic Bank (Bank) in the banking sector, and the critical effects of sound governance on its perpetuation as successful organization, and on public trust and confidence, the Bank is continuing in its efforts to enhance Corporate Governance (CG), by preparing and implementing this Code of Corporate Governance (Code) which is intended to promote local and international Corporate Governance best practices.

The Code draws upon the Association of Banks in Lebanon “Corporate Governance Guidelines for Banks Operating in Lebanon” (ABL CG Guidelines) and international best practices, in particular the guidance issued by the Basel Committee on Banking Supervision in its following publications: “Enhancing Corporate Governance for Banking Organizations” and “Principles for Enhancing Corporate Governance”, the Financial Stability Board “Principles for Sound Compensation Practices”, the Organization for Economic Cooperation and Development “Principles of Corporate Governance” and the publications of the Islamic Financial Services Board and the International Accounting Standards Board.

The Bank produced this Code according to its particular needs and principles in a manner consistent with applicable national Laws such as the Code of Commerce, the Code of Money and Credit, and the regulations issued by Banque Du Liban and the Banking Control Commission of Lebanon.

In order for the Bank to comply with the Banque Du Liban regulatory guidelines, the Bank ensures the full compliance and strict implementation of this Code and publishes this summary of its own Code on its website and in its Annual Report.

The Code of Corporate Governance of Lebanese Islamic Bank in its present version or any future amendments shall be endorsed by the Corporate Governance Unit and the Board of Directors.
## Abbreviations

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ABL</td>
<td>Association of Banks in Lebanon</td>
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<tr>
<td>Bank</td>
<td>Lebanese Islamic Bank SAL - Lebanon</td>
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<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>BCC</td>
<td>Banking Control Commission of Lebanon</td>
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<td>BDL</td>
<td>Banque Du Liban, the Central Bank of Lebanon</td>
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<td>Board</td>
<td>Board of Directors</td>
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<td>CC</td>
<td>Lebanese Code of Commerce</td>
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<td>CG</td>
<td>Corporate Governance</td>
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<td>CMC</td>
<td>Lebanese Code of Money and Credit</td>
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<td>Code</td>
<td>Code of Corporate Governance</td>
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<tr>
<td>Director</td>
<td>Member of the Board of Directors</td>
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<td>ED</td>
<td>Executive Director</td>
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<td>FSB</td>
<td>Financial Stability Board</td>
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<td>ID</td>
<td>Independent Director</td>
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<tr>
<td>IFSB</td>
<td>Islamic Financial Services Board - Kuala Lumpur</td>
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<td>LIB</td>
<td>Lebanese Islamic Bank SAL - Lebanon</td>
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<td>MIS</td>
<td>Management Information System</td>
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<td>NED</td>
<td>Non-Executive Director</td>
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<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
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<td>SEM</td>
<td>Senior Executive Management</td>
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Please note that you can follow the underlined links above by pressing `ctrl plus click` on the chosen link.
CG-A.1 Summary of the Code of Corporate Governance History

CG-A.1.1 Following the issuance of the Corporate Governance Guidelines by the Association of Banks in Lebanon in January 2011, the Code of Corporate Governance (Code) of Lebanese Islamic Bank (Bank) and its summary were issued on June 4, 2012 to be in line with these Guidelines and to include previous requirements that were in place in the originally issued Banque Du Liban’s related circulars.

Any material changes that have subsequently been made to this Summary are annotated with the calendar quarter date in which the changes were made. A list of recent changes made to this Summary is detailed in the table below:

CG-A.1.2 Summary of Changes

<table>
<thead>
<tr>
<th>Date</th>
<th>Document version</th>
<th>Amended by</th>
<th>Approval Date by CGU</th>
<th>Approval Date by the Board</th>
<th>Change Description</th>
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Definition of Corporate Governance

Corporate Governance (CG) involves a set of relationships between the Bank’s Senior Executive Management (SEM), its Board, its shareholders, and other stakeholders, with a clear definition of powers and responsibilities of each of them.

Corporate Governance (CG) involves the manner in which the business and affairs of the Bank are governed by its Board and SEM, which affects how they:

- set the Bank’s strategy and objectives;
- determine the Bank’s risk tolerance/appetite;
- operate the Bank’s business on a day-to-day basis;
- meet shareholders’ obligations, protect the interests of depositors, and take into account the interests of other stakeholders;
- align corporate activities and business with the expectation that the Bank will operate in a safe and sound manner, with integrity and in compliance with applicable laws and regulations; and
- follow effective disclosure and transparency policies.

Corporate Governance in Lebanese Islamic Bank

The Bank should comply with all the provisions, regulations and principles applicable to all banks in Lebanon, unless otherwise provided for by the regulations.

The Bank should develop the CG Framework and procedure, in conformity with the internationally accepted best practices and recommendations, which are consistent with the Lebanese Laws and regulations, in particular with BDL Basic Circulars No. 106 dated July 26, 2006 and No. 112 dated September 27, 2007 on Corporate Governance in banks and any other pertinent future regulations.
CHAPTER: CG-1 Board of Directors

The Board has overall responsibility for the Bank, including approving and overseeing the implementation of the strategic objectives, risk strategy, CG and corporate values and ensuring that adequate controls are in place.

CG-1.1 Responsibilities of the Board

a) The Board approves and monitors the strategy, taking into account the Bank’s long-term financial interests, its exposure to risk, and its ability to manage risks. The Board approves and oversees: the implementation of the Bank’s overall risk strategy; risk management policy; compliance policy and internal control systems; CG Framework; principles and corporate values, including a code of conduct; and the compensation system.

b) The Board adopts a sound investment strategy, which takes into account the investment risk, the risks accepted by the customers and their related expected returns, in addition to the distinction between the two types of investment accounts.

c) The Board appoints the Head of the Corporate Governance Unit, determines his remuneration and informs the BCC of his name and any change in the future.

d) The Board appoints the Head of the Shari’a Audit Unit, determines his remuneration and informs the BCC of his name and any change in the future, provided this Head is not a member of the Shari’a Consultative Body.

CG-1.1.1 Corporate values and code of conduct

The Board adopts and ensures the internal communication of the Code of Conduct, a set of corporate values and “whistle blowing” procedures, allowing communication to be channeled to the Board by employees, independently from the internal “chain of command”, of legitimate concerns.

CG-1.1.2 Related party transactions

The Board ensures that transactions with related parties are reviewed to assess their risks, conducted at arms-length, approved by the Board and the shareholders, in compliance with applicable laws and regulations (notably the provisions of Article 152 of the CMC and Article 158 of the CC). The Board also ensures that a summary of such transactions is disclosed in the reports.
CG-1.3 Internal Control Functions

The Board ensures that the Internal Control Functions are properly positioned, staffed and resourced and are carrying out their responsibilities independently and effectively.

CG-1.4 Tone at the top

The Board takes the lead in establishing the “tone at the top” and in setting professional standards and corporate values that promote integrity for itself, SEM and other employees.

CG-1.5 Review of policies and controls

The Board regularly reviews policies, procedures and controls, covering all significant activities, with SEM and Internal Control Functions in order to determine areas needing improvement, as well as to identify and address significant risks and issues.

CG-1.6 Duty of care and duty of loyalty

The Board takes into account the legitimate interests of shareholders, depositors, creditors, employees, and other stakeholders. The Board also ensures that the Bank maintains an effective relationship with its supervisors. In bearing his/her share of the Board’s collective responsibilities, each Director should exercise its “duty of care” and “duty of loyalty”.

CG-1.7 Compensation Criteria of the Directors and Senior Executive Management

The Ordinary General Assembly (OGA) sets the Directors’ compensation, during the Bank’s annual general assembly meeting, held for approving the financial statements. The Directors’ compensation is commensurate with their duties and responsibilities and based on the Bank’s profits, providing a sufficient level of compensation with the risk profile, to attract and retain the highest quality individuals.

CG-1.8 Oversight of Senior Executive Management

The Board is responsible for providing oversight of SEM, as part of the Bank checks and balances. In discharging its SEM oversight responsibility, the Board shall at least:

a) elect its Chairman from its members. The Chairman acts as General Manager and all management actions are taken on his behalf and under his own responsibility;

b) ensure that an adequate structure is in place;

c) make sure that the selections criteria for SEM appointment are adequate and take note of their appointment and removal;

CG-1.9 Summary of LIB Code of Corporate Governance

The Board of Directors of the Bank should exercise its “duty of care” and “duty of loyalty”. Each Director should ensure that the Bank maintains an effective relationship with its supervisors. The Board also takes into account the legitimate interests of shareholders, depositors, creditors, employees, and other stakeholders. The Board also ensures that the Bank maintains an effective relationship with its supervisors. In bearing his/her share of the Board’s collective responsibilities, each Director should exercise its “duty of care” and “duty of loyalty”.

CG-1.10 Qdwa of the Board

The Board has the duty to review and set the “tone at the top” and in setting professional standards and corporate values that promote integrity for itself, SEM and other employees.

CG-1.11 Review of policies and controls

The Board regularly reviews policies, procedures and controls, covering all significant activities, with SEM and Internal Control Functions in order to determine areas needing improvement, as well as to identify and address significant risks and issues.

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a) elect its Chairman from its members. The Chairman acts as General Manager and all management actions are taken on his behalf and under his own responsibility;

b) ensure that an adequate structure is in place;

c) make sure that the selections criteria for SEM appointment are adequate and take note of their appointment and removal;

d) ensure that an appropriate succession plan is in place for all Directors and SEM positions;
e) monitor that SEM actions are consistent with the board-approved strategy and policies;
f) question and review critically explanations and information provided by SEM, and meet regularly with SEM;
g) set formal performance standards for SEM consistent with long-term objectives, strategy and financial soundness, and monitor SEM’s performance against these standards; and
h) ensure that the structure facilitates effective decision-making and good governance by drawing up organizational chart, which is regularly updated, setting and enforcing lines of responsibility and accountability, and defining clearly the key responsibilities and authorities of the Board itself, SEM and Internal Control Functions. The organizational charts reflecting SEM is made public.

CG-1.1.9 Appointment of a Chief Executive Officer

The Board may, on the recommendation of its Chairman, appoint a General Manager and grant him executive powers to manage the Bank and implement Board policies and strategies.

CG-1.2 Qualifications, independence and composition of the Board

Directors should be and remain qualified for their positions, including training, in order to discharge their responsibilities. They should have a clear understanding of their role in CG.

CG-1.2.1 Qualifications of the Board

The Board should possess, both as individual Directors and collectively, the appropriate experience, competencies, and personal qualities. Each Director should have an understanding of its role as a member of the Board or its committees and be able to exercise objective judgment about the Bank’s affairs. The Board collectively should have adequate knowledge and experience relevant to the Bank’s material financial activities to enable effective governance and oversight.

CG-1.2.2 Board Training

The Board ensures that Directors have access to program of initial and ongoing education to help them acquire, maintain and deepen their knowledge and skills, and to fulfill their role and responsibilities, and the Board should dedicate sufficient time, budget for this purpose.

CG-1.2.3 Board Independence and Composition

The Board should have an adequate number and appropriate composition of Directors which should not exceed twelve. As such, the Bank aims at having majority of Non-Executive Directors (NED) and ID, who are able to exercise independent judgment of both the views of executives and of inappropriate political or personal interests.

CG-1.2.4 Independent Directors (ID)

In order to enhance its independence, the Board should have at least two IDs. The Bank’s definition of ID is in line with Article 1 of BDL Basic Circular No. 118.

CG-1.2.5 Non-Executive Directors (NED)

The Bank’s definition of NED is in line with Article 1 of BDL Basic Circular No. 118. The Director appointed to any of the subsidiaries abroad is not considered a NED, if the laws applicable in the foreign country did not grant him/her this status.

CG-1.2.6 Election of Directors

a) The Board shall ensure that the candidates are qualified to serve as Directors; are able to commit the necessary time and effort to fulfill their responsibilities; and do not have any potential conflicts of interest.
b) The Board, as a whole, is elected by the General Assembly for a maximum period of 3-year, and might be reelected.
c) To enhance the effectiveness of the Board, the Bank strengthens the Board through the election of a number of NED and ID, to comply with Board Committees’ requirements; and sets the number of NED and ID, taking into consideration the Bank’s size, complexity of its operations and risk profile.

CG-1.3 Board own practices, structure, committees and conflicts of interests

The Board should define CG practices for its own work and ensure that they are respected and periodically reviewed. It should exemplify through its own practices sound CG principles.

CG-1.3.1 Board Organization and functioning

The Board should:

a) carry out its duties effectively, maintain and periodically update organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities;

CG-1.2.6 Election of Directors

A) From among the Board, an acting Board of directors, qualified to serve as Directors; are able to commit the necessary time and effort to fulfill their responsibilities; and do not have any potential conflicts of interest.
B) The Board, as a whole, is elected by the General Assembly for a maximum period of 3-year, and might be reelected.
C) To enhance the effectiveness of the Board, the Bank strengthens the Board through the election of a number of NED and ID, to comply with Board Committees’ requirements; and sets the number of NED and ID, taking into consideration the Bank’s size, complexity of its operations and risk profile.

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The Board should define CG practices for its own work and ensure that they are respected and periodically reviewed. It should exemplify through its own practices sound CG principles.

CG-1.3.1 Board Organization and functioning

The Board should:

a) carry out its duties effectively, maintain and periodically update organizational rules, by-laws, or other similar documents setting out its organization, rights, responsibilities and key activities;
b) structure itself, in terms of size, frequency of meetings and the use of committees, to promote deep review of matters and robust, critical challenge and discussion of issues;

c) carry out regular assessments of the Board as a whole and of individual Directors, consider the outcome and act accordingly; and
d) review the effectiveness of the Board governance practices and procedures effectiveness, determine improvements and make changes.

CG-1.3.2 Role of the Chairman of the Board

The Chairman provides leadership to the Board and is responsible for its effective overall functioning. The Chairman should ensure that the Board decisions are taken on a sound and well-informed basis, should encourage and promote critical discussion and ensure that views are discussed within the decision-making process.

CG-1.3.3 Board Committees

The Board is the ultimate responsible for the conduct of the Bank’s affairs, but to increase efficiency, the Board should establish board-level committees and adopt their charters depending on its size, business and risk profile.

CG-1.3.4 Shari’a Consultative Body

The By-laws of the Bank includes a special section on the Shari’a Consultative Body, detailing the provisions that govern the appointment of its members, its relationship with the Bank itself and its prerogatives, including the provisions related to Shari’a-based Internal Control. The Shari’a Consultative Body is responsible for expressing independent opinion about the Bank’s operations in compliance with the Shari’a (Islamic Law). Such provisions clearly show the compliance of the Bank, in all its transactions and operations, with the Shari’a provisions and principles.

CG-1.3.5 Corporate Governance Unit

a) The Bank shall establish an independent CG Unit to oversee the implementation and development of the CG internal regulations.

b) The CG Unit shall include at least a NED; a member of the Shari’a Consultative Body; the Internal Audit Unit Head; and the Shari’a Audit Unit Head.

c) The Board established the CG Unit to assist the Board in its oversight responsibilities, with respect to the proper implementation of the Bank’s CG and corporate values and approved its charter.
d) The major responsibilities of the CG Unit are to:
- ensure that the Bank adheres to BCBS principles on enhancing CG and determines sound CG practices;
- oversee, coordinate and develop the Code of CG, ensure its proper implementation by all the departments and the Shari’a Consultative Body and ensure the disclosure of this summary on the Bank’s website and in its annual report;
- protect the customers’ interests, by submitting proposals to SEM to issue internal instructions and guidelines concerning the Bank’s relationship with its customers including disclosure, transparency and profit distribution;
- The CG Unit meetings should be held regularly, at least every six months or when deemed necessary; and
- submit to the Board, semi-annually or when necessary, reports and recommendations, based on the results of its work.

CG-1.3.6 Audit Committee

a) The Board is required to establish an Audit Committee. In this respect, the Board has established a board-level Audit Committee and approved its charter.

b) The Audit Committee is mainly responsible for: overseeing the financial reporting process; providing oversight of the Shari’a, Internal and External Auditors; recommending to the shareholders for their approval, the appointment, compensation and dismissal of External Auditors; reviewing and approving the audit scope and its frequency; receiving audit reports and ensuring that SEM is taking necessary corrective actions to address control weaknesses and non-compliance with policies, laws and regulations and other problems identified by auditors.

c) The Audit Committee should be composed of at least three NEDs, in their majority IDs. The Board should appoint an ID as the Audit Committee Chairman who has relevant experience in the banking or financial sector.

d) At a minimum, the Audit Committee as a whole should have recent and relevant experience and should possess a collective balance of skills and expert knowledge, commensurate with the Bank’s complexity and its duties.
CG-1.3.7 Risk Committee

a) The Board is required to establish a board-level Risk Committee responsible for advising the Board on the Bank’s overall current and future risk tolerance/appetite and strategy, and for overseeing SEM’s implementation of that strategy. In this respect, the Board has established a Risk Committee and approved its charter.

b) The Risk Committee should be composed of at least three Directors, in their majority IDs and NEDs.

c) The Board should appoint an ID as the Risk Committee Chairman who has relevant experience in the banking or financial sector, and in the Risk Management field.

CG-1.3.8 Nominations and HR Committee

The Board may consider establishing the Nominations and HR Committee, which shall provide recommendations to the Board for new board members and members of SEM and may be involved in human resource policies. The Board will oversee the issues related to this committee, until the Board’s decision to constitute a board committee for this purpose.

CG-1.3.9 Legal, Ethics and Compliance Committee

The Board may establish a Legal, Ethics and Compliance Committee, which shall ensure that the Bank promotes proper decision-making and complies with laws, regulations and internal rules, and provides also oversight of the compliance function. In this respect, the existing Board Committees oversee the above issues.

CG-1.3.10 Compensation Committee

The Board is encouraged to establish a Compensation Committee, which shall oversee the compensation system’s design and operation, and ensure that compensation is appropriate and consistent with the Bank’s culture, long-term business and risk strategy, performance and control environment, as well as with any legal or regulatory requirements. The Board will oversee the issues related to compensation, until the Board’s decision to constitute an ad-hoc board-level committee for this purpose.
CG-1.3.11 Common Requirements

The Board should appoint Board committee members with the goal of achieving an optimal mix of skills and experience that allow the committees to fully understand, objectively evaluate and bring fresh thinking to the relevant issues. To achieve the objectivity, membership should be composed of at least three Directors. A committee shall meet at least quarterly. In the interest of greater transparency and accountability, the Board discloses its committees, their mandates, composition, including independent members.

CG-1.3.12 Conflicts of Interest

a) Conflicts of interest may arise as a result of the various activities and roles of the Bank and its various stakeholders. Thus, the Board should ensure that policies to identify potential conflicts of interest are developed and implemented and, if conflicts cannot be prevented, are appropriately managed, based on the permissibility of relationships or transactions under sound corporate policies consistent with Lebanese laws.

b) The Board should ensure that appropriate public disclosure, in its annual reports, is made, and/or information is provided to supervisors, relating to the Bank’s policies on current or potential conflicts of interest.

CG-1.3.13 Controlling shareholders

Where there are controlling shareholders with powers to appoint Directors, such Directors and the Board should exercise caution. In such cases, it is useful to bear in mind that the Directors have responsibilities to the Bank itself and all shareholders, regardless of who appoints them.
CHAPTER:  CG-2  CG in a Group Structure

CG-2.1 Responsibility of the Board of the Parent Company

In the group structure, the Board of the parent company (Credit Libanais SAL) should have the overall responsibility for adequate CG across the group and ensuring that there are CG policies appropriate to the structure, business and risks of the group and its entities.

a) The Board of the parent company should be aware of the material risks and issues that might affect both the Bank as a whole and its subsidiaries. It should therefore exercise adequate oversight over subsidiaries, while respecting the independent legal and governance responsibilities that might apply to regulated subsidiary Boards.

b) In order to fulfill its CG responsibilities, the Board of the parent company shall: establish a CG structure which contributes to the oversight of subsidiaries; ensure that enough resources are allocated for each subsidiary to meet both group and local governance standards; have appropriate means to monitor that each subsidiary complies with all applicable CG requirements; and draw clear Service Level Agreements with related entities, in case of operational and management support.

CG-2.2 Board of a subsidiary

a) The Board of a subsidiary should adhere to the corporate values and governance principles espoused by its parent company. Consequently, the Board should take into account the nature of the business of the subsidiary and the legal requirements that are applicable.

b) The Board of a subsidiary should retain and set its own CG responsibilities, and should evaluate any group-level decisions or practices, to ensure that they do not expose the subsidiary to a breach of the applicable laws, regulations or prudential principles. The Board of a subsidiary should also ensure that such decisions or practices are not detrimental to the subsidiary’s sound and prudent management; its financial health or its stakeholders’ legal interests.
CHAPTER: CG-3 Senior Executive Management (SEM)

Under the Board’s direction, SEM should ensure that the Bank’s activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the Board.

CG-3.1 Definition of SEM

SEM consists of a core group of individuals who are responsible and held accountable for overseeing the Bank’s day-to-day management, such as the Chairman - General Manager and all Deputy and Assistant General Managers, Head of Divisions and Chairmen of the specialized management committees. In this respect, they should have the necessary expertise, competencies and integrity to manage the businesses under their supervision, as well as have appropriate control over the key individuals in these areas.

CG-3.2 Responsibilities of the SEM

a) SEM contributes to the Bank’s sound CG through personal conduct by: helping to set the “tone at the top” along with the Board, providing staff oversight and ensuring that the activities are consistent with the board-approved business strategy, risk tolerance/appetite and policies;

b) SEM is responsible for delegating duties to the staff and establishes a management structure that promotes accountability and transparency;

c) SEM should oversee the exercise of such delegated responsibility and be held accountable to the Board for the Bank’s performance; and

d) SEM should implement, consistent with the Board’s direction, systems for managing the Bank’s risks. This includes a comprehensive and independent Risk Management Function and an effective Internal Controls system designed and operated to ensure adherence to the Bank’s strategy and risk tolerance/appetite.

e) SEM shall ensure that the Bank operates in accordance with the Shari’a provisions and principles.

---

**CHAPTER: CG-3 Senior Executive Management (SEM)**

**الإدارة العليا التنفيذية**

تتأكد الإدارة العليا التنفيذية، بإشراف المجلس، من أن النشاطات مطابقة لاستراتيجية العمل والقدرة والقابلية على تحمل المخاطر والسياسات التي وافق عليها المجلس.

**تعريف الإدارة العليا التنفيذية**

تتكون الإدارة العليا التنفيذية من مجموعة أفراد مسؤولين عن إدارة الأعمال اليومية للمصرف تحت إشراف مسؤولهم في هذا الصدد كرئيس مجلس الإدارة - المدير العام وجميع المدراء العامين والمساعدين ومدراء الأقسام الرئيسية ورؤساء اللجان المتخصصة. وبالتالي، عليهم أن يمتلكوا الخبرة والمهارات والنزاهة اللازمة لإدارة النشاطات الخاصة بإشرافهم، فضلاً عن الصلاحية المناسبة لمراقبة الأشخاص الرئيسيين العاملين في هذه النشاطات.

**مسؤوليات الإدارة العليا التنفيذية**

(أ) تساهم الإدارة العليا التنفيذية في الإدارة الرشيدة من خلال سلوكها حيث تكون، إلى جانب المجلس، قوة لجميع الموظفين، عبر الإشراف الملمع على الجهات التي تخضع لإشرافهم، وتأكد من أن النشاطات مطابقة لاستراتيجية العمل والقدرة والقابلية على تحمل المخاطر والسياسات المشار إليها على المجلس;

(ب) تكون الإدارة العليا التنفيذية مسؤولة عن تقضي المهام للموظفين، وعليها أن تضع هيكلية إدارية تعزز السلوكيات والشفافية;

(ج) علي الإدارة العليا التنفيذية ألا تغلب على واجبها بمراعاة المهام التي قامت بتخصيصها إليها، وتبني مسؤولية جدار المجلس عند أداء المصرف;

(د) علي الإدارة العليا التنفيذية أن تطبق، بما يحقق مع توجيهات المجلس الأنظمة الخاصة لإدارة المخاطر المالية وغير المالية التي يتعرض لها المصرف، وتحمل هذا وجود دائرة إدارية للمخاطر شاملة ومستقلة ونظام فعال للضبط الداخلي يتم تصميمه وتشغيله لضمان التدفق الاستراتيجي للمصرف، وقدرته/قابليته على تحمل المخاطر.

(ه) تتأكد الإدارة العليا التنفيذية، على مسؤوليتها، من أن المصرف يعمل وفقاً لأحكام ومبادئ الشريعة الإسلامية.
The Bank should have an independent Risk Management Function, including a Chief Risk Officer (CRO), with sufficient authority, stature, independence, resources and access to the Board. This function should be adequate for the size and nature of the Bank.

CG-4.1 Risk Culture

The Board and SEM should promote a culture of risk awareness and risk management within the Bank. All management and staff should be aware of, and held accountable for, their risk management responsibilities.

CG-4.2 Responsibilities of the Risk Management Function

The Risk Management Function is responsible for identifying, measuring, monitoring, controlling or mitigating, and reporting on risk exposures. This should encompass all risks to the Bank, on- and off-balance sheet and at a bank-wide, portfolio and business-line level.

CG-4.3 Independence

The Risk Management Function shall be independent of the business units whose activities and exposures are reviewed.

CG-4.4 Resources

The Risk Management Function should have adequate resources necessary to assess risk including personnel, access to information technology systems and systems development resources, and support and access to internal information.

CG-4.5 Qualifications

Risk Management personnel shall possess sufficient experience and qualifications, including market and product knowledge, as well as mastery of risk disciplines.

CG-4.6 Chief Risk Officer (CRO)

a) The Board should appoint a CRO with distinct responsibility for the Risk Management Function and the Bank’s comprehensive risk management framework across the entire organization.

b) The duality in executive functions should be avoided in such a way that the CRO should be distinct from other executive functions.

c) The CRO should have sufficient influence on the decisions that affect the Bank’s exposure to risk.

d) The Board and SEM shall take knowledge of the CRO opinions in addressing main issues, such as the determination of the risk tolerance/appetite, capital planning and product development, without compromising the CRO’s independence.

e) While the CRO should report to the General Manager and the Board, the CRO shall have direct access to the Board and its Risk Committee.

f) Interaction between the CRO and the Board or its Risk Committee shall occur regularly and be documented adequately.

g) The Board shall be notified upon the CRO dismissal with adequate explanation, as well as the BCC.

CG-4.7 Methodologies and Activities

a) The Bank shall have in place Risk Management Policies and processes to identify, evaluate, monitor, control and mitigate risks. The Bank shall also identify and monitor the risks on an ongoing bank-wide basis, and the sophistication of the risk management and internal control infrastructures should keep pace with any changes to the Bank’s risk profile.

b) SEM and the Board shall review and approve scenarios that are used in the Bank’s risk analysis and shall be made aware of assumptions and shortcomings embedded in the risk models.

c) The Board shall give special attention to the data it relies on, to make risk decisions.

d) The Bank shall utilize forward-looking stress tests and scenario analysis.

e) The Bank shall review actual performance relative to risk estimates to assist in gauging the risk management process and making improvements.

f) The Risk Management Function shall promote the importance of SEM and business line managers in identifying and assessing risks, rather than relying excessively on external risk assessments.

g) The Board and SEM remain responsible for effective risk management processes at the Bank. While the parent company shall conduct strategic, group-wide risk management and prescribe risk policies, the Bank’s Board and SEM shall have input into their local or regional adoption and assessments of local risks.

h) The parent company shall ensure that adequate tools and authorities are provided to the subsidiary, which understands what reporting obligations it has to the head office.

\( f \) becomes the Board of Directors’ responsibility to ensure the CRO’s exposure to risk.

\( g \) becomes the Board of Directors’ responsibility to ensure the CRO’s independence.

\( h \) becomes the Board of Directors’ responsibility to ensure the CRO’s compliance with the risk management policies.

\( i \) becomes the Board of Directors’ responsibility to ensure the CRO’s independence.

\( j \) becomes the Board of Directors’ responsibility to ensure the CRO’s exposure to risk.
i) The Risk Management Function shall report the risk positions; monitor these positions to ensure that they remain within the Bank’s framework of limits and controls; and guide the management on methods to reduce or hedge risks.

j) The risk management and internal control infrastructures shall keep pace with balance sheet and revenue growth, business or operating structure complexity, geographic expansion, mergers and acquisitions and new products or business introduction. The above shall be included in the planning process.

k) The Bank shall have approval processes for new products or business that take into account the extent to which the Bank has adequate tools and the expertise necessary to manage related risks.

l) The Risk Management Function shall assess risks that arise from mergers and acquisitions, and report its findings to the Board and SEM.

CG-4.8 Communication and Reporting

a) The risk exposures and strategy should be communicated throughout the Bank to facilitate the decision-making process that fosters safe and sound banking and helps prevent decisions that may result in amplifying risk exposures.

b) Overcoming information-sharing obstacles may require the Board and SEM to create Risk Management Committees to discuss issues related to bank-wide risks.

c) Information should be communicated to the Board and SEM in a timely and complete manner, so that they are equipped to make informed decisions. The Board should review periodically the received information.

d) Risk reporting systems should be dynamic, comprehensive and accurate. Risk monitoring and reporting should occur at both the disaggregated and bank level.

e) Risk reporting systems should be clear about any limitations in risk estimates, as well as any embedded assumptions. They should also highlight emerging risks that may become significant and merit further analysis.

(continued...)
CHAPTER: CG-5 Shari’a, Internal and External Auditors and other Internal Control Functions

The Board and SEM should utilize the result of the evaluations conducted by the Shari’a, Internal and External Auditors and other Internal Control functions.

CG-5.1 Board, SEM and Internal Control Functions

a) The Board shall recognize and acknowledge that independent, competent and qualified Shari’a, Internal and External Auditors, as well as other Internal Control functions are vital to the CG process to achieve targeted objectives.
b) SEM shall also recognize the importance of the effectiveness of these functions to the long-term soundness of the Bank.

CG-5.2 Shari’a Audit Unit

The Bank shall establish an independent Shari’a Audit Unit, which shall audit, evaluate and monitor the compliance of the banking operations with the opinions of the Shari’a Consultative Body and submit a quarterly report, or when necessary, to the Board and to the Shari’a Consultative Body.

CG-5.3 Internal Auditors

The Board and SEM can enhance the ability of the Internal Audit Function to identify problems with the Bank’s governance, Risk Management and Internal Control systems, by:

a) encouraging internal auditors to adhere to national and international professional standards;
b) promoting the internal auditor independence, by ensuring that internal audit reports are provided to the Board and its Audit Committee, and the internal auditor has direct access to them;
c) ensuring that the Head of the Internal Audit Unit submit a quarterly report to the Audit Committee concerning the audit, assessment and follow-up tasks, and he communicates to the Audit Committee any important remarks;
d) ensuring that the Internal Audit Unit reports directly to the Board, provides Internal Audit reports to the Chairman - General Manager, and the Board Secretary for distribution to the Directors and its work covers all the Bank’s operations;

ب) تجمع المدققين الداخليين على التقيد بالمعايير المهنية المالية والدولية؛

المدققين الداخليين

يتعزز المجلس والادارة العليا التنفيذية قدراً ودقة التدقيق الداخلي على تحقيق المهام التي تعتبر مناسبة لإدارة الرشيدة، إدارة المحافظة والضبط الداخلي، من خلال:

أ) تشجيع المدققين الداخليين على التقييم بالمعايير المهنية المالية والدولية؛

ج) التأكد من أن المدقق الداخلي يرفع تقريرًا فصليًا عن مهام التدقيق والتقديم إلى لجنة التدقيق والمتابعة التي أجرتها وحدة التدقيق الداخلي، خلال الفصل المنصرم، كما يودع لجنة التدقيق أي ملاحظات هامة فإنها تتغير.

د) التأكد من أن وحدة التدقيق الداخلي تتمتع مباشرة للمجلس، وتوزع نسخًا عن تقاريرها إلى كل من رئيس مجلس الإدارة - المدير العام، والأشياء الأخرى إلى إعطاء المجلس، وإلى إعطاء مجلس إدارة الشركات على اختلاف أنواعه.

المدقق الشرعي، المدققين الداخليين، مفوضي المراقبة ووظائف الضبط الداخلي الأخرى
e) recognizing the importance of the audit and internal control processes and communicate their importance;

f) utilizing the Internal Audit Functions’ findings and requiring the timely and effective correction of identified internal audit problems by SEM; and

g) engaging internal auditors to evaluate the effectiveness of the Risk Management and the Compliance Functions, including the quality of risk reporting to the Board and SEM, as well as the effectiveness of other key control functions.

CG-5.4 External Auditors

a) The Board and SEM contributes to the effectiveness of external auditors by ensuring that the Bank’s financial statements fairly represent its financial position and performance and includes in engagement letters that the external auditors will be in compliance with applicable laws and standards of professional practice.

b) Board Committees should have the right to meet regularly - in the absence of SEM - with the external auditors and the heads of the internal audit and compliance functions. This can strengthen the ability of the Board to oversee SEM’s implementation of the Board’s policies and to ensure that the business strategies and risk exposures are consistent with risk parameters established by the Board.

c) The Bank should appoint two audit firms for auditing its accounts jointly and severally and should require the regular rotation of the principal partner in charge of the external audit. The external auditors are appointed for a renewable, three-year period, provided that the principle of partner rotation is adopted by the audit firm.

CG-5.5 Internal Control Functions

a) The Bank should maintain sound control functions, including a compliance function that monitor compliance with laws, regulations, CG rules, codes and policies to which the Bank is subject and ensure that deviations are reported to an appropriate level of management and/or to the Board.

b) SEM should promote strong internal controls and should avoid activities and practices that undermine their effectiveness.

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5.4 Summary of LIB Code of Corporate Governance

5.5

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b) SEM should promote strong internal controls and should avoid activities and practices that undermine their effectiveness.
CHAPTER: CG-6 Compensation

CG-6.1 Compensation systems

a) Compensation systems contribute to Bank performance and risk-taking, and should therefore be key components of the Bank’s governance and risk management.

b) The Board should actively oversee the compensation system’s design and operation, and should monitor and review the compensation system to ensure that it operates as intended.

c) The Board is responsible for the design and operation of the bank-wide compensation system. The Board should, however, develop and issue the compensation policy, determine the bonus pool, and review and approve compensation for SEM and for the highest paid non-executive employees.

CG-6.1.1 Compensation Committee

a) Directors who are actively involved in the design and operation of the compensation system should be in their majority ID and NED with substantial knowledge about compensation arrangements and the incentives and risks that can arise from such arrangements;

b) Because compensation should be aligned with risks, members of the Board or the Compensation Committee should understand the Bank’s risk measurement and management, and of how different compensation practices can impact the Bank’s risk profile; and

c) The Board or the Compensation Committee should evaluate the incentives arising from compensation and ensure that an annual compensation review is undertaken.

CG-6.1.2 Other Compensation Issues

a) The Board should monitor and review outcomes to ensure that the compensation system is operating as intended.

b) The compensation of a control function should be based on the achievement of objectives without compromising its employees’ independence.

c) The Bank shall base its compensation system on the FSB Principles and Standards, in addition, to the BCBS “Compensation Principles and Standards Assessment Methodology”.

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The Board should actively oversee the compensation system’s design and operation, and should monitor and review the outcome to ensure that it operates as intended.
CG-6.2 Compensation alignment with risk-taking

a) An employee’s compensation should be effectively aligned with prudent risk-taking:
   • compensation should be adjusted for all types of risk;
   • compensation outcomes should be symmetric with risk outcomes;
   • compensation payout schedules should be sensitive to the time horizon of risks; and
   • the mix of cash, equity and other forms of compensation should be consistent with risk alignment.

b) The Bank should ensure that variable compensation is adjusted to take into account the risks an employee takes.

c) Compensation should be sensitive to risk outcomes over a multi-year horizon.
CHAPTER: CG-7 Know and Understand the Bank Structure

The Board and SEM should know and understand the Bank’s operational structure and its related risks. Where the Bank operates through structures or in jurisdictions that do not meet international banking standards, the Board and SEM should understand the purpose, structure and unique risks. They should also seek to mitigate the risks identified.

CG-7.1 Know the Bank structure

a) The Board and SEM should understand the structure and the organization of the group.

b) Measures and systems should be in place to facilitate the generation and exchange of information among and about the entities, to manage the group-wide risks, and for the monitoring and supervision of the group.

c) The Board should approve policies and strategies for the establishment of new structures and properly guide and understand the structure, its evolution and its limitations. Moreover, the Board and SEM, as appropriate, should:

- avoid setting up unnecessarily complicated structures;
- have a centralized process for approving and controlling the creation of new legal entity;
- recognize the risks that the complexity of the legal entity structure itself may pose;
- evaluate how the aforementioned risks of the structure and legal entity requirements affect the group’s ability to manage its risk profile and deploy funding and capital under normal and adverse circumstances; and

- ensure compliance with applicable regulation.

CG-7.2 Understand the Bank structure

a) The Bank has legitimate purposes for operating with subsidiaries, sister companies or correspondents abroad, and therefore, using international payment systems. However, this partnership may pose financial, legal and reputational risks to the Bank. As a result, the Bank should meet international banking standards and should comply with BDL Basic Circulars No. 83 dated May 18, 2001 on rules governing anti-money laundering and combating terrorist financing and No. 126 dated April 5, 2012 on correspondents relationships.

b) The Bank may be indirectly exposed to risks when it performs certain services or establishes structures on behalf of customers.

c) Therefore, consistent with guidance from the Board, SEM should ensure that the Bank has appropriate policies and procedures, to:

- establish processes for the approval of such activities;
- ensure that information regarding these activities and associated risks is readily available to the head office, is appropriately reported to the Board and supervisors; and
- ensure that these activities are subject to regular internal and external audit reviews.
### CHAPTER: CG-8 Disclosure and Transparency

#### CG-8.1 Transparency

In order for stakeholders and market participants to effectively monitor and hold accountable the Board and SEM, they should be provided with key information necessary to enable them to judge the effectiveness of the Board and SEM, in governing the Bank.

#### CG-8.2 Disclosures

- **a)** The Bank shall disclose relevant and useful information that supports the key areas of CG.
- **b)** Accordingly the Bank’s disclosure, on its website and in its Annual Report, shall include material information on its objectives, organizational and governance structures, policies, the summary of the Code of CG, major share ownership and voting rights and related parties transactions.

<table>
<thead>
<tr>
<th>8.1 Summary of LIB Code of Corporate Governance</th>
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<tbody>
<tr>
<td>The Bank shall disclose key points concerning its risk tolerance/appetite.</td>
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<tr>
<td>When involved in complex or non-transparent structures, the Bank shall disclose adequate information regarding the purpose, strategies, structures, risks and controls.</td>
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<tr>
<td>Disclosure shall be accurate, clear and presented in an understandable manner. Timely disclosure is desirable on the Bank’s website, in its annual and periodic financial reports. It is good practice that an annual CG specific and comprehensive statement is in a clearly identifiable section of the annual report depending on the applicable financial reporting framework. All material developments that arise between regular reports shall be disclosed without undue delay.</td>
</tr>
<tr>
<td>The Bank shall abide by the legal and regulatory requirements on transparency and disclosure, particularly those related to all kinds of deposits received by the Bank. It should develop a summary report on the views of the Shari’a Consultative Board for submission to the shareholders, in the Annual General Assembly, and enable all the shareholders to consult the Shari’a Consultative Board’s full opinions and reports; and publish, annually, in a daily newspaper, a summary of the Shari’a Consultative Board’s reports and opinions, with a clear indication, that the full reports and opinions shall be available, to the public on the Bank’s website, upon their publication.</td>
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