CORPORATE GOVERNANCE GUIDE

JUNE 2016
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GLOSSARY

Cedrus Group
Cedrus Group includes:
- Cedrus Invest Bank (or Parent Company); and
- Cedrus Bank (or the Bank).

Control Functions
Control Functions are those functions that have a responsibility independent from the Management to provide objective assessment, reporting and/or assurance. They include:
- The Risk Management Function.
- The Compliance Function.
- The Internal Audit Function.

Duty of Care
This is the duty of a Board member to decide and act on an informed and prudent basis with respect to the Bank’s business and activities.
This duty requires a Board member to approach the affairs of the Bank the same way that a “prudent person” would approach his/her own affairs.

Duty of Loyalty
This is the duty of a Board member to act in good faith in the interest of the Bank. Accordingly, an individual Board member should not act in his/her own interest, or the interest of another individual or group, at the expense of the Bank and its shareholders.

Non-Executive Board Member
This is a member of the Board who:
- Has no administrative function in the Bank; and
- Is not entrusted with executive duties at the Bank and/or any of its branches or affiliates in Lebanon or abroad; and
- Does not fulfill a consultative function for the Senior Management, whether presently or during the two years preceding his/her appointment as a Board member.
The Board member appointed in any subsidiary abroad is not considered as an Executive Board Member, if the laws governing him/her in the foreign country do not grant him/her this capacity.

Independent Board Member
This is a member of the Board who meets all the following conditions:
- Is a Non-Executive Board member.
- Is not one of the major shareholders who own, directly or indirectly, more than 5% of the Bank total shares or voting rights pertaining to these shares, whichever is bigger.
- Is independent from any person in the Senior Management of the Bank and from its major shareholders, so that no business relationship binds him/her to any of them, whether presently or during the two years preceding his/her appointment as a Board member.
- Is not related by kinship, up to the fourth degree, to any of the major shareholders.
- Is not one of the Bank’s debtors.
**Internal Control System**
This is the set of rules and controls governing the Bank’s organizational and operational structure, including reporting processes, and functions for Risk Management, Compliance and Internal Audit.

**Risk Appetite**
This is the aggregate level and the types of risk that the Bank is willing to assume, based on its capacities, in order to achieve its strategic objectives and business plan.

**Risk Culture**
This is the set of the Bank’s norms, attitudes and behaviours related to risk awareness, risk-taking and risk management, and the controls that shape the Bank’s decisions on risks.
The risk culture influences the decisions of Senior Management and employees related to the day-to-day activities of the Bank and has an impact on the risks they assume.

**Risk Limits**
These are specific quantitative measures or limits based on, for example, forward-looking assumptions that allocate the Bank’s aggregate risk to business lines, legal entities as relevant, specific risk categories, concentrations and, as appropriate, other measures.

**Risk Profile**
This is the point-in-time assessment of the Bank’s gross risk exposures (i.e. before the application of any mitigants) or, as appropriate, net risk exposures (i.e. after taking into account mitigants) aggregated within and across each relevant risk category based on current or forward-looking assumptions.

**Senior Management**
The Senior Management consists of the core group of individuals who are responsible, and should be held accountable, for overseeing the sound and prudent day-to-day management of the Bank’s business and activities.
Senior Management includes:
- The chairman - General Manager.
- General Manager
- Chief Executive Officer.
- Other Chief Officers.
- Deputy/Acting General Managers or Deputy/Acting Chief Executive Officers.
- Assistant General Managers.
- Heads of Main Business Units.

**Tone at the Top**
This is a term that is used to define Senior Management leadership and commitment towards openness, honesty, integrity, and ethical behavior. It is one of the most important components of the Bank’s control environment.
**PART 1: DEFINITION OF CORPORATE GOVERNANCE**

Corporate Governance is the set of relationships between the Bank’s Management, its Board, its shareholders and other stakeholders, which provides the structure through which the objectives of the Bank are set, and the means of attaining those objectives and monitoring performance. This set helps define the way authorities and responsibilities are allocated and how corporate decisions are made.

Good Corporate Governance should provide proper incentives for the Board and Senior Management to pursue objectives that are in the interests of the Bank and its shareholders and should facilitate effective monitoring, thereby encouraging the Bank to use resources more efficiently.

Corporate Governance involves the manner in which the business and affairs of the Bank are governed by the Bank’s Boards and Senior Management, affecting how the Bank:

1. Sets corporate objectives (including generating economic returns to owners).
2. Runs the day-to-day Bank’s business and operations.
3. Considers the interests of recognized stakeholders.
4. Aligns corporate activities and behaviours with the expectation that the Bank will operate in a safe and sound manner, and in compliance with the Board’s policies and directives, and applicable laws and regulations.
5. Protects the interests of depositors.
PART 2: OBJECTIVES OF THIS GUIDE

This Corporate Governance Guide has been adopted by Cedrus Bank for several reasons, mainly:

1. To govern and safeguard, on a sustainable basis, the interests of the Bank’s stakeholders (depositors, clients, shareholders, and employees), while fairly managing conflicting interests between them.
2. To align the Bank’s Corporate Governance practices with the acknowledged local and international best practices, notably with the following:
   a. The regulations of the Central Bank of Lebanon.
   b. The Lebanese Laws notably the Code of Commerce and the Code of Money and Credit;
   c. The Corporate Governance Guidelines issued by the Association of Banks in Lebanon in January 2011.
   d. The Corporate Governance Principles and Guidelines published by the Basel Committee on Banking Supervision.
   e. The Corporate Governance Principles of the Organization for Economic Cooperation and Development (OECD);
   f. The publications of the International Accounting Standards Board (IAS & IFRS).
**PART 3: THE RESPONSIBILITIES OF THE BOARD OF DIRECTORS**

### 3.1. The Overall Responsibilities of the Board

The Board has ultimate overall responsibility for the Bank, including the following:

1. Ensuring the financial soundness of the Bank at all times.
2. Approving, and overseeing the implementation of, the following:
   a. The overall business strategy and strategic objectives of the Bank, taking into account its long-term financial interests and safety.
   b. The Bank’s corporate governance.
   c. The Bank’s internal organisation.
   d. The Bank’s risk strategy and appetite.
   e. The Bank’s compliance policies and obligations.
   f. The Bank’s corporate values and culture.
   g. The Bank’s internal control system.
   h. The Bank’s capital adequacy assessment process.
   i. The Bank’s capital and liquidity plans.

3. Reviewing on regular basis the Bank’s strategies, policies, and controls with the Senior Management and the concerned parties and checking periodically if they remain appropriate in the light of material changes to the Bank’s size, complexity, geographical footprint, business strategy, markets and regulatory requirements. This shall be done in order to determine areas needing improvement, as well as to identify and address significant risks and issues.

4. Getting actively engaged in the affairs of the Bank and keeping up with the material changes in the Bank’s business and its external environment in order to act in a timely manner to protect the long-term interests of the Bank.

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

6. Ensuring that adequate, effective, and independent controls are in place, and strengthening, with the Senior Management, checks and balances across all the Bank’s activities.

In discharging its responsibilities, the Board shall always take into account the legitimate interests of depositors, shareholders and other relevant stakeholders. It shall also ensure that the Bank maintains an effective relationship with its supervisors.

The Board may delegate some of its functions, though not its responsibilities, to Board Committees where appropriate.

### 3.2. Duty of Care and Duty of Loyalty of Board Members

In bearing his/her share of the collective responsibilities of the Board, each Board member shall:

1. Exercise his/her “duty of care” and “duty of loyalty” to the Bank under the applicable laws and supervisory standards.
2. Engage actively in the Bank’s matters.
3. Stay adequately informed of internal and external factors affecting the Bank’s business, activities, and risks.

### 3.3. The Organizational Structure

The Board shall establish, and be satisfied with, the Bank’s organisational structure. This will enable the Board and the Senior Management to carry out their responsibilities and will facilitate effective decision-making and good governance.

This shall include setting and enforcing the lines of responsibility and accountability throughout the Bank and clearly laying out the key responsibilities and authorities of the following:

1. The Board itself.
2. The Senior Management.
3. Those responsible for the risk management and control functions.

3.4. Lines of Responsibility and Accountability
The Board shall clearly define the authorities and key responsibilities for the Senior Management on the basis that unspecified lines of accountability or confusing, multiple lines of responsibility may exacerbate a problem through slow or diluted responses.

The Senior Management is responsible for creating an accountability hierarchy for the staff, but must be cognizant of the fact that Senior Management is ultimately responsible to the Board for the performance of the Bank.

3.5. The Bank’s Corporate Values
The Board has the ultimate responsibility to:

1. Ensure that Senior Management implements policies that prohibit (or strictly limit) activities and relationships that diminish the quality of Corporate Governance
2. Ensure that timely and frank discussions are assured and that problems and legitimate concerns about questionable practices are escalated to higher levels within the Bank and outside the normal chain of command if necessary.
3. Ensure that the Bank’s employees are always encouraged and able to communicate, confidentially and without the risk of reprisal, legitimate concerns about illegal, unethical, corrupted or questionable practices. This should be facilitated through a well communicated policy and adequate procedures and processes, which allow employees to communicate material and bona fide concerns and observations of any violations in a confidential manner (e.g. whistleblowing policy).
4. Ensure that the Bank is not providing preferential treatment to related parties and other favoured entities (e.g. lending on highly favourable terms).
5. Oversee the integrity, independence and effectiveness of the Bank’s policies and procedures for whistleblowing.
6. Ensure that the Senior Management addresses timely and effectively the legitimate issues that are raised.
7. Ensure that staff who raise concerns are protected from detrimental treatment or reprisals.
8. Oversee and approve how, and by whom, legitimate material concerns shall be investigated and addressed.

3.6. The Bank’s Code of Conduct (Code of Ethics)
The Board shall ensure that the Code of Conduct of the Bank:
1. Clearly defines acceptable and unacceptable behaviours.
2. Explicitly disallows illegal activities, such as financial misreporting and misconduct, economic crime including fraud, breach of sanctions, money laundering, anti-competitive practices, bribery and corruption, or the violation of consumer rights.
3. Makes clear that the Bank’s employees always conduct themselves ethically and perform their jobs with integrity, skill, due care and diligence, in addition to complying with laws, regulations and the Bank’s policies.

3.7. The Bank’s Corporate Culture
A fundamental component of good governance is a corporate culture of reinforcing appropriate norms for responsible and ethical behaviour.

Accordingly, and in order to promote a sound corporate culture, the Board shall reinforce the “tone at the top” by:
1. Setting, and adhering to, the Bank’s corporate values that create expectations that all businesses and activities should be conducted in a legal and ethical manner.
2. Overseeing the adherence to the Bank’s corporate values by the Senior Management and other employees.
3. Promoting risk awareness within a strong risk culture, conveying the Board’s expectation that it does not support excessive risk-taking and that all employees are responsible for helping the Bank operate within the established risk appetite and limits.
4. Ensuring that employees, including the Senior Management, are aware that appropriate disciplinary or other actions will follow unacceptable behaviours.
5. Overseeing the Senior Management role in fostering and maintaining a sound corporate and risk culture.
6. Ensuring that appropriate steps are taken to communicate throughout the Bank the corporate values, code of conduct, and other professional and ethical standards together with supporting policies.

3.8. Oversight of Senior Management
The Board is responsible for providing oversight of the Senior Management. In discharging this responsibility, the Board shall:
1. Elect a Chairman from among its members, knowing that in application of current Lebanese legislation, the Chairman of the Board acts as General Manager and all management actions are taken on his/her account and under his/her personal responsibility.
2. Approve the selection, and oversee the performance, of the Chief Executive Officer and other key personnel, including the members of the Senior Management and the Heads of the risk and control functions.
3. Ensure that an appropriate management structure is in place that is commensurate with the size and complexity of the Bank and its business and make sure, in particular, that the management organization includes control functions such as:
   a. A Chief Risk Officer or equivalent.
   b. A Chief Financial Officer or equivalent.
   c. A Head of Internal Audit.
   d. A Chief Operating Officer or equivalent.
   e. A Chief Compliance Officer or equivalent.
4. Ensure that the eligibility criteria for the above positions are appropriate.
5. Ensure that an appropriate succession plan is in place, generally for all the positions of the Senior Management, and more particularly for the positions named above.
6. Ensure that the actions of the Senior Management are consistent with the strategies and policies approved by the Board, including the Bank’s values, risk culture and appetite.
7. Hold members of the Senior Management accountable for their actions and enumerate the possible consequences if those actions are not aligned with the Board’s performance and risk expectations.
8. Set formal appropriate performance and remuneration standards for the Senior Management that are consistent with the long-term strategic objectives, risk profile, and the financial soundness of the Bank.
9. Assess whether the collective knowledge and expertise of the Senior Management remain appropriate given the nature of the Bank’s business and risk profile.
10. Question, and critically review, information and explanations provided by the Senior Management.
11. Meet regularly with the Senior Management.

3.9. Transactions with Related Parties
The Board shall ensure that:
1. Transactions with related parties (including internal group transactions) are reviewed to assess their risks and that the corporate or business resources of the Bank are not misappropriated or misapplied.
2. Related party transactions are performed at arm’s length and are approved by the Board and the shareholders in compliance with applicable laws and regulations governing transactions with related parties (notably the provisions of article 152 of the Code of Money and Credit and article 158 of the Code of Commerce).
3. A summary of such transactions are disclosed in appropriate reports.
PART 4: THE QUALIFICATIONS, INDEPENDENCE AND COMPOSITION OF THE BOARD

4.1. The Qualifications of the Board
1. The Board, as a collective body, and each Board member, should be, and remain, qualified, individually and collectively, for their positions. As such, Board members should have appropriate experience and competencies.
2. Board members should have a clear understanding of their roles (including their roles in corporate governance and in the Board Committees) and be able to exercise sound and objective judgment about the affairs of the Bank.
3. The Board collectively should have adequate knowledge and experience relevant to each of the material financial activities the bank intends to pursue in order to enable effective governance and oversight.
4. The Board shall ensure that its members participate in induction programmes and have access to ongoing training on relevant issues.

4.2. The Selection of Board Members
1. The Board of Directors shall have a clear and rigorous process for identifying, assessing and selecting Board candidates.
2. The Board shall nominate candidates based on a selection process that shall include reviewing whether a candidate:
   a. Has an impeccable record of integrity and good repute.
   b. Has, and is able and willing to commit, the necessary time and effort to fully carry out his/her responsibilities.
   c. Possesses the knowledge, skills, and experience to carry out his/her responsibilities.
   d. Has the ability to promote a smooth and efficient interaction between Board members and with Senior Management.
3. The Board shall promote appropriate succession planning of its members.
4. If a Board member ceases to be qualified or is failing to fulfil his/her responsibilities, the Board shall take appropriate actions as permitted by its by-laws, and laws and regulations in course.

4.3. The Independence of Board Members
In order to enhance the independence of the Board members:
1. The Board shall have a sufficient number of Independent members.
2. The Board shall comprise members who are able to exercise objective judgment independent of inappropriate professional, political or personal interests.
3. The Board members should not have any conflicts of interest that may impede their ability to perform their duties independently and objectively and subject them to undue influence from:
   a. Other persons, such as Management members and shareholders, including those who contributed directly or indirectly to their election as Board members.
   b. Personal, professional or other economic relationships with other members of the Board or the Management.
   c. Past or present positions held.
4. In identifying potential Board members, candidates should not have potential conflict of interest, and in particular, no duty or allegiance to any other company that competes or does business with the Bank, as such duty or allegiance can compromise their independent judgment.
4.4. The Composition of the Board

1. The Board shall be comprised of individuals with a balance of skills, diversity and expertise, who collectively possess the necessary qualifications commensurate with the business and risk profile of the Bank.

2. Board members shall have a range of knowledge and experience in relevant areas and have varied backgrounds to promote diversity of views. Relevant areas of competence may include, but are not limited to, capital markets, financial analysis, financial stability issues, financial reporting, information technology, strategic planning, risk management, compensation, regulation, corporate governance, and management skills.

3. The Board collectively should have a reasonable understanding of local, regional and, if appropriate, global economic and market forces and of the Bank’s legal and regulatory environment.

4. Individual Board members’ attitude should facilitate communication, collaboration and critical debate in the decision-making process.
PART 5: THE STRUCTURE AND PRACTICES OF THE BOARD

5.1. The General Practices of the Board
The Board should define appropriate governance structures and practices for its own work, and put in place the means to ensure such practices are followed and periodically reviewed for ongoing improvement.
In particular, the responsibilities of the Board in this regard are:
1. To periodically review its structure, size and composition.
2. To endeavor to carry out its duties timely and effectively.
3. To structure itself, and its Committees, in a way that promotes efficiency, deep review of matters, robust and critical discussion of all issues.
4. To maintain, and periodically update, by-laws, organizational rules, and other similar documents setting out the Board’s organization, rights, responsibilities and key activities.
5. To periodically review the structure and composition of its Committees and the coordination with, and between, them.
In case there are controlling shareholders in the Bank with the power to appoint Board members, such members and the Board in general, should exercise corresponding caution and bear in mind that a Board member has responsibilities to the Bank itself and all its shareholders, regardless of who appoints him/her.

5.2. The Assessment of the Board, Its Committees, and Its Members
The Board shall carry out regular assessments of its performance as a whole, its Committees, and individual members. This assessment could be conduct by the Board itself or with the assistance of an external party. The outcomes of such assessment shall be analyzed promptly and objectively and the Board shall act according to them. Either separately, or as part of this assessment, the Board shall periodically review the effectiveness of its own governance practices and procedures, to determine where improvements and changes are needed.

5.3. The Role of the Chairperson
The Chairman of the Board plays a crucial role in the proper functioning of the Board. He/she provides leadership to the Board and is responsible for its effective overall functioning. He/she shall possess the requisite experience, competencies and personal qualities in order to fulfil his/her responsibilities.
The particular responsibilities of the Chair in this regard are the following:
1. To maintain a relationship of trust with each and every Board members.
2. To ensure that the decisions of the Board are taken timely and on a sound and well-informed basis.
3. To encourage and promote critical discussions.
4. To ensure that dissenting views can be expressed and discussed within the decision-making process.
5. To dedicate sufficient time and effort to the exercise of his/her responsibilities.

5.4. The Meetings of the Board
The Board of Directors must hold at least four meetings per year, of which two at least in Lebanon.
A detailed written agenda shall be prepared for each meeting for the Board, and all the information and reports concerning the questions to be raised shall be provided to the Board members, at least a week before the meeting date. However, the agenda and the said information may be exceptionally notified to the Board members before 48 hours.
In some exceptionally urgent cases, the Board may be convened immediately.

5.5. The Conflicts of Interest
Conflicts of interest may arise as a result of the various activities and roles of the Bank and those of its various stakeholders. Such conflicts should be always minimized and properly managed. Therefore, the Board shall put in place, and oversee the implementation of, policies to identify potential conflicts of interest. And in case conflicts cannot be prevented, the Board should ensure that they are appropriately managed.
The policies, and the management, of conflicts of interests shall be based on related Lebanese laws, namely the Code of Commerce, the Code of Money and Credit, and the Lebanese banking regulations, and shall include the following:

1. A clear statement that the duty of each and every Board member, is to avoid, to the extent possible, activities that could create conflicts of interest or the appearance of conflicts of interest.
2. Examples of where conflicts can arise when serving as a Board member.
3. A rigorous review and approval process to be followed before Board members get engaged in certain activities.
4. A requirement that each and every Board member has the duty to promptly disclose to the Board any matter that may result, or has already resulted, in a conflict of interest.
5. The responsibility of each and every Board member to abstain from voting on any matter where he/she may have a conflict of interest.
6. Adequate procedures for transactions with related parties to ensure that such transactions are always made on an arm’s length basis.
7. The way in which the Board will deal with any non-compliance with the policy of conflicts of interest.

5.6. The Corporate Governance Programs of the Central Bank of Lebanon

The Chairman of the Board shall attend the Corporate Governance programs tailored for the Chairmen of the Boards of Lebanese banks by the Central Bank of Lebanon. Also, the Board members shall attend the Corporate Governance programs tailored for them by the Central Bank of Lebanon.

The Chairman and the members of the Audit Committee, Risk Committee, Remuneration Committee and any other Board Committee, shall attend the specialized programs that are tailored by the Central Bank of Lebanon to suit the area of specialization of the Committee to which each of them belongs.


**PART 6: THE BOARD COMMITTEES**

**6.1. General Rules**

To increase efficiency and allow deeper focus in specific areas, the Board shall establish certain specialized Board Committees. These committees should be created and mandated by the full Board. The Board shall appoint the members of a specialized Committee with the goal of achieving an optimal mix of skills and experience that allows the Committee to fully understand, objectively evaluate, and bring fresh thinking to, the relevant issues.

In addition, the Board shall consider the occasional rotation of members and of the chair of the Board Committees in order to avoid undue concentration of power and to promote fresh perspectives. Each Committee shall have a charter or other instrument that sets out its mandate, scope and working procedures. It should also maintain appropriate records of deliberations and decisions. Such records should document the Committee's fulfilment of its responsibilities and help the various relevant parties to assess the effectiveness and performance of the Committee.

The Board shall establish the following Committees, knowing that other Committees specialized in other areas might be established, e.g. Compliance Committee and Legal Committee.

**6.2. The Compensation Committee**

This Compensation (or Remuneration) Committee shall be constituted in a way that enables it to exercise competent and independent judgment on the Bank’s compensation policies and practices and the incentives they create. Among other things, this Committee shall be responsible for:

1. Approving, and overseeing the implementation of, the design and the functioning of the Bank’s compensation system.
2. Ensuring that the compensation system is appropriate and consistent with the following:
   a. The Bank’s overall culture.
   b. The Bank’s long-term business objectives.
   c. The Bank’s risk appetite.
   d. The Bank’s performance.
   e. The Bank’s control environment.
   f. The legal and regulatory requirements.
3. Analyzing the responsibilities, knowledge, experience, and competencies of the Board members with their respective roles.
4. Ensuring that the Board is not dominated by any one individual or small group of individuals in a manner that is detrimental to the interests of the Bank as a whole.
5. Assisting in the assessment of the effectiveness of the Board and the Senior Management.

**6.3. The Audit Committee**

**6.3.1. The Responsibilities of the Board**

The Board has the responsibility for:

1. Establishing the Audit Committee.
2. Appointing the Chairman of the Audit Committee.
3. Determining the compensation of the Chairman and the members of the Audit Committee.

**6.3.2. The Profiles of the Members of the Audit Committee**

The members of the Audit Committee shall:

1. Not be less than three.
2. Be chosen among the Bank’s Non-Executive Board members.

These members should:
1. Upon their appointment, sign the work charter of the Audit Committee.
2. Have sufficient knowledge and a deep understanding of their role and responsibilities.
3. Have sufficient knowledge, experience and qualifications that are commensurate with the Bank’s size, the complexity of its operations and the mission to be fulfilled.

The Chairman of the Audit Committee should:
1. Be an Independent Board member.
2. Have modern and practical banking or financial experience in the financial administration, accounting or auditing field.

6.3.3. The Meetings of the Audit Committee
The Audit Committee shall convene on the following basis:
1. Quarterly at least, provided two meetings at least are held in Lebanon.
2. In the presence of three members at least.
3. No meeting can be held in the absence of the Committee’s Chairman, unless in exceptional cases where the meeting shall be chaired by an Independent Board member.
4. Upon the call of the Committee’s Chairman, the notice of the meeting must include the detailed written agenda, along with all the reports concerning the topics to be discussed, and all must be sent at least one week before the meeting date.
   However, the agenda and the said information may be exceptionally notified to the Committee members before 48 hours.
   In some exceptionally urgent cases, the Committee may be convened immediately.
5. The Committee’s discussions, recommendations and resolutions shall be recorded in detailed and clear minutes to be submitted directly to the Board of Directors.

The Chairman of the Audit Committee may request any Board member, Executive Director or Officer, and/or External Auditors to attend the Committee meetings.

The Committee’s discussions, recommendations and resolutions shall be recorded in detailed and clear minutes to be submitted directly to the Board of Directors.

6.3.4. The Scope of the Audit Committee
The scope of the Audit Committee’s work shall cover the Bank in Lebanon and all its branches and affiliates in Lebanon and abroad.
This 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 organization and activities and with the duties to be performed in financial reporting, accounting and auditing.

The Audit Committee shall, for indicative purposes but not restrictively, perform the following tasks:

a. Regarding supervisory requirements
   Assist the Board in fulfilling its duties and supervisory role regarding the requirements of internal control and internal audit stipulated in the relevant regulations and recommendations issued by the Central Bank of Lebanon and the Banking Control Commission, particularly in terms of:
   ➢ Control of financial statements’ soundness, and review of the disclosure standards adopted by the Bank.
   ➢ Efficiency and effectiveness of internal control regulations and procedures.
   ➢ Follow-up of the implementation of remedial measures proposed in the reports of the Internal Audit, the control authorities and the External Auditors.
   ➢ Monitoring the Bank’s compliance with the regulations and recommendations issued by the Central Bank of Lebanon and the Banking Control Commission.

b. Regarding the supervision of Internal Audit activities
   ➢ Approve, and oversee the implementation of, the policies of the Internal Audit.
Directly oversee the Internal Audit Function of the Bank to ascertain that this Function:
- Is independent from the Senior Management.
- Performs its tasks objectively.
- Has the sufficient audit powers and the human and material resources necessary to fulfill its duties.

Give its opinion concerning the compensation of the Internal Audit Function and submit the relevant recommendations to the Board.

Assess the performance of the Internal Audit Function, provided the External Auditors’ remarks and the control authorities’ recommendations are taken into consideration.

Propose to approve the appointment, dismissal or resignation of the Head of the Internal Audit.

Review the Internal Audit reports on regular basis and hold periodic meetings (at least quarterly and when necessary) in the presence of the Internal Audit Head, and also once a year at least without the attendance of any of the Senior Management members, for discussing the reports submitted by Internal Audit.

Approve the Audit Charter, Audit Cycle, and the Annual Audit Plan as specified in BDL Basic Decision No 7737 of December 15, 2000, and any subsequent modification therein.

c. **Regarding Internal Control**

- Review internal control regulations, policies and procedures, including procedures relating to the fight against money laundering and terrorism financing, and verify their efficiency and effectiveness.
- Hold periodic meetings (at least quarterly and when necessary) with the Senior Management, in order to discuss the internal control efficiency and effectiveness, based on the reports issued by the following:
  - The Internal Audit Function.
  - The Senior Management.
  - The External Auditors.
- Ensure that the Senior Management is tackling appropriately the recommendations and remarks of the Internal Audit and is taking necessary corrective actions in a timely manner to address control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors.

d. **Regarding the appointment of external auditors and the follow-up of their activities**

- Recommend to the shareholders (through the Board) for their approval, the appointment, compensation and dismissal of the Bank’s External Auditors.
- Verify that the External Auditors enjoy the human and material resources, the ethical standards, and the necessary academic and practical expertise to perform audit activities in accordance with the size of the Bank and the complexity and diversification of its operations.
- Propose the conditions to be met by the External Auditors and their annual remunerations.
- Take cognizance of the Audit Plan prepared by the External Auditors in order to ascertain that it covers all the risks the bank may be exposed to.
- Oversee the activities of the External Auditors and assess their performance, autonomy and objectivity.
- Discuss with the Senior Management and the External Auditors the financial statements to be published.
- Discuss the main remarks and recommendations included in the External Auditors’ reports, and report about them to the Board.
- Determine special audit assignments to be entrusted to External Auditors, and determine the conditions of such assignment.
- Meet the External Auditors at least every six months and whenever necessary, for discussing the results of their activities.

e. **Regarding the appointment of external auditors and the follow-up of their activities**
➢ Oversee the establishment and implementation of the Bank’s accounting policies and practices in addition to the Bank’s financial reporting.

6.4. The Risk Committee

6.4.1. The Responsibilities of the Board
The Board has the responsibility for:
1. Establishing the Risk Committee.
2. Appointing the Chairman of the Audit Committee.
3. Determining the compensation of the Chairman and the members of the Risk Committee.

6.4.2. The Profiles of the Members of the Risk Committee
The members of the Risk Committee shall not be less than three. They should all:
1. Upon their appointment, sign the work charter of the Risk Committee.
2. Have sufficient knowledge and a deep understanding of their role and responsibilities.
3. Have sufficient knowledge, experience and qualifications that are commensurate with the Bank’s size, the complexity of its operations and the mission to be fulfilled.

The Chairman of the Audit Committee should:
1. Be an Independent Board member.
2. Have modern and practical banking or financial experience in risk assessment and management.

6.4.3. The Meetings of the Risk Committee
The Risk Committee shall convene on the following basis:
1. Quarterly at least, provided two meetings at least are held in Lebanon.
2. In the presence of three members at least.
3. No meeting can be held in the absence of the Committee’s Chairman, unless in exceptional cases where the meeting shall be chaired by an Independent Board member.
4. Upon the call of the Committee’s Chairman, the notice of the meeting must include the detailed written agenda, along with all the reports concerning the topics to be discussed, and all must be sent at least one week before the meeting date.
   However, the agenda and the said information may be exceptionally notified to the Committee members before 48 hours.
   In some exceptionally urgent cases, the Committee may be convened immediately.
5. The Committee’s discussions, recommendations and resolutions shall be recorded in detailed and clear minutes to be submitted directly to the Board of Directors.

The Chairman of the Risk Committee may request any Board member, Executive Director or Officer, and/or External Auditors to attend the Committee meetings.

6.4.4. The Scope of the Risk Committee
The Risk Committee shall be in charge of assisting the Board in managing the Bank’s capital, liquidity, and the various risks to which the Bank is, or may be, exposed, including: credit risk, market risk, operational risk, legal risk, compliance risk, and reputational risk. Its scope of work shall cover the Bank in Lebanon and all its branches and affiliates abroad.

Among other things, the responsibilities of the Risk Committee are the following:
1. Discussing all risk issues on both aggregated and disaggregated levels and make recommendations to the Board thereon, and accordingly, on the Bank’s risk appetite.
2. Advising the Board on the bank’s overall current and future risk tolerance/appetite and strategy.
3. Reporting to the Board on the state of the risk culture of the Bank.
4. Reviewing the Bank’s risk policies at least annually.
5. Overseeing the implementation of the risk management rules as detailed in the regulations issued by the Central Bank of Lebanon and the Banking Control Commission.
6. Overseeing the implementation of the Bank’s risk strategy and policies by the Senior Management.
7. Overseeing that Senior Management has in place processes to promote the Bank’s adherence to the approved risk policies.
8. Interacting with, and overseeing, the Chief Risk Officer.

In order to efficiently assume its responsibilities, the Risk Committee should receive regular reporting and communication from the Chief Risk Officer about the following:

1. The Bank’s current risk profile.
2. The Bank’s current state of the risk culture.
3. The actual exposures against the established risk appetite, and limits.

6.5. Restrictions on the Memberships and Chairmanships of the Audit and Risk Committees

1. One Board member only may be simultaneously member of both the Audit Committee and the Risk Committee (cross membership).
2. The Chairman of the Audit Committee or the Risk Committee may neither delegate his/her powers to another person nor hold the Chairmanship of both Committees simultaneously.

6.6. Interaction between the Board Committees

1. There should be effective communication and coordination between the Audit Committee and the Risk Committee to facilitate the exchange of information and the effective coverage of all risks, including emerging ones.
2. The Remuneration Committee should work closely with the Risk Committee in evaluating the incentives created by the compensation system. Also, the Risk Committee should, without prejudice to the tasks of the Remuneration Committee, examine whether incentives provided by the remuneration system take into consideration the risk, capital, and liquidity profiles of the Bank.

6.7. The Responsibilities of the Board Secretary

The Secretary of the Board shall provide the Legal Department at the Central Bank of Lebanon and the Banking Control Commission with the following documents:

1. The curriculum vitae of each Board member.
2. A list with the names of the Chairman and members of the Audit Committee and the Risk Committee.
3. The decisions of the Board appointing the Chairman and members of the Audit Committee and the Risk Committee.
4. A copy of the work charters of the Audit Committee and the Risk Committee as approved by the Board.
5. Any change in the information contained in the above-mentioned documents, within a month from the date on which the change occurred.
PART 7: THE SENIOR MANAGEMENT

7.1. Competencies
The members of the Senior Management shall be selected through an appropriate promotion or recruitment process which takes into account the qualifications required for the position in question. For those Senior Management positions for which the Board is required to review or select candidates through an interview process, the Senior Management should provide sufficient information to the Board.
Senior Management members should have the necessary experience, competencies and integrity to manage the businesses and the people under their supervision. They should also receive access to regular training to maintain and enhance their competencies and stay up-to-date on developments and up-to-date practices relevant to their areas of responsibility.

7.2. Organization
The organisation and decision-making process of the Senior Management should be clear, transparent, and designed in a way to promote effective management of the Bank. This includes clarity on the role, authority and responsibility of the various positions within the Senior Management, including that of the Chief Executive Officer.

7.3. Responsibilities With Respect to Corporate Governance
The Senior Management should contribute actively to the Bank’s sound Corporate Governance through personal conduct. It shall carry out, and manage, the Bank’s activities in a manner consistent with the strategies and policies that are approved by the Board in terms of business strategy, risk appetite, control, compliance, compensation, etc. Consistent with the directions given by the Board, the Senior Management shall implement the business strategies, the risk culture and policies, and the controls for managing the risks – both financial and non-financial – to which the Bank is, or may be, exposed. For that purpose, the Senior Management shall recognise and respect the independent duties of the Risk Management, Compliance and Internal Audit functions and shall not interfere in their exercise of such duties.
Also, the Senior Management is responsible for delegating duties to staff and should establish a management structure that promotes accountability and transparency throughout the Bank at all times.

7.4. Information to the Board with Respect of Corporate Governance
The Senior Management should provide the Board with the information it needs to carry out its responsibilities, supervise Senior Management and assess the quality of Senior Management’s performance. In this regard, the Senior Management shall keep the Board regularly and adequately informed of material matters, including:
2. Changes in the Bank’s risk strategy/appetite.
3. The Bank’s performance and its financial conditions.
4. The breaches of risk limits or compliance rules.
5. The internal control failures.
6. The legal and regulatory concerns.
7. The issues raised as a result of the Bank’s whistleblowing policies.
**Part 8: The Organizational Responsibilities for Risk Management**

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

The organisational responsibilities for risk management in the Bank lay with the Board, the Senior Management and with the following “three lines of defence”, each of which has an important role to play.

**8.1. The First Line of Defence**

The Business Unit (or Business Line) is the first line of defence. It has the “ownership” of the risk whereby it shall acknowledge and manage the risks that it incurs in conducting its activities, and shall be responsible and accountable for the ongoing management of such risks.

The management of the Business Unit of a risk shall include identifying, assessing and reporting the risk and its exposure, taking into account the Bank’s risk appetite, policies, procedures and controls.

The manner in which the Business Line executes its responsibilities should reflect the Bank’s existing risk culture.

**8.2. The Second Line of Defence**

The second line of defence includes the following functions which are independent from the First Line of Defence:

**8.2.1. An independent Risk Management Function**

It complements the Business Line’s risk activities through its monitoring and reporting responsibilities.

Among other things, and independently from the First Line of Defence, the Risk Management Function is responsible for overseeing the Bank’s risk-taking activities, and for identifying, measuring, monitoring and reporting risk on a Bank-wide basis as part of the Second Line of Defence.

**8.2.2. An independent and effective Compliance Function**

This Function should, among other things, monitor compliance with laws, corporate governance rules, regulations, internal policies and codes to which the Bank is subject.

It should assess the extent to which policies are observed and report to the Senior Management and, as appropriate, to the Board, on how the Bank is managing its compliance risks.

**8.3. The Third Line of Defence**

This Line of Defence consists of an independent and effective Internal Audit Function.

Among other things, this Function shall conduct risk-based and general audits and reviews to provide assurance to the Board that the overall governance framework, including the risk governance framework, is effective, and that policies and processes are in place and consistently applied.

It shall also provide independent review and objective assurance to the Board on the quality and effectiveness of the Bank’s internal control system, of the First and Second Lines of Defence, as well as on strategic and business planning, compensation and decision-making processes.

As per the Banking Control Commission regulations, the Internal Audit responsibilities shall cover all the activities and of the Bank, and all the accounts of the Bank, showing debit or credit balances, with no exceptions. Also, the Internal Audit Function shall send copies of audit reports to the Chairman, General Manager (or Chief Executive Officer), in addition to the Board Secretary who shall relay reports to all the members of the Board.
PART 9: THE RISK MANAGEMENT FUNCTION

9.1. Independency
An independent Risk Management Function is a key component of the Bank’s second line of defence. This function shall be responsible for overseeing the risk-taking activities across the Bank and has all the required authorities to do so.
While it is common for the Chief Risk Officer and his/her teams to work closely with individual Business Units, the Risk Management Function shall be totally independent from such Units and shall not be involved in revenue generation.

9.2. Resources
The Risk Management Function should have a sufficient number of employees who possess the requisite experience and qualifications, including market and product knowledge, as well as a perfect command of risk disciplines. The Risk Management staff should have the ability and willingness to effectively challenge business operations regarding all aspects of risk arising from the Bank’s activities. Also, risk staff should have access to regular training on, and knowledge of, up-to-date risk management practices.
The Board of Directors and the Senior Management shall ensure through their planning and budgeting processes that the Risk Management Function has adequate resources necessary to assess risk, including personnel, access to information technology systems, support, and access to internal and external information and documentation.

9.3. The Key Activities of the Risk Management Function
The Risk Management Function is responsible for identifying, measuring, monitoring, controlling or mitigating, and reporting on risk exposures. This shall encompass all the risks to which the Bank is, or may be, exposed.
Among other things, the key activities of the Risk Management Function include:
1. Developing with the Senior Management and the Board the Bank’s Risk Governance Framework.
2. Monitoring regularly the implementation of the Bank’s Risk Governance Framework.
3. Identifying material individual and aggregate risks, assessing them, and measuring the Bank’s exposure to them.
4. Ongoing monitoring of the risk-taking activities and risk exposures in line with the approved risk appetite and limits.
5. Identifying and monitoring capital and liquidity needs based on the risks to which the Bank is exposed.
6. Establishing an early warning or trigger system and a reporting system for breaches of the Bank’s risk appetite or limits.
7. Challenging decisions that give rise to material risks.
8. Where possible, proposing appropriate risk-mitigating actions and ways or methods to reduce or manage risks.
9. Reviewing the processes for outsourcing the Bank’s functions and activities and assessing the underlying risks in addition to evaluating the outsourcer’s ability to manage those risks and to comply with the Bank’s requirements and relevant legal obligations.
10. Assisting in assessing risks that could arise from mergers and acquisitions.
11. Reporting to the Senior Management, to the Board and its Risk Committee on all the above.

9.4. The Chief Risk Officer

9.4.1. Profile
The Chief Risk Officer should have the necessary skills to oversee the Bank’s risk management activities. He/she should also have the ability to interpret and articulate risk in a clear and understandable manner and to effectively engage the Board and the Management in constructive dialogue on key risk issues.
The appointment, dismissal and other changes to his/her position shall be approved by the Board or its Risk Committee. The same shall apply to the performance and compensation of the Chief Risk officer. The Banking Control Commission should also be informed of the dismissal of the Chief Risk Officer and of the reasons of such dismissal.

9.4.2. Authority
The Chief Risk Officer has the organisational stature and authority to oversee all the risk issues of the Bank. He/she shall participate in all the decisions that affect the Bank’s exposure to risk, and the Board and the Senior Management shall take knowledge of his/her opinions in addressing all risk issues. This requires the Chief Risk Officer to have access to any information and documentation necessary to perform his/her duties. The Chief Risk Officer shall have direct and regular access to the Board and its Risk Committee without impediment. His/her interactions with them shall be periodic and adequately documented.

9.4.3. Independency
The Chief Risk officer shall be independent, and have duties distinct, from other executive functions. He/she should not have management or financial responsibilities related to any operational Business Line or revenue-generating function.

9.4.4. Overall Responsibilities
Among other things, the overall responsibilities of the Chief Risk Officer are the following:

1. Assisting the Senior Management in establishing, developing, and overseeing the implementation of, the Bank’s Risk Appetite and Risk Management policies.
2. Together with the Management, monitoring performance relative to risk-taking and risk limit adherence.
3. Identifying and recommending the capital needed for the identified risk across all areas of the Bank’s activities.
4. Overseeing the development and implementation of the Bank’s risk management function. This includes the ongoing strengthening of staff skills and enhancements to risk management systems, policies, processes, quantitative models and reports as necessary, to ensure that the Bank’s risk management capabilities are sufficiently robust and effective to fully support its strategic objectives and all of its risk-taking activities.
5. Promoting the importance of the Senior Management and Business Line Heads and Managers in identifying and assessing risks critically, rather than relying excessively on external risk assessments.
6. Managing and participating in key decision-making processes (e.g. strategic planning, capital and liquidity planning, new products and services, compensation design and operation).
7. Reporting periodically to the Board or its Risk Committees on all risk issues in the Bank.
PART 10: RISK IDENTIFICATION, MONITORING, AND CONTROLLING

10.1 Methodology
All risks should be identified, monitored and controlled on an ongoing Bank-wide and individual entity basis. In order to perform effective risk assessments, the Board and the Senior Management, including the Chief Risk Officer, should, regularly, and on an ad hoc basis, evaluate the risks faced by the Bank and its overall risk profile.

The risk identification and measurement process should:

1. Encompass all material risks to the Bank, on-and-off-balance sheet, on a Bank-wide, portfolio-wide, and business-line, level.
2. Include ongoing analysis of existing risks (captured from all organisational units) as well as the identification of new or emerging risks.
3. Include both quantitative and qualitative elements, both internal and external to the Bank.
4. Include harder-to-quantify risks, such as reputation risk.

The sophistication of the Bank’s risk management and internal control infrastructures - including, in particular, a sufficiently robust information technology infrastructure and data architecture - should keep pace with developments such as:

2. Complexity of the Bank’s business.
3. Geographical expansion.
4. Mergers and acquisitions.
5. New activities and products.

10.2. Data
The Bank shall have accurate internal and external data which enables the Risk Function to identify, assess and mitigate risks, and determine capital and liquidity adequacy.

Also, the Board and the Senior Management shall give special attention to the quality, completeness and accuracy of the data used to make risk decisions.

10.3. Stress Tests
As part of its quantitative and qualitative analysis, the Bank shall utilize forward-looking stress tests and scenario analysis to better identify and understand potential risk exposures under a variety of adverse circumstances. For this purpose:

1. Internal stress tests should cover a range of scenarios based on reasonable assumptions regarding dependencies and correlations. The Senior Management should define and approve the scenarios used in risk analyses and, as applicable, the Board should review and challenge them.
2. Stress test programme results should be periodically reviewed with the Board or its Risk Committee. Test results should be incorporated into the reviews of the risk appetite, the capital adequacy assessment process, the capital and liquidity planning processes, and budgets. The Risk Management Function should suggest if, and what, actions are required based on results.
3. The results of stress tests and scenario analysis should also be communicated to, and given appropriate consideration by, relevant business lines and individuals within the Bank.

10.4. New Activities
The Bank should have risk management and approval processes for new or expanded products or services, lines of business and markets, as well as for large and complex transactions that require significant use of resources or have hard-to-quantify risks. Such processes should entail the following:

1. A full assessment of risks under a variety of scenarios as well as an assessment of potential shortcomings in the ability of the Bank’s risk management and internal controls to effectively manage associated risks.
2. An assessment of the extent to which the Bank’s risk management, legal and regulatory compliance, information technology, business line and internal control functions have adequate tools and the expertise necessary to measure and manage related risks. If adequate risk management processes are not in place, a new product, service, business line or third-party relationship or major transaction shall be delayed until the Bank is able to appropriately address the activity.
PART 11: RISK COMMUNICATION AND REPORTING

11.1. Communication
An effective risk management and a strong risk culture require robust internal communication about risks, both across the Bank and through reporting to the Board and the Senior Management. Accordingly:
1. The Board and the Senior Management, including the Chief Risk Officer, shall ensure that the Bank’s risk strategy and exposures are timely and accurately communicated throughout the Bank.
2. The Senior Management shall consult with the Risk and Control Functions on the Management’s plans and activities so that those Functions can effectively discharge their respective responsibilities.
3. Material risk-related *ad hoc* information that requires immediate decisions or reactions should be promptly presented by each and every staff in the Bank to his/her direct Supervisor and to the Risk Management Function for immediate and proper action.

11.2. Reporting
The risk reporting to the Board and to the Senior Management should:
1. Be timely, complete, and accurate to allow proper decision-making.
2. Communicate the Bank’s risk exposures and the results of stress tests or scenario analysis.
3. Occur not only at the disaggregated level, but should also be aggregated upward to allow for a Bank-wide or consolidated picture of risk exposures.
4. Highlight emerging risks that have the potential to become significant.
5. Include information about the external environment to identify market conditions and trends that may have an impact on the bank’s current or future risk profile.
6. Clarify deficiencies or limitations in risk estimates.
PART 12: COMPLIANCE

12.1. The Responsibilities of the Board and the Senior Management
The Board of Directors is responsible for the following in regards to the Compliance activities of the Bank:
   1. Establishing a Compliance Function.
   2. Approving the Bank’s compliance policies and processes.
   3. Overseeing the management of the Bank’s compliance risk.

12.2. The Responsibilities of the Senior Management
The Senior Management is responsible for establishing the compliance policies and processes for identifying, assessing, monitoring, reporting, and advising on, compliance risks.

12.3. The Responsibilities of the Compliance Function
Among other things, the Compliance Function has the following responsibilities:
   1. To support the Bank’s corporate values, policies and processes that help ensure that the Bank acts responsibly and fulfils all applicable obligations.
   2. To ensure that the Bank operates with integrity and in compliance with applicable, laws, regulations and internal policies.
   3. To advise the Board and the Senior Management on the Bank’s compliance with applicable laws, internal rules, and general standards and keep them informed of developments in the area.
   4. To help educate staff about compliance issues.
   5. To act as a contact point for compliance queries from staff members.
   6. To provide guidance to staff on the appropriate implementation of applicable laws, rules and standards in the form of policies and procedures and other documents such as compliance manuals, internal codes of conduct and practice guidelines.
   7. To report on regular basis to the Senior Management and to the Board, as appropriate, on the Bank’s efforts in the above areas and on how the Bank is managing its compliance risks.
PART 13: INTERNAL AUDIT

13.1. The Responsibilities of the Board and the Senior Management
The Board and the Senior Management shall contribute to the effectiveness of the Internal Audit Function by:

1. Providing this Function with full and unconditional access to all records, file data and physical properties of the Bank, including access to management information systems and the minutes of all consultative and decision-making bodies.
2. Requiring the Function to independently assess the effectiveness and efficiency of the internal control, risk management and governance systems and processes.
3. Requiring internal auditors to adhere to national and international professional standards.
4. Ensuring that this Function has the necessary competent resources and skills that are commensurate with the business activities and risks of the bank.
5. Ensuring that audit staff have access to knowledge and up-to-date auditing practices.
6. Requiring timely and effective correction of audit findings and issues.
7. Requiring the Function to perform a periodic assessment of the Bank’s overall risk governance framework, including but not limited to, an assessment of the following:
   b. The effectiveness of the Bank’s system of internal controls.
   c. The quality of risk reporting to the Board and to the Senior Management.

13.2. The Independence of the Internal Audit Function
The Board and the Senior Management shall respect and promote the independence of the Internal Audit Function by ensuring that:

1. Internal Audit reports are provided to the Board or its Audit Committee without the Management filtering.
2. The Internal Audit Head primary reporting line is to the Board (or its Audit Committee), which is also responsible for the selection, oversight of the performance and, if necessary, dismissal of the Internal Audit Head of this function.
3. Internal auditors have direct access to the Board or to its Audit Committee.
4. This Function has a clear mandate and sufficient authority within the Bank to enable the auditors to carry out their assignments effectively and objectively.
5. This Function is totally independent of the audited activities.
6. There is no “dual hatting” by the Head of the Internal Audit.

13.3. The Responsibilities of the Internal Audit Function
In general, the Internal Audit Function should support Board and the Senior Management in promoting an effective governance process and the long-term soundness of the Bank.
It should provide an independent assurance to the Board and to the Senior Management on the quality and effectiveness of the Bank’s internal control, risk management and governance systems and processes.
PART 14: COMPENSATION

14.1. The Responsibilities of the Board
The main responsibilities of the Board with reference to compensation (or remuneration) are the following:

1. To approve the overall design and operation of the compensation system of the Bank in order to ensure that this system:
   a. Is aligned with the Bank’s values
   b. Is aligned with the Bank’s long-term interests.
   c. Is aligned with the Bank’s business objectives.
   d. Is aligned with the Bank’s risk strategy, culture and appetite.
   e. Prevents conflicts of interests.
   f. Supports sound corporate governance and risk management.

2. To annually review the compensation system outcomes to ensure that it operates as intended and that it is creating the desired incentives for managing risk, capital and liquidity.

3. To approve the compensations of the Senior Management, including the Chief Executive Officer, the Chief Risk Officer, the Head of Compliance, and the Head of Internal Audit.

4. To ensure that the compensation of the Managers and employees who work in the Control Functions (e.g. risk, compliance and internal audit):
   b. Is structured in a way that is based principally on the achievement of their objectives.
   c. Does not compromise their independence (e.g. compensation should not be tied to revenues of Business Lines).

14.2. The Compensation Guidelines
The compensation (or remuneration) systems form a key component of the Bank’s Corporate Governance and Risk Management Governance. In fact, it is through such systems that the Board and the Senior Management can promote good performance, convey acceptable risk-taking behaviour and reinforce the Bank’s operating and risk culture and profile. Accordingly, the compensation systems should encourage a sound risk culture in which risk-taking behaviour is appropriate and should encourage employees to act in the interest of the Bank as a whole (also taking into account client interests) rather than for themselves or only their Business Lines.

The Board shall ensure that compensation approaches are consistent with the Bank’s values, objectives, strategy, risk appetite, and control environment. Failure to link incentive compensations to the business strategy can cause or encourage employees to book business based upon volume and/or short-term profitability to the Bank with little regard to short, medium, or long-term risk consequences.

In order to avoid incentives being created for excessive risk-taking, the Board shall always ensure that:

1. The compensation practices of the Bank are set within the scope of general business policy, in such a way that they do not overly depend on short-term performance and gains.

2. The compensation practices by which remuneration is paid for potential future revenues whose timing and likelihood remain uncertain, is carefully designed noting that variable remuneration should take into account that risk outcomes of business need sufficient multi-year horizon to be revealed.
PART 15: DISCLOSURE AND TRANSPARENCY

The Bank’s stakeholders should be provided with key information necessary to enable them to judge the effectiveness of the Board and the Senior Management in governing the Bank. Accordingly, the Board has the responsibility to ensure that appropriate public disclosure is made by ensuring, among other things, that:

1. The governance of the Bank is disclosed in an adequate and transparent manner.
2. Disclosure is timely, accurate, and clear and presented in an understandable manner.
3. The Bank discloses:
   a. Relevant and useful information that supports the key areas of its Corporate Governance along with material information on the Bank’s objectives, governance structures and policies, and major share ownership and voting rights.
   b. Key points concerning the Bank’s risk tolerance/appetite (without breaching confidentiality).
   c. Board structure (size, membership, and qualifications).
   d. The Committees it has established, their mandates, their composition and the identity of independent members.
   e. Senior Management structure (Reporting lines, qualifications and experience).
   f. The Organisational structure.
   g. The nature and extent of transactions with affiliates and related parties.