

# CORPORATE GOVERNANCE MANUAL

*BANQUE BEMO SAL*

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***BEMO Building  
Elias Sarkis Street  
Beirut, Lebanon***

*December 2020*

## **CORPORATE GOVERNANCE MANUAL**

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## A. Background

### 1. Description of the Bank and its Activities

Banque BEMO S.A.L. (the Bank) is a Lebanese joint stock company registered in the Beirut Commercial Registry under No. 17837 and on the Central Bank's list of banks under No. 93.

The Obegi Family, the major shareholder of the Bank, has a long and successful banking history. In 1961, the Obegi Family founded "Crédit Libanais S.A.L.", one of the leading commercial banks in Lebanon, in which they sold out their majority shareholding in 1985. In 1973, they founded "Banque de l'Europe Méridionale S.A.", currently "BEMO Europe – Banque Privée", in Brussels – Belgium with offices and operations in Paris (1976), Luxembourg (1982) and Cyprus (1986).

In 1994, the Obegi Family through "Sharikat Al Istismarat Al Oropia Lil Shark Al Aousat Holding S.A.L.", hereinafter referred to as "Istismarat", re-entered the banking sector in Lebanon through acquiring "Future Bank S.A.L.", a small problem-free commercial bank. It was first named "BEMO – Banque Européenne pour le Moyen-Orient S.A.L." and later changed to become "Banque BEMO S.A.L."

## B. Vision and Strategy

Since its establishment, the Bank's objective has been to develop into a specialized quality bank, through building on the long-established professional expertise of its shareholders and management team.

The Bank's vision is "To be the Reference in Corporate and Private Banking in Lebanon" while its mission statement is stated as follows: "Live our values while achieving high return on equity and offering our customers outstanding quality".

The activities of Banque BEMO S.A.L. are based on two principle pillars: Private and Corporate Banking, two well-defined market niches with a strong potential for growth in the local and the regional markets.

On the other hand, the Board of Directors and Management are entirely committed to applying the Bank's core values of Professionalism, Conservatism, Honesty and Family Spirit which, in turn, constitute the driving force that aims at achieving the Bank's long term success while maintaining the highest standards of responsibility in partnering with all its stakeholders.

## C. Corporate Governance Principles and Framework

The Corporate Governance Manual is established in order to provide the principles and the framework which act as the supporting structure to the Board and the Management as it offers them the reference required to build solid relationships with the Bank's stakeholders. It also leads how people interact with the Bank, the regulators and the stakeholders.

The present manual is designed to ensure the independency of the Board of Directors and its ability to effectively supervise the Senior Executive Management's operation of the Bank. The Board has described Corporate Governance as per below, and believes it is an apt summary of how governance at the Bank is intended to work.

Effective Corporate Governance requires a proactive focused state of mind on the part of Directors, the Vice Chairman/General Manager and the Senior Executive Management. Although there are a number of legal and regulatory requirements that

must be met, good governance is commitment to enforcing Board and management policies and duties into practice. The guidelines, stipulated in this manual, should be interpreted in the context of all the Bank's charter documents and the governing legal documents and policies.

At Banque BEMO, it is firmly believed that the only way to generate long term value on a sustained basis for all the Bank's shareholders and stakeholders is through the implementation of Corporate Governance regulations such as BDL Basic Circular 106 dated July 26, 2006 and BDL Basic Circular 118 dated July 21, 2008 and Corporate Governances practices, which are benchmarked with global best practices especially the principles issued and to be issued by the International Basel Committee for Enhancing Corporate Governance in Banking Institutions.

The Board and the Senior Executive Management of the Bank, hereby, commit themselves to the principles contained in this Corporate Governance Manual.

#### 4. Objectives of the Bank's Corporate Governance Framework

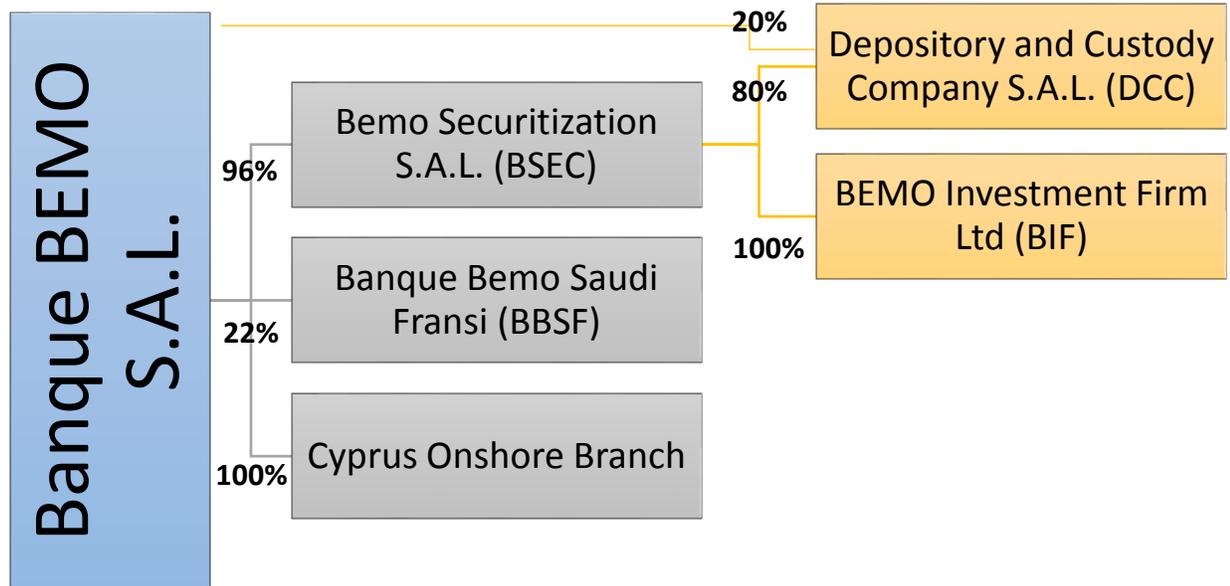
The main objectives of the Bank's Corporate Governance framework are mainly the following:

- To promote transparent and efficient management of the Bank's affairs, consistent with the rule of law while clearly articulating the division of responsibilities
- To ensure that timely and accurate disclosure is made on all material matters regarding the Bank, including its financial situation, performance, ownership and governance
- To protect and facilitate the exercise of shareholders' rights, including minority shareholders, along with securing rights of all other stakeholders

### B. Ownership and Group Structure

#### 1. Ownership Structure

The Bank's capital is equivalent to LBP 78.16 Billion, consisting of 77,500,000 shares of common stock ("Ordinary" Shares) and 350,000 shares representing the par value of Preferred Shares Issuance of Year 2013. Out of the total 77,500,000 shares, 51,400,000 shares are publicly held and listed on Beirut Stock Exchange (BSE). The listing of shares on Beirut Stock Exchange has been initiated since January 1999. Following is a chart showing the present Group structure as at December 31<sup>st</sup>, 2019:



## 2. Subsidiaries and Affiliated Companies

### a) BBSF

It is a private joint stock company established in 2004 and registered in the Commercial Register of Damascus under Law 13901. The shares of BBSF are listed on Damascus Securities Exchange since October 2009. BBSF ownership structure as at December 31<sup>st</sup>, 2019 is as follows:

Owner	Country of Incorporation	Percentage Interest held
Banque Saudi Fransi (BSF)-KSA*	Saudi Arabia	27
Banque BEMO S.A.L.	Lebanon	22
Obegi Family	Syria	7.4
Other Shareholders		43.6

\* In 2011, BSF declared its intention to withdraw from BBSF. It is important to note that up until the date of this Manual, the shares are still held in the name of BSF-KSA and no divestment has been made. BBSF offers a full range of banking products and services through its widespread network of branches and offices in Syria.

### b) BSEC

BSEC's mission is at the heart of the creation and development of the local financial ecosystem, by providing tier one corporates with adapted financing solutions that would be adequate investment opportunities.

It is a specialized investment banking entity where the main business activity is to provide financing solutions to middle market companies in the local and MENA countries. It is regulated by the Central Bank of Lebanon and Banking Control Commission and undertakes securitization transactions locally and structured finance deals.

BSEC services cover 3 main areas of finance:

- Debt and structured finance (securitization and asset based financing, syndications and structured lending, bonds and sukuk issuance, and project finance)
- Mergers and acquisitions (buy-side/sell-side, joint ventures, LBO) and capital raising
- Administration and agency services (calculation and paying agency, fund administration agency)

BSEC's edge has been recognized by numerous industry awards and credits such as Euromoney – London, International Securitization Reports (ISR) – London, Redmoney – Malaysia.

#### c) DCC

It undertakes depository and custody of securities activities. DCC is mainly concerned with ensuring custody of transactions related to BSEC S.A.L. mainly securitization deals requiring custody of commercial papers and related items.

#### d) BIF

BEMO Investment Firm is an investment firm incorporated under the Companies' laws, DIFC Law No.3 of 2006, and registered under number 0578 at the Registrar of Companies, and regulated by the Dubai Financial Services Authority (DFSA).

BIF works closely with all the entities of the BEMO Group: on the investment banking side, BIF helps in originating and placing deals jointly with BSEC, whereas on the Private Banking side, BIF assists in building ties with existing and potential clients to offer the state of the art Private Banking solutions developed by BEMO Europe.

The company operates as a financial intermediary since 2008 in the DIFC in Dubai.

### 3. Relationship with Affiliated Companies and Subsidiaries

The affiliates and subsidiaries of Banque BEMO S.A.L. are managed by their own executive teams and have their own strategic goals, policies and governance structures. Their decisions are taken by their individual governing bodies while taking into consideration their own interests and agendas. With the exception of BIF, each entity reports to its own Board of Directors.

The Board at Banque BEMO SAL, however, is kept aware of all the associated risks and issues that might affect both the Bank and/or its affiliates and subsidiaries. For this reason, it exercises adequate oversight over them while respecting the independent legal and governance responsibilities that might apply to their individual boards.

## C. Stakeholders

### 1. Definition

A corporate stakeholder is an individual or group who can affect or be affected by the actions of a business; i.e. the actors, without whose support, the organization would cease to exist.

Stakeholders types can be summarized in the below graph:



## 2. Stakeholders' Rights and Duties

With respect to the Bank, stakeholders have rights and responsibilities, which are set to ensure that all interests are aligned towards the common benefit of all.

### a) Shareholders' Rights and Duties

The main principles driving shareholders' rights are inspired by the financial markets and are designed to ensure that shareholders are treated on equal rights basis regardless of their contribution to the total capital. Such benefits cover access to information and reasonable insurances that an investor's contribution is safeguarded in terms of records and value.

In addition, shareholders have their say on the Bank's decision making process through forwarding their concerns and bending the strategic orientation of the Bank if necessary, thus, effectively exercising their control on the entity and counterbalancing the power of the executive team.

The counterpart of those rights are a set of duties which aim to ensure that shareholders' concerns are aligned with the Bank's "raison d'être", and that the Bank's ultimate interests are not being destroyed by shareholders' intervention – them being a majority or minority shareholders.

The above set of principles can be summarized in the following main rights and duties:

- Rights:
  - Owning a portion of the company and transferring ownership of shares
  - Voting power on major issues submitted to the general assembly
  - Holding the Board of Directors accountable for their achievements during their tenure
  - Enjoying equal treatment and access to information where minority shareholders also should have their rights fairly represented in the Board of Directors

- Electing members of the Board of Directors
  - Receiving timely invitation and participating in the Bank's general assembly
  - Receiving the annual financial report and inspecting corporate books and records
  - Receiving adequate and timely information relating to the general assembly's agenda pursuant to article 197 of the Code of Commerce
  - Entitlement to receiving dividends
  - Benefiting from a secured record of shares ownership
  - Meeting with the Board of Directors
- o Duties:
    - Contributing to the development of their investment by actively participating in the annual ordinary general assembly meeting in addition to other important shareholders' meetings
    - Agreeing with and adopting the Bank's core values
    - Acting in conformity with Bank's best interest
    - Showing sufficient interest to matters related to the Bank and its development
    - Voting competent representatives to the Board of Directors
    - Majority refraining from using controlling power to lessen minority shareholders' rights
    - Acting to revoke the Board of Directors if proven that they are mishandling their mandate

#### b) Bondholders' Rights and Duties

Bondholders' rights and duties are similar to those prevailing in financial markets. The core principle is that creditors of the same level of seniority must be treated equally in terms of rights, obligations and access to information.

- o Rights
  - Receiving periodic interest payments – usually semiannually – on the face value of their investment at the maturity date
  - Receiving adequate information allowing them to assess the level of risk linked to their investment
  - Benefiting from a secure record of ownership on their placements
- o Duties:
  - Acting in good faith
  - Agreeing with the Bank's core values
  - Upholding their obligations regarding the investment made in terms of funds available and duration/repayment schedule

#### c) Clients' Rights and Duties

Clients are the ultimate source of sustainability for the Bank, and eventually the main reason behind its success or failure in meeting its objectives. This approach implies a set of rights which have to be granted to clients, and which are focused on the two principles: first, safeguard that the services offered are suitable for the clients and their long term interests and are not being weakened by the Bank's actions; second, ensure that the clients are fully aware of the risks and benefits of the transactions being offered to them, hence, they are taking their decisions in full knowledge, and are therefore, fully responsible for their actions.

The corollary of those rights are duties centered around the necessity of good faith, transparency and good moral standing in order to avoid damaging the Bank's reputation in addition to fostering trust.

Kindly refer to *List of Clients Rights & Duties that is made available to clients on the Bank's website*.

#### d) Employees' Rights and Duties

Employees' relationship with the Bank is governed by the principle of equal opportunity and promotion based on merits. The Bank must provide a suitable environment for employees to grow and express their skills, thus, becoming long term partners.

Employees' duties, in that respect, evolve around loyalty to the Bank and abidance with its values and morality requirements which are needed to maintain trust and avoid damaging the Bank's reputation.

Kindly refer to HRM policies and Employees handbook that are published on the Internal Communication Site under General Policies & Procedures.

#### e) Board Members' Rights and Duties

The Board of Directors is the key to ensuring that all stakeholders are working towards the same direction, and that the interaction amongst stakeholders is harmonious and beneficial to all.

Board members bear a heavy load of obligations towards the Bank due to their essential role. Such duties are summarized in three principles. First, Board Members must have the right skills and competency to guide the Bank in its mission and objectives; second, Board Members must be of an appropriate moral standing to ensure that they do not exercise their powers at the expense of others' benefits and interests; and third, Board Members must be committed to the success of the Bank, and therefore, have to provide sufficient resources to achieve their tasks and missions. To achieve these ultimate goals, they have the right to be properly informed of the Bank's critical matters; exercise the highest level of powers in accordance with the Bank's interests; and have the loyal support of other stakeholders in conducting their tasks, thus, ensuring that the objectives and interests of the three main stakeholders (investors, executive team and clients) are aligned.

The above set of principles can be summarized in the following main rights and duties:

##### o Rights

- Having suitable support from the Bank to perform their duties
- Having timely and full access to the information required to carry out their duties
- Requesting and promptly receiving clarifications from the Bank's Executive Team on topics at hand
- Expecting loyalty from the Executive Team
- Obtaining remuneration commensurate with their contribution to the Board's activities
- Having the support of the General Assembly while fulfilling their duties
- Enjoying fair recognition and consideration of their contribution during the Board of Directors' activities
- Participating in the recruitment, selection and development of the Bank's Executive Team

- Duties
  - Ensuring duty of care and effective participation to Board meetings
  - Taking responsibility to ensure that the Bank is fulfilling its legal obligations
  - Adhering to and publicizing the Bank's culture and values
  - Avoiding conflict of interest issues, practicing loyalty and duty of confidentiality
  - Adhering to and complying with the Bank's purpose
  - Having the obligation to provide the necessary means regarding the fulfillment of the roles of the Board Committees, including fostering diversity
  - Taking appropriate measures to ensure proper succession planning for Board Members

f) Other Stakeholders' Rights and Duties

Although the remaining stakeholders might not have a direct involvement in the Bank's governance process, they, nonetheless, have a significant influence on the outcome of the Bank's action. Therefore, the Bank has to take into consideration those stakeholders' interests and prerogatives. These stakeholders include regulators, partners, suppliers and more generally the community.

The main principle underlying the Bank's action, in that respect, is that the Bank has the duty to be a positive force in the development of the community and its partners' activities, and accordingly, it must seek mutual benefit in its actions whenever it is possible. The Bank is also entitled to expect the same positive attitude from them.

The above set of principles can be summarized in the following main rights and duties:

- Rights
  - Promoting a healthy environment based on sustainability and healthy constructive competition with peers
  - Ensuring the Bank's contribution to the development of the community
  - Raising concerns on matters of interest undertaken by the Bank
- Duties
  - Ensuring fairness and good faith
  - Abiding by the law and by the Bank's morality standards
  - Cooperating with the Bank to achieve sustainability of both entities

## D. Board of Directors

### 1. Board's Mission and Prerogatives

#### a) Mission

The Board of Directors shall primarily be responsible for the Bank's good corporate governance that will set the Bank's pursued goal, foster the long term success of the institution and sustain its competitiveness and profitability. The Board of Directors shall cause the establishment of its mission and vision, strategic objectives, as well as policies.

The Board's other main responsibility is to supervise the Senior Executive's administration of the Bank's business and activities. The Board must provide effective

governance over the Bank's business affairs. In doing so, it must strive to balance the interests of the Bank's diverse constituencies.

The Board is the main decision making forum of the Bank. It considers strategic issues and risks in respect of the Bank's principal businesses. The Board ensures competent and prudent management, sound planning and proper procedures for the maintenance of adequate accounting and other records and for systems of internal control, as well as, for compliance with statutory and regulatory obligations.

In all actions taken by the Board, and in order for the Directors to fulfill their duties of care, they are expected to exercise their independent business judgment in what they reasonably believe to be in the best interest of the Bank while abiding by the Bank's culture and mission. In discharging those obligations, Directors may rely on the honesty and integrity of the Bank's Senior Executive Management, its external advisors and its auditors.

## b) Governance Functions

Without prejudice to the provisions contained in the Articles of Association, and in order to ensure a high standard of corporate governance practice for the Bank, the Board of Directors shall:

- Implement a process for the selection of the Board Members who can add value and meaningfully contribute independent judgment to the formulation of sound corporate strategies and policies
- Establish clear corporate objectives and formulate sound business strategies for achieving them. Periodically evaluate and monitor the implementation of such strategies and policies, including the business plans, and operating budgets
- Select and appoint officers who are qualified to administer the Bank's affairs effectively and soundly, and to establish an adequate selection process. The Board shall apply at all times the fit and proper rule on the selection of key management personnel. Integrity, technical expertise, and experience in the Bank's line of business shall be the key considerations in the selection process, moreover, an effective succession plan to ensure management continuity
- Monitor, assess and control the performance of the Management
- Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Bank to anticipate and prepare for possible threats to its operational and financial viability
- Ensure the Bank's faithful compliance with all applicable laws, regulations and best business practices
- Review financial statements and other disclosures, with a focus on the integrity and clarity of these disclosures
- Ensure the integrity and transparency of related party transactions between and among the Bank, and its subsidiaries, affiliated companies, directors, officers, shareholders and related interests
- Conduct the affairs of the Bank with a high degree of integrity. For this purpose, the Board of Directors has prescribed corporate values, codes of conduct and other standards of appropriate behavior for itself, Senior Management and other employees
- Keep the individual members of the Board and the shareholders fully informed with balanced and understandable assessment of the Bank's performance, financial condition and prospects

- Keep the activities and decisions of the Board within its authority under the Bank's Articles of Incorporation and Bylaws, and in accordance with existing laws, rules and regulations
- Prescribe a clear assignment of responsibilities and decision-making authorities. The Board of Directors shall establish in writing the limits of the discretionary powers of each officer, committee, and such other groups for the purpose of lending, investing or committing the Bank to any financial undertaking or exposure to risk at any time
- Adopt and maintain an adequate risk management policy – assisted by the Board Risk Committee. The Board of Directors shall be responsible for the formulation and maintenance of written policies and procedures relating to the management of risks throughout the Bank. In that respect, the Board shall approve and oversee the implementation of the Bank's overall risk strategy, risk tolerance and risk appetite and ratify the Bank's risk management framework
- Ensure that the Bank has a beneficial influence on the economy. The Board shall identify the sectors in the community in which the Bank operates, or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them
- Constitute Board Committees it deems necessary to assist the Board in the performance of its duties and responsibilities

### c) Oversight Functions

In fulfilling its duties and functions, and also without prejudice to the provisions contained in the Articles of Association, the Board shall exercise its oversight over the following:

- Strategic Management: The Board shall establish the business objectives of the Bank, consider and approve the Bank's business strategy and its business plans for significant operations, and review at least once per year to ensure the strategic plans remain appropriate
- The Board shall frequently evaluate actual operating and financial results against forecasted results, in light of the Bank's business objectives, business strategy and business plans
- Risk Management: A sound system of risk management is critical to the profitability and the ongoing viability of the Bank. The Board shall ratify appropriate and prudent risk management policies for the Bank
- Liquidity and Funding Management: The Board shall ratify appropriate and prudent liquidity and funding management policies to meet the Bank's needs
- Capital Management: The Board shall ratify appropriate and prudent capital management policies for the Bank to meet the required needs
- Internal Audit: The Board shall establish the mandate of and shall allocate sufficient resources for the Bank's independent internal audit group and approve its annual plan. The Board shall seek from the independent audit group, on a regular basis, validations that the Bank's processes, policies, procedures and controls are being monitored and adhered to, and that appropriate action is being taken to address any significant weaknesses or breakdowns that have been identified
- Confirming Adequacy of Control Environment: Assisted by the Board Audit and Ethics Committee, the Board shall obtain reasonable assurance, on a regular basis, that the Bank has a sound control environment that supports the appropriate,

effective and prudent management of the Bank's operations and the risks to which it is exposed, and that contribute to the achievement of the Bank's business objectives. The internal audit group, the external auditors and the Senior Executive Management shall report to the Board on the state of the Bank's control environment

- Compliance: Assisted by the Board Compliance and AML/CFT Committee, the Board of Directors is responsible for overseeing and for assessing how the compliance risk is managed in the Bank. The Board approves the compliance policy and charter. The Chairman of the Board is responsible for communicating the compliance charter for implementation and ensuring that it is observed and that the management of the compliance risk is reported to the Board of Directors

## 2. Board Members' Requirements

### a) Qualification

The following criteria are considered during the review of potential candidates to the membership of the Board; it includes:

- Personal qualities and characteristics
- Accomplishments and reputation in the business community
- Current knowledge and contacts in the communities in which the Bank carries out business and in the banking sector or other sectors relevant to the Bank's business and the ability to direct business to the Bank
- Demonstration of sound and independent business judgment
- College graduate or at least five years of senior experience in business
- Fit and proper for the position; i.e. taking into consideration integrity/probity, competency, education, diligence and experience/training
- Financial literacy and practical understanding of the Bank's business
- Good standing in the relevant industry, business or professional organizations

Members have to remain updated, knowledgeable and informed about the Bank's business – namely key issues concerning their duties and responsibilities.

The Corporate Secretary shall assist Board Members in their orientation to learn more about the Bank and their respective responsibilities and shall also provide new Members with written information about the Bank in addition to their duties and responsibilities.

All Board Members are allowed an access to the seminars and presentations relating to the aspects of the Bank's business and operations. Senior Management shall regularly update the Board on any changing regulations and practices related to Corporate Governance.

The Bank should ensure that Board Members participate in induction programs and have access to ongoing training on issues relevant to their pertaining responsibilities and duties.

### b) Commitment

The Bank's business shall be managed under the supervision of the Board of Directors in accordance with the Lebanese laws and directives issued by the Central Bank and the Banking Control Commission. The Board has developed a number of specific expectations from its Members to promote the discharge of this responsibility and the efficient conduct of the Board's business.

- Commitment & attendance: Each Board Member should make every effort to attend meetings of the Board and meetings of the Board Committees of which they are members.
- Participation in meetings: Each Board Member should be sufficiently familiar with the business of the Bank, including its financial statements and capital structure, in addition to the risks and competition it faces, in order to facilitate active and effective participation in the deliberations of the Board and of each Board Committee on which they serve. Whenever required, the appropriate personnel will be available to answer any issues questioned by a Board Member concerning any aspect related to the Bank's business. Board Members should also review the material provided by the Senior Management and the advisors prior to the Board and Board Committees meetings for them to be well prepared to discuss the issues presented
- Loyalty and Ethics: In their role, all Board Members owe a duty of loyalty to the Bank. This duty of loyalty mandates that the best interests of the Bank take precedence over any interests possessed by any Board Member. In addition to the provisions mentioned within this manual, certain sections of the Code of Deontology<sup>1</sup> – adopted by the Bank – address issues related to the activities of Directors, particularly with respect to potential conflicts of interest, exploiting corporate opportunities for personal use, and competing with the Bank. Board Members should be familiar with the provisions of the Code in these areas and should confer with the Bank's counsel in the event of any issues
- Other directorships: The Bank values the experience the Board Members bring from other boards on which they serve, but simultaneously recognizes that those boards may also require time and availability from the Board Member thus inducing conflicts or legal issues. Board members should advise the Chairman of the Board of Directors and acquire the approval of the General Assembly before accepting membership on other boards of directors or other significant commitments involving affiliation with other businesses
- Contact with the Senior Management: All Board Members are invited to contact the Management after informing the Chairman and/or Corporate Governance Office, at any time to discuss any aspect of the Bank's business. The Board expects that there will be frequent opportunities for Board Members to meet with the Vice Chairman/General Manager and other members of the Senior Management during the Board and Board Committees meetings and during other formal or informal settings.

### 3. Board Structure

#### a) Board Membership Requirements

Pursuant to the Bank's Articles of Association, the shareholders elect Board Members on a three years term basis. The Board constitutes of at least 3 members and 12 members at most, elected by the General Assembly; the majority of those members shall be of Lebanese nationality.

Candidates for the Board shall be selected by the Board Nominating, Remuneration and Corporate Governance Committee and recommended to the Board for approval,

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<sup>1</sup> Code of Deontology posted on the Bank's Website

in accordance with the guidelines approved by the Board while taking into consideration the ownership structure and interests of the Bank.

Without prejudice to the provisions contained in the Articles of Association, as far as the constitution of the Board is concerned, the Board should strive to balance its composition so that the following goals are achieved:

- The size of the Board should facilitate substantive discussions of the whole Board in which each Board Member can participate meaningfully
- The composition of the Board should encompass a broad range of skills, expertise, industry knowledge, diversity of opinion and contacts relevant to the Bank's business

Furthermore, in accordance with the provisions of Article 147 of the Lebanese Commercial Law, each Board member shall own 5,000 stocks of the Bank's common shares, being the "qualified shares" that are allocated to guarantee the personal responsibility of each member of the Board, in addition to the joint responsibility of the members for all the acts of administrative negligence. During the Board's tenure, these shares are locked by MidClear as they are neither tradeable nor transferrable. Once discharged by the General Assembly and the Board Member is no longer part of the Board, these shares shall, then, be unlocked and kept at their disposal.

## b) Board Composition

### Composition:

The Board of Directors includes independent, non-executive and executive members, provided that:

- At least four Members or one third of the Board – whichever is greater – are independent
- Not more than one third of the Board Members are non-executive
- Not more than one quarter of the Board Members are executive

### Independent Board Members:

An independent Member is defined as a Board Member who does not have a material or pecuniary relationship with the Bank or its related persons, except for their sitting fees.

Following the Central Bank's prerogatives – Basic circular 118 – an independent Board Member must meet the following conditions:

- A Non-Executive Board Member
- A shareholder of the Bank, who owns, directly or indirectly, less than 5% of the total number of shares or voting rights related to these shares, whichever is higher
- Totally independent of the Bank's Senior Executive Management and the major shareholders, whereby no business relationships should be observed with the latter currently or during the past 2 years prior to being elected to board membership
- Not to be related to any of the major shareholders up to the fourth degree
- Not to be a borrower of the Bank
- Not to be related to a non-profit organization that receives a large financial contribution from the Bank or a related party thereto
- Not to be, during the last two years, related to or an employee of any external or former auditor of the Bank or any party related to the Bank
- Not to be directly related to a company that performs consultation business or provides consultations to the Bank or any parties related thereto

#### Executive and Non-Executive Board Members:

In line with the Central Bank's prerogatives – basic circular 118 – a non-executive Board Member is defined as follows:

- a Board member who has no administrative function in the concerned bank and is entrusted with no executive duties at this bank and/or any of its branches or affiliates in Lebanon or abroad, or who 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 member under this Decision, if the laws governing him/her in the foreign country do not grant him/her this capacity.
- A Board member who is not currently performing consultative tasks to the Senior Executive Management of the Bank presently or during the past two years prior to being elected to Board membership.

#### Honorary Board Members:

The Board may, upon a proposal from the Chairman, appoint non-voting honorary members who may participate in Board or committee meetings. Honorary Board Members are appointed because of their long experience in the financial sector, their intimate long standing knowledge of the Bank or their stature in the economy and society of Lebanon or other countries where the Bank has important business interests.

#### Multiple Boards Membership:

Subject to obtaining the ratification of the General Assembly and the approval of the Board of Directors, members of the Board of Directors may concurrently hold directorship positions in other corporations, provided that the capacity of the Board Member to diligently and efficiently perform their duties and responsibilities is not compromised.

Pursuant to Article 154 of the Lebanese Code of Commerce, the following conditions should apply:

- Each Board Member may not assume the chairmanship of a board of directors in more than six companies based in Lebanon. In addition, each Board Member may not be appointed as general manager or assistant general manager for more than three companies based in Lebanon.
- Each Board member may not assume membership of more than eight boards of directors of companies based in Lebanon.

#### Re-Election:

Subject to the retirement and resignation provisions as provided below, the Board of Directors can be re-elected an unlimited number of times. Directors of the Bank will not stand for re-election after reaching the age of 85 years. Exceptions to this policy can be approved by the Board.

#### Tenure for Independent Board Members

A Board member will no longer be considered as independent if they practice more than 3 consecutive tenures.

### c) Retirement, Resignation and Cessation

A Director shall cease to be a member of the Board in the following cases:

- If they die or become incapacitated
- If they go bankrupt
- If they are convicted for an offence against honor and integrity
- If they resign from their position by a written notice
- If they were in one of the cases provided for by article 148 of the Commercial Law or Article 127 of the Code of Money and Credit
- If a resolution is passed by the General Assembly to remove them from the Board

When the position becomes vacant in the Board of Directors in the period between two consecutive ordinary general meetings, the Board of Directors shall call the meeting to elect a successor to the member whose position is vacant for the remaining period of the Board's term.

The discussions of the Board of Directors shall remain legal as long as the required quorum is maintained.

### d) Board Meetings and Decision Making

#### Frequency:

Following BDL's requirements, the Board holds at least four meetings each year with further meetings to occur at the discretion of the Chairman. Each meeting is called upon a written convocation from the Chairman or upon a written request submitted by at least two Board Members if the Chairman fails to call the meeting. In cases where deemed urgent and necessary, a meeting can be called for immediately.

#### Agenda:

The agenda for each Board meeting is prepared by the Corporate Secretary in coordination with the Chairman. All information relevant to the Board's understanding of matters to be discussed at an upcoming Board meeting should be distributed in writing or electronically to all members at least 10 days to one week prior to the scheduled meeting.

In preparing the information, the material distributed should be as concise as possible, yet should give Board Members sufficient information to make informed decisions. Each Board Member has the right to add to the agenda any matter that they deem necessary for discussion in the meeting.

The Board acknowledges that certain items to be discussed during Board meetings are of an extremely sensitive nature and that the distribution of the materials regarding these matters prior to Board meetings may not be appropriate.

#### Scheduling and Notifications of Board Meetings:

Each year, the Corporate Governance Office, upon consultation with the Chairman and Vice Chairman/General Manager, sends the proposed schedule of meetings for the year to the Board of Directors.

#### Attendance and Admittance to Board Meetings:

The quorum requires at least half of the Board members to attend or be represented during each meeting. Absent member(s) can delegate their powers to another Board

member to represent them and vote on their behalf. Any member of the Board of Directors must not represent more than one member.

The Board may invite any executive or any other person – advisors or otherwise – to attend any meeting of the Board as it may from time to time consider it desirable to assist the Board in the attainment of its objectives. Attendants by invitation shall not have the right to vote at the meeting of the Board.

The Chairman of the Board of Directors shall preside the Board meetings, and in his absence the Vice Chairman shall do. In the absence of both the Chairman and the Vice Chairman, the Senior Member shall preside the meeting.

In addition to the Board meetings, Board Members are expected to attend meetings of the Bank shareholders and meetings of the Board Committees on which they serve.

#### Decision Making within the Board:

Decisions of the Board shall be taken by the majority of the present and represented members. In case of tied vote, the Chairman shall have the casting vote. The Board may, in exceptional circumstances, take some decisions by circulating resolutions, provided that:

- A majority of the Board of Directors has agreed that the case necessitates a circulating resolution by reason of urgency
- The proposed resolutions are delivered to the Board of Directors in writing and accompanied by all necessary supporting documents

#### Procedures for Minutes Recording:

The Corporate Secretary shall minute the proceedings and resolutions of all meetings of the Board, including recording the names of the attendants. The Corporate Secretary shall also record any objection or reservation raised by any Board Member. The minutes shall have probatory force towards anybody.

Minutes shall be circulated to all Board Members for approval and signing.

## 4. Chairman's Role

The Chairman is elected by the Board of Directors. Without prejudice to the provisions contained in the Articles of Association, the Chairman shall:

- Ensure that the Board acts efficiently, fulfills its responsibilities and discusses all material issues in a timely manner
- Approve the agenda of every Board meeting taking into consideration any matter proposed by the other Board Members
- Encourage all Board Members to fully and efficiently participate in handling the affairs of the Board for ensuring that it is working in the best interests of the Bank
- Take the proper actions for ensuring efficient communication with shareholders and communicating their opinions to the Board
- Allow efficient participation of the independent and the non-executive Members in particular and to develop constructive relations between all Members
- Be available to shareholders as representative of the Bank and the bank's principal voice on all matters

## 5. Board Committee's Role

In line with the regulatory requirements, the Board shall constitute committees to assist in the sound implementation of good governance. The present standing committees of the Board are the following:

- Board Audit and Ethics Committee
- Board Risk Committee
- Board Nominating, Remuneration & Corporate Governance Committee
- Board Compliance and AML/CFT Committee

Additional committees could be established as deemed necessary by the Board.

### a) Board Audit and Ethics Committee

The Board Audit and Ethics Committee acts on behalf of the Board of Directors and provides oversight on the Bank's financial reporting and control, as well as, internal and external audit functions. It has the following specific functions:

- Review the qualifications and independence of external and internal auditors
- Review and control of financial statements including the disclosure of principles adopted by the Bank
- Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system
- Follow up on the execution of the recommendations put in place by the Internal Audit Department, supervisory authorities and external auditors
- Monitor the abidance of the Bank by the systems and recommendations issued by the Central Bank and the Banking Control Commission

### b) Board Risk Committee

The Board Risk Committee is responsible for the development and oversight of the Bank's overall risk management framework. Its role is the continuous review and approval of the Bank's credit and risk policies, in addition to the consideration and approval of related limit applications. The Committee reviews and makes recommendations to the Board regarding the medium-term and annual risk strategy/appetite, within which business strategy, objectives and targets are formulated.

### c) Board Nominating, Remuneration and Corporate Governance Committee

The Board Nominating, Remuneration and Corporate Governance Committee assists the Board of Directors in shaping the Bank's corporate governance policies and practices, recommending applicable guidelines and monitoring compliance with said policies and practices. In addition, it assists the Board through providing oversight on the qualifications of all the people nominated to the Board, as well as, those nominated to other positions in the Bank requiring an appointment by the Board of Directors. It also establishes formal and transparent procedure for developing a policy on executive remuneration, remuneration packages for Board Members, and oversight on the remuneration of Senior Management, thus, ensuring that the compensation is consistent with the Bank's culture, strategy and control environment.

d) **Board Compliance and AML/CFT Committee**

The purpose of the Board Compliance and AML/CFT Committee is to oversee the Bank's compliance programs, policies and procedures, including legal compliance, that are designed to respond to the various compliance and regulatory risks facing the Bank, in addition to supervising and following through any whistle blowing claim forwarded by the Compliance Officer to the Board.

e) **Other Ad-Hoc Committees**

Each committee reports directly to the Board. The Board will strive that all members of the committees shall meet the independence and non-executive criteria, as determined by the Board and in line with the requirements of the Central Bank.

Committees' members and chairs shall be appointed by the Board Nominating, Remuneration and Corporate Governance Committee. Each committee shall have its own charter which shall comply with all applicable laws, rules and regulations. The charters shall set forth the mission and responsibilities of each committee, as well as, the required qualifications for committee membership, procedures for appointing members, committee structure and operations and reporting to the Board.

## 6. **Specific Duties of Board Members**

a) **Board Members' Duties**

- Devote the time and attention necessary to properly discharge their duties and responsibilities on the Board and in any Committee(s) to which they are appointed
- Have a working knowledge of the statutory and regulatory requirements affecting the Bank
- Observe confidentiality
- Ensure the continuing soundness, effectiveness and adequacy of the Bank's control environment
- Adhere to loyal behavior taking into consideration the Bank's and the shareholders' interests, take such due care and diligence as taken by a normal person in similar circumstances
- Notify the Board of all the positions they hold at the time of their election to the Board and promptly update the Board of any changes thereto

b) **Duties and Responsibilities of Non-Executive and Independent Board Members**

In addition to the above duties and responsibilities, a non-executive and independent Board Members shall have the following duties and responsibilities:

- Provide independent opinion on strategic matters, policy, performance, accounting, resources, key appointments and standard operations
- Give priority to the interests of the Bank and its shareholders if and when any conflict of interest situation arises
- Control the Bank's performance in realizing its agreed objectives and goals and monitor its performance reports
- Develop procedural rules for the Bank's governance and supervise and monitor their implementation in compliance therewith
- Provide the Board and its Committees with their skills, experience, diversified specialties and qualifications through regular presence and efficient participation in

the General Assembly meetings and through the acquisition of a balanced understanding of shareholders' opinions

Further to the above mentioned duties and responsibilities, all Board Members are required to look more deeply into some specific subjects relating to the Bank's strategy and follow up more closely on the Bank's affiliates, in addition to any other subject requiring a more in-depth approach. Those special assignments are defined by the Board Members in coordination with the Chairman.

## 7. Corporate Secretary's Role

The Corporate Secretary is responsible for the following:

- Assisting the Chairman in the logistics of the Board and Board meetings, as well as, meetings of the General Assembly
- Drafting the minutes of the Board meetings
- Acting as custodian of the Board's records
- Liaising with the relevant regulatory authorities
- Acting, in liaison with the Chairman and the Vice Chairman/General Manager, as the authorized channel of communications for the Board decisions
- Providing presentation to any new Board Members
- Maintaining a list of the current Board Members together with copies of their official resumes
- Maintaining original minutes of meetings of the Board of Directors
- Drafting an annual Corporate Governance report and relaying it to the shareholders of the Bank upon publication of the agenda for the annual General Assembly meeting. The report should contain at least the following:
  - Board composition: Any changes in composition during the year should be highlighted
  - Board of Directors biographies, including status, years served on the Board, and membership in Boards of other companies
  - Standing Committees of the Board
  - Number of Banque BEMO shares held by each Board Member (direct or indirect)
  - Number of meetings held and level of attendance of the Members to the Board and its standing Committees
  - Summary of Board and standing Committees activities during the year
  - Any significant changes to the governance structure during the year
  - Approval of any related party transactions by the Board
  - Names of outside advisors retained by the Board during the year

Prior to distribution, the report should be validated by the Board Nominating, Remuneration and Corporate Governance Committee.

Under the Chairman's direction, the Corporate Secretary's duties also include, but not restricted to:

- Facilitating the induction of newly appointed Board Members
- Facilitating professional development programs for the Board
- Ensuring effective information flows (within the Board, to and from the Board and the Board Committees, and between the Board Members and the public entity's management)
- Advising Board Members on their legal obligations and that of the public entity

- Advising the Board and the individual Board Members on Corporate Governance principles and plans
- Advising the Board on the implementation of Corporate Governance programs such as risk management and performance assessment
- Carrying out the instructions of the Board, assisting in implementing corporate strategies and giving practical effect to the Board's decisions
- Dealing with the public as appropriate

## 8. Succession Plan

### a) Succession Plan Process

One of the Board's key functions and risk mitigation responsibilities is to provide for the succession planning so that the Bank is not adversely affected due to a vacancy in the Board or key management. The succession planning process for the Board ranges from identifying and developing specific candidates in order to fill the executive position to developing a talent pool with capacity to be effective leaders in any number of key positions in an organization, including Board and staff.

In line with BDL circular 142 requirements, the Succession planning process is also an opportunity to identify potential gaps in the current Board's competencies mix and propose ad-hoc trainings to each Board Member according to their needs/requirements.

The succession planning process established by the Board takes into consideration two scenarios:

- Emergency Succession Planning: A process that is in place in the event a Member suddenly departs – either permanently or for an extended period of time (i.e. longer than three months)
- Departure-Defined Succession Planning: A process that is in place for a future planned retirement or permanent departure of the Member

Succession policy consists of the following steps:

- Communicating with key stakeholders regarding actions taken by the Board in naming an interim successor to ensure that the Bank continues to operate without any disruption knowing that the interim successor may not be appointed as a director.
- Considering the need for external consulting assistance based on the circumstances
- Reviewing the Bank's business plan and conduct a brief assessment of strengths, weaknesses, opportunities and threats to identify priority issues that may need to be addressed during the transition process and to also identify attributes and characteristics that are important to consider in the selection of the next permanent director
- Establishing a timeframe and plan for the recruitment and selection process
- Providing the Banking Control Commission with a copy of the Succession Plan upon its adoption, and of any amendment thereto.

The responsibility of handling the aforementioned and triggering the appropriate response rests with the Board Nominating, Remuneration and Corporate Governance Committee.

The Board of Directors shall review the Succession Plan on an annual basis, to ensure its compliance with the strategy of the Bank and the development of its operations.

#### b) Emergency Succession Planning

Should the organization unexpectedly be faced with the need to immediately replace a departing Board Member or Executive Director, the Board Nominating, Remuneration and Corporate Governance Committee convenes to address the following and make a recommendation to the Board:

- Draft communication plan
- Agree on process to appoint a new Board member: deciding on whether or not to conduct an outside search or promote from within without considering external candidates
- Identify the interim Director
- Define the interim Director's responsibilities, authority and decision making limitations – when applicable
- Identify Board support – when applicable

#### c) Departure-Defined Succession Planning

Departure-defined succession planning is a process that is in place for a future planned retirement or permanent exit of the Members and falls directly under the responsibility of the Board Nominating, Remuneration and Corporate Governance Committee.

As for Senior Management, a due succession plan revised on a yearly basis has to be approved whereby for each senior position, a replacement has been selected. Human Resources Management oversees the development and the setting of the succession plan noting that it should be aligned to the Bank's overall organizational development strategy. The policy identifies critical positions in respect of which there is a formal succession plan. Successors are nominated based on experience, skills and competencies through a methodical process by current role holders in conjunction with the Human Resources. Development initiatives should also be put in place to accelerate successors' readiness.

#### d) Methodology

##### Objectives

- To spot members' required knowledge, skills and experience as far as the full Board composition level is concerned in order to effectively fulfill the Board's role and responsibilities
- To ensure an appropriate balance across the Board, through ensuring sufficient diversity among Board members to appropriately reflect the national demographic across the breadth of Concentra's ownership and client base
- To ensure appropriate and pro-active processes are in place to recruit qualified candidates in a number sufficient to generate and maintain a robust pool of potential candidates across the balance of representation and qualifications sought by the Board from time to time
- To identify the best qualified individuals for recommendation to the annual AGM
- To achieve continuity through a smooth succession of Members (including Board and committee leadership) that balances fresh perspective and independence with experience and institutional memory

- To satisfy best practice within the legal and regulatory framework within which Concentra operates, in particular, the satisfaction of Bank Act requirements and the OSFI Corporate Governance Guidelines

## 9. Confidentiality, Disclosures and Communication Guidelines

The Bank ensures to communicate to the public all relevant information in a timely and accurate manner, and in accordance with applicable legal, regulatory, and stock exchange requirements.

Disclosure is completed through the Bank's website, published annual and quarterly financial reports, as well as, daily summary reports available in both Arabic and English languages.

### a) Principles and Guidelines for Disclosure

As described above, the Bank is committed to following best practices and market standards and promotes good governance in all its operations. To ensure adherence, the following principles also guide the disclosure requirements:

#### Openness

The Bank strives to make information concerning its strategies, policies and activities available to the public. Information shall be disclosed in the absence of a compelling reason for confidentiality, in line with the legal framework of the Bank and the guiding principles of this disclosure policy.

#### Transparency

By being transparent in its activities, the Bank supports stability in the market where it operates. Transparency also increases the general public's trust in the Bank.

#### Accountability

The Bank shall be publicly accountable. As the Bank is entrusted with public funds it is, thus, responsible for the proper management of these and other resources put at its disposal. To enhance accountability and governance, the Bank has established a compliance function to manage integrity and reputational risks to the Bank.

#### Objectivity

Information provided by the Bank shall not be biased. The Bank is committed not to omit or otherwise withhold information solely because it may reflect negatively on the Bank.

#### Interaction with stakeholders

The Bank maintains an ongoing information exchange with its supervisors, customers and counterparties and aims to disclose information to the general public and specific interest groups whenever possible and as early as feasible.

#### Safeguarding customer interests

While the Bank is committed to openness and transparency in its dealings, BEMO as a bank is bound by banking secrecy and will pay due regard to the individual customers' and counterparties' confidentiality needs in carrying out a specific project. The Bank's disclosure of information is, therefore, based on procedures adopted to guarantee the

customers' and counterparties' legitimate need for confidential treatment of information.

#### b) Information Sources and Channels

Public information about the Bank's activities is available on its website ([www.bemobank.com](http://www.bemobank.com)). The website is, subject to the terms and conditions stated therein, one of the main platforms for disseminating information to the public on the Bank's role and activities. In addition, being a listed bank on Beirut Stock Exchange, the information is available also on Beirut Stock Exchange website ([www.bse.com.lb](http://www.bse.com.lb)) under listed securities, whereby quarterly financial statements are listed, and all news pertaining to the Bank is disseminated.

Information may also be obtained through the Bank's communications function, which strives to reply without unnecessary delay to requests by the media and public. The Bank will generally only reply to reasonably specified and detailed requests, that is, it will not respond to blanket requests for information. The e-mail address for general inquiries is [communication@bemobank.com](mailto:communication@bemobank.com). Communications may direct inquiries to other functions within the Bank or to other sources of information.

The Bank's website is updated continuously with information about the financial performance. The Annual Report as a rule contains year-end information. Transaction-specific information such as prospectuses and pricing supplements can be requested from the Bank's communications function apart from the information the Bank publishes regularly. Additional information concerning the Bank's activities may also be available directly or published through:

- Financial news services, such as Bloomberg, Reuters, GTNews, Moody's Investors Services
- Press releases
- Presentation documents and fact sheets
- Investor presentations at one-to-one meetings and/or at conferences
- Press and other media

The Bank seeks an active and open relationship with the media. Communication and Quality Department coordinates interviews and other contacts with the media. Press releases issued on behalf of the Bank deal with news about the Bank and its activities and are posted on the website.

#### Governance

The information referred to under Governance is posted on the website (except when explicitly stated otherwise). The Corporate Governance Manual is included on the website of the Bank, and a yearly governance statement is also published within the Annual Report.

#### c) Financial Statements Preparation

The Bank publishes annual audited financial statements on its website as at 31 December and un-audited financial information as at 31 March, 30 June, 30 September and 31 December each year. The audited financial statements are also included in the Annual Report.

The Bank's consolidated financial statements are prepared in accordance with International Financial Reporting Standards (IFRSs) as issued or adopted by the International Accounting Standards Board (IASB) and interpretations issued by the

International Financial Reporting Interpretations Committee and general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission, and include the results of the Bank and its consolidated subsidiaries: BEMO Securitization SAL (Lebanon), Depository & Custody Company SAL (Lebanon) and BEMO Investment Firm LTD (Dubai).

The following new and revised IFRSs, which became effective for annual periods beginning on or after January 1<sup>st</sup>, 2015, have been adopted in these financial statements.

- Annual Improvements to IFRSs 2010 – 2012 cycle that includes amendments to IFRS 2, IFRS 3, IFRS 8, IFRS 13, IAS 16, IAS 24 and IAS 38
- Annual Improvements to IFRSs 2011 – 2013 cycle that includes amendments to IFRS 1, IFRS 3, IFRS 13 and IAS 40
- Amendments to IAS 19: Employee Benefits to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service

The application of these revised IFRSs will materially impact the amounts to be reported by end of 2017.

The standards and interpretations in issue but not yet effective are the following:

- IFRS 14 Regulatory Deferral Accounts – January 1, 2016
- Amendments to IAS 1: Presentation of Financial Statements relating to Disclosure initiative – January 1, 2016
- Amendments to IFRS 11: Joint arrangements relating to accounting for acquisitions of interests in joint operations – January 1, 2016
- Amendments to IAS 16: Property, Plant and Equipment; and IAS 38: Intangible Assets relating to clarification of acceptable methods of depreciation and amortization – January 1, 2016
- Amendments to IAS 27: Separate Financial Statements relating to accounting investments in subsidiaries, joint ventures and associates to be optionally accounted for using the equity method in separate financial statements – January 1, 2016
- Amendments to IFRS 10: Consolidated Financial Statements; IFRS 12: Disclosure of Interests in Other Entities; and IAS 28: Investment in Associates and Joint Ventures relating to applying the consolidation exception for investment entities – January 1, 2016
- Annual Improvements to IFRSs 2012 – 2014 cycle covering amendments to IFRS 5, IFRS 7, IAS 19 and IAS 34 – January 1, 2016
- IFRS 9: Financial Instruments (revised versions in 2013 and 2014)
- A finalized version of IFRS 9 which contains accounting requirements for financial instruments, replacing IAS 39 Financial Instruments: Recognition and Measurement – January 1, 2018. The standard contains requirements in the following areas:
  - Hedge accounting: Introduces a new hedge accounting model that is designed to be more closely aligned with how entities undertake risk management activities when hedging financial and non-financial risk exposures
  - De-recognition: The requirements for the de-recognition of financial assets and liabilities are carried forward from IAS 39
- IFRS 15: Revenue from Contracts with Customers – January 1, 2018

- Amendments to IFRS 10: Consolidated Financial Statements and IAS 28: Investments in Associates and Joint Ventures (2011) relating to the treatment of the sale or contribution of assets between an investor and its associates or joint venture. Effective date deferred indefinitely.
- IFRS 16: Leases will recognize, measure, present and disclose leases

Except for IFRS 9, the Directors of the Bank do not anticipate that the application of these amendments will have a significant effect on the Group's consolidated financial statements.

#### d) Basel 2 Pillar 3 Disclosures

Given the importance of the latter, the Bank acknowledges the need to disclose its own assessment and management of business risks based on the requirements stipulated by Basel 2. In the presence of guidance and requirements from local supervisory authorities, the Bank has developed a set of disclosure requirements allowing market participants to assess key pieces of information on the Bank's capital, risk exposures and risk assessment processes.

The Bank acknowledges that the disclosures above are to be made for the benefit of the market as they are an effective means of informing the market participants about the Bank's exposure and risks. In this regard, such disclosures have particular relevance since internal methodologies give banks more discretion in assessing capital requirements:

- Frequency and location of disclosures: All disclosures will be made at least annually and included in the Annual Report
- Verification: the above disclosures shall undergo independent verification
- Quantitative Disclosures as follows:
  - Capital Structure: covering eligible capital used for capital adequacy calculation
  - Capital Adequacy: covering amount of exposures subject to the standardized approach and related capital requirements including:
    - a. Disclosure of on-balance sheet asset portfolios which are subject to the standardized approach and the respective capital requirements.
  - Credit Risk: covering all on and off balance sheet exposures and derivatives at their credit equivalent values
  - Credit risk exposure relating to off-balance sheet items is reported after application of CCF (Credit Conversion Factors). Credit exposure is reported after accounting offsets (e.g. offsetting of allowances and offsetting of assets and liabilities in certain cases) in accordance with the applicable accounting standards and without taking into account the effects of credit risk mitigation techniques, e.g. collateral and netting.
    - a. Geographic Breakdown: Disclosure of the Bank's credit risk exposures by geographic area/region
    - b. Industry Sector Breakdown: Disclosure of the Bank's credit risk exposures by industry sector
    - c. Loan Portfolio by Risk Grading: Disclosure of the Bank's loan portfolio exposures by risk grade
    - d. Impaired loans, past due loans and allowances

- e. Loan Portfolio by Client Segment: Disclosure of the Bank's loan portfolio exposures categorized by client segment (Large corporations, SME, Retail, Commercial Real Estate and Residential)
- f. Collateralization of Loan Exposures: Disclosure of the type of security obtained covering loan exposures
- g. Loan Portfolio Concentration: Disclosure of the share of the top 20 single and one-obligor exposures and their share from the total loan exposures
- h. Counterparty bank exposures by risk grading
- i. Allocation of exposures by risk buckets
- j. Credit risk exposures covered by risk mitigation techniques
- Market Risk: Disclosure of methodology used for calculating market risk capital charges including detailed calculations breakdown by category and allocation
- Operational Risk: Disclosure of methodology used for calculating operational risk capital charges including calculations breakdown
- Interest Rate Risk in the Banking Book: Disclosure of impact of a 200 basis point shock increase/decrease on the Bank's net interest income and on the economic value of equity through modified duration calculations as stipulated by the Basel Committee Principles for the Management and Supervision of Interest Rate Risk Management
- Liquidity Risk: Disclosure of the liquidity risk status and profile of the Bank

In addition to the aforementioned quantitative disclosures, the Bank shall include an overview of the nature of risk management methodologies and approaches used to manage the Bank's diversified risks, as well as, results of internal capital adequacy assessment process and stress testing exercises.

## 10. Privileged Information

While every effort is made to keep constraints to a minimum, the following conditions shall, with due regard to the privileges and immunities of the Bank, apply to all information referred to in this Disclosure Policy:

### a) Types of Privileged Information

#### Reproduction of Public Documents, Use of Banque BEMO SAL Logotype or Name

The public documents of the Bank can be freely reproduced, given that the source is clearly mentioned and the information concerned is not modified. However, using material for commercial purposes always requires the Bank's prior written approval in each case, whether in marketing, promotion activities or elsewhere. Thus, any use of the Bank's logotype or name as a commercial reference requires the Bank's prior written approval.

#### Confidentiality and Secrecy Commitments

Some documents and information are provided to the Bank on the explicit or implied understanding that they will not be disclosed outside the Bank, or that they may not be disclosed without the consent of the source; or even, occasionally, that access within the Bank will be limited. The Bank must treat such information accordingly. The Bank does not make documents publicly available that contain proprietary information, such as trade secrets, business tools and methodologies or pricing information, without the express permission of the owner of such information.

#### Deliberative and Decision-Making Processes

To facilitate and safeguard the free and candid exchange of ideas between the Bank and its governing bodies, the Bank seeks to preserve the integrity of the deliberative process. For this reason, neither the analysis of country creditworthiness and credit ratings nor supervision reports are publicly available. The Bank also cooperates with various organizations, as well as private commercial banks and institutions in the context of its operations. In this regard, documents exchanged with such entities on matters of common interest that are related to the decision-making processes of the Bank and such entities are not publicly available. The above-mentioned principle also applies to the Bank's decision-making processes. Minutes of meetings of the Board of Directors, as well as, internal documents and memoranda written by Board members and their alternates, by the Chairman, the Vice Chairman-General Manager of the Bank, and by Bank staff to their colleagues, supervisors, or subordinates are considered confidential and are not publicly available.

#### Personal and Other Sensitive Data on Staff and Third Parties

The principles of the Staff Policy require the Bank to safeguard the personal privacy of staff members and to protect the confidentiality of personal data. The Bank may also prevent the disclosure of information in order to protect and safeguard personal data on third parties, where applicable.

#### b) Handling of Privileged Information

Subject to the Bank's policy, all Board Members shall maintain the confidentiality of matters of the Bank which come to their knowledge in their capacity as Board Members during the tenure of their office and also after leaving their office as members of the Board. This applies in particular to confidential reports they receive and to confidential deliberations. At the end of their term of office, they must return all confidential documents to the Bank and destroy all electronic copies if directed to do so by the Bank. If a Board Member wishes to pass on to third parties information which has come to their knowledge in their capacity as a Board Member, they must inform the Chairman in advance and obtain the Chairman's prior written approval for such disclosure.

### 11. Conflicts of Interest:

#### a) Definition

For the purpose of this Manual, and in line with the Conflict of Interests Policy published on the Internal Communication Site, a "Conflict of Interest" includes:

- Any matter being considered by, or arising at, a meeting of a Board or a Committee in which a Board Member or any dependents of a Board Member have a direct or an indirect pecuniary interest
- A situation where a Board Member is in a position to make or makes a decision, or is in a position to act or acts, motivated by other or additional considerations than the best interests of the Bank
- A situation where a Board Member or any dependents of a Board Member learns of an opportunity for profit which might be valuable either personally or to any person in which they have a direct or indirect financial interest

## b) Handling Conflict of Interest

The Board Members owe the Bank and its shareholders the fiduciary duties of care, loyalty, and the duty to comply with the corporate authority. In the discharge of their fiduciary duties, Board members must at all-time act in good faith, with candor, avoiding all potential or actual conflicts of interest, and in the best interests of the Bank and in compliance with the Bank's articles of incorporation and bylaws, and all applicable laws, including the Code of Commerce and this manual.

All Board Members in exercising powers and discharging their duties shall:

- Act honestly and in good faith with a view to the best interests of the Bank on whose behalf they are acting;
- Exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;
- Avoid placing themselves in a situation where an actual or potential Conflict of Interest may arise;
- Not to have any involvement in the hiring, supervision, evaluation, promotion, remuneration or firing of a family member, business associate, or friend
- Not to use any information they obtain in the course of their duties in order to trade in the Bank's shares

A Board Member shall disclose any conflict of interest to the Board, especially such conflict of interest as may arise on the basis of an advisory function or a relationship with customers, suppliers, lenders or other business partners of the Bank. In addition, it is the responsibility of other Board Members who are aware of a conflict of interest on the part of a fellow Board Member to raise the issue for clarification, first with the Board Member in question and, if still unresolved, with the Board.

If a Board Member has any conflict of interest with any matter to be considered by the Board and the Board determines that such a matter is significant, the decision thereon by the Board shall be made by the majority of the Board Members and in the absence of the interested Board Member's vote.

Any Member having a conflict of interest shall withdraw from any meeting during any discussion of the matter and shall not in any way attempt to influence the actions of the Members collectively or individually, either in the course of any meeting or outside any such meeting.

At the direction of the Board, however, such Member may be invited to participate in debate on the matter which is the subject of the conflict of interest if it is determined by the Chairman of the Board that the Member has particular knowledge useful to the Board in concluding the matter.

A Member so invited, shall not be counted in the determination of a quorum nor otherwise in the determination of the overall direction of the Board on the matter at issue.

## E. Company's Executives

### 1. Company's Executive Bodies' Role and Prerogatives

#### a) Mission

The main role of the Company's executive management is to implement the Board of Director's STRATEGIC plan for the Bank.

The Bank also established internal and specialized committees to handle specific tasks requested. For each of the specialized and internal committees, a charter has been defined clearly outlining responsibilities, tasks, meeting frequencies, reporting, accountabilities and objectives. Minutes of meeting are drafted after each committee meeting with a clear set of decisions and action plans defined.

#### b) Responsibilities Regarding Disclosure & Transparency

Management recognizes that he/she has legal and other obligations to all legitimate stakeholders. They have to diligently clarify the Bank's position to the shareholders, the Board and Management, thus granting shareholders with a level of accountability. Management is also responsible for implementing procedures to independently verify and safe-guard the integrity of the Bank's financial reporting. Disclosure of material matters concerning the Bank should be timely and balanced to ensure that all investors have access to clear, factual information.

The span of the Management's responsibility in terms of governance principles includes:

- Oversight of the preparation of the Bank's financial statements
- Internal controls and the independence of the Bank's auditors
- Review of the compensation arrangements for the chief executive officer and other senior executives
- The way in which individuals are nominated for positions on the Board
- The resources made available to Members in carrying out their duties
- Oversight and management of risk

#### c) Management Conduct

Proper conduct, control, and professionalism in management are the basis of the Bank's operational standards. In addition to several policies, the Bank follows a "*Code of Conduct*"<sup>2</sup> to ensure the prevention of and the retribution against any self-dealings, preferential treatments, privileged transactions or political abuse. The primary duty of the Bank's management and other key officers and employees is to the Bank, its welfare and success. The success of the Bank, in the management's view, will protect and enhance the shareholders' investments. In a general sense, the Board of Directors and the Bank's management are responsible to the shareholders (present and future) who assess their performance and conduct through the means of corporate democracy at the annual shareholders' ordinary and extraordinary meetings. The Bank's management is fully aware that it has responsibilities to other constituents of the Bank including its regulators, clients, employees, and to the community at large. These are fiduciary responsibilities that must, however, be exercised in the context of the management primary objective to operate the Bank in the best interests of its shareholders.

#### d) Management Professionalism

Whilst the Bank is currently owned at majority by Istismarat, which includes amongst its founders prominent family groups from Lebanon and Saudi Arabia, the management of the Bank is nonetheless entrusted to a group of independent senior

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<sup>2</sup> Code of Conduct posted on the Bank's Website

executives. The independence of management is ensured through the trust gained by the owners throughout the years in the business, its focused banking skills and its knowledge of the markets in which it operates.

The decision-making process of the Management Team is not subject to any interference by the controlling shareholder in the Bank's day-to-day operations nor is yet disrupted by the lack of any inter-locking positions between the controlling shareholder and the management team. However, the management significantly benefits from the collective business experience of the Board of Directors which comprises financiers, traders and prominent industrialists. This interaction between an independent management and a seasoned diversified Board allows for a free exchange of ideas and the setting of far reaching strategies in an increasingly challenging banking environment.

#### e) Management Approach

The Bank's management approach is geared towards productivity and aims at achieving the highest level of quality throughout the hierarchy of the workforce. As such, the Bank's aim is to promote the required know-how among employees as part of its competitive strategy. The Management strives to strengthen the sense of partnership among all of its staff members. All members of the workforce are encouraged to contribute to the growth of the Bank, and for that end, are assisted through training seminars to improve their skills. On the other hand, every employee is equally responsible and accountable for his/her actions on the job, as part of an overall performance management approach.

#### f) Free Stock Options

Currently, the Bank is not considering the possibility of granting employees stock options for free, to enable them to buy stocks in the Bank.

## 2. General Management's Role

In line with the Bank's culture of continuous improvement and Customer Centricity, the General Management must have the oath regarding the continuous improvement of the Bank's processes to better align to clients' needs/expectations. The services offered by the Bank must evolve to allow it to further connect with the external markets.

The General Management's responsibilities span through the following topics:

- Ensure adherence and commitment to the principles and values of Banque BEMO SAL
- Cooperate with the Board in fostering a corporate culture that promotes ethical practices, encourages individual integrity, and fulfils social and environmental responsibility
- Maintain a positive and ethical work climate that is conducive to attracting, retaining and motivating top quality employees
- Cooperate with the Board to develop a long-term strategy and vision for the Bank
- Ensure that the day-to-day business affairs of the Bank are appropriately managed, and that proper systems and controls are in place for effective risk management of the Bank and its risk exposures
- Ensure, in cooperation with the Board, that there is an effective succession plan for the General Manger in place

- Recommend to the Board the appointment of Senior Managers and ensure succession plans are in place for those Senior Managers
- Strive consistently to achieve the Bank's financial and operating goals and objectives
- Ensure continuous improvement in the quality and value of the Bank's services, while maintaining a customer centric focus
- Formulate and oversee the implementation of major corporate policies
- Serve as the chief spokesperson for the Bank

Moreover, the Senior Management should provide the Board with all the information the latter needs in order to carry out its responsibilities. The Board, on the other hand, should supervise the Senior Management and assess the quality of its performance. The Senior Management should also keep the Board regularly and timely informed of all the issues pertaining to changes in the business strategy and risk strategy; the Bank's financial standing and performance; any breaches of risk limits or compliance rules; internal control failures; legal or regulatory concerns and updates; and any other critical matters.

### 3. Management's Organization Structure

The Bank has adopted a horizontal structure focused toward achieving its objective of servicing Corporate and Private clients while ensuring efficiency in the management of risks. Kindly refer to the Bank's Organizational Chart published on the Internal Communication Site.

## F. Board and Management Performance and Remuneration

### a) Remuneration Principles

The members of the Board shall earn attendance allowances which kind and value shall be determined by the General Assembly on condition to be registered in the accounts of general expenses in accordance with the provisions of article 145 of the Commercial Law. The Board of Directors determines the Chairman's and the Vice Chairman-General Manager's annual remunerations and submits that of the Chairman's to the General Assembly for final approval and implementation.

After obtaining a special permit from the Ordinary General Assembly in accordance with the provisions of article 158 of the Commercial Law, the members of the Board of Directors may fill administrative positions in the Bank in exchange for a pay determined by the BOD, but they do not benefit from the provisions of the Labor Law unless they were wageworkers in the Bank for two years at least when handling the membership of the Board of Directors.

### b) Board of Directors Evaluation Process

The Nominating, Remuneration and Corporate Governance Committee shall conduct an annual review of the Board performance, in accordance with guidelines recommended by the Committee and approved by the Board. This review shall include an overview of the talent base of the Board as a whole, as well as, an individual assessment for each Member.

Each of the standing Committees shall conduct an annual evaluation of its own performance as provided in its charter. The results of the Board and Committees evaluations shall be summarized and presented to the Board.

#### c) Members' Performance Review

The Board has established a procedure by which all Members will participate annually in a formal written assessment of the Board's performance. The main objective of the performance review process is to help the Members achieve their best, through:

- Clarifying understanding of roles and responsibilities, both of the Member and of the Board
- Identifying strengths
- Acknowledging achievements
- Identifying areas for improvement and the support required to develop skills and abilities
- Ensuring a sustainable workload
- Setting personal and operational objectives for the next period and identifying the support required to achieve them and the timelines for their achievement

With respect to the Board's self-assessment, the latter has three goals:

- First, it assesses how well the Board functions by asking questions related to the Board's organization and process, with particular emphasis on identifying techniques that have proven valuable for individual Members and might be employed broadly by the Board.
- Second, it asks the Board for an assessment of the Board's accountability regarding the role of the Board versus the role of the Bank's Management, internal and external auditors.
- Third, it requires the Board members to assess the standards of performance of the Board in discharging its duties.

The Board and each of the Board's Committees complete this self-assessment thus evaluating their effectiveness.

In addition to the self-assessment, the Board also annually completes a skills assessment, which provides a forum for identifying skills of individual Members that can be used to enhance the selection of Members particularly suitable to serve on individual Committees of the Board. Furthermore, performance reviews of Members will be held annually with the Chairman of the Board and one additional member of the Board.

A written record of the meeting will be made. The outcome of the performance review will be reported to the Board, but will remain strictly confidential to the Board and the Member. Copies of the record will be kept only by the Chair and the Member.

#### d) Senior Executive Management Performance Review

The Board is responsible for the oversight of the Bank's business, as well as, the development and approval of policies and strategies. This includes maintaining an effective Senior Executive Management team. The basis of the performance review of the Senior Executive Management is that the Board must hold the latter accountable for execution.

When Bank performance needs to improve, the Board believes that it should be instrumental in compelling executive management to execute more effectively. Occasionally, in situations where the Senior Executive Management fails to improve or does not execute according to the Board's expectations, the Board believes that initiating the replacement of executive management, as necessary, should be conducted. The methods for measuring executive management performance are similar to those for measuring Board members performance. The individual metrics to measure, however, include the following:

- Achieving financial and operational target results
- Responding promptly to the Board of Directors
- Providing clear and thorough reports to the Board
- Attending training programs
- Maintaining a favorable relationship with regulators
- Creating and achieving business development goals
- Avoiding conflicts of interest

The content areas generally included in the evaluation of performance normally cover evaluating results that should be accomplished and behaviors through which leadership is demonstrated:

Results that should be accomplished

- Fulfillment of mission, vision and strategy
- Achievement of specific annual priorities and goals
- Strategic leadership and resource development
- Operational or program effectiveness
- Fiscal and staff management
- Public relations and advocacy

Behaviors through which leadership is demonstrated:

- Personal qualities (integrity, flexibility, commitment)
- Interpersonal skills (communications, influence)
- Leadership skills (trust, vision, team development)

For staff other than the Senior Executive Management, a comprehensive performance management program is in place whereby the following is applied:

The objectives are aligned with the approved budget and the new strategic plan using a "PM evaluation" form including SMART Objectives ("S" = specific, "M" = measurable, "A" = agreed, "R" = realistic, "T" = time-bound), managerial skills assessment, and leadership and independence evaluation.