



## **Corporate Governance Code**

**May 2017**

**Lebanese Swiss Bank**

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## 1. Introduction

Corporate governance is understood by Lebanese Swiss Bank to be the structures and processes for the direction and control of corporations. According to the OECD (Organization for Economic Co-operation and Development) Principles of Corporate Governance, corporate governance “specifies the distribution of rights and responsibilities among the main participants in the corporation - including shareholders, directors and managers - and spells out the rules and procedures for making decisions on corporate affairs. By doing this, corporate governance provides the structure through which Bank’s objectives is set, implemented and monitored” . A company committed to good corporate governance has well-defined shareholder rights taking into account the interests of other recognized stakeholders, an empowered board of directors, a solid control environment, and high levels of transparency and disclosure. The interests of the Bank and those of all shareholders are considered to be the same and thereby, encouraging the use of resources more prudently and efficiently.

## 2. History of LSB

Before 1962 incorporated as a Financial Institution (Comptoir)

**1962** Incorporated in 1962 as per the Bylaws under the name of Kairouz Bank s.a.l

**1965** Registration of Kairouz Bank s.a.l under number 063 of the Banks List.

**1973** Credit Suisse acquired 99.1 % of the Bank’s shares.

**1973** The name of the Bank was changed from Kairouz Bank s.a.l to Credit Suisse (M.O.) s.a.l

**1988** The Bank’s shares were acquired by a group of Lebanese Business men and Investors.

**1988** Name changed from Credit Suisse (M.O) s.a.l to Lebanese Swiss Bank s.a.l and the Bank began its operations in 2 main Branches – Dora and Hamra.

**1993** Opening of Broumana and Haret Hreik Branches

**1994** Acquirement of new computer systems (Equation as Main Frame and Beam for Branches

**1995** Opening of Adonis Branch

**1997** Opening of Tripoli Branch

**1999** Opening of Nabatieh Branch

**2004** Opening of Solidere and Tyr Branches

**2006** Opening of Chtaura Branch

**2008** Opening of Hadath Branch

**2009** Opening of Awkar Branch

**2010** Opening of Bir Hasan Branch

**2011** Opening of Mazraa and rabieh Branches

**2012** Opening of Jal El Dib Branch

**2013** Opening of Jounieh Branch

**2015** Opening of Hazmieh Branch

**2016** Opening of Byblos Branch

## 3. Corporate Governance in Lebanon

Corporate Governance in Lebanon was initiated upon the issuance of the “Central Bank of Lebanon” Basic Circular number 106 dated June 26<sup>th</sup>, 2006 putting the bases for banks to implement their own Corporate Governance Code and that based on Basel committee recommendations. Banks were asked to develop their own Code with guidance on the mechanism to implement it through BDL intermediary circular No 255 dated April 21<sup>st</sup>, 2011 and whereby banks were asked to put in effect their code and publish its summary on its Website before 2011 end, reporting any amendments thereafter to BCC.

#### **4. Lebanese Swiss Bank approach to Corporate Governance**

For Lebanese Swiss Bank, good Corporate Governance is critical in order to realize its strategic goal of creating sustainable long-term value for its stakeholders - including Shareholders, clients, employees and society at large and mainly, protect the interests of the Depositors.

Integrity, transparency and accountability are key elements of Lebanese Swiss Bank's Corporate Governance, as they are in Lebanese Swiss Bank's business as a whole. These key elements ensure that the controls and oversight necessary for effective risk management, Internal Control and Audit Mechanism, proper compliance with regulations, accurate and complete disclosure of information to the market are in place and functioning well.

Lebanese Swiss Bank's guiding compass in these matters is provided by its Corporate Values and Business Principles, which constitute Lebanese Swiss Bank's 'Code of Ethics'.

#### **5. Lebanese Swiss Bank's Human Resources**

As at 31 December 2014, Lebanese Swiss Bank employed 292 people distributed between 125 employees at its various Head Office Departments and 167 employees among its 17 branches network.

The primary activity of the HR Function focuses on supporting managers and employees.

Performance management, talent reviews and leadership and learning opportunities were a priority in 2014.

#### **6. Lebanese Swiss Bank's Corporate Structure**

Lebanese Swiss Bank s.a.l. is a Lebanese company with limited liability incorporated under the Lebanese Code of Commerce and other related Lebanese laws. The Bank has a system of Corporate Governance consisting of a Board of Directors and various Board Committees. The Board members are appointed by the General Assembly Meeting of Shareholders for a term of three years.

The day to day management of the Bank is vested with the Chairman - General Manager, who is appointed by the Board of Directors, and assisted by various Board and Management Committees.

Lebanese Swiss Bank has Seven Hundred Million shares with nominal value of Lebanese Pounds seventy Billion (LBP 70 Billion) distributed among seventeen shareholders (Annex A). The Chairman - General Manager owns 67.08 % of the shares while with related family members ownership control is around 71.08 % of the shares. Meeting rules and voting is subject to the Lebanese Code of Commerce.

#### **7. Headquarters**

Headquarters of Lebanese Swiss Bank s.a.l

Emile Edde Street, Hoss Building

Hamra, Beirut – Lebanon

P.O.Box 11-9552

Phone +961 (1) 354501, 346244, 747618

Fax +961 (1) 346357

Website: <http://www.lebaneseswissbank.com>

## 8. Local Network

Dora	Hadath
Hamra	Awkar
Broumana	Bir Hasan
Haret Hreik	Mazraa
Adonis	Rabieh
Tripoli	Jounieh
Nabatieh	Jal El Dib
Solidere	Hazmieh
Tyr	Byblos
Chtaura	

## 9. Composition of the Board of Directors

The members of the Board of Directors were elected in its Ordinary General Assembly meeting of August 8, 2016 for a three years term as at 31<sup>st</sup> December 2018 the members were:

Dr. Tanal Sabbah - Chairman-General Manager	Executive Member
Miss Fadila Sabbah – Branches’ Coordinator	Executive Member
Mr. Issa Sahyoun - Head of Board Audit Committee	Independent Member
Mr. Mounir Karam - Head of Board Risk Management Committee and Member of Board Audit Committee	Independent Member
Mr. Amer Bin Fayez Al Kouately	Independent Member
Mr Aouni Ramadan – Head of Compliance Committee	Independent Member
Mr. Charbel Aouad – Member of Board Compliance Committee	Independent Member
Mr Louis Abi Habib – Member of Board Risk and Compliance Committee	Executive Member
Mr Hadi Kabalan – Member of Board Risk and Audit Committee.	Executive Member

The Board of Directors include five Independent Directors and four executive Directors among its members with sufficient experience in Finance, Accounting, Auditing and Compliance, Strategic Planning, Risk Management, Bank Regulations, Consulting and Banking activities.

## 10. Biography of the Board Members

### ***Dr Tanal Sabbah:***

Born in 1948

Chairman and General Manager since 1989

Term expires at the 2018 Annual General Assembly meeting of Shareholders

Chairman of various Committees

Board member and Treasurer of Association of Banks in Lebanon since 1995.

Dr Sabbah holds an MBA degree from University of Portland in Oregon USA, and a PHD in Urban Studies from US International University San Diego, California – USA. He started his career in Banking in 1988 when he took over the majority shares of the Bank from Credit Suisse (M.O).

### ***Fadila Sabbah***

Born in 1951

Board Member since 2008

Term expires at the 2018 Annual General Assembly meeting of shareholders.

Executive Member

Member of various Management Committees

Miss Fadila Sabbah holds a Master Degree from the American University of Beirut. She held different banking managerial positions and is a Member of the Senior Management at Lebanese Swiss Bank.

***Mounir Karam***

Born in 1951

Board Member since 2010

Term expires at the 2018 Annual General Assembly meeting of shareholders

Head of Board Risk Management Committee

Independent Member

Mr Mounir Karam holds a Bachelor degree from the American University of Beirut. He held different managerial positions with international as well as local banks.

***Louis Abi Habib***

Born in 1981

Board Member since 2013

Term expires at the 2018 Annual General Assembly meeting of shareholders

Member of Board Risk Committee

Executive Member with main role of assisting the Bank in its expansion strategy and treasury and capital markets opportunities.

Mr Louis Abi Habib holds an Arab and French Law degree from St Joseph University. He has around seven years of working experience with HSBC London and New York, last where he was Head of CEMEA equities in New York, USA. He is the founder and managing partner of Black Peak Partners with International Investments and Business.

***Issa Sahyoun***

Born 1941

Board Member since 2010

Term expires at the 2018 Annual General Assembly meeting of shareholders

Head of Board Audit Committee

Independent Member

Mr Issa Sahyoun holds a Master degree from USEK – Kaslik and a professional certification in accounting and auditing. He has considerable years of experience in auditing with major local and international accounting and consultancy firms whereby he has audited various Banks and Financial Institutions. He is author and co-author of many books on accounting, banking and taxation.

**Aouni Ramadan**

Born 1950

Board Member since 2016

Term expires at the 2018 Annual General Assembly meeting of shareholders

Head of Board Compliance Committee

Independent Member

Mr Ramadan holds a degree in Law 1972 – Lebanese University – and another one from the Institution of the Legal Studies 1974.

In 1980 appointed as General Attorney, in 1982 Interim Relief Judge, in 1988 Criminal Judge of Baabda, in 1992 Magistrate for Baabda, in 2004 Procurer General for South Lebanon, in 2010 President of the Court of Accounts for Lebanese Government, retired in 2012, he established a personal office in Beirut for Legal Consultancies.

**Hadi Kabalan**

Born in 1975

Board Member since 2013

Term expires at the 2018 Annual General Assembly meeting of shareholders

Member of Board Risk Committee

Executive Member

Mr Hadi kabalan holds a BS degree in Banking and International Finance from City University Business School in London and is a CFA Charter holder. He has over 12 years experience with Goldman Sachs Asset Management. He is now the owner of TriangleBase Ltd, and advisory and consulting business focused on capital markets, technology, media and social development.

**Amr Bin Fayez Al Kouatli:**

Born in 1959

Board Member since 2006

Term expires at the 2018 Annual General Assembly meeting of shareholders

Member of Board Audit Committee

Independent Member

Mr Amr Bin Fayez Al Kouatli holds a Bachelor degree in Economic and Managerial Studies from Rice University Houston, Texas in USA. He held various managerial positions within Banking and Corporate areas. He is the Founder, Chairman and General Manager of FME Capital s.a.l, a Lebanese Financial Institution operating since 2006.

**Charbel Aouad**

Born in 1950

Board Member since 2016

Term expires at the 2018 Annual General Assembly meeting of shareholders

Member of Board Compliance Committee

Independent Member

Mr Aouad holds a Bachelor Degree in Law and a Certification in Quality Management Control. He held various managerial positions within Banking, (BLC Bank, Banca Di Roma, Byblos bank and Fransabank).

## 11. Core Responsibility of the Board of Directors

The Board carries out its duties effectively. Its ten members are active, meets regularly to discuss various strategic issues about the bank and its business.

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

The Board of Directors has overall responsibility for the bank, including approving and overseeing the implementation of the bank's:

- Strategic objectives of the bank, taking into account its long term financial interests and safety;
- Risk strategy and policy (encompassing the risk tolerance and risk appetite),
- Corporate governance in line with BDL and international guidelines.
- Corporate values and code of conduct,
- Structure and performance,
- Compliance policy and the internal control systems;
- Risk management framework, and
- Ensuring that adequate, effective, and independent controls are in place.

In discharging these responsibilities, the Board takes into account the legitimate interests of all shareholders, depositors and other relevant stakeholders. It also ensures that the bank maintains an effective relationship with the supervisory authorities.

In bearing his/her share of the collective responsibilities of the Board, each Board member has a "duty of care" and a "duty of loyalty" to the bank and engage actively in its matters and is adequately informed of internal and external factors affecting business.

The Board is also responsible for providing oversight of Senior Management. The Board should set formal performance standards for senior management consistent with the long-term objectives, strategy and financial soundness of the Bank, and monitor senior's management performance against these standards:

- Elect a Chairman from among its members. In application of current Lebanese legislation, the Chairman of the Board acts as General Manager and all management actions are taken on his account and under his responsibility;
- Ensures that an appropriate management structure is in place which includes among others:
  1. A Head of Risk Management Function;
  2. A Head of Audit,
  3. A Head of Compliance
- Ensure that Audit, Compliance and Risk Management functions are properly positioned staffed and resourced and that are carrying out their responsibilities independently and effectively.

The Board makes sure that the eligibility criteria for the above positions are appropriate and takes note of their appointment and removal.

The Board also should ensure that an appropriate succession plan is in place, generally for all senior management positions and more particularly for the Chairman – General manager positions named above. The Board of Directors is responsible for the Corporate Governance structure of the bank as well as the compliance with this Code. They are accountable for this to the General Meeting of Shareholders.

The Board of Directors is also responsible to regularly review major policies, procedures and controls with Senior Management and Internal Control, Internal Audit, Risk Management and Compliance in order to determine areas needing improvement, as well as to identify and address significant risks and issues.

The members of the Board of Directors are accountable both collectively and individually for all decisions taken by the Board. The Chairman of the Board of Directors leads the Board in its overall management of Lebanese Swiss Bank s.a.l to achieve its performance goals and ambitions.

The Board of Directors should ensure that related party transactions are performed at arm's length and approved by the Board and 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).

The Managing Board has delegated certain tasks to various Board and Management Committees to increase efficiency and allow deeper focus in specific areas. The specialized Board Committees are the Board Audit Committee which was formed and started its functioning during 2010, and Board Risk Management Committee which was formed and started its functioning during 2011.

The Management Committees are the ALCO, Corporate Credit Committee, Investments and Participations Committee, IT Committee, Information Security Risk Management Committee, Marketing Committee, Operational Risk Committee, Recovery Committee, retail Committee, Treasury Committee, and Compliance and AML/CFT Committee. The charters of the Board and Management Committees are reviewed and approved by the Board of Directors.

The appointed members to the specialized committees aim at achieving an optimal mix of skills and experience that in combination allow the committees to fully understand, objectively evaluate and bring fresh thinking to various relevant issues, in addition to decentralization of decision taking.

In that context, it is the Board policy that Chairmanship of the management committees are not centralized with the Chairman of the Board, but rather distributed among specialized Senior Managers.

## **12. Board Audit Committee**

The Board Audit Committee is an advisory committee established at Lebanese Swiss Bank by decision of the Board of Directors dated July 20<sup>th</sup>, 2010 to assist the Board of Directors in its oversight responsibilities with respect to audit, compliance and the implementation and adequacy of the financial reporting and that pursuant to BDL Basic Circular number 118 dated July 21<sup>st</sup>, 2008 related to Basic decision number 9956 concerning the establishment of an "Audit Committee". The Charter of the Board Audit Committee was first approved at that meeting of the Board of Directors.

Members composition changed in the Board of Directors meeting of July 25<sup>th</sup>, 2013 as we;; as its charter was amended during that meeting.

The Committees main tasks are to review:

1. The independent Audit process, including recommending the appointment and assessing the performance and qualifications of the external auditors as well as the Internal Audit unit subject BDL basic decision 7737 dated December 15<sup>th</sup>, 2000.
2. The implementation and adequacy of the financial reporting and disclosure as applied within the Bank.
3. The implementation and effectiveness of the Bank's Central Control System.

4. The follow-up on the implementation of the corrective measures and recommendations as highlighted by the Internal Audit unit and the various external auditors reports.

### **13. Composition of the Board Audit Committee**

The Board Audit Committee is appointed by the Board of Directors and composed of three members chosen among members of the Board. All members of the Board Audit Committee are independent of Lebanese Swiss Bank's Management.

Appointments to the Board Audit Committee are made for a term of three years. The Board of Directors appoints the Chairman of the Committee.

In carrying out their responsibilities under its Charter, Committee members may call on any manager or unit head in the bank in order to clarify any matter relating to his area of responsibility.

As of December 31, 2014 the Audit Committee of the Board was chaired by Mr. Issa Sahyoun. Other members included Mr. Amer Al Kouatly and Mr. Nabil Khairallah. The term of the committee expires with the expiry of the existing term of the Board after the General Assembly reviewing 2015 financials and with the election and appointment of new Board Members.

The members of the Board Audit Committee collectively have sufficient accounting, auditing, consulting services and financial management expertise as requested by article 2 of BDL Basic Circular number 118 of July 21<sup>st</sup>, 2008 to understand the Bank's business, financial statements and risk profile. Furthermore, the Board has determined that elected members possess the necessary relevant expertise in financial administration and accounting for listed companies and other large companies and therefore qualifies as financial experts.

### **14. Responsibilities of the Board Audit Committee**

The Board Audit Committee is appointed by the Board from its own non executive members. The responsibilities of the Board Audit Committee include supervising, monitoring and advising the Board on the effectiveness of Internal Audit and control systems and reviewing and advising the Board on the disclosure of financial information.

As of December 31, 2011 the Board Audit Committee includes the responsibilities of the Compliance and Oversight among its tasks. The Committee derives its authority from the Board and its Terms of Reference are set out in its Charter "Annex B".

In line with good Corporate Governance, the Rules governing the Lebanese Swiss Bank Board's Audit Committee are continuously reviewed to ensure that the objectives of the Board Audit Committee are, where possible, fully aligned and consistent with its Terms of Reference and that adequate and appropriate oversight and escalation mechanisms are implemented.

#### ***as for what concerns Internal Control, the Board Audit committee responsibilities are:***

- Evaluate the implementation of the Internal Control systems, AML and Terrorist Financing detection procedures, as well as the Risk Management Plan and implementation to ensure their effectiveness.
- Review and discuss the major financial and management reports issued by the Executive Management, Internal Audit Unit, External Auditors or the Regulatory Authorities in relation to the weaknesses in internal controls, policies and procedures.

- Ensure needed coordination between the Internal Audit Unit and External Auditors especially during the review of the policies and procedures by either one of them.
- Review the implementation of key accounting policies and financial reporting.
- Review the effectiveness of the Bank's system for monitoring compliance with relevant Laws and Regulations (including internal rules) and the measures taken by Management as a result of its investigation of material incidents of non-compliance.

***As for what concerns Internal Audit, the Board Audit Committee responsibilities are;***

- Review and ensure the independent audit process,
- Review and approve the Audit Scope and Frequency,
- Review and approve the annual internal audit unit budget,
- Recommend the appointment or dismissal of the Head of Internal Audit unit,
- Communicate and meet on regular basis and when need be independently with the Internal Audit unit Head to discuss the scope of his unit's work and performance,
- Discuss and approve the Internal Audit procedure manual, and recommend amendments where need be ensuring adequate staffing within the unit to perform its duties,
- Review the Internal Audit various reports and ensure that Senior Management takes necessary corrective actions in a timely manner to address Control Weaknesses, non compliance with Policies, laws and regulations and other problems identified by Auditors.
- Give its opinion on any Outsourcing for the internal audit function,
- Review and approve the annual audit report;

***As for what concerns External Auditors relation and responsibilities, The Board Audit Committee;***

- Review the performance of the external auditor and make recommendations to the Board of Directors for the appointment, reappointment or termination of appointment of the external auditor,
- Review the "Terms of Engagement" of the external auditor,
- Review the "scope of work" and audit plan,
- Consider the independence of the external auditor and any potential conflicts of interest,
- Discuss with the external auditor the appropriateness of the accounting policies applied in the Bank's financial reports,
- Discuss with the External Auditors any audit problems encountered in the course of audit work, including any restriction on audit scope or access to information,
- Ensure that significant findings and recommendations communicated by the external auditors and Management's proposed responses are received, discussed and appropriately acted on,
- Review the "Report on the Annual Audit of the Bank".

## **15.Board Risk Management Committee**

The Board Risk Management Committee of Lebanese Swiss Bank is a standing committee of the Board of Directors. The purpose of the Committee is to assist the Board in fulfilling its responsibility with respect to oversight of Bank's Risk Management framework, including the policies, procedures and practices used in managing credit, market, operational and other risks, and oversight of Bank's policies and practices relating to Treasury matters, including capital, liquidity and financing, as well as to merger & acquisition. The Committee reports to the Board of Directors regarding bank's risk profile, as well as its risk management framework, including the significant policies, procedures, and practices employed to manage risks in bank's businesses, in addition to the adequacy of the Risk Management function.

## **16. Composition of the Board Risk Management Committee**

The Board Risk Management Committee is appointed by the Board of Directors and composed of three members chosen among the members of the Board. The Head of the Board Risk Committee is an independent Board member of Lebanese Swiss Bank Board of Directors.

Appointments to the Board Risk Management Committee are made for a term of three year and may be renewed. The Board of Directors appoints the Chairman of the Committee.

As of December 31, 2014 the Risk Management Committee of the Board was chaired by Mr. Mounir Karam. Other members included Mr. Louis Abi Habib and Mr. Hadi Kabalan. The term of the Committee expires with the expiry of the existing term of the Board after the General Assembly reviewing 2015 financials and with the election and appointment of new Board Members.

## **17. Responsibilities of the Board Risk Management Committee**

As of December 31, 2011 the Board Risk Management Committee responsibilities were set out in its Charter - "Annex C", summary which includes the following:

- Review Bank's credit, market, liquidity and operational risk management framework, including policies, processes and systems that Management uses to manage risk exposures, as well as risk measurement methodologies and approaches to stress testing.
- Review Bank's risk tolerance / appetite and strategy overseeing Senior Management's implementation of that strategy.
- Review strategies of Capital and Liquidity Management, Credit market and Operational Risk and encompass Legal, Compliance, Reputational and other residual Risks.
- Review Bank's key risk policies and procedures on the establishment of risk limits and receive reports on Bank's adherence to such limits.
- Receive reports from, review with, and provide feedback to, Management on the categories of risk that the Bank faces, including credit, market, liquidity and operational risk, the exposures in each category, significant concentrations within those risk categories, and Management's views on the acceptable and appropriate levels of those risk exposures.
- Evaluate the adequacy of the Risk Management function and assure its appropriate independence and authority.
- Review Bank's Risk Capital Framework including significant inputs and assumptions.
- Review and approve Bank's Recovery Plan annually.
- Review the adequacy and frequency of risk reporting to the Board.
- Review Bank's balance sheet, capital, funding, interest rate and liquidity management framework, including policies, processes, and system that Management uses to manage exposures.
- Review reports from Management concerning Bank's balance sheet structure.
- Review reports from Management concerning Bank's liquidity, deposit raising, and funding activities.
- Review reports from Management concerning Bank's regulatory capital levels and capital structure.

In performing its duties, the Committee shall have direct access to, and receive regular reports from management, including the Head of Risk.

## 18. Risk Management Function

Lebanese Swiss Bank has an independent Risk Management function within its organizational structure including a Head of Risk with sufficient authority, stature, independence and resources and access to the Board through the Board Risk Management Committee. The function is at present adequate for the size and nature of the bank.

The Head of Risk is distinct from other executive functions and has sufficient stature, authority and seniority within the organization. He is involved with the Board and Senior Management in addressing strategic issues, including the determination of the risk appetite/tolerance, capital planning and product development, preparing detailed and comprehensive procedures for risk management, assessing the bank's capital adequacy in line with Basel requirements, assisting the Senior Management in identifying, measuring and analyzing risks, overseeing Bank's various activities on a regular basis to ensure that risk limits and margins set are being effectively respected and reporting weaknesses to the Board Risk Committee quarterly.

The Board is notified upon the hiring as well as the dismissal of the Head of Risk with adequate explanation of such dismissal once occurring.

The Banking Control Commission was informed of the appointment of the Head of Risk and will be informed of his dismissal as part of the Bank's policy with the reasons of such dismissal.

It is the policy of Lebanese Swiss Bank that the Risk Management function is sufficiently independent of the business units whose activities and exposures it reviews.

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

The Risk Management function is responsible for identifying, measuring, monitoring, controlling or mitigating, and reporting on risk exposures. This encompasses all risks to the bank; on and off balance sheet, as well as portfolio and business-line level.

The Board and Senior Management promote a culture of risk awareness and risk management within the bank. All management and staff are aware of, and held accountable for, their risk management responsibilities. Various risk training is held each year for all levels within the Bank to achieve that.

The bank should ensure through its planning and budgeting processes that the risk management function has adequate resources necessary to assess risk, including personnel, access to information technology systems and systems development resources, and support and access to internal information.

## 19. Risk Management Methodologies and Activities

Lebanese Swiss Bank should have in place comprehensive risk management policies and processes to identify, evaluate, monitor, control and mitigate risks. Risks should be identified and monitored on an ongoing bank-wide and individual departments and units basis.

Risk analysis includes both quantitative and qualitative elements. The risk management function ensure that the bank's internal risk measurements cover a range of scenarios, and include qualitative firm-wide views of risk relative to return and to the bank's external operating environment. Senior management and, as applicable, the Board should review and approve scenarios that are used in the bank's risk analysis and made aware of assumptions and potential shortcomings embedded in the bank's risk models.

The Board through its Risk Committee as well as through its regular meetings gives special attention to the quality, completeness and accuracy of the data it relies on to makes risk decisions.

As part of its quantitative and qualitative analysis, the bank also utilizes forward-looking stress tests and scenario analysis to better understand potential risk exposures under a variety of adverse circumstances.

In addition to identifying and measuring risk exposures, the risk management function should evaluate possible ways to manage these exposures. The risk management function should regularly report the risk positions, monitor these positions to ensure that they remain within the bank's limits and controls and guide the management on methods to reduce and hedge risks.

## **20. Risk Management Communication and Reporting**

Effective risk management requires robust internal communication within the bank about risk, both across the Bank and through reporting to the Board and Senior Management. For that, the bank's risk exposures and strategy are communicated throughout the bank on a regular and systemic basis.

Various Risk Management committees are created - distinct from the Board's Risk Committee - that draw members from across the bank to discuss issues related to bank's-wide risks, such as Operational Risk Committee, Corporate and Retail Credit Committee, Recovery Committee, Compliance Committee and ALCO Committee and. This is useful for promoting a culture of risk awareness and ensuring effective sharing of information across the bank.

Information should be communicated to the Board and Senior Management in a timely, complete, understandable and accurate manner so that they are equipped to make informed decisions. Regular Monthly reports are forwarded to ALCO and Board Risk Committee with global semiannual reports on global risk issues for both.

It is the intention of LSB to have dynamic reporting systems, comprehensive and accurate, and draw on a range of underlying assumptions. Risk monitoring and reporting will be aggregated to allow a bank-wide and consolidated picture of risk exposures, and also highlights emerging risks that have the potential to become significant and may merit further analysis and discussion.

Risk reporting should also include information about the external environment to identify market conditions and trends that may have a bearing on the Bank's current or future risk profile.

Reporting accurately communicate risk exposures against limits, discussion of the bank's current and prospective exposures, risk tolerance/appetite etc... are the main targets of the Board of Directors to be ensured continuously.

## **21. Senior Management**

Under the direction of the Board, Senior Management contributes substantially to the bank's sound Corporate Governance through personal conduct by ensuring that the Bank's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the Board each in his line of responsibility and through the various committees that they are part of.

They are responsible and held accountable for overseeing the day-to-day management of the bank. They have the necessary experience, competencies and integrity to manage the businesses under their supervision as well as have appropriate control over the key individuals in these areas.

Senior Management is responsible for delegating duties to the staff and has established a management structure that promotes accountability.

The Board and Senior Management ensures that it know and understand the bank's operational structure and the risks that it poses. It is the Bank's policy not to be exposed to risks that it does not understand, master or control, whether in new locations, structures, products or services and whether to its own or to its customers.

Therefore, consistent with guidance from the Board, Senior Management continuously ensures that the bank has appropriate policies and procedures to:

- Establish processes for the approval of such activities taking into account the implications for the resulting operational structure of the organization.
- Ensure that information regarding these activities and associated risks is readily available to the bank's Senior Management and is appropriately reported to the Board and supervisors (in line with applicable regulations); and
- Ensure that these activities are subject to regular internal and external audit reviews.

## **22. Internal / External Auditors and Internal Control Functions**

The Board recognizes and acknowledges that independent, competent and qualified internal and external auditors, as well as other internal control functions, are vital to the Corporate Governance process in meeting targeted objectives.

The bank maintains sound control functions, including an effective compliance function that, among other things, routinely monitor compliance with laws & regulations, rules of corporate governance and codes to which the bank is subject, and deviations are reported to Senior Management and, in case of material deviations, to the Board.

Senior Management promotes strong internal controls and avoids activities and practices that undermine their effectiveness. As such it is their duty to continuously ensure that there is effective segregation of duties where conflicts could arise. It also exercises effective control over employees in key business positions (including "star" employees).

It is the policy of the Board and Senior Management to enhance the ability of the internal audit function to identify problems with the bank's risk management and internal control systems by:

- encouraging internal auditors to adhere to local and international professional standards, such as those established by the Institute of Internal Auditors;
- promoting the independence of the internal auditor by ensuring that internal audit reports has direct access to the Board's Audit Committee;
- recognizing the importance of the audit and internal control processes and communicating their importance throughout the bank;
- utilizing, in a timely and effective manner, the findings of internal audits and requiring timely correction of identified problems / weaknesses by Senior Management; and

- Engaging internal auditors to evaluate the effectiveness of the risk management and compliance function, including the quality of risk reporting to the Board and Senior Management, as well as the effectiveness of other key control functions.
- Encouraging professional and customized training of Internal Audit team.

The Board and Senior Management effectively utilize the work conducted by internal audit functions, external auditors and internal control functions to perform corrective measures where needed.

Senior Management recognizes the importance of the effectiveness of these functions to the long-term soundness of the bank.

The Board and Senior Management are responsible for the preparation and fair presentation of financial statements in accordance with applicable local and international accounting standards, as well as the establishment of effective internal controls related to financial reporting.

The Board and Senior Management also contribute to the effectiveness of external auditors ensuring that the bank's financial statements fairly represent the financial position and performance of the bank in all material respects.

### **23.Senior Management Committees Tasks and Responsibilities:**

The managing Board has delegated certain tasks to various Management Committees to increase efficiency and allow deeper focus in specific areas. The charters of the Management Committees are reviewed and approved by the Board of Directors regularly.

The appointed members to the specialized committees aim at achieving an optimal mix of skills and experience that in combination allow the committees to fully understand, objectively evaluate and bring fresh thinking to various relevant issues, in addition to decentralization of decision taking. It is the Board policy that Chairmanship of the management committees are not all centralized with the Chairman of the Board, but rather distributed among specialized Senior Managers too.

#### ***ALCO:***

Assets and Liabilities Management Committee aims to improve the ALM process across the Bank. It manages the various financial risks of the Bank such as market, investment portfolio including loans, interest rate, liquidity and foreign exchange. ALCO reviews market and credit portfolio risks as well as interest rate risk inherent in the Bank's Balance Sheet and Trading Book. It meets regularly to insure that the level of interest rate and foreign exchange exposures are within the regulatory and internal limits, to maximize the net interest income, to ensure adequate liquidity and to maximize the return on the Bank's Capital, net of fixed assets.

#### ***Corporate Credit Committee:***

The Corporate Credit Committee manages the Credit approval process through approving new facilities and renews existing facilities, review and take action on Non Performing Loans and deal with all excess approvals ensuring adequate function of the whole credit process.

#### ***Investments and Participations Committee:***

In order to comply with International Banking Standards and in compliance with BDL circular 81 dated 21/2/2001 and its amendments Lebanese Swiss Bank established the "Investments and Participations Committee" with the main responsibility to take decisions on all equity participations in other local banks in lines with the existing regulations, to take decision on any real estate investment for the Bank's account whether for a new Branch, new Head Office or other Bank's needs and to assess the suitability, price estimation and location in relation to future needs.

**IT Committee:**

The IT Committee follow-up on the adequate implementation of the Bank's information technology strategic plan and ensures that all technology related initiatives are in support of the business strategy. In addition, this committee will ensure that all related policies and procedures are well implemented.

**Information Security Risk Management Committee:**

The Information Security Risk Management Committee reviews, discusses and coordinates the various issues and initiatives relating to Information Security that need to be taken by the Bank. It also ensures that Information Security strategy is continuously aligned with the overall Bank's Business Strategy

**Marketing Committee:**

The Marketing Committee is a space of "Brain Storming" where projects and topics are discussed before their execution with the main responsibilities to; Discuss Market Segmentation and targeting, Define the Marketing Strategy, Setting the Marketing Budget, Spotting opportunities and overcoming threats, Preparing advertising campaigns/plans, evaluating the Products and Services performance, planning and Launching new Products and Services, Forecasting sales and following up on achievements and assessing market expansion opportunities/possibilities

**Operational Risk Committee:**

The Operational Risk Management Committee review, discuss, and coordinate various issues related to Operational Risk Management Process for the purpose of ensuring better management and measurement of the various related Operational Risks.

**Recovery Committee:**

The Doubtful and Recovery Committee main objective is deciding on downgrading non-performing loans to Doubtful or Bad, and to ensure a work out plan is put in place, resolve overdue and problematic accounts, to reduce risk exposure enhance overall Bank Position and reduce/eliminate provisions.

**Retail Committee:**

The Retail Committee manages the Retail Approval Process through approving new loans, review and renews existing loans, review and take actions on Non Performing Loans ensuring adequate functioning of the whole retail credit process.

**Treasury Committee:**

The Bank's Treasury Committee is responsible to take decisions on urgent matters relating to placements or other Portfolio Investments as need be from time to time and that within the overall strategy of the ALM and Investment policies. More specifically, the Treasury Committee will meet to review the Liquidity Position of the Bank and take needed decisions for Investments to ensure a better allocation of the Bank's resources with the purpose of maximizing Bank's returns and ensuring adequate needed liquidity management at all times.

**Compliance Committee:**

The Compliance Committee is formed at Lebanese Swiss Bank to ensure that the Bank is complying with relevant Laws and Regulations relating to Anti Money Laundering & CFT Policies and Procedures and their implementation specifically related to Law No 318 relating to Fighting Money Laundering & CFT and BDL circular 83 regarding Regulations on the Control of Financial and Banking Operations for Fighting Money

Laundering & CFT. Its role extends also to ensure the compliance of Lebanese Swiss Bank with various regulatory and legal requirements.

## **24. Code of Conduct**

All individuals working in the Banking industry are required to act in a fair and honest manner. This is to protect the interests of customers, colleagues and counterparties, and the wider interests of society as a whole. As a minimum, compliance with legislation, regulation and Bank's codes and standards is expected.

In an environment where the ethics of Banking are under increasing scrutiny, this has never been more important. With this in mind, we have put in place our Code of Conduct. The Code builds on our values.

LSB Code of Conduct sets out the standards of behavior expected from all members of the LSB family. All members of staff, temporary staff and voluntary workers if any are bound by the Code. The Code provides a quick reference guide. However, it does not replace the relevant policies and procedures. It is important that each staff will be familiarized with all policies and procedures applicable to his role.

LSB Code of Conduct needs to be embedded in how we operate everyday and everyone in the Bank is expected to commit to and follow it. Concluding our business with the highest standards of ethics and integrity is essential for the survival and growth of the Bank. By doing things the right way, we can support our customers and clients while holding true to the values we believe in.

## **25. Disclosure and Transparency**

In order for shareholders, depositors, other relevant stakeholders and market participants to effectively monitor and properly hold accountable the Board and Senior Management, these parties are provided with key information necessary to enable them to judge the effectiveness of the Board and Senior Management in governing the bank.

It is the bank's policy to disclose relevant and useful information that supports the key areas of Corporate Governance. Such disclosure include governance, structures and policies, major share ownership and voting rights, related parties transactions and annual audited Financial figures.

The Bank decided to adopt IFRS standards in its financial reporting. That was reflected in its annual reporting for 2013.

Audited financials are placed on the Bank's website along with the bank's Compliance policy, its list of correspondents, Management team and shareholders. While all its internal policies and procedures are placed on its internal Public Folder and made available to all its staff, regulators and Auditors.

## **26. Approval of the Corporate Governance Code**

This document has been reviewed and approved by the Risk Management Board Committee as well as the Audit Board Committee.

It will be submitted to the Board of Directors in its first meeting following the issuance of this document for discussion and approval.

It is the intention of the Board to review its Corporate Governance Code regularly and update it in relation to any changes in circumstances, structure, expansion or other environment which necessitates such update.