

BANQUE DU LIBAN

Basic Circular No 106 to Banks

Attached is a copy of Basic Decision No. 9382 of July 26, 2006, relating to Corporate Governance.

Beirut, July 26, 2006

The Governor of Banque du Liban

Riad Toufic Salamé

Basic Decision No 9382

Corporate Governance

The Governor of Banque du Liban,

Pursuant to the Code of Money and Credit, particularly Articles 70 and 174 thereof, and

Pursuant to the Decision of the Central Council of Banque du Liban (BDL), taken in its meeting of July 12, 2006,

Decides the following:

Article 1¹:

The expression “Senior Management” shall mean the persons responsible for supervising the daily business management, such as the Chairman of the Board/General Manager, the assistant general managers, the heads of the main divisions, and the officers in charge of the specialized committees.

Article 2²:

All banks operating in Lebanon must:

- 1- Spare no effort to comply with the principles issued and to be issued by the International Basel Committee for Enhancing Corporate Governance in Banking Institutions.
- 2- Prepare their own “Corporate Governance Guide” that includes the following information at least:
 - an administrative organizational chart
 - an organizational chart showing the relation between the parent bank and its subsidiaries or sister companies
 - the approach adopted by the bank to implement Corporate Governance principles
 - the Board of Directors’ size, role, responsibility and composition (number of independent, executive and non-executive members)
 - the criteria adopted to compute the compensation of the Board of Directors and Senior Management’s members

¹- This Article was amended pursuant to Article 1 of Intermediate Decision No 10708 of April 21, 2011 (Intermediate Circular No 255).

²- This Article was amended pursuant to Article 2 of Intermediate Decision No 10708 of April 21, 2011 (Intermediate Circular No 255) and banks were granted a time limit ending on December 31, 2011 to comply with paragraphs 2, 3 and 4 of the said Article.

- the nature and work charter of each of the Board committees
- the communication mechanism between the Board of Directors and the Senior Management
- the rules adopted to assess the performance of both the Senior Management and the Board of Directors regarding their compliance with Good Governance procedures
- the Succession Plan to be adopted for selecting the Board of Directors and Senior Management's members
- a summary of the Code of Conduct
- the Disclosure policy adopted, notably for preparing financial statements and addressing any conflict of interest
- the possibility of granting the employee stock options for free, if any, in order to purchase stocks in the bank
- the method followed by the parent bank when dealing with affiliated banks and institutions.

Foreign banks' branches operating in Lebanon and Lebanese banks affiliated to other Lebanese banks may be exempted from the obligation to prepare their own "Corporate Governance Guide". This exemption is granted at BDL Central Council's discretion and based on the opinion of the Banking Control Commission, in case the parent bank has already prepared a specific guide for the branch or the affiliated bank or if the foreign bank has included in its guide the above-mentioned information.

- 3- Publish through their website and in their annual report a summary of the "Corporate Governance Guide".
- 4- Provide the Banking Control Commission with a hard copy and a CD copy of the "Corporate Governance Guide" and of any modification therein.

Article 3:

The banks' internal audit units must take the following actions:

- 1- Verify at all the bank's levels, that all divisions are complying with the policies and procedures that complement the corporate governance regulations adopted by the Management, including the above-mentioned principles.
- 2- Assess properly the corporate governance regulations, with their complementary policies and procedures, and formulate opinions about their adequacy, efficiency and effectiveness.
- 3- Give the required priority to the implementation of corporate governance regulations, especially when the bank expands abroad and when it undertakes acquisition or merger operations, so as to avoid divergence in organizational structure within the group.

Article 4:

This Decision shall enter into force upon its issuance.

Article 5:

This Decision shall be published in the Official Gazette

Beirut, July 26, 2006

The Governor of Banque du Liban

Riad Toufic Salamé