



## Summary Corporate Governance Manual

## **Bank Overview**

AM Bank was established in 1980 and registered in the Bank's list BDL # 101. AM Bank managed to achieve consistent higher than industry growth driven by strong corporate governance, sound management structure and a customer oriented philosophy while maintaining healthy internal controls and solid compliance, risk and internal audit functions.

## **Principles of Corporate Governance**

AM Bank recognizes the importance of the effective implementation of Corporate Governance principles; it is the Bank's mandate to devise, implement and progress principles of sound corporate governance covering a wide array of topics including but not limited to strategy, risk, compliance, remuneration, succession, corporate values and audit.

The Bank's Board of Directors and Management are keen on promoting high standards in corporate governance and preserving the interests of the Bank's stakeholders. AM Bank's corporate governance framework ensures the following:

- Fairness towards internal and external stakeholders;
- Proper organization structure and solid foundations for management and oversight with adequate responsibilities and accountability;
- Transparency and integrity in strategic decision making and reporting;
- Sound board structure, qualifications and processes;
- Proper controls to identify and mitigate risks;
- Adequate remuneration structure that promotes fairness and enhances retention; and
- Compliance with laws and regulations.

The following corporate governance principles, applied by AM Bank, ensure a proper assignment of authority and responsibilities in the management of the Bank's affairs as well as the abidance by the objectives outlined above:

The Board of Directors is in charge of approving and overseeing the bank's strategic objectives, its risk appetite and risk framework as well as the Bank's corporate values and culture.

The Board of Directors is composed of professionals, who individually and collectively, are endowed with the knowledge; expertise and understanding of relevant market forces and corporate governance needed to exercise proper judgment over the bank's affairs.

The Board of Directors organizes its internal work on the basis of corporate governance best practices through the use of specialized committees with clear mandates, scope and procedures while managing any potentials for conflict of interest.

The Board of Director is in charge of overseeing senior management and ensuring the strategic objectives, risk appetite and compliance frameworks are properly implemented as well as setting and enforcing clear lines of responsibility and accountability throughout the organization.

The Board of Directors ensures the Bank has an independent risk function; with an effective framework, proper communication and adequate internal controls. The Board of Directors approves and oversees the Bank's risk governance appetite and framework.

The internal audit function directly reports and is accountable to the Board of Directors, is independent of the bank's activities, and has the necessary resources and skills, and authority to undertake its assignments aimed at assessing internal controls, risk management and governance systems and processes.

The Board of Directors ensures that compensation policies and practices are aligned with the Bank's corporate culture, long-term objectives and strategy, and control environment.

Transparency is essential to promote corporate governance and disclosure of information to all stakeholders (including shareholders, depositors and others) is clear and accurate without breaching any confidentiality and secrecy.

AM Bank abides by Lebanese laws and regulations as a reference for all governance matters that may not be explicitly listed in this document.

## **Board of Directors**

AM Bank's Board of Directors is composed of a minimum of three members and a maximum of twelve; the majority of which shall be of Lebanese nationality, elected by the ordinary general assembly of the shareholders who meet the provisions stipulated by law, in particular Article 148 of the Code of Commerce and article 127 of the Currency and Credit Code.

The Board of Directors' primary objective is to ensure that proper governance is in place, strategic objective, risk appetite and framework are properly implemented and the Bank's management is properly aligned to the stakeholders' interests.

The Board of Directors owes the bank and its shareholders the fiduciary duties of loyalty, care, disclosure and compliance to authorities.

### **Mandate and Warrants**

- The mandate of the Board of Directors is three years with the year defined as the period between the dates of two ordinary general meetings in two consecutive years.
- Every shareholder whose mandate has expired may be reelected several times at the general assembly.
- If the number of the members of the Board of Directors decreases to less than three, other shareholders shall convene the general assembly within two months to fill the vacant office. The mandate of the new shareholder shall be the remaining period of the Board.
- Every member of the Board of Directors shall be a holder of at least 2,000 shares during his/her mandate.
- A Board member can resign from his position at any time during his/her mandate. Executive board members must maintain their role in the Board of Directors throughout their legal notice period unless they are released from this duty by the Board.

- Through the general assembly, shareholders can dismiss a Board member during his/her mandate.

### **Chairman of the Board**

- The Chairman of the Board is elected from the Lebanese members of the Board in the first session.
- The Chairman presides the sessions and can delegate an acting member to act on his behalf.
- The Chairman acts as the General Manager and he/she may propose to assign a general manager or managers whether they perform their duties for the account of the chairman and on his/her own responsibility; and he/she may designate a consultation committee made up of the members of the board or designated managers from outside the board or from both categories; as well as to assign same to study the affairs without being obliged to abide by the committee's opinion.
- The chairman represents the company before third parties and executes the decisions of the board based on the said decisions.
- The chairman's powers are stipulated in the bank's articles of association.

### **Meetings and Decisions**

- The Board of Directors' meetings take place upon convocation of the Chairman or upon the request of half the board members if the chairman was absent. In line with BDL requirements, the Board of Director meets on a quarterly basis with the agenda being communicated in the convocation notice.
- Half of the Board members should be present or represented at each meeting in order for the decisions adopted to be legal.
- The absent member may be represented by another member in his/her turn shall not represent more than one absentee (proxies to be in the form of a signed deed directed from the absent member to the bank).
- Decisions are adopted by the majority of the votes of the present or represented members; in case of equal votes, the Chairman vote shall be decisive.
- The name of the attendees and the meetings' facts shall be written in minutes signed by the attending members and the secretary. The names of the objecting members in the adoption of any decision may be registered too and this action becomes mandatory when one of the opposing members requests so.

### **Authorities**

The Board of Directors' authorities include but are not limited to the following:

- Opening branches whenever deemed appropriate in Lebanon or abroad.
- Determining the Bank's policy in all credit and investment domains, as well as supervising the execution of same based on the fundamentals determined by it.
- Allowing the ownership or exchange of funds or immovable right as well as the same what results there from; knowing that the purchase and sale of such funds or rights as a recovery of suspended debts or doubtful debts are considered part of the daily activities.
- Establishing Lebanese or foreign companies or contributing in the same or in existing companies.

- Preparing balance sheets, inventories and the accounts to be presented before the general assemblies and adopting all decisions therein.
- Determining the allowances of the Chairman-General Manager as well as the wage of the members thereof upon occupying some administrative offices in the Bank in accordance with the provisions of the last paragraph of Article 153 of the Code of Commerce (the Board can delegate some of its powers to the Chairman as stipulated in article 157 of the Code of Commerce).

### **Independence and Conflicts of Interest**

As per BDL Basic Circular 118, a Board of Directors' non-executive member is defined as a member with no administrative function in the Bank and is entrusted with no executive duties at the 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.

Also, a Board of Directors' independent member is one who meets the following conditions:

- Is a non-executive Board member.
- Is not one of the major shareholders who own, directly or indirectly, more than 5% of the bank's total shares or voting rights pertaining to these shares, whichever is bigger.
- Is independent from any person in the senior management of the bank or from its major shareholders, so that no business relationship binds him/her to any of them, whether presently or during the two years preceding his/her appointment as a Board member.
- Is not related by kinship, up to the fourth degree, to any of the major shareholders.
- Is not one of the bank's debtors.

To ensure that Board of Directors' independent members satisfy the abovementioned conditions, an internal confirmation process is performed coinciding with every Board of Directors' election or the introduction of a new Board of Directors' member whereby kinship, business relationships and other relevant matters are reviewed.

In order to manage conflicts of interests or the appearance of such conflicts, all Board of Directors' members should not have interests or hold positions in any organization which might be considered to benefit from changes in the performance and prices of the bank.

- It is a member's duty to disclose any potential situations that might result in conflict of interest with such situations including but not limited to those where material financial interest, personal interest (e.g. kinship) or business interest can be identified.
- It is the remaining Board of Directors members' duty to assess the impact of such disclosed conflict on the discussion item and whether it requires recusal of the interested director from the vote.
- If a material conflict of interest is determined, the interested director should refrain from voting on the said matter. The Board of Directors may still approve the decision if it is believed to be in the best interest of the organization.
- It is the Board of Directors' responsibility to ensure proper action is taken against any member who omits to disclose conflicts of interest with such actions ranging from cancellation of impacted decisions to suspension of the membership.

## Board of Directors' Committees

AM Bank's Board of Directors' Committees have documented charters that specify members, functions, responsibilities and meeting frequency. Such committees maintain records of their meetings and decisions and report their findings to the Board.

- **Risk Committee:** ensures proper implementation of the risk management policies and procedures, advises the Board of Directors on the banks' tolerance, appetite and strategy, evaluates the performance of the risk management functions and ensures that senior management taking necessary corrective actions in a timely manner to mitigate risks identified. Ensures the availability and effectiveness of the BCP plan.
- **Audit Committee:** provides oversight on the bank's internal and external auditors, monitors the effectiveness of the bank's control structure, provides oversight on the accuracy and integrity of the bank's financial information, recommends the appointment and remuneration of the auditors', monitors corrective actions taken as a response to internal and external auditors' high risk issues.
- **Remuneration Committee:** ensures a fair and consistent framework for the management of all aspects of remuneration in order to provide the bank's employees with pay that is both internally and externally equitable.
- **AML-CFT Committee:** supports the Board in its functions and supervisory role with respect to fighting money laundering and terrorist financing and understanding the related risks, and to assist it with making the appropriate decisions in this regard.

## Bank Strategic Plan

Building on historical performance and factoring in an understanding of market trends and consumer needs, AM Bank's strategic objectives are derived from the following:

- **The market's short to medium term dynamics and trends:** AM Bank's management and team is constantly educating itself on new trends in the local and international banking sectors at the level of products, services and processes. Additionally, sector and peer KPI analysis is performed on a regular basis with the objective of identifying potential areas of operational and competitive improvements as well remaining up to date on all relevant developments.
- **Our customers' changing preferences and needs:** AM Bank is keen on collecting and analyzing customer feedback with the objective of anticipating future needs and further enhancing its operations to better serve its clients. To that end, several tools are currently used such as surveys conducted by external parties, analysis of mystery shopping results, analysis of clients' most frequent requests, etc...
- **The regulatory requirements and trends:** AM Bank's management and team is constantly on the lookout for changes in regulatory requirements (both local and international) with the objective of understanding concerns, risks and future trends and swiftly and efficiently incorporating them into its policies and processes.
- **Our people's competencies and skills:** AM Bank is constantly striving to enhance the skills and competencies of its people and ensures that strategic objectives are aligned with the staff's strengths. Additionally, listening to our people and factoring their proposals and suggestions into our strategic

objectives is a standard process, formalized through a special template as well as a guaranteed accessibility to middle and top management for all employees.

The Bank's strategic plan is revised and updated on an annual basis to include the specific planned actions that are expected to be implemented in order to achieve the stated objectives. Such actions are in turn translated at the level of the different departments/units/branches in the form of clearly defined targets documented and evaluated through a scientific and objective scorecard system.

The Board of Directors approves the annual strategic plan of the Bank and oversees its implementation throughout the year. Its growth and expansion strategy, its retail strategy and its financial plans are approved by the Board, communicated to the organization and implemented accordingly.

## **Code of Conduct and Corporate Values**

AM Bank's standards of conduct cover professionalism, responsibilities to our clients, duties to the employer and duties to fellow employees, with focus on several aspects including but not limited to:

- Act with honesty and integrity and avoid any conflict between their private interests and the public interest of the Bank.
- Comply with both internal and external laws governing the activities of the Bank.
- Act in good faith, responsibly, with due care and diligence.
- Respect the confidentiality of information acquired in the course of performance of their responsibilities.
- Avoid other potential sources of conflict of interest including but not limited to holding any outside employment position or conducting personal business which may interfere with the employee devoting full attention and loyalty to the Bank during working hours.
- Use corporate assets and resources employed in a responsible manner.
- Avoid holding a direct or indirect financial interest in a competitor company or in any firm or entity with which the Bank does business.
- Treat information entrusted by customers as performing duties for the Bank as confidential and privileged. This includes information relating to deposit and loan balances, information concerning the management, financial condition and future plans of the customers' businesses, employee/salary information and information obtained in the course of fiduciary relationships.
- Abide by banking secrecy laws at all times.
- Refrain from disclosing confidential information to anyone either inside or outside the Bank except in compliance with the Bank's policies. This obligation to maintain the confidentiality of the information continues even after leaving the Bank.
- Refrain from providing a client or a supplier an advice either financial or economical if it doesn't comply with the Bank's rules and regulation circulated via memos and circulars.
- Abide by IT security policy, protect the access granted and keep any associated passwords confidential at all times.
- Maintain the Bank's files and records and other essential data with accuracy and honesty in strict compliance with applicable laws, accounting principles and management's general authorization.

The standards of conduct specifically disallow certain behaviors that could result in conflict of interest, reputation and legal risks and support the overall compliance framework of the Bank. Communication is facilitated to employees through ensuring and maintaining confidentiality of the information received.

# Bank Management

## Organization Structure:

AM Bank has a clear organization structure, approved by the Board, which enforces clear lines of responsibility and accountability throughout the organization. The structure ensures respect for the following principles:

- Flat structure with a high level of controls throughout the functions.
- Multiple control layer levels.
- Process linkage whereby the output of one function is the input of another.
- Strong talent management systems to ensure skills are aligned with the individuals managing the functions.

## Senior Management and Management:

AM Bank's senior management ensures that AM Bank's strategy, risk appetite, risk framework and corporate values are properly implemented within the organization. The senior management team keeps the Board of Directors updated on the bank's performance, cases that pose risks and compliance concerns, assessments of internal controls, etc...

Transparent and frequent communication between the Board of Directors and senior management is insured through the participation of the latter in Board of Directors and Board Committee meetings on a regular basis where key strategic directions, appetites and frameworks are discussed.

AM Bank's management team is a group of qualified professionals overseeing the day to day operations of the Bank as well as ensuring the Code of Ethics and Standards of Professional Conduct and all policies and procedures are properly implemented.

AM Bank has established a set of management committees, each of which with a specified list of members, defined and documented responsibilities, authorities and meeting frequency.

Below is a list of AM Bank's committees:

- ALCO Committee
- MIS Committee
- IT Security Committee
- Loan Grading System Committee
- Legal Committee
- Compliance Committee
- Corporate Credit Committee
- SME Credit Committee
- Remedial Accounts Committee



## **Succession Planning:**

AM Bank recognizes the need to institutionalize its core so that it ensures sustainability. As such, the bank's resources are continuously developed to meet several objectives:

- Ensure availability of developed and updated resources to enable the Bank to continuously compete and achieve its objectives.
- Eliminate the concept of "indispensability" and ensure that resources are always available to take over positions that may arise suddenly due to uncontrolled factors.
- Ensure the organization is not reliant on one individual but it relies on a set of skills that are constantly available.
- Ensure there are individuals constantly ready to take charge of key positions.

## **Internal Controls**

AM Bank has established several layers of internal controls within its functions to ensure proper oversight over operations and activities.

AM Bank has clear and detailed policies and procedures to regulate its internal controls. Such policies and procedures cover the Bank's key operations and are published on the Bank's intranet to ensure accessibility to the bank's employees.

Department and branches within AM Bank have a set of established internal controls that ensure all transactions and activities are verified and authorized by separate individuals.

AM Bank has established a strong and qualified compliance function in turn composed of several units being AML-CFT, Legal and Regulatory and KYC.

The Board of Directors approves all major compliance policies that are communicated to the Bank's employees. Additionally, the Board of Directors or the assigned Board Committee meet with the compliance manager on an as needed basis to discuss the reports raised by the Compliance Department to the Board of Directors and monitor and assess the performance of the Compliance Department against defined responsibilities.

The Compliance Department ensures among others that all AML-CFT requirements, internal policies and regulatory requirements are properly implemented and transfers are properly controlled, ensures compliance of the bank's procedures, products and services with laws and regulations in force, ensures new customers' compliance with requirements, and complies with FATCA requirements.

The Compliance Department actively contributes to educating the Bank's employees on all AML-CFT, legal and regulatory aspects and its team is readily available to answer all compliance related queries.

AM Bank has an independent risk management function composed of qualified resources with vast experience in credit risk and operations risk. The function is in charge of overseeing all risk taking activities within the Bank.

The Risk Management Department's span reaches the entire organization and its methodology relies on both quantitative and qualitative assessments.

The Risk Management Department's team is independent from all business generating units and its evaluation is not affected by any revenue generating parameter.

AM Bank's internal audit function reports and is accountable to the Board of Directors on all matters related to its mandates, audit frequency and internal audit results. As such, the internal audit function acts as an assurance to the Board on the activities and operations of the Bank and is endowed with a team of independent qualified personnel with a vast experience in the banking sector.

AM Bank's external auditors are appointed by the general assembly for a period of three years, ending on the date of convocation of the assembly discussing the accounts of the third years. Auditors prepare reports for the general assembly and are entitled to convene a general assembly if members abstained there from and in any time they deem appropriate. AM Bank's external auditors include one of the Big Four International Audit Firms.

## **Transparency and Disclosure**

Transparency and disclosure are key to strong corporate governance. AM Bank ensures that all information necessary to assess the effectiveness of the Board and senior management are properly disclosed.

AM Bank manages its finances in a transparent manner; all required financial reports are sent to BDL and the BCC regularly and timely. Such reports are audited by one of the Big Four International Audit Firms. All required financial information is communicated to the bank's stakeholders.

AM Bank's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS").



April 25<sup>th</sup>, 2017

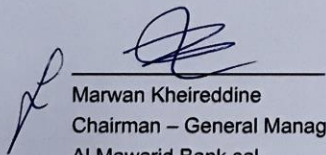
## INVESTORS FOR GOVERNANCE & INTEGRITY Signatory Declaration

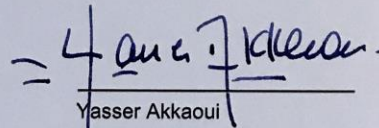
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As a financial institution, we have a duty to act in the best long-term interests of our beneficiaries. Poor corporate governance practices are detrimental to the long-term sustainability of organizations affecting the risk exposure of investment portfolios, an issue that has been brought to the forefront during the financial crises. To mitigate financial risks and protect our shareholders' rights, we will strive to maintain and continually improve our corporate governance practices to be at the level of worldwide progressive corporate governance programs. Therefore, where consistent with our fiduciary responsibilities, Al Mawarid Bank sal commits to the following:

- To be an active owner and to incorporate Governance & Integrity Assessment (GIA) guidelines and recommendations into our ownership policies and practices
- To work to further the advancement of good corporate governance practices and promote a safer financial environment
- To report on our activities and progress towards implementing good corporate governance

By signing this letter Al Mawarid Bank, classified as a Financial Institution, becomes a recognized signatory of the IGI declaration, and agrees to pay the annual fee of \$5,000.

  
Marwan Kheireddine  
Chairman – General Manager  
Al Mawarid Bank sal

  
Yasser Akkaoui  
Chairman  
Capital Concept sal