

BANQUE DU LIBAN

Basic Circular No 133

Addressed to Banks

Attached is a copy of Basic Decision No 11821 of August 6, 2014, relating to Remunerations and Bonuses granted to Bank Employees.

Beirut, August 6, 2014

The Governor of Banque du Liban

Riad Toufic Salamé

BANQUE DU LIBAN**Basic Decision No 11821****Remunerations and Bonuses granted to Bank Employees**

**The Governor of Banque du Liban,
Pursuant to the Code of Money and Credit, notably Articles 70 and 174 thereof,
Pursuant to the Decision of BDL Central Council, taken in its meeting of July 23, 2014,**

Decides the following:

I- Definitions

Article 1: The following expressions shall mean:

Remunerations: Any form of cash and non-cash benefits, bonuses and allowances, including salaries, compensations, and end-of-service indemnities.

Bank employee: Any person performing a service in a Lebanese bank, whether on a continuous part-time or full-time basis, regardless of the nature of his/her relation with the bank (wage-earner, employee, contractual, daily worker...) and his/her position.

Deferrals: Bonuses to be granted to any bank employee at a pre-determined future date, simultaneously with the results realization period.

Clawback: The retroactive reduction or recovery of bonuses in cash or in kind or of prepaid bonuses, as applicable, in case the employee's performance regresses or if the financial or non-financial results upon which bonuses were granted are not realized.

Effective performance: The bank's performance in terms of realizing long-term optimal financial and non-financial results, in accordance with the rules and regulations in place, including risk appetite.

II-The Remuneration Policy

Article 2:

Lebanese banks shall set a written remuneration policy that is approved by the Board of Directors, and meets the following conditions:

- 1- To comprise all levels and categories of employees working in the bank and its branches abroad.
- 2- To ensure proportionality among the remunerations granted to different levels of employees and to schedule their payment according to the bank's strategy.
- 3- To cover all categories of remunerations, the conditions of granting such remunerations, in order to enhance effective performance and to achieve the purpose for which remunerations were granted.
- 4- To make sure that total remunerations granted by the bank do not affect its current or future capacities (in the medium and long-terms), nor its financial position and interests.
- 5- To take into account the various work specificities of the bank and its scope of work, along with employees' type, level, and responsibilities, when determining the fixed or variable remunerations items (cash revenues, shares and other non-cash incentives).
- 6- To determine the remunerations of each employee according to the bank overall performance and to grant these remunerations in the light of the performance of both the concerned employee and its work unit.
- 7- To prohibit the setting of a minimum limit for any variable remuneration, particularly financial bonuses, regardless of the circumstances or achieved results.
This paragraph shall not apply to the fixed remunerations added to the salary.
- 8- To be a key factor in attracting employees with required qualifications, knowledge, skills, and expertise, and in guaranteeing their permanent stay in the bank.
- 9- To set the remunerations of employees entrusted with control functions (risk management, compliance, internal audit, financial control, and auditing ...) in a way that does not hinder the objective and independent discharge of their duties. To this end, no person working in an area controlled by these employees may take part in the evaluation of their performance or the setting of their remunerations.
- 10- To describe in detail the extra benefits which form a part of the remunerations (health insurance, life insurance, free or quasi free housing, car, driver, trips, phone expenses ...).
- 11- To stipulate the possibility of resorting to clawbacks and deferrals, in cases where this possibility can be applied, and to specify the conditions and circumstances of such cases.
- 12- To specify the cases and conditions for merging cash remunerations with other benefits, such as granting stock options, especially in order to clarify the criteria adopted to determine the value of this stock when it is not listed on the financial markets.
- 13- To facilitate the setting of a detailed remuneration system that complies with all the principles and criteria specified in this policy.

Article 3:

The Board of Directors shall review this policy periodically, in order to ensure its conformity with the strategy of the bank and the development of its operations.

III- The Remuneration Committee

Article 4:

The Board of Directors of each Lebanese bank shall:

- 1- Establish a Remuneration Committee chosen among the Board non- executive members and formed of three members at least.
- 2- Appoint a Chairman to this Committee, provided he/she is an independent Board member who has the practical experience to evaluate performance and remunerations, as well as the required knowledge to assess associated risks, particularly in the banking or financial sector.
- 3- Determine the remunerations of the Chairman and members of this Committee.

Article 5:

The BDL Central Council may, at its own discretion, and after consulting with the Banking Control Commission, exempt any Lebanese bank from the establishment of a Remuneration Committee, based on the size of the bank and the nature of its work. In this case, the Board of Directors shall discharge the duties entrusted to the Remuneration Committee as stipulated in this Decision.

Article 6:

One or several members of the Remuneration Committee may be simultaneously member of the Audit Committee or the Risk Committee (cross membership).

The Chairman of the Remuneration Committee cannot delegate his/her powers to another person.

Article 7:

The Remuneration Committee members shall have a sufficient knowledge and a deep understanding of their role and responsibilities, as well as the required skills, expertise and qualifications to take independent and objective decisions concerning the Remuneration Policy, the incentives adopted and the associated risks.

Article 8:

The Remuneration Committee shall meet on the following basis:

1. On a semi-annual basis at least.
2. In the presence of three members at least.
3. No meeting can be held in the absence of the Chairman, unless in exceptional cases where the meeting shall be chaired by another independent Board member.

4. Upon the call of its Chairman. The notice of the meeting shall include a detailed written agenda, along with all the reports concerning the questions to be raised, and it shall be sent at least two weeks before the meeting date. However, the agenda and the said information may be exceptionally notified to the Committee members before 48 hours.
5. The Committee's discussions, recommendations and decisions shall be recorded in detailed minutes to be submitted directly to the Board of Directors. The Banking Control Commission is entitled to access these minutes.

Article 9:

The Remuneration Committee shall perform the following tasks:

- 1- Prepare the Remuneration Policy and the Remuneration System and submit them both to the Board of Directors for approval.
- 2- To supervise the proper implementation of both the Remuneration Policy and Remuneration System.
- 3- To review periodically, at least annually, the rules/principles on the basis of which the Remuneration Policy is implemented and to submit to the Board of Directors any related recommendations concerning the Policy modification and update.
- 4- To assess periodically the "Remuneration Policy" efficiency and effectiveness in order to ensure that its objectives are reached, and to request from the Senior Executive Management the information needed for the assessment.
- 5- To evaluate accurately the total granted remunerations, and compare them against the future expected revenues in order to avoid any likely negative results.
- 6- To submit to the Board of Directors specific proposals about the Senior Executive Management remunerations.
- 7- To make sure that BDL circulars on Remunerations have been forwarded to all the employees of the bank and that the Remuneration Policy complies with BDL regulations.
- 8- To verify that the disclosure principles adopted by the bank are consistent with the provisions of Articles 13 and 14 of this Decision.

Article 10:

The Remuneration Committee shall coordinate closely with the Risk Management Committee, upon assessing the remunerations and their related risks and upon reviewing the Remuneration Policy, in order to ensure its efficiency and adequacy to "effective performance".

IV-Employees Performance Evaluation System

Article 11:

In order to evaluate the performance of all-level employees in an objective and transparent manner, the Board of Directors of each Lebanese bank shall set a written system that includes, at least, the following elements:

- 1- Employee's commitment to the Risk Management policy and procedures.
- 2- Total revenues or profits generated by the employee for the bank.
- 3- The risks associated with the operations performed by the employee.
- 4- Evaluation of the employee's individual contribution to the bank's overall performance, if possible.
- 5- Other elements, according to the nature of the work.

Article 12:

The performance of Senior Executive Management employees shall be evaluated on the basis of the bank's long-term performance, not on the sole basis of previous year performance.

V- Disclosures

Article 13:

The bank's annual report shall include the following:

- 1- The establishment of the Remuneration Committee, if any, and its prerogatives.
- 2- The Remuneration Policy with its objectives and implementation method, the exercise of the clawback right and deferrals, and the conditions for granting remunerations in kind.
- 3- The key characteristics of the Remuneration Policy and its likely impact on the institution's overturn and effective performance.
- 4- An enumeration of the elements adopted to evaluate effective performance and the relation between remunerations and employees' effective performance.
- 5- The items of fixed and variable remunerations and the ways for granting them.
- 6- Information on the remunerations granted to the various categories of employees and their amounts.

Article 14:

The bank shall provide Banque du Liban (the Legal Department) and the Banking Control Commission with the following:

- 1- The names of the Remuneration Committee Chairman and members.
- 2- The Board of Directors' decision to appoint the Remuneration Committee Chairman and members.
- 3- A duly authenticated copy of the Remuneration Policy.
- 4- Any change in the information given in the documents specified in this Article, within one month from its occurrence.

VI-Miscellaneous Provisions

Article 15:

Banks are granted a time limit expiring at the end of 2014 to comply with the provisions of this Decision.

Article 16:

This Decision shall be published in the Official Gazette.

Beirut, August 6, 2014

The Governor of Banque du Liban

Riad Toufic Salamé