BYBLOS BANK EUROPE S.A.

Pillar 3 Disclosures 2019

Capital adequacy and risk reporting

Date: June 2020

Contents

1. Introduction

The purpose of this report is to provide Pillar 3 disclosures of Byblos Bank Europe S.A. (hereafter named BBE) as required by the global regulatory framework for capital and liquidity, established by the Basel Committee on Banking Supervision. At European level they are implemented in the disclosure requirements (as) laid down in Part Eight of "EU Regulation No. 575/2013 on prudential requirements for credit institutions and the prudential supervision of credit institutions and investment firms". It is not required to have Pillar 3 disclosures audited per present regulations. As such, the information provided in this Pillar 3 report is unaudited.

Pursuant to the Capital Requirement Directive (CRD) of the European Union this report will be published on an annual basis. It contains all the information that is relevant for being in a position to assess the risk profile and capital adequacy of Byblos Bank Europe S.A.

Profile of Byblos Bank Europe

BBE is part of Byblos group (see group structure in Annex 1 of this report).

BBE consists of a headquarters in Brussels and 2 branches (London and Paris).

BBE is registered in Belgium under Belgian Law. Its legal form is that of a public liability company. The company is established for an unlimited term.

BBE is owned for 99.98% by Byblos Bank S.A.L. (Beirut –Lebanon, hereafter named BBSAL).

The company has the status of a Belgian credit institution. The aim of BBE is to serve clients that are mainly active in the field of international trade. To achieve this it deploys its expertise in this area of activity as well as its specialist expertise in country risk. Its services are primarily intended for companies that operate internationally (Trade Finance activity) and for banks wishing to benefit from a correspondent relationship.

Application Framework

Any financial institution subject to own capital regulations must, under the applicable framework, make certain defined disclosures about its risk and own funds position. [1]

On 1 January 2014, the CRR (Capital Requirement Regulation) and CRD IV came into effect[2]; these regulations (the so-called Basel III) impose stricter rules concerning, among other things, the solvency, liquidity and leverage of financial institutions. These regulations focus on increasing (the) capital buffers and improving the quality of capital.

[1] Basel committee on Banking supervision. Standards, Revised Pillar 3 disclosure requirements; January 2015.
[2] Regulation (EU) No. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms

This was then completed by a delegated regulation: EU Commission Delegated Regulation 2015/61 of 10 October 2014 [3].

Within the European Union these regulations are implemented through the above-mentioned CRR, CDR and Delegated Act. This is European legislation that comes into effect directly at national level. The CRR and CDR transcend national legislations and also contain requirements for publication of risk and own funds. The Capital Requirement Directive IV (CRD), on the other hand, contains directives that have to be translated into national laws.
The present document contains the required disclosures on BBE's financial position.

The Basel rules and reporting are directed at risk measurement for the purpose of achieving risk-weighted representation of the balance sheet of a financial institution. Based on the corresponding calculations, sufficient capital buffers need to be available or maintained for expected and unexpected losses.

Implementation of Basel III in Europe

Structure of the guidelines

The Basel legislation provides guidelines for determining how much capital financial institutions must maintain at a minimum in order to absorb unexpected losses arising from their financial and operational risks.

A three-pillar concept is used here. Pillar 1 contains the guidelines for calculating the minimum capital requirement for credit, market, and operational risks.

Pillar 2 provides additional rules that assess the solvency of an institution based on specific scenarios. The starting point is the calculation of the minimum amount of capital that the institution itself needs to hold in order to cover all (of) its risks.
This pillar includes additional risks over and above those taken into account in Pillar 1.

Pillar 3 sets outs the guidelines for reporting on the risks to which the institution is exposed and the capital that it has available to cover unexpected losses deriving from these risks.

The purpose of the guidelines is to tighten the resilience of the European banking sector so that it can better absorb economic shocks while remaining able to finance economic activity and growth.

Basel III is a comprehensive set of reforms in banking supervision which is being developed by the Basel Committee on Banking Supervision (BCBS). These reforms are intended to improve the ability of the banking sector to absorb economic and financial shocks, to improve risk management and governance, and to increase the transparency and clarification of the banking sector.

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[3] Commission Delegated Regulation (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of The European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

These rules are just one step in the process of changes to the regulatory framework. CRD IV has since led to changes in national laws and regulations, monitoring policies and the behaviour of institutions, with the ultimate goal of a safer and more stable financial system. Throughout this document we discuss the impact of certain of these developments on BBE.

Role of EBA

The European Banking Authority (EBA) is an independent EU authority that aims to achieve an effective and consistent level of prudential regulation and supervision in the European banking sector. Its general objectives are maintaining financial stability in the EU and ensuring the integrity, efficiency and orderly functioning of the banking sector.

EBA is part of the European System of Financial Supervision (ESFS), made up of three supervisory authorities, the European Securities and Markets Authority (ESMA), the European Banking Authority (EBA), and the European Insurance and Occupational Pensions Authority (EIOPA). The EBA is independent but accountable to the European Parliament, the European Council of the European Union, and the European Commission.

The national supervisory authorities remain in charge of supervising individual financial institutions. For the Member States participating in the new joint supervisory mechanism (an important pillar of the so-called ‘banking union’), the European Central Bank (ECB) is also partly responsible for the supervision of financial institutions.

In the context of Pillar 3, on 14 December 2016 the EBA published Guidelines EBA/GL/2016/11 on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432 (1) and 432 (2) and 433 of EU Regulation No. 575/2013. These guidelines were taken into account in this report. On 4 August 2017 EBA published an update of this document.

Pillar 3 Disclosure

The European guidelines on what needs to be included in the Pillar 3 report are included in Articles 431 to 464 of Regulation 575/2013 of June 2013 on prudential requirements for credit institutions.

Pillar 3 disclosure is organized on an annual basis.

BBE will publish the Pillar 3 document in English on the website of its parent company BBSAL (www.byblosbank.com)

The information in this report has not been subject to an external audit, but the quality of information is guaranteed by a process of validation within BBE’s Management Committee and *Board of Directors*.

In order to ensure data is correct in the regulatory reporting and in this report, BBE has put sufficient internal control procedures in place, as described in the ‘Report of the management of Byblos Bank Europe S.A. concerning the evaluation of internal controls’ of January 2020 and the ‘Self-assessment of Data Quality’ report of June 2020.

2. Risk Management, Organization, Role and Responsibilities

Professional, comprehensive risk management is an essential prerequisite for achieving sustainable, profitable growth.

The risk management framework needs constant updating and adaptation to reflect new regulations, daily experiences, and changes in BBE's activities, where applicable. Demonstrating that adequate risk management procedures are in place is a key condition for acquiring and retaining the trust of all stakeholders: customers, branch managers and supervisory authorities, as well as directors, management and employees.

The strategy and long-term policy have to be determined by the *Board of Directors*.

The operational management of the various risks to which BBE is exposed is the direct responsibility of the Management Committee, or of Committees the latter has established (Compliance and Risk Committee, Asset and Liability Committee, among others). A division of responsibilities is organized within the Management Committee, without prejudice to the joint accountability of the Management Committee. Moreover, management of the credit and IT risks relies partially on the support provided by the 'Credit Risk Management' and 'Information Security' departments of our parent company.

The unity of management, applied within BBE, highlights the importance of commercial, financial and risk strategies.

The existing Risk Appetite Framework, based on the general policies, is embedded in the business plan process cycle, resulting in a final risk and residual risk assessment.

Role and responsibilities

The mission and role of Risk Management is to define and implement a robust risk management framework on the basis of the following cornerstones:

- Manage the implementation of all aspects of the risk function, including implementation of processes, tools and systems to identify, assess, monitor and report risk
- Assist in the development of processes to identify and evaluate business areas' risks and risk control
- Assist in processes for developing risk policies and procedures, risk limits and approval authorities
- Monitor major and critical risk issues
- Manage the processes for elevating control risks to senior management when appropriate
- Assist in the development and improvement of management reporting
- Conduct risk assessments

Effective risk management requires frank and timely internal communication within the bank about risk, both across the organization and through reporting to the Audit and Risk Committee and Management Committee.

The sophistication of the bank's risk management and internal control structure should keep pace with changes to the bank's risk profile, to the external risk landscape and to industry (best) practice.

The overall objective of Risk Management is to assure the implementation of sound, prudent and effective risk management on the basis of full understanding of the risks, and of swift and proactive identification and alerting about potential risks.

Risk Governance and Organization

Risk governance

Sound Risk Management includes effective communication and reporting lines with clear and consistent assignment of responsibilities and authority. These are defined in the Risk Management Charter.

BBE has opted for a risk appetite system; strategic business objectives have to be cascaded downwards from management towards business lines, and business information is escalated upwards enabling management to execute its management and supervisory function appropriately.

BBE has opted for an efficient structure with few committees as well as the implementation of a double-signature process for most applications, and with the activation of the most appropriate expert level creating added value in the decision-making process tailored to the clients.

Policies for hedging and mitigating risk

BBE has approved and adapted the following policies for hedging and mitigating the risk encountered by the bank:

- General policy
- Foreign exchange policy
- Integrity policy
- AML policy
- Client acceptance policy
- Prevention in tax matters policy
- Liquidity management policy
- Management of risk policy
- Operational risk policy
- Portfolio investment policy
- Large exposure policy
- Credit policy
- Code of conduct credits to directors
- Outsourcing policy
- Counterfeit protection policy
- Order execution policy
- Concentration risk policy
- Whistleblowing policy
- Country risk policy

- Interest rate risk policy
- Internet banking policy
- Performance management and remuneration policy
- IT security policy
- Policy on drugs and alcohol on the workplace
- Code of conduct external mandates
- Anti-bribery policy
- Training policy
- KYC policy
- Sanctions compliance policy
- Anti-slavery policy
- Prevention of tax evasion policy

Additional risk-related reports

As in previous years, the ICAAP (Internal Capital Adequacy Assessment Process) was prepared. The conclusion was that BBE more than meets (the) capital and liquidity requirements.

Following past practice, an ILAAP report was also prepared and it concluded that BBE would have enough liquidity to meet all of its obligations in the applied liquidity stress scenarios.

BBE's recovery plan was completed in 2015 for the first time, and has been updated every year since. The recovery plan is based on the observation that certain solutions can be examined prior to the outbreak of a crisis. Such crises call for the rapid assessment and implementation of solutions. For this reason, banks are required, as a preparatory measure, to weigh up the various options available to them for improving their financial situation in the event of a serious crisis. It is crucial that the bank is able to demonstrate the feasibility and effectiveness of the chosen recovery options in various crisis scenarios. The recovery plan demonstrates that BBE has a strong capital and liquidity position, enabling it to withstand severe crises. In this way recovery thresholds are activated only in very extreme scenarios.

Market Risk

The objective of market risk management is to measure, report and advise on the market risk, taking into account the main risk factors and specific risk in order to ensure that activities are consistent with the company's risk appetite.

The market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Within this market there are three relevant risks:

- Interest risk
- Equity risk
- Exchange rate risk

Interest risk

Considering its main activity (Trade Finance, i.e. a mainly off-balance sheet activity), BBE not only has limited exposure to interest rates, but also a limited appetite for the interest rate risk associated with its banking book. The same statement is valid for its trading book, where the only impact concerns the securities portfolio (despite the ‘Investment’ qualification of the latter).

The results and capital position of BBE display sensitivity to changes in interest rates. This is because the bank’s business strategy consists of attracting funding as long as possible. Currently, funding mainly consists of short term deposits received from customers and banks, which are re-invested in various forms of short-term loans and mid-term investments. As the term of these reinvestments does not necessarily match that of the funds raised, a maturity and repricing mismatch occurs. This gives rise to a transformation result via the interest rate differentials between the various maturities.

The value of the business is affected by interest rate fluctuations, the intensity of which are determined by market value sensitivity.

The market value sensitivity is one of the instruments used by BBE to steer its operational results. Market value sensitivity can be adjusted flexibly in the short-term business model of BBE.

The structural interest rate risk of the P&L and balance sheet is monitored using various risk management tools, including economic value and NII (Net Interest Income). The monitoring is done based on a 2% (200 base points) change in interest rates.

Equity risk

BBE does not invest in individual shares and is not directly impacted by the evolution of equity prices.

The majority of investments is done in ECB-eligible securities issued by European governments, both in EUR and USD.

Exchange rate risk

Although BBE uses the Euro as its reporting currency, an important part of its assets, liabilities, income, and expenses are also expressed in other currencies. BBE’s policy is not to take on a speculative open position but to hedge positions resulting from Foreign Exchange transactions with clients and the daily commercial transactions taking place through the Bank’s operating departments.

Considering the above statement, Foreign Exchange limits (intraday and overnight) have been set.

But due to the fact that BBE matches nearly all operations with a perfect hedge on balance sheet, foreign exchange positions are held low, and the exchange rate risk is very limited at that point.

Liquidity Risk

The liquidity risk is that of BBE being unable to honour its financial commitments at a reasonable cost on due date. It therefore needs to be able to satisfy the liquidity requirements of depositors without suffering unacceptable losses in releasing existing assets to meet its financial obligations in both normal and stressed circumstances.

Since the outbreak of the liquidity and credit crisis, liquidity management has been an important issue for global bank management and bank supervision. The inclusion of specific liquidity standards within the new capital regulations endorses the importance of robust liquidity management in the banking sector.

In order to measure, monitor, check and report on the liquidity risk, BBE has a reporting system with a set of indicators, as well as a plan for being able to adequately manage its liquidity in both normal and exceptional circumstances.

Besides liquidity flows per time bucket and cumulated liquidity flows, liquidity is monitored using two regulatory indicators: LCR (Liquidity Coverage Ratio) and NSFR (Net Stable Funding Ratio).

The LCR tests the liquidity buffer against a pre-defined outflow, under stress assumptions, of collected funds that are callable within 30 days. The NSFR tests the available liquidity over a period of at least one year. The regulatory minimum for the LCR is 100% but BBE targets a ratio of at least 120% so as to have a comfortable liquidity situation at all times.

Liquidity reports are distributed daily to a broad target group. Additionally, discussion of the liquidity indicators is a fixed agenda item of the monthly ALCO meeting. Senior management is continuously involved in liquidity management.

Funding is obtained from individual customers and banks through current accounts and term deposits. These deposits can be considered as both sources of liquidity and sources of liquidity risk. Amounts held in current accounts can be withdrawn on demand, but nevertheless provide an important contribution to the stability of the long-term funding base. This stability therefore depends on maintaining account holders' confidence in BBE's solvency, profitability, and risk management.

Credit Risk

Generally speaking, credit risk arises when a customer or counterparty is no longer able to meet its contractual obligations. This can be the result of the insolvency of a customer or counterparty. The risk arises both with traditional lending and with investment activities.

The management of the credit risk is governed by a number of policies, namely:

- Client acceptance policy
- Large exposure policy
- Credit policy
- Sector concentration policy

The Credit Department has adequate measuring instruments, guidelines and procedures with which to manage credit risk. These include a loan approval process with set limits for creditworthiness, monitoring procedures, and overall indicators of the quality of the loan and discount portfolio.

As BBE's core business is Trade Finance, the largest part of the loan and discount portfolio is linked to this Trade Finance activity (post-financing and discounts).

BBE generally endeavours to maintain a low-risk profile in its lending. This strategic option is confirmed in the credit acceptance conditions and procedures, of which the provision of sufficient guarantees and provisions is one of the basic conditions. Security in the form of personal guarantees and/or material collateral is always requested when granting loans. The lower a borrower's creditworthiness, the more security the customer is required to provide.

The loan policy of BBE is clearly described and detailed, and is based, among other things, on the following principles:

- A country limit is applied, which measures the sovereign risk as well as the economic and transfer risk
- Counterparty limits are mainly based on ratings (internal or external)

Credit risk concentration may consist of various elements, including concentration on an individual counterparty or a group of interrelated counterparties.

A concentration of lending can also come about as a result of uneven distribution among sectors or countries/regions.

The credit risk management policy includes limits for concentration risk. These risks are systematically monitored and reported on.

Operational Risk

All business carrying out activities of any kind face an operational risk. Financial institutions are no exception.

The activities of BBE depends on the ability to process transactions efficiently, accurately, and in accordance with its policies and within regulations. Potential operational risks include, among others, violation of money-laundering legislation, breach of confidentiality obligations, and execution of unauthorized or incorrect transactions.

BBE has a fairly limited number of products and services. This allows the operational risks to be kept to a minimum. However in general it is assumed that operational risks will gradually increase in the various businesses, owing, among other things, to changes in legislation, a changing technology environment, the increasing complexity of products, and the general trend towards outsourcing of non-core business activities.

Although BBE has taken measures to control risks and limit losses, and insists on the development of efficient procedures and staff training, it is impossible to implement procedures that can exclude operational risks in a completely effective manner.

A Disaster Recovery Plan (DRP) exists, covering all facets of disaster recovery. All disaster recovery tests will be planned and implemented annually.

In general the operational risk is covered by the bank's Operational Risk Policy.

Country Risk

Country risk is the risk of loss resulting from the economic and political context of a foreign state, in/with which a company conducts (some) of its activities.

Country risk covers two components. The first is the political risk resulting either from acts or measures taken by local authorities, or internal or external events (i.e. riots or war respectively). The second component is the economic and financial Risk. This risk covers both currency depreciation and lack of foreign currency resulting, for example, in default of payments.

Because its Trade Finance activities are already considered to be a high risk, BBE has always had an extremely low appetite for country risk. Therefore, Country Risk Management has always been one of BBE's central concerns, and rigorous risk management has been established within the bank.

The concept of country risk has to be understood in a very broad sense, and includes sovereign, transfer and systemic market risks. This wide interpretation leads to a country risk definition for each BBE counterparty based upon the economic reality of its activities (and not limited to residence).

Other Risks

Strategic risk

The strategic risk to which BBE is exposed is the risk of the effect of poor policy decisions, poor implementation of decisions, or a lack of responsiveness to changing market conditions (both commercial and financial) on current and future earnings and capital.

In order to achieve its strategic objectives, BBE makes resources available, including communication channels, system, personnel, networks, managerial time and capacities. The strategic goals are defined by the Management Committee and approved by the *Board of Directors*.

Ultimate performance of the business strategy depends on the adequacy of the resources made available and the way in which these resources are applied. This is assessed on an ongoing basis.

Business risk

Business risk is the risk that current and future earnings and capital will be affected by changes in the business volumes or by changes in margins and costs, both caused by changing market conditions or the organization's inability to take advantage of such changes. This risk also refers to poor diversification of earnings or the inability to maintain a reasonable level of profitability.

In order to diversify the business risk to which BBE is exposed, the decision was taken to diversify the countries and counterparties of BBE's traditional activities as much as possible.

Reputational risk

Reputational risk is the risk of damage/loss through deterioration of reputation or standing caused by a negative perception of the image of the organization by its customers, counterparties, shareholders and supervisory authorities.

This is a second-order risk, in other words, a risk that derives from another risk but which has its own impact. BBE considers this risk as vertical, running through all other risks. By monitoring the other risks, reputational risk is also kept under control.

External service providers

BBE is exposed to the risk of termination of contracts with external service providers. Termination of one of these contracts could result in an interruption of business or delays in key business processes, against which BBE covers itself as far as possible through an appropriate business continuity plan and transitional arrangements in relevant contracts.

Additionally, it is to be noted that the majority of contracts in this context are with BBE's parent company, BBSAL, limiting as such this type of risk as such (mainly discontinuity of services).

Legislative and regulatory developments

BBE is subject to the laws, regulations, administrative measures and regulations on financial services policy in all the places where operates. Changes in the field of supervision and regulation can affect BBE's activities, products, services and value of assets. Although BBE monitors the situation and future legislative changes, fiscal and other policies are unpredictable at times.

European legislation and regulations have required much attention in recent years and will continue to do so, particularly given the European Commission's strong preference for maximum harmonization of European legislation. Maximum harmonization of legislation and regulations is in the interest of the financial sector, because it contributes to a level playing field for all market players.

Below is a brief overview of some national and international developments that are relevant to BBE:

- Deposit Guarantee Scheme (DGS): The Belgian DGS guarantees deposits from individuals and small businesses at banks to a maximum of (c/v) EUR 100,000 per depositor per bank. DGS will pay amounts when individuals and companies no longer have access to their funds owing to financial institutions becoming illiquid. The contributions that the Belgian financial sector is required to pay into the DGS have systematically increased in recent years, and a European DGS with mandatory contributions from all European market players was introduced.
- Following several new European laws, in 2014 a banking act was introduced in Belgium. All institutions were required to implement all elements of this act (including for example a suitability test for directors and specific and more comprehensive governance requirements).
- On 20 June 2013 the European Council adopted a CRR (Capital Requirement Regulation) and CRD IV, both of which came into effect on 1 January 2014. These regulations impose stricter rules concerning, among other things, solvency, liquidity and leverage, which are and will be gradually applied. During 2015 an additional number of European Regulations/Guidelines on this topic were issued.

  The focus here has been on increasing the capital buffers and improving the quality of capital. The capital buffer acts as a cushion for economic hard times.

  Within the European Union, these regulations are implemented through the above-mentioned CRR. This is European legislation that directly enters into effect at national level.
- Due to the referendum held in the UK on 23 June 2016, whereby the British population voted to leave the EU, the regulatory framework will change for BBE’s London branch. At present BBE has submitted a file to have its UK branch recognized as a Third Country Branch under UK legislation and is closely following the situation and progress of Brexit, but this is still not finalized.

3. Corporate governance

Board of Directors

BBE is governed by a *Board of Directors* which is the bank's highest decision-making body, except for matters expressly reserved for the General Assembly by the Company Code.

The *Board of Directors* is responsible for setting the bank's strategic objectives and identifying the challenges that their implementation triggers. As such, the Board mainly oversees the evolution of business, financial and risk management, and the establishment of an appropriate governance structure.

Among other things, the *Board of Directors* decides on the following subjects, in consultation with the Management Committee:

- Strategy and capital allocation
- Profitability requirements
- Limits on risk
- Various bank policies.

In terms of appointment or dismissal of the Chairman of the Management Committee and members of the Committee, the Board makes its decisions with the agreement of the BNB.

It is up to the Board to conduct regular evaluation of the functioning of the bank's management structure. The Audit and Risk Committee fulfils that function, and has to prepare an assessment report every year. The conclusions drawn from that report are reflected in the minutes of the Board's meeting, as are the measures taken to improve management structure.

The Board ensures that the annual report on the evaluation of the internal control system is being prepared.

The Board is responsible for all acts necessary for implementation of the bank's corporate purpose and objectives, excluding those attributed to another body by the Company or the Articles of Association.

BBE's Board is composed of at least three directors, shareholders or not, appointed by the General Assembly who can revoke their mandate at any time.

The Board is composed of representatives of the reference shareholders, independent directors, and executive directors who are members of the Management Committee. The first two groups form, as non-executive directors, the majority of the Board.

The Board reserves at least one seat for an independent director, in accordance with the criteria set out in Article 7:87 of the Company Code.

The General Assembly ensures that, by the appointment of directors or the extension of their mandates, a balance is preserved in the Board between knowledge in banking matters, the interests of shareholders, and managerial experience in the field of BBE's activity. In this way the *Board of Directors* as a whole has the skills and qualifications necessary for the performance of its tasks.
Additionally, all Directors, both executive and non-executive, independent or not, must have sufficient self-assessment capacity.

The number of mandates held outside BBE by Board Members can be summarized as follows:

Director	Number of mandates held
Bassam A. NASSAR	10
Faysal M. TABSCH	4
Nicolas Fouad TRAD	0
François S. BASSIL	5
Najah L.SALEM	0
Des O'Shea	5
Dirk VERMEIREN	0
Selim STEPHAN	5
Ghassan Cortas	0
Semaan F. BASSIL	8
Jacques DE RAEYMAEKER	0
Ludo SWOLFS	1
Guy QUADEN	2

Audit and Risk Committee

The *Board of Directors* has the right to establish its own special committees to assist it in specific areas. These committees solely have a consultative function as only the *Board of Directors* has decision-making power.

The role and responsibility of each committee is set by the *Board of Directors* and fixed in their respective Charters. These Charters are regularly updated by the Management Committee or on the initiative of the *Board of Directors*.

All committees are competent to allocate the resources necessary for their proper functioning. After each meeting, the committees submit a report to the Board and notify their findings and recommendations.

One of the committees formed within BBE is the Audit and Risk Committee. This committee assists the Board. On behalf of the latter, it checks the integrity and effectiveness of internal controls and risk management practiced by the bank, while paying special attention to correct financial reporting. It also checks the procedures established by the bank to meet the legal and regulatory requirements as well as sound practices in governance.

The Audit and Risk Committee is composed of at least three non-executives, and in accordance with Article 27 of the Law of 25 April 2014 on the status and control of credit institutions and securities firms, the majority of Audit Committee members are independent within the meaning of Article 7:87 of the Company Code. The Chairman of the Audit and Risk Committee is appointed by the *Board of Directors*.

The operating mode and mission of the Audit and Risk Committee are recorded in a specific Charter.

Risk Management

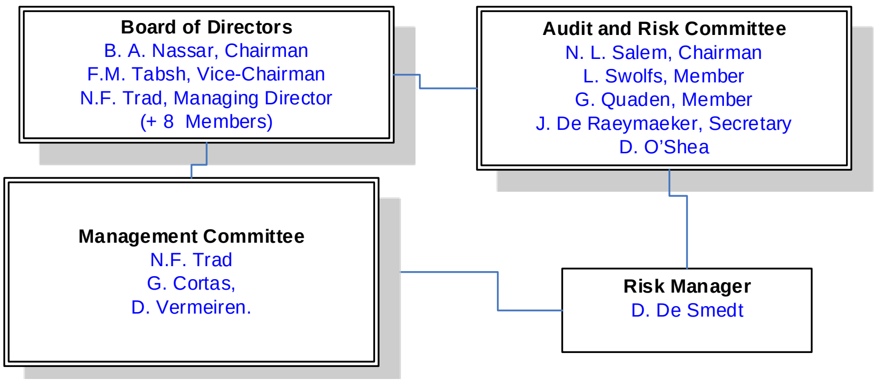
The independent Risk Management function has authority to oversee BBE's risk management activities within the organization.

Effective risk management is ensured by frank and timely internal communication within the bank about risk, both across the organization and through reporting to the Audit and Risk Committee and Management Committee.

Appointment, dismissal, or other changes to risk management positions need to be approved by the Audit and Risk Committee.

Organization of Risk Management

Risk Management reports functionally to the Audit and Risk Committee and Management Committee, and administratively to one member of the Management Committee (within the Management Committee D. Vermeiren is responsible for Risk Management).



4. Own funds

BBE reports its solvency in accordance with the rules and capital ratios defined by the Basel Committee for the supervision of banks and on the basis of the European Capital Requirement Directive (CRD).

These ratios, the capital adequacy ratio (CAD), and the Tier 1 ratio compare the regulatory capital (total regulatory capital and Tier 1 Capital) with the total weighted risks.

Another indicator used by BBE in the context of monitoring its solvency is the Core Tier 1 ratio. This ratio compares the amount of regulatory Tier 1 capital, excluding hybrid Tier 1 capital, with total weighted risks.

Equity

Equity and its components at year end, not including the result of the year:

	31/12/2019	31/12/2018
Paid-in share capital	20.000.000	20.000.000
Reserves (including retained earnings)	70.536.285	64.013.562
	90.536.285	**84.013.562**

Paid-in share capital

The paid-in share capital represented by 9,750 nominative shares amounts to EUR 20,000,000.

Reserves

Breakdown of reserves

	31/12/2019	31/12/2018
Legal reserves	2.085.500	2.085.500
Unavailable reserves	65.548	65.548
Available reserves	68.385.143	61.862.443
Retained earnings	94	71
	70.536.285	**64.013.562**

Qualifying capital for regulatory purposes

Qualifying capital consists of Core Tier 1 Capital, Additional Tier 1 Capital and Tier 2 Capital.

The following overview shows the total qualifying capital for the past two years.

	31/12/2019	31/12/2018
Core Tier one capital		
Paid-up capital instruments	20.000.000	20.000.000
Reserves	70.536.285	64.013.562
Intangible assets	- 195.090	- 167.419
Additional Tier 1 Capital		
Paid-up capital instruments	30.000.000	30.000.000
Tier 2 Capital		
Paid-up capital instruments and sub-loans	-	-
General credit risk adjustments	2.443.300	2.700.730
	122.784.495	**116.546.873**

Perpetual subordinated loan

On 30/06/2015 a perpetual subordinated loan was put in place for EUR 30,000,000; which qualifies completely for inclusion in regulatory Tier 1 Capital.

5. Capital Adequacy

This chapter sets out the minimum capital requirements of BBE, based on the risks mentioned in Pillar 1 (Credit Risk, Market Risk, Operational Risk and Credit Valuation Adjustments).

BBE applied the standardized approach for these calculations.

	31/12/2019	31/12/2018	Minimum capital requirements 31/12/2019	Minimum capital requirements 31/12/2018
Credit Risk	483.101.115	501.863.221	38.648.089	40.149.058
Of which the standardized approach	*483.101.115*	*501.863.221*	*38.648.089*	*40.149.058*
Credit Valuation adjustement			-	-
Of which the standardized method			-	-
Market Risk	3.257.143	5.107.010	260.571	408.561
Of which the standardized approach	*3.257.143*	*5.107.010*	*260.571*	*408.561*
Operational Risk	36.375.625	31.923.125	2.910.050	2.553.850
Of which the basic indicator approach	*36.375.625*	*31.923.125*	*2.910.050*	*2.553.850*
Total	**522.733.883**	**538.893.356**	**41.818.711**	**43.111.469**

The capital requirement amounted to EUR 43,818,711. This capital requirement under Basel III rules corresponds to a risk-weighted volume of EUR 522,733,884.

With total qualifying capital at 31 December 2019 exceeding the applicable requirements the company fully complied with all capital requirements.

Regulatory solvency ratios

	31/12/2019	31/12/2018
CET 1 Capital ratio	17.28%	15.56%
Surplus of CET 1 capital	66,818,156	59,595,871
T1 Capital ratio	23.02%	21.13%
Surplus of T 1 capital	88,977,148	81,512,471
Total Capital Ratio	23.89%	21.63%
Surplus of total Capital	80,965,770	73,435,333

6. Credit Risk

Byblos Bank Europe has implemented a multi-phase follow-up of its credit which is in line with the European guidelines and notably *“EBA/GL/2018/16 Guideline on management of non-performing and forborne exposures”.*

Performing exposures

Performing exposures are exposures with no excess, no past due notice, and there is no risk of non-repayment and non–performing.

Classified Credits

Past due

Any delay in the customer meeting payments on pre-arranged due dates, and/or failure to make repayments, will prompt immediate action by the Management Committee to determine underlying reasons. A justifiable explanation by the customer may in itself be satisfactory and as such, may warrant no further action other than obtaining an agreement that payment will be forthcoming at a specified later date. If the reason is considered unsatisfactory and/or if the customer fails to make repayment on the agreed extended payment date, the account will be considered as past due.

An item should be considered past due in accordance with the following criteria:

- Single payment loans/notes where one instalment is due and unpaid for 7 days. In this case the entire unpaid principal balance is reported as past due.
- Interest payment due and unpaid 7 days after maturity. The entire principal balance should then be reported as past due.
- Temporary overdrafts when not paid within 7 days. Overdrafts, which are extended under approved lines, are considered past due 7 days after the line has expired.

In the normal course of business it is recognized that for various reasons some loans may become unrealizable. Loans classified as bad/total loss will then be written-off partly or fully.

Early arrears

Early arrears are exposures with less than 90 days past due or without material excess.

Forborne exposures

Credits qualify as a forbearance when there is a concession towards a debtor who is facing or about to face financial difficulties. Concessions are:

- Facility agreement modification of terms and conditions
- Refinancing: facilities are restructured, renegotiated, refinanced and modified.

Credits must be classified as forborne exposure if:

- The modified/refinanced exposure is or would have been non-performing without modification or refinancing, or if embedded forbearance clauses are used by a non-performing debtor
- Repayment is done on a non-performing contract close in time to the granting of additional debt
- Modifications lead to total or partial cancellation through write-off
- The modified/refinanced contract is or would have been 30 days past due

Forbearance measures should be granted only when they aim to restore sustainable repayment by the borrower and are thus in the borrowers' interest.

Classified Credits

As part of the conservative approach to sustain the quality of the Bank's loan portfolio, quarterly evaluation of loan loss provision is mandatory.

As a result, all adversely classified accounts will be reviewed on a quarterly basis (sooner if needed).-

In the normal course of business it is recognized that for various reasons some loans may become unrealizable. Such loans would then be required to be partly or fully written-off.

The following policy guidelines are to be observed in this case:

a. Only loans related to accounts classified as 'Bad' can be totally written off.

b. No loan will be directly written off to the expense account. Specific provision created for the account has to be utilized for the purpose of write-off.

c. The loan will be written off with proper approval when:
   i. All efforts to recover the bad debt have failed
   ii. The borrower's bankruptcy or inability to repay is established beyond any doubt.
   iii. Legal remedies have proven fruitless &/or cost prohibitive.

d. Requests for write-off, included in the classification memorandum (CM), are to be submitted to the Management Committee for approval, for each individual account to be written off.

Exposure to credit risk

The total exposure to credit risk comprises the carrying value of financial assets (on-balance sheet), calculated exposure of financial derivatives and specific off-balance sheet items as specified in the capital legislation (Basel III)

Total exposure to Credit Risk	31/12/2019	31/12/2018
Total on-balance	1.035.964.193	951.908.676
Total off-balance	283.532.366	393.785.809
Derivatives	678.529	1.100.867
Total	**1.320.175.088**	**1.346.795.352**

The capital requirements for credit are calculated as follows:

Risk-Weighted Assets (RWA) * 8%

Where Risk-Weighted Assets = (Exposure – Provisions – Collateral) * weighting percentages

Total and average net amount of exposures:

	Net value of exposures at the end of the period 2019	Average net exposure over the period 2019
Central governments or central banks	4,251,613	3,474,576
Public sector entities	16	16
Institutions	271,737,838	279,104,122
Corporates	175,580,699	178,365,396
Of which SMEs	*100,860,274*	*102,765,871*
Exposures in default	12,148,639	9,744,597
Items associated with a particularly high ris	5,978,971	5,853,207
Other items	13,403,340	8,549,949
Total	**483,101,116**	**479,238,640**

The table below shows the total RWA and capital requirements as at year end under the Standardized Approach (SA):

	RWA	**Cap Req**	**RWA**	**Cap Req**
SA exposure classes				
Central governments or central banks	4.251.613	340.129	4.024.672	321.974
Public sector entities	16	1	-	-
Institutions	271.737.838	21.739.027	303.145.018	24.251.601
Corporates	175.580.699	14.046.456	192.671.065	15.413.685
Exposures in default	12.148.639	971.891	670	54
Items associated with a particularly high ris	5.978.971	478.318	-	-
Other items	13.403.340	1.072.267	2.021.797	161.744
Total	**483.101.116**	**38.648.089**	**501.863.222**	**40.149.058**

The following table provides an overview of RWA exposures by counterparty classification into on-balance sheet items, off-balance sheet items and derivatives on 31 December 2019.

	On-balance 2019	**Off-balance 2019**	**Derivatives 2019**	**Total Exposures**
SA exposures classes				
Central governments or central banks	4.251.613	-	-	4.251.613
Public sector entities	16	-	-	16
Institutions	230.335.613	41.153.663	248.562	271.737.838
Corporates	142.547.056	32.832.672	200.971	175.580.699
Exposures in default	12.148.639	-	-	12.148.639
Items associated with a particularly high ris	5.978.971	-	-	5.978.971
Other items	13.403.340	-	-	13.403.340
Total	**408.665.248**	**73.986.335**	**449.533**	**483.101.116**

Country Risk

Country Risk is a critical aspect of BBE credit activities. This is due to the highly specialized services provided by the Bank and the concentration of its activities in the area of international trade finance. The country risk credit activities of BBE fall within the specific framework of the general country limits vetted by the *Board of Directors* for countries identified as risk sensitive.

The table below (at 31 December 2019) includes the geographical distribution of the credit exposure based on the Risk weighted assets.

	EU countries	Angola	Lebanon	Nigeria	RDC	Bangladesh	Switzerland	Algeria	Egypt	Ethiopia	Brazil	Other Countries	Total
Central governments or central banks	4.251.613	-	-	-	-	-	-	-	-	-	-	-	4.251.613
Pubic sector entities	-	-	16	-	-	-	-	-		-	-	-	16
Institutions	94.144.528	26.659.985	40.515.034	20.853.116	-	36.767.293	6.390.041	1.147.457	4.841.357	5.950.237	10.000.000	24.468.789	271.737.838
Corporates	39.467.977	2.961.298	35.672.736	14.598.433	11.466.095	-	2.429.878	5.173.508	22.237.405	5.748	92.487	41.475.134	175.580.699
Of which SMEs	*21.691.979*	*2.952.096*	*25.128.846*	*12.848.445*	*2.553.110*	-	*2.429.878*	*4.052.965*	*11.657.034*	*5.748*	*84.558*	*17.455.616*	100.860.273
Exposures in default	2	-	-	12.147.888		-		-	-	-	-	749	12.148.639
Items associated with a particurlarly high risk	5.978.971	-	-			-		-	-	-	-		5.978.971
Other items	13.403.340		-					-	-	-			13.403.340
Total	157.246.431	29.621.283	76.187.786	47.599.437	11.466.095	36.767.293	8.819.919	6.320.965	27.078.763	5.955.985	10.092.487	65.944.672	483.101.115

Credit Risk exposure and CRM effects:

	Exposure before CCF and CRM		Exposure after CCF and CRM		RWA and RWA density		
	On-balance sheet	Off-balance sheet	On-balance sheet	Off-balance sheet	RWAs	RWA density On-balance	RWA density Off-balance
Central governments or central banks	162,094,071	-	4,251,613	-	4,251,613	2.62%	
Public sector entitities	80		16			20.00%	
Institutions	659,860,427	164,072,906	230,335,613	41,153,663	271,489,276	34.91%	25.08%
Corporates	175,808,017	119,459,460	142,547,056	32,832,672	175,379,727	81.08%	27.48%
Exposures in default	20,537,703		12,148,639		12,148,639	59.15%	
Items associated with a particularly high ris	3,985,980	-	5,978,971			150.00%	
Other items	13,677,915		13,403,340		13,403,340	97.99%	
Total	1,035,964,193	283,532,366	408,665,247	73,986,335	476,672,595	39.45%	26.09%

CCR exposures by regulatory portfolio and risk:

	0%	2%	4%	10%	20%	35%	50%	75%	100%	150%	250%	370%	1250%	Total
Central governments or central banks	156.715.034				2.761.531				453.905	2.163.602				162.094.071
Public sector entities					80									80
Institutions					597.560.849		82.448.216		79.726.455	64.700.435				824.435.955
Corporates									244.957.623	50.485.760				295.443.383
Exposures in default									12.163.665	8.374.038				20.537.703
Items associated with a particularly high risk										3.985.980				3.985.980
Other items	274.576								13.403.340					13.677.915
Total	156.989.609	-	-	-	600.322.460	-	82.448.216	-	350.704.987	129.709.815	-	-	-	1.320.175.088

7. Market risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices. Within this market risk there are two relevant risks for BBE: interest rate risk and exchange rate risk.

Exchange rate risk

Although BBE uses the EUR as its reporting currency, an important part of its assets, liabilities, income and expenses are expressed in other currencies. These exposures are systematically hedged on an ongoing basis, resulting in very limited currency positions.

Currency positions	Net position 31/12/2019		Net position 31/12/2018	
	Long	Short	Long	Short
EUR	3,178,438		1,765,276	
AUD	1,854		485	
CAD	2,830		2,647	
DKK	28,050		134	
GBP	1,432,262		3,259,479	
JPY	116,951		5,146	
SEK	6,414		20,342	
CHF	2,203		5,170	
USD	1,595,986		1,781,344	
NOK	294		116	
Other	70,299		32,146	
Total	**6,435,581**	**-**	**6,872,286**	**-**

Interest rate risk

The interest rate risk at BBE results from the imbalance between its assets and liabilities on the balance sheet in terms of volume, duration, and interest rate sensitivity.

Changes in interest rates can have a positive/negative effect on both the income and economic value of the banking book. This results in two separate but complementary points of view in assessing BBE's interest rate risk:

- Sensitivity of economic value: movements in interest rates affect the economic value of the assets and liabilities on the balance sheet, as well as the off-balance sheet items.
- Interest rate sensitivity of income and interest margin: the interest rate level affects the external interest rates on commercial investment products, deposits and loans. As a result, it has an effect on the bank's future interest rate results. This sensitivity enables an estimate to be made of the potential profit or loss of income, depending on the various interest rate simulations.

Interest rate in the banking book:

		Economic value sensitivity		Income sensitivity			
		Economic value Banking Book		Interest result			
		excl. commercial margins	incl. commercial margins	Effective	Expected		
				Previous 12 months	Coming 12 months	Coming months 13 till 24	Coming months 25 till 36
Interest scenarios	Code	060	010	020	030	040	050
1.Steeper yield curve	100		101.637.686				
2. Increase in short term interest rates	200		104.136.657				
3.Parallel increase in interest rates with 200 basis points	300		109.927.734		11.807.771	12.862.694	12.939.666
4. No movement	400		100.687.444	9.396.000			
5.Parallel decrease in interest rates with 200 basis points	500		88.765.415		6.984.229	5.929.306	5.852.334
6. Decrease in short-term interest rates	600		93.354.302				

8. Operational Risk

The systematic collection and control of data on operational incidents is one of the main requirements of the Basel Committee.

Each BBE department has the primary responsibility for monitoring the operational risk in its individual sphere of activity. It establishes the way its activities are organized, including the checks that need to be implemented to restrict operational risk. It also defines the corrective measures required to counter significant incidents or when major risks have been identified. Risk Management ensures the regular monitoring of risks and incidents and establishes a regular report for the ARC. This process allows the internal control system to be improved on an ongoing basis and enables the main risks to be effectively covered and controlled. The reporting mechanism ensures that the parties responsible are notified quickly if incidents occur.

Reported operational risks events:

	2019	2018	Δ
Number of events	11	2	9
Gross loss in €k	8	9	-1
Net loss in €k	8	9	-1

9. Leverage

Another instrument for Risk measurement is the leverage ratio, which is calculated using the formula:

$$\text{Leverage ratio} = \frac{\mathit{Capital\ Measure}}{\text{Exposure measure}}$$

Where the capital measure is the Tier 1 capital

The exposure measure includes:
- On-balance sheet exposures (netting of loans and deposits is not allowed)
- Derivative exposures
- Transactions (not applicable for BBE)
- Off-balance sheet exposures
- Securities financing

Leverage ratio:

	2019	2018
Derivatives : Current replacement cost	304.471	667.666
Derivatives : Add-on Market-to-Market method	578.022	569.978
Off-balance sheet items	140.325.153	203.700.845
On-balance sheet exposures	1.023.330.823	940.614.398
Total	1.164.538.469	1.145.552.887
Tier 1 capital fully phased in	120.341.181	113.846.072
Leverage ratio	10,33%	9,94%

10. Liquidity risk

The liquidity risk is that BBE is unable to honour its financial commitments at reasonable cost on due date. It therefore needs to be able to satisfy the liquidity requirements of depositors or other contract holders, without suffering unacceptable losses in releasing existing assets to meet its financial obligations in both normal and stressed circumstances.

Since the outbreak of the liquidity and credit crisis, liquidity management has been central to global bank management and bank supervision. The inclusion of specific liquidity standards in the capital regulations endorses the importance of robust liquidity management in the banking sector.

The liquidity is monitored by the regulator using two risk indicators: the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ration (NSFR).

Additional liquidity reports are distributed daily to a broad target group. Discussion of the liquidity indicators is a fixed agenda time of the monthly ALCO. As a consequence, senior management is continuously involved in liquidity management.

Liquidity Coverage Ratio (LCR)

The LCR tests the liquidity buffer against a pre-defined outflow, under stress assumptions, of collected funds that are callable within 30 days. The NSFR test the available liquidity against the required liquidity over a period of at least one year. The regulator provides a minimum limit of 100% for the LCR, but BBE targets a ratio around 120% so as to have a comfortable liquidity situation at all times.

The LCR builds on traditional liquidity coverage ratio methodologies used internally by banks to assess exposure to contingent liquidity events. The total net cash outflows for the scenario are to be calculated for 30 calendar days into the future. The standard requires that, if there is no financial stress, the value of the ratio be no lower than 100% on an ongoing basis because the stock of unencumbered HQLA is intended to serve as a defence against the potential onset of liquidity stress. During a period of financial stress, however, banks may use their stock of HQLA, thereby falling below 100%, as maintaining the LCR at 100% under such circumstances could produce undue negative effects on the bank and other market participants.

The LCR has two components:

1. Value of the stock of HQLA in stressed conditions
2. Total net cash flow, calculated according to the stress scenario

$$LCR = \frac{\text{Stock of HQLA}}{Total\ net\ cash\ flows\ over\ the\ next\ 30\ calender\ days} \geq 100\%$$

Assets are considered to be HQLA if they can be easily and immediately converted into cash at little or no loss of value. So in order to qualify as HQLA, assets should be liquid in markets during a time of stress and be ECB-eligible.

The term 'net cash flows' is defined as the total expected cash outflows minus total expected cash inflows in the specific stress scenario for the subsequent 30 calendar days. Total expected cash outflows are calculated by multiplying the outstanding balances of various categories or types of liabilities and off-balance sheet commitments by the rates at which they are expected to run off or be drawn down. Total expected cash inflows are calculated by multiplying the outstanding balances of various categories of contractual receivables by the rates at which they are expected to flow in under the scenario up to an aggregate cap of 75% of total expected cash flows.

	Total unweighted value 31/12/2019	Total weighted value 31/12/2019
High-quality liquid assets HQLA		
Total high quality liquid assets	88.643.605	88.643.605
Cash outflows		
Retail deposits and deposits from SME of which	264.978.453	48.814.195
Stable deposits	3.353.924	167.696
Less stable deposits	261.624.529	48.646.499
Unsecured wholesale funding of which	229.323.845	202.191.434
Operational deposits	-	-
Non-operational deposits	229.323.845	202.191.434
Unsecured debt	-	-
Secured wholesale funding	-	-
Additional requirements, of which	62.542.363	5.924.368
Outflows related to derivatives	-	-
Outflows related to loss of funding	-	-
Credit and liquidity facilities	62.542.363	5.924.368
Other contractual funding oblitations	-	
Other continent funding oblitations	223.571.194	11.178.560
TOTAL CASH OUTFLOWS	780.415.855	268.108.557
Cash inflows		
Secured lending	-	-
Inflows from unsecured transactions/deposits	499.946.139	450.146.898
Other cash inflows	-	-
TOTAL CASH INFLOWS	499.946.139	450.146.898
Total HQLA		88.643.605
Total net cash flows		182.038.341
Liquidity coverage ratio		132%

On 31/12/2019 the LCR amounted to 132%.

Net Stable Funding Ratio

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. Available stable funding is defined as the portion of capital and liabilities expected to be reliable over the time period considered by the NSFR, which extends to one year. The amount of stable funding required is a function of the liquidity characteristics and residual maturities of the various assets by that institution as well as those of its off-balance sheet exposures.

$$100\% \leq \frac{\text{Available amount of stable funding}}{\textit{Required amount of stable funding}}$$

The amount of available stable funding (ASF) is measured based on the broad characteristics of the relative stability of an institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding. The amount of ASF is calculated by first assigning the carrying value of an institution's capital and liabilities to one of five categories. The amount assigned to each category is then multiplied by an ASF factor, and the total ASF is the sum of the weighted amounts.

The amount of required stable funding (RSF) is measured based on the broad characteristics of the liquidity risk profile of an institution's assets and OBS exposures. The amount of required stable funding is calculated by first assigning the carrying value of an institution's assets to different categories listed. The amount assigned to each category is then multiplied by its associated required stable funding factor, and the total RSF is the sum of the weighted amounts added to the amount of OBS activity (or potential liquidity exposure) multiplied by its associated RSF factor. Definitions mirror those outlined in the LCR, unless otherwise specified.

	< 6 months	≥ 6 months to < 1 year	≥1 year	Weighted value
AFS				
Tier 1 and Tier 2 capital	-	-	122.784.481	116.546.802
Retail deposits	460.905.884	54.851.522	89.344	464.271.009
Wholesale desposits non-financial corporates	55.756.508	5.831.344	-	30.793.926
Deposits other legal entities	299.105.833	-	-	149.552.917
Other assets	9.733.276	788.279	81.962	476.102
Total AFS	825.501.501	61.471.145	122.955.787	761.640.756
RSF				
HQLA	8.769.617	14.317.730	8.976.060	
Deposits held at financial institutions	655.270.102	9.316.358	1.779.613	330.718.872
Loans to non-financial corporate clients	64.174.687	8.009.016	-	36.091.852
Loans to sovereigns, PSEs, MDBs, and NDBs	-	-	-	-
Loans to retail and SMEs	27.019.115	5.376.935	-	16.198.025
Non HQLA securities	-	-	-	-
Derivatives	-	-	-	-
Other assets	68.399.873	56.517	119.287	68.757.677
Total AFS	823.633.394	37.076.556	10.874.960	451.766.426
Net stable funding ratio				169%

11. Remuneration policy

BBE considers the evaluation of staff members' performances as a means to improve and develop the effectiveness of the Bank, as well as a source of motivation for employees.

This has been reflected in a performance management and remuneration policy that highlights the responsibilities of employees and managers. It presents a set of guidelines to improve the Bank's performances through the evaluation and development of employees' performance.

To achieve this goal and define the general principles governing its *Remuneration policy*, while also meeting the requirements of the regulators, BBE's *Board of Directors* has created a *Remuneration committee* composed of non-executive directors. This committee meets once a year. Its overall mission is to make the necessary recommendations to the *Board of Directors* on the *Remuneration policy* for directors, members of the Management Committee, managers, some independent & control positions, or positions for which a possibility remains that such remuneration induces excessive risk-taking.
More specifically, the committee makes recommendations to the *Board of Directors* on the *Remuneration policy* to be carried out for non-executive Directors and members of the Management Committee, including the types of remuneration linked to benefits such as variable remuneration and incentive packages, to long-term benefits in kind, or in connection with pension plans and their statutes.
As far as the members of the Management Committee are concerned, the recommendations focus on at least the main contract conditions, including the core characteristics of pension plans and the various arrangements in the event of early termination of the contractual relationship. Opinions are also given on key elements for determining the remuneration, including the relative importance of each component of the remuneration structure and the performance criteria for variable elements of the remuneration, as well as benefits in kind.
Decisions are taken by a majority vote cast by members of the *Remuneration Committee*.

The two major principles of the *General Remuneration policy* in use are:

– The maximum percentage of *variable pay* (or *performance pay*) depending on the employee's position. This percentage is calculated on annual earnings (i.e. monthly salary x 13.92 for Brussels, x 13 for the Paris branch, and x 12 for the London branch). The following scale is applied:

Functions	Maximum bonus
Top Management	30%
Branch Manager	20%
Assistant Branch Manager, Manager Head of Commercial Head of HR	15%
Head of Sections	12%
Auditor, Compliance Officer, Commercial Officer Dealer	10%
Officers and Junior Officers	8%

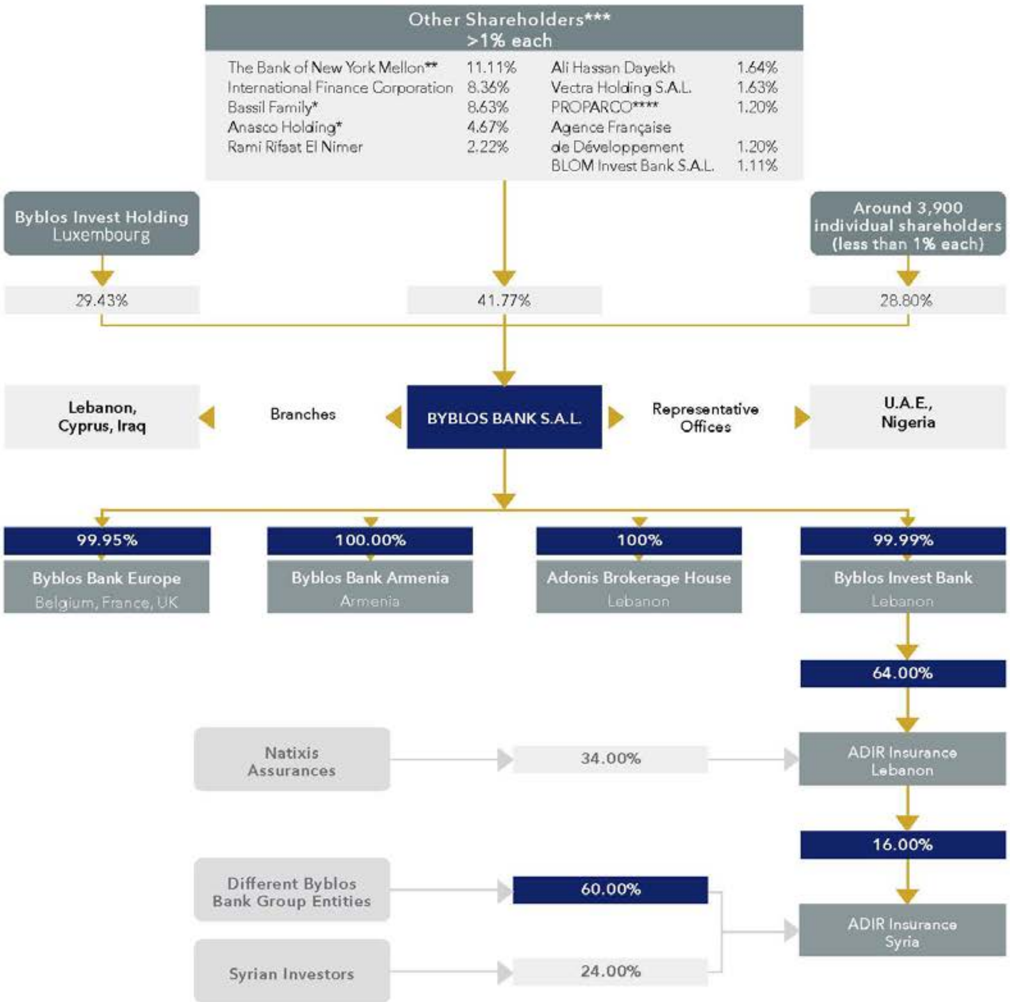
- A bonus table (in %) for the achieved grade for the Key Performance Indicators:

Grade achieved	% Bonus
0 – 1	0%
1.1 - 1.4999	0%
1.50 -1.999	0%
2 - 2.4999	0%
2.5 - 2.999	45%
3 - 3.4999	70%
3.5 - 3.999	85%
4	100%

- Each quantitative target is measured separately according to its specific impact; the final result is the sum of the objectives.

- The qualitative result is based on the average grade for each skill.

Annex 1



* *Major shareholders in Byblos Invest Holding.*
** *The Bank of New York Mellon is the depository bank for the GDR program.*
*** *Including preferred shares, as at 31 December 2018.*
**** *Société de Promotion et de Participation pour la Coopération Economique.*