LIBANK SAL
(LEVANT INVESTMENT BANK)

FINANCIAL STATEMENTS

31 DECEMBER 2012

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LIBANK SAL (LEVANT INVESTMENT BANK)

We have audited the accompanying financial statements of LiBank SAL (Levant Investment Bank) (the Bank), which comprise the statement of financial position as at 31 December 2012 and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the period from 30 July 2012 (date of incorporation) to 31 December 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRS), and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2012, and its financial performance and cash flows for the period then ended in accordance with International Financial Reporting Standards.

Emphasis of a matter

Without qualifying our opinion, we draw attention that the Bank's net asset value is less than its share capital due to the losses incurred during the period ended 31 December 2012 (startup period) in the amount of LL 2,261 million. In accordance with Article 134 of the Code of Money and Credit, the Bank should reconstitute its share capital within a maximum of one year from the statement of financial position date.

Ernst & Young

Semaan, Gholam & Co.

15 April 2013
Beirut, Lebanon

LiBank SAL (LEVANT INVESTMENT BANK)

INCOME STATEMENT

For the period from 30 July 2012 (date of incorporation) to 31 December 2012

	Notes	*Period ended 31 December 2012 LL (000)*
Interest and similar income	3	30,674
Interest and similar expense	4	(6,436)
Net interest income		**24,238**
Net fee and commission income (expense)	5	**(6,226)**
Net gain on financial assets designated at fair value through profit or loss	6	499,712
Net operating income		**517,724**
Personnel expenses	7	(499,624)
Depreciation of property and equipment	12	(2,648)
Other operating expenses	8	(2,276,026)
Total operating expenses		**(2,778,298)**
LOSS FOR THE PERIOD		**(2,260,574)**

The accompanying notes 1 to 24 form part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME
For the period from 30 July 2012 (date of incorporation) to 31 December 2012

	Period ended 31 December 2012 LL (000)
LOSS FOR THE PERIOD	**(2,260,574)**
Other comprehensive income	-
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(2,260,574)**

The accompanying notes 1 to 24 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 LL (000)
Assets		
Cash and balances with the Central Bank	19	1,344
Deposits with banks and financial institutions	10	6,174,070
Financial assets at fair value through profit or loss	11	31,651,751
Property and equipment	12	435,676
Intangible assets	13	24,144
Other assets	14	4,670,087
Total assets		42,957,072
Liabilities and equity		
Liabilities		
Due to shareholders	15	5,698
Other liabilities	16	211,948
Total liabilities		217,646
Equity		
Share capital	17	45,000,000
Loss for the period		(2,260,574)
Total equity		42,739,426
Total liabilities and equity		42,957,072

The financial statements were authorized for issue in accordance with the resolution of the Board of directors on 15 April 2013 by:

Antonios Hanna Ghorayeb
Chairman and General Manager

Salim Chaar
General Manager

STATEMENT OF CHANGES IN EQUITY

For the period from 30 July 2012 (date of incorporation) to 31 December 2012

	Share capital LL (000)	*Net loss for the period LL (000)*	*Total equity LL (000)*
Issuance of share capital	45,000,000	-	45,000,000
Total comprehensive loss for the period	-	(2,260,574)	(2,260,574)
Balance at 31 December 2012	45,000,000	(2,260,574)	42,739,426

STATEMENT OF CASH FLOWS

For the period from 30 July 2012 (date of incorporation) to 31 December 2012

	Notes	*From 30 July 2012 (inception date) to 31 December 2012 LL (000)*
OPERATING ACTIVITIES		
Loss for the period		(2,260,574)
Adjustments for:		
Depreciation of property and equipment	12	2,648
		(2,257,926)
Changes in operating assets and liabilities:		
Purchase of debt instruments at fair value through profit or loss		(31,651,751)
Other assets		(4,670,087)
Other liabilities		211,948
Net cash used in operating activities		(38,367,816)
INVESTING ACTIVITIES		
Purchase of property and equipment		(438,324)
Purchase of intangible assets		(24,144)
Net cash used in investing activities		(462,468)
FINANCING ACTIVITIES		
Payment of share capital	17	45,000,000
Due to shareholders	15	5,698
Net cash from financing activities		45,005,698
INCREASE IN CASH AND CASH EQUIVALENTS		6,175,414
Cash and cash equivalents at 30 July 2012 (inception date)		-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	19	6,175,414

The accompanying notes 1 to 23 form part of these financial statements.

1 CORPORATE INFORMATION

LiBank SAL (the "Bank") a Lebanese joint stock company, was incorporated in 2012 and registered under No. 1015811 at the commercial registry of Beirut and under No. 139 on the banks' list published by the Central Bank of Lebanon. The headquarters of the Bank are located in Down Town, Omar Daouk Street, Beirut, Lebanon.

The Bank provides a wide range of medium and long term banking services and is governed by the Lebanese laws especially the Commercial Law, the Money and Credit Act and the Legislative Decree No. 50 dated 15 July 1983 related to investment banks and to medium and long term credit banks in addition to the regulations of Central Bank of Lebanon and the Banking Control Commission.

The Bank is exempt from income taxes on profits as per the provisions of Legislative Decree No. 50 dated 15 July 1983 for a period of 7 years extending from the date of its establishment.

The Bank obtained the permit for commencement of activities from the Central Bank of Lebanon on 14 January 2013.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements are prepared under the historical cost convention as modified for the restatement of financial assets designated at fair value through profit or loss which are measured at fair value.

The financial statements and the relevant disclosures are presented in thousands of Lebanese Lira (LL (000)) except when otherwise indicated.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission.

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in the risk management note.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 Early adoption of IFRS 9

According to the Banking Control Commission Circular 265 dated 23 September 2010, the Bank adopted IFRS 9 "Financial Instruments" as issued in November 2009 and revised in October 2010, and the related consequential amendments in advance of its effective date (annual periods beginning on or after January 2015), as earlier application is permitted.

2.3 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. This listing of standards and interpretations issued are those that the Bank reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Bank intends to adopt these standards when they become effective.

IAS 1 *Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)*

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example net gain on hedge of net investment, exchange differences on translation of foreign-operations and net movement on cash flow hedges) would be presented separately from items that will never be reclassified (for example actuarial gains and losses on defined benefit plans, revaluation of land and buildings and net loss or gain on financial assets at fair value through OCI). The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IAS 19 *Employee Benefits* (Revised)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IAS 28 *Investments in Associates and Joint Ventures* (as revised in 2011)
As a consequence of the new IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities,* IAS 28 *Investments in Associates* has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The revised standard is not expected to impact the Bank's financial position or performance and becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 *Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation.* The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 11 *Joint Arrangements*
IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-Controlled Entities — Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 is not expected to impact the Bank's financial position or performance and becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 *Disclosure of Involvement with Other Entities*
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Bank's financial position or performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 13 *Fair Value Measurement*
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard will require the Bank to review its fair value measurement policies across all asset and liabilities classes. The Bank is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012
These improvements will not have an impact on the Bank, but include:

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

IAS 1 *Presentation of Financial Statements*
This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 32 *Financial Instruments, Presentation*
This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*.

IAS 34 *Interim Financial Reporting*
The amendment aligns the disclosure requirements for total segment assets with total segment liabilities in interim financial statements. This clarification also ensures that interim disclosures are aligned with annual disclosures.

2.4 Summary of significant accounting policies

(1) Foreign currency translation

(i) Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. All differences arising on non-trading activities are taken to "Other operating income or loss" in the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment, at which time they are recognized in the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using exchange rates as at the dates of the initial transactions.

(2) Financial assets and financial liabilities

(i) Recognition and initial measurement
A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification
At inception a financial asset is classified as measured at amortized cost or fair value.

Amortized cost
A financial asset qualifies for amortized cost measurement only if it meets both of the following conditions:

- the asset is held within a business model whose objective its to hold assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal and interest.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(ii) Classification (continued)
The Bank makes an assessment of a business model at a portfolio level as this reflects best the way the business is managed and information is provided to management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Bank considers:

- management's stated policies and objectives for the portfolio and the operation of these policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

Financial assets at fair value through profit or loss
Financial assets classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the financial assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in "Net gain or loss on financial assets designated at fair value through profit or loss". Interest earned or incurred is accrued in "Interest income" respectively using the effective interest rate, while dividend income is recorded in "Net trading income" when the right to the payment has been established.

(iii) Reclassification

Financial assets
Financial assets are not reclassified subsequent to their initial recognition, except when the Bank changes its business model for managing financial assets.

The Bank shall not reclassify any financial liability.

Financial liabilities
The Bank classifies its financial liabilities as measured at amortized cost.

(iv) Derecognition
The Bank derecognizes a financial asset when the contractual rights to the cash flows from, the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assume) is recognized in profit or loss.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(iv) Derecognition (continued)

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

In transactions in which the Bank neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled or expired.

(v) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the recognized amounts and it intends either to settle on a net basis to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRSs, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

(vi) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vii) Impairment of financial assets

The Bank assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtor is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial restructuring and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognized in the income statement.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(vii) Impairment of financial assets (continued)

(i) Financial assets carried at amortized cost
For financial assets carried at amortized cost, the Bank first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense".

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Bank has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new effective interest rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank's and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(viii) Fair value measurement
Fair value is the amount for which an asset could be exchanged, or liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Bank measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(2) Financial assets and financial liabilities (continued)

(viii) Fair value measurement (continued)
If a market for a financial instrument is not active, then the Bank establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analysis and option pricing models. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Bank calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best of the fair value of a financial instrument at initial recognition is the transaction price, i.e. the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument, i.e. without modification or repackaging, or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instruments is initially obtained from a valuation model subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Assets and long positions are measured at a bid price, liabilities and short positions are measured at an asking price. Where the Bank has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate.

(3) Recognition of income and expenses
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expenses
For all financial instruments measured at amortized cost, and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(4) Cash and cash equivalents
Cash and cash equivalents as referred to in the statement cash flows comprise balances with original maturities of a period of three months or less.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(5) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment in value. Replacements or major inspection costs are capitalized when incurred and if it is probable that future economic benefits associated with the item will flow to the entity and the cost of the item can be measured reliably.

Depreciation is calculated on a straight line basis to write down the cost of property and equipment to their residual values over their estimated useful lives. Freehold land is not depreciated. The estimated useful lives are as follows:

Computer equipment	5 years
Office furniture and equipment	12.5 years
Vehicles	10 years

The assets' residual values, useful lives and method of depreciation are reviewed at each financial period and adjusted prospectively, if appropriate. Impairment reviews are performed when there are indications that the carrying value may not be recoverable. Impairment losses are recognized in the income statement as an expense.

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "Net profit from sale or disposal of other assets" in the income statement in the year the asset is derecognized.

(6) Intangible assets

The Bank's other intangible assets include the value of software license. An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

Software	5 years

(7) Asset management

The bank provides asset management services to its clients. The related assets are not recorded on the Bank's statement of financial position but are recorded as off-balance sheet items.

(8) Retirement benefits obligation

End-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(9) Provision for risks and charges

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement

2.5 Significant accounting judgments and estimates

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

Going concern

The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets

The Bank exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities. The valuation of financial instruments is described in more details in the notes.

2 BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgments and estimates (continued)

Impairment losses on loans and advances
The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

3 INTEREST AND SIMILAR INCOME

	From 30 July2012 (inception date) to 31 December 2012 LL (000)
Deposits with banks	**30,674**

4 INTEREST AND SIMILAR EXPENSE

	From 30 July 2012 (inception date) to 31 December 2012 LL (000)
Deposits with banks	**6,436**

5 NET FEE AND COMMISSION INCOME (EXPENSE)

	From 30 July2012 (inception date) to 31 December 2012 LL (000)
Custody fees	**5,199**
Other charges	**1,027**
	6,226

6 NET GAIN ON FINANCIAL ASSETS DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

	From 30 July 2012 (inception date) to 31 December 2012 LL (000)
Interest and similar income from debt instruments at fair value through profit or loss	**496,559**
Net gain on foreign exchange	**37,581**
Net unrealized revaluation loss on financial assets designated at fair value through profit or loss	**(34,428)**
	499,712

7 PERSONNEL EXPENSES

	From 30 July2012 (inception date) to 31 December 2012 LL (000)
Wages and salaries	**227,851**
Social security costs	**29,251**
Chairman and General Manager remunerations	**219,844**
Transportation allowances	**10,875**
Other employee benefits	**11,803**
	499,624

8 OTHER OPERATING EXPENSES

	From 30 July 2012 (inception date) to 31 December 2012 LL (000)
Legal fees	**208,490**
Travel expenses	**117,762**
Telecommunications charges	**10,629**
Professional fees	**149,007**
Registration fees	**25,705**
Rent expenses	**124,031**
Pre operating expenses	**465,038**
Founders compensation	**904,500**
Insurance expenses	**3,825**
Repair and maintenance	**2,073**
Advertising fees	**10,737**
Taxes and charges	**67,837**
Other expenses	**186,392**
	2,276,026

The Ordinary General Assembly held on 8 November 2012 resolved to grant a financial reward amounting to US$ 600,000 (LL (000) 904,500) and disbursed to the persons who participated in the establishment of the Bank and empowered the Chairman or any other person to whom the Chairman may delegate such prerogatives, to distribute such reward.

9 INCOME TAX

As per the provisions of legislative decree no. 50 dated 15 July 1983, the Bank is exempt from income taxes stipulated in legislative decree no.144 dated 12 June 1959 for a period of 7 years starting from the date of its establishment.

10 DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	2012 *LL (000)*
Banks - current accounts	**1,650,083**
Banks - term placements with original maturities less than 3 months	**4,522,500**
Accrued interest receivable	**1,487**
	6,174,070

11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 *LL (000)*
Lebanese treasury bills – denominated in Lebanese Lira	**18,123,812**
Lebanese treasury bills - Eurobonds	**13,527,939**
	31,651,751

Lebanese Treasury Bills denominated in Lebanese Lira

Maturity date	*Nominal amount LL (000)*	*Coupon rate*	*Cost LL (000)*	*Fair value LL (000)*	*Unrealized gain (loss) LL (000)*
2 July 2015	500,000	6.16%	500,071	499,748	(323)
2 July 2015	500,000	6.16%	500,071	499,748	(323)
27 August 2015	2,000,000	6.18%	2,001,530	1,994,764	(6,766)
3 September 2015	3,000,000	6.50%	3,012,117	3,017,009	4,892
18 December 2017	3,000,000	7.90%	3,142,200	3,150,915	8,715
12 April 2018	3,000,000	7.90%	3,133,123	3,141,964	8,841
18 October 2020	2,500,000	7.80%	2,502,937	2,505,082	2,145
8 September 2022	3,000,000	8.24%	3,012,135	3,012,469	334
			17,804,184	**17,821,699**	**17,515**
Accrued interest receivable				**302,113**	
				18,123,812	

Lebanese Treasury Bills - Eurobonds

Maturity date	*Nominal amount USD*	*Coupon rate*	*Cost USD*	*Fair value USD*	*Unrealized gain (loss) USD*
12 October 2017	1,000,000	5.00%	990,000	1,001,850	11,850
4 October 2022	2,000,000	6.10%	2,047,500	2,033,460	(14,040)
4 October 2022	1,000,000	6.10%	1,027,500	1,016,730	(10,770)
27 November 2026	1,800,000	6.60%	1,856,250	1,829,664	(26,586)
29 November 2027	1,000,000	6.75%	1,004,500	1,009,530	5,030
29 November 2027	2,000,000	6.75%	2,019,000	2,019,060	60
			8,944,750	**8,910,294**	**(34,456)**
			Equivalent in LL (000)	**13,432,268**	**(51,943)**
Accrued interest receivable				**95,671**	
				13,527,939	
			Total in LL (000)	**31,651,751**	**(34,428)**

12 PROPERTY AND EQUIPMENT

	Computer hardware LL (000)	*Motor vehicle LL (000)*	*Furniture and fixture LL (000)*	*Equipment LL (000)*	*Advances on property and equipment LL (000)*	*Total LL (000)*
Cost :						
Additions during the period	199	65,441	45,053	13,631	314,000	438,324
At 31 December 2012	**199**	**65,441**	**45,053**	**13,631**	**314,000**	**438,324**
Depreciation:						
Charge for the period	(1)	(1,609)	(942)	(96)	-	(2,648)
At 31 December 2012	**(1)**	**(1,609)**	**(942)**	**(96)**	-	**(2,648)**
Net carrying amount:						
At 31 December 2012	**198**	**63,832**	**44,111**	**13,535**	**314,000**	**435,676**

Advances on property and equipment represents mainly advances against computer software amounting to LL (000) 148,416 and advances against computer equipment amounting to LL (000) 150,300 as at 31 December 2012.

13 INTANGIBLE ASSETS

	2012 Software LL (000)
Cost:	
Balance as at 30 July 2012 (inception date)	-
Additions during the period	**24,144**
At 31 December 2012	**24,144**

14 OTHER ASSETS

	2012 LL (000)
Mandatory deposit with the Lebanese Treasury (a)	**4,500,000**
Prepayments	**101,861**
Advances on wages and salary	**67,563**
Others	**663**
	4,670,087

(a) This deposit represents a blocked amount with the Lebanese Treasury made by the Bank on its constitution date (according to paragraph b of Article 132 of the Code of Money and Credit) which will only be recovered upon the Bank's liquidation.

15 DUE TO SHAREHOLDERS

	2012 LL (000)
Dr Antonios Ghorayeb	**1,175**
Edafi Holding SAL	**4,523**
	5,698

16 OTHER LIABILITIES

	2012 LL (000)
Due to National Social Security Fund	30,700
Taxes on salaries and remuneration	51,718
Non resident tax	71,107
Other taxes	12,519
Other payable	45,904
	211,948

17 SHARE CAPITAL

As at 31 December 2012, the Bank's share capital consisted of 450,000 shares of LL (000) 100 each authorized issued and fully paid

18 RELATED PARTY TRANSACTIONS

Related parties represent associated companies, major shareholders, directors and key management personnel of the Bank and entities controlled or significantly influenced by such parties.

Transactions with related parties included in the statement of comprehensive income are as follows:

	From 30 July 2012 (inception date) to 31 December 2012 LL (000)
Chairman and General Manager remuneration (note 7)	219,844
Founders compensation (note 8)	904,500
	1,124,344

Balances with related parties are detailed under note 15 to the financial statements.

19 CASH AND CASH EQUIVALENTS

	2012 LL (000)
Cash	1,344
Deposits with banks with original maturity less than 3 months	6,174,070
	6,175,414

20 COMMITMENTS AND CONTINGENCIES

	2012
	LL (000)
Future minimum lease payments:	
Within one year	**211,050**
After one year but not more than five years	-
More than 5 years	-
Total operating lease contracted for at the statement of financial position date	**211,050**

21 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy

The Bank uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

31 December 2012	*Level 1* *LL (000)*	*Level 2* *LL (000)*	*Total* *LL (000)*
Financials assets at fair value through profit or loss:			
Lebanese treasury bills – Eurobonds	**13,527,939**	-	**13,527,939**
Lebanese treasury bills denominated in Lebanese Lira	-	**18,123,812**	**18,123,812**
	13,527,939	**18,123,812**	**31,651,751**

The book and fair values of the financial assets and liabilities not carried at fair value as of 31 December are as follows:

	2012	
	Fair value *LL (000)*	*Book value* *LL (000)*
Financial assets		
Cash and balances with the Central bank	**1,344**	**1,344**
Deposits with banks and financial institutions	**6,174,070**	**6,174,070**
	6,175,414	**6,175,414**
Financial liabilities		
Due to shareholders	**5,698**	**5,698**

22 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled.

The maturity profile of the Bank's assets and liabilities as at 31 December 2012 was as follows:

As at 31 December 2012	*Less than 12 months LL (000)*	*Over 12 months LL (000)*	*Total LL (000)*
Assets			
Cash and balances with the Central bank	**1,344**	-	**1,344**
Deposits with banks and financial institutions	**6,174,070**	-	**6,174,070**
Financial assets at fair value through profit or loss	-	**31,651,751**	**31,651,751**
Property and equipment	-	**435,676**	**435,676**
Intangible assets	-	**24,144**	**24,144**
Other assets	-	**4,670,087**	**4,670,087**
Total assets	**6,175,414**	**36,781,658**	**42,957,072**
Liabilities			
Due to shareholders	**5,698**	-	**5,698**
Other liabilities	**211,948**	-	**211,948**
Total liabilities	**217,646**	-	**217,646**
Net	**5,957,768**	**36,781,658**	**42,739,426**

23 RISK MANAGEMENT

23.1 Introduction

Risk is inherent in the Bank's activities. The Bank was incorporated during 2012 and is currently establishing its risk management function. The Bank is exposed to credit risk, liquidity risk, prepayment risk, operating risk and market risk. The Board of Directors is ultimately responsible for identifying and controlling risks.

23.2 CREDIT RISK

Credit risk is the risk that the Bank will incur a loss because its counterparties fail to discharge their contractual obligations. The Bank manages and controls credit risk by limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties.

Credit quality per class of financial assets

The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counterparties, and continuously assessing the creditworthiness of counterparties. The Bank seeks to manage its credit risk exposure through diversification to avoid undue concentrations of risks with counter parties in specific locations or businesses.

23 RISK MANAGEMENT (continued)

23.2 CREDIT RISK (continued)

Risk concentrations, maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The following table shows the maximum exposure to credit risk for the component of the statement of financial position by resident and non-resident.

	2012		
	Resident LL (000)	*Non resident LL (000)*	*Gross maximum exposure LL (000)*
Deposits with banks and financial institutions	6,174,070	-	6,174,070
Financial assets at fair value through profit or loss	31,651,751	-	31,651,751
Total credit exposure	37,825,821	-	37,825,821

Credit quality by class of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings.

	2012				
	Neither past due nor impaired				
	High grade LL (000)	*Standard grade LL (000)*	*Past due but not impaired LL (000)*	*Individually impaired LL (000)*	*Total LL (000)*
Deposits with banks and financial institutions	6,174,070	-	-	-	6,174,070
Financial instruments at fair value through profit or loss	31,651,751	-	-	-	31,651,751
	37,825,821	-	-	-	37,825,821

Impairment assessment

For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the counterparty;
- A breach of contract such as a default of payment;
- It becomes probable that the counterparty will enter bankruptcy or other financial reorganization; and
- Observable data that suggests that there is a decrease in the estimated future cash flows from the asset.

23.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its capital base, manages assets with liquidity in mind, maintaining a healthy balance of cash and cash equivalents and readily marketable securities.

23 RISK MANAGEMENT (continued)

23.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

The table below summarizes the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December.

	31 December 2012					
	Up to 1 month LL (000)	*1 to 3 months LL (000)*	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets						
Deposits with banks and financial institutions	6,187,447	-	-	-	-	6,187,447
Financial assets at fair value through profit or loss	30,800	282,900	1,818,307	18,440,101	28,564,864	49,136,972
Total undiscounted financial assets	**6,218,247**	**282,900**	**1,818,307**	**18,440,101**	**28,564,864**	**55,324,419**
Financial liabilities						
Due to shareholders	5,698	-	-	-	-	5,698
Other liabilities	112,226	28,615	71,107	-	-	211,948
Total undiscounted financial liabilities	**117,924**	**28,615**	**71,107**	-	-	**217,646**
Net undiscounted financial assets	**6,100,323**	**254,285**	**1,747,200**	**18,440,101**	**28,564,864**	**55,106,773**

23.4 MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

(a) Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The bank's interest rate sensitivity gap based on the earlier of contractual repricing or maturity date at 31 December was as follows:

	31 December 2012					
	Up to 1 month LL (000)	*1 to 3 months LL (000)*	*3 to 12 months LL (000)*	*1 to 5 years LL (000)*	*Over 5 years LL (000)*	*Total LL (000)*
Financial assets						
Deposits with banks and financial institutions	6,174,070	-	-	-	-	6,174,070
Financial assets at fair value through profit or loss	-	-	-	10,832,903	20,818,848	31,651,751
Total undiscounted financial assets	**6,174,070**	-	-	**10,832,903**	**20,818,848**	**37,825,821**
Financial liabilities						
Due to shareholders	5,698	-	-	-	-	5,698
Other liabilities	112,226	28,615	71,107	-	-	211,948
Total undiscounted financial liabilities	**117,924**	**28,615**	**71,107**	-	-	**217,646**
Net undiscounted financial assets	**6,056,146**	**(28,615)**	**(71,107)**	**10,882,903**	**20,818,848**	**37,608,175**

23 RISK MANAGEMENT (continued)

23.4 MARKET RISK (continued)

(b) Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Breakdown of assets and liabilities by currency as at 31 December:

	2012			
	LL *LL (000)*	*USD* *LL (000)*	*EUR* *LL (000)*	*Total* *LL (000)*
Assets				
Cash and balances with the Central Bank	423	279	642	1,344
Deposits with banks and financial institutions	1,485,304	4,688,766	-	6,174,070
Financial assets at fair value through profit or loss	18,123,812	13,527,939	-	31,651,751
Property and equipment	420,392	15,284	-	435,676
Intangible assets	24,144	-	-	24,144
Other assets	4,654,077	16,010	-	4,670,087
Total assets	24,708,152	18,248,278	642	42,957,072
Liabilities and equity				
Liabilities				
Due to shareholders	-	5,698	-	5,698
Other liabilities	211,948	-	-	211,948
Total liabilities	211,948	5,698	-	217,646
Net exposure	24,496,204	18,242,580	642	42,739,426

The Bank's exposure to currency risk
Balances denominated in US Dollars are not considered to constitute a significant currency risk as the exchange rate of the Lebanese Lira against the US Dollar has remained stable in recent years and therefore the bank has no significant currency exposure.

23.5 OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but it endeavors to manage these risks through a control framework and by monitoring and responding to potential risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

23.6 PREPAYMENT RISK

Prepayment risk is the risk that the Bank will incur a financial loss because counterparties repay or request repayment earlier than expected. Market conditions causing prepayment is not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income not material after taking into account the effect of any prepayment penalties.

24 CAPITAL MANAGEMENT

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements and that the Bank maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities.