BANQUE BEMO S.A.L.

(Registered as a joint stock company under the laws of the Republic of Lebanon)
List of Banks Nº 93; Commercial Registry: Beirut 17837

U.S.$35,000,000
7% Preferred Shares

Perpetual Non-Cumulative
"Preferred Shares Issuance of Year 2013"
Issue Price: U.S.$100.00 per share

Banque BEMO SAL (the "Bank" or the "Issuer"), a bank incorporated in the Republic of Lebanon as a joint-stock company, is offering, through the "Preferred Shares Issuance of Year 2013", 350,000 Perpetual Non-Cumulative Preferred Shares to Eligible Investors. Each share has a par value of LBP 1,000.

Annual distribution, if any, of preferred dividends in respect of "Preferred Shares Issuance of Year 2013" ("Distribution") shall be payable, in U.S. Dollars, on the terms of and subject to the conditions described herein, specifically under the section entitled *[Description of the Share Capital of Banque BEMO SAL/Description of the "Preferred Shares Issuance of Year 2013"/ Distributions]*. It is the intention of the Board of Directors of the Bank to recommend to the Bank's shareholders that they approve annual Distribution in respect of the "Preferred Shares Issuance of Year 2013", subject to the availability of sufficient Distributable Net Income for the relevant year. When declared, the Distribution shall be payable within a two-month period from the date of the Annual Ordinary General Assembly of Shareholders which approves the relevant annual accounts of the Bank.

In the event of any dissolution, liquidation or winding-up of the Bank, the owners of the still outstanding Preferred Shares will be entitled to be paid out of the Bank's assets available for distribution, and before the owners of "Ordinary" Shares, the Lebanese Pound equivalent of the subscription price of the Preferred Shares, i.e. U.S.$ 100 per Preferred Share. This amount might however be amended to duly reflect any division or merger of the Bank's Shares or any approved but unpaid Dividends to the owners of the Preferred Shares.

The "Preferred Shares Issuance of Year 2013" are expected to be issued on or about January 17, 2014 (the "Issue Date") and will be of perpetual existence; however, the Bank may, in its sole and entire discretion, subject to certain conditions, purchase from the owners of the "Preferred Shares Issuance of Year 2013", all or any part (but not less, each time, than 20 percent of the original size of the issue) of "Preferred Shares Issuance of Year 2013". The first purchase operation can be made within a two-month period from the date of the meeting of the Annual Ordinary General Assembly which shall approve the annual financial accounts of fiscal year 2018. In subsequent years, the purchase operations could be made within the same two-month period. Moreover, these purchase operations can be made at any time from the date of issuance of the Preferred Shares in case of an occurrence of a regulatory event or of an amendment to legal or regulatory texts, whatever the form, nature or source of such an amendment, which could, explicitly or implicitly, lead to rule out the Bank's right to account for the Preferred Shares as Capital Funds or to rule out the Bank's right to maintain the share' premiums in foreign currency. In each case, the purchase price is always equal to the issuance price of the Preferred Shares plus approved and unpaid Dividends on the Preferred Shares.

Refer to "Certain Investment Considerations" for a discussion of certain factors to be considered in connection with investing in the "Preferred Shares Issuance of Year 2013". The "Preferred Shares Issuance of Year 2013" are not, and may not be, offered or sold within the United States of America or to, or for the account of, any US person. Refer to "Placement of the "Preferred Shares Issuance of Year 2013".

Issuance of the "Preferred Shares Issuance of Year 2013" has been approved by the Extraordinary General Assembly of Shareholders of the Bank on November 25th, 2013 and by Banque du Liban, the Central Bank of Lebanon, acting through its Central Council on December 17th, 2013.

Placement Agent: Banque BEMO SAL

The date of this Private Placement Memorandum is December 16th, 2013.

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IMPORTANT NOTICE

This Private Placement Memorandum contains information provided by the Issuer in connection with the offering of its "Preferred Shares Issuance of Year 2013". The Issuer confirms that all information regarding the Bank and the "Preferred Shares Issuance of Year 2013" contained in this Private Placement Memorandum is true and accurate in all material respects as of the date of this Private Placement Memorandum *(or, if different, the date as of which such information is stated herein)*, and does not omit any material facts the omission of which would make any statement of fact or opinion relating thereto and contained herein misleading.

No person has been authorized to give any information or make any representation other than those contained in this Private Placement Memorandum; and, if given or made, such information or representations must not be relied upon as having been authorized.

This Private Placement Memorandum is not intended to provide the sole basis of any credit or other evaluation and should not be considered as a recommendation by the Bank, or by any of their respective officers, employees, agents or affiliates, from whom any recipient of this Private Placement Memorandum should purchase the "Preferred Shares Issuance of Year 2013". Each prospective subscriber in the "Preferred Shares Issuance of Year 2013" shall be solely responsible for making its own independent appraisal of the Bank, the terms of the "Preferred Shares Issuance of Year 2013" and the offering thereof, including the risks and merits involved, and all such other matters *(among which those described below under "Investment Considerations" and all other information set forth in this Private Placement Memorandum)* as such prospective subscriber deems appropriate for determining whether to purchase "Preferred Shares Issuance of Year 2013". When purchasing any "Preferred Shares Issuance of Year 2013", each subscriber shall be required to certify that (a) it is a sophisticated investor with sufficient knowledge of and experience in business and financial matters in general, the political and economic conditions prevailing in the Lebanese Republic and the Middle East Region in particular, and that (b) it is capable of independently investigating and evaluating the risks involved in purchasing and owning investments such as the "Preferred Shares Issuance of Year 2013". The subscriber shall also certify that it is purchasing "Preferred Shares Issuance of Year 2013" solely on the basis of its own independent appraisal of the information and matters as it deems appropriate in determining whether to purchase "Preferred Shares Issuance of Year 2013", without relying upon any representation or warranty, expressed or implied, made to it by the Issuer, or by any other person with respect thereto.

Potential subscribers are advised that the purchase of the "Preferred Shares Issuance of Year 2013" is suitable only for, and should be made only by, Eligible Investors who can bear the risks of limited liquidity and who understand and can bear the financial and other risks of investing in the "Preferred Shares Issuance of Year 2013" for an indefinite period of time. Each prospective purchaser is advised to consult with its own counsel, accountant or business advisor on the legal, fiscal and financial implications of purchasing, holding and selling the "Preferred Shares Issuance of Year 2013".

Neither the delivery of this Private Placement Memorandum nor the issue, offer, sale or delivery of any "Preferred Shares Issuance of Year 2013" shall imply that any information contained in this Private Placement Memorandum is correct as of any time subsequent to the date hereof or the date at which such information was herein stated to be given.

This Private Placement Memorandum does not constitute an offer to sell or a solicitation of an offer to buy any "Preferred Shares Issuance of Year 2013" in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Private Placement Memorandum and the offer or sale of the "Preferred Shares Issuance of Year 2013" may be restricted by law in certain jurisdictions. No action has been taken by the Issuer, or by any other person which would permit a public offering of any "Preferred Shares Issuance of Year 2013" or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no "Preferred Shares Issuance of Year 2013" may be offered or sold directly or indirectly, and neither this Private Placement Memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable securities laws and regulations.

The "Preferred Shares Issuance of Year 2013" have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended *(the "Securities Act")*, nor with any regulatory authority in the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. person (*as such terms are defined in Regulations S under the Securities Act)*, and will only be sold to Eligible Investors outside the United States in offshore transactions in reliance upon Regulation S. Furthermore, none of the United States Securities and Exchange Commission, or any other United States federal or state securities commission or regulatory authority or any regulatory authority or agency of any other jurisdiction has recommended or approved the issuance of the "Preferred Shares Issuance of Year 2013" or passed upon accuracy or adequacy of this Private Placement Memorandum.

For description of certain restrictions on offers and sales of the "Preferred Shares Issuance of Year 2013" and on distribution of this Private Placement Memorandum, refer to "Placement of the Preferred Shares Issuance of Year 2013".

THE CENTRAL BANK OF LEBANON (BANQUE DU LIBAN), HAS NOT REVIEWED THE INFORMATION CONTAINED IN THIS PRIVATE PLACEMENT MEMORANDUM AND TAKES NO RESPONSIBILITY FOR THE INFORMATION HEREIN CONTAINED OR FOR THE MERITS OF ANY OFFERING OF "PREFERRED SHARES ISSUANCE OF YEAR 2013" HEREUNDER.

The "Preferred Shares Issuance of Year 2013" are being offered for sale by the Bank to Eligible investors in offshore transactions outside the United States, on a when, as and if issue basis, subject to prior sale or withdrawal, cancellation or modification. An Eligible Investor is required to sign an "Irrevocable Undertaking to Subscribe", substantially in the form of Exhibit B hereto as a condition to making an investment in the "Preferred Shares Issuance of Year 2013".

It is the intention of the Bank to list the Preferred Shares Issuance of Year 2013 on the Beirut Stock Exchange by maximum February 28th, 2014.

The Preferred Shares will be issued in registered form in the respective names of the purchasers thereof in the shares registry maintained by Midclear S.A.L. in respect to the Bank's share capital. Interests in the "Preferred Shares Issuance of Year 2013" will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear SAL. Preferred Shares Issuance of Year 2013 will not be issued in definitive form.

PRESENTATION ON FINANCIAL INFORMATION

A copy of the audited consolidated financial statements of the Bank for the years ended December 31, 2011 and 2012 and the un-audited financial statements for June 30, 2013 are included in this document. The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and the regulations of the Central Bank and the Banking Control Commission, and include the results of the Bank and its consolidated subsidiaries BEMO Securitization SAL, Ferticed Limited Holding and Depository & Custody Company S.A.L. The Bank maintains its accounts in Lebanese Pounds. For ease of presentation, certain financial information included herein may be presented in U.S. Dollars. Unless otherwise stated in this document, such financial information (i) is extracted from the audited financial statements of the Bank for the years ended December 31, 2011 and 2012 and the un-audited financial statements for June 30, 2013; (ii) has been translated from LBPs into US Dollars at the following closing rates of exchange as reported by the Central Bank.

The following rate of exchange was used for the financial statements' figures:

Average Exchange Rate

Year	US$1 equivalent
December 31, 2011	LBP 1,507.5
December 31, 2012	LBP 1,507.5
June 30, 2013	LBP 1,507.5

Source: Central Bank of Lebanon

These translations into US Dollars are presented solely for the convenience of the readers of this document and no representation is made that any amount in LBP's or US Dollars mentioned in this document has been, could have been or could be, converted into US Dollars or LBPs, as the case may be, at any particular rate or at all. For the purposes of this document, unless otherwise specified or the context otherwise requires, references to "US Dollars", "USD" and "US$" are to the lawful currency of the US, and "LBPs" are to the lawful currency of the Republic of Lebanon.

Certain monetary amounts included in this document have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an exact arithmetic aggregation of the figures that precede them.

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GLOSSARY OF DEFINED TERMS

For the purposes of this Private Placement Memorandum, the following terms shall have the meanings set forth below:

"Adjustment Event" means any stock split or reserve stock split affecting the Bank's share capital and the "Preferred Shares Issuance of Year 2013".

"Additional Tier I Capital" means the additional Tier I Capital of the Bank as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Additional Tier I capital shareholders cash contribution to capital subject to interest payments, non-cumulative perpetual preferred shares, and financial instruments that: (i) are issued and fully paid, and (ii) are permanent, subject to early redemption at the Issuer's discretion following five years from their issue date and after exchanging such instruments with equivalent financial instruments and minority interest accepted within Additional Tier I Capital.

"Aggregate Issue Price" means, with respect to the "Preferred Shares Issuance of Year 2013" subscribed for by any Eligible Investor, the amount in U.S. Dollars equal to the product of the number of such "Preferred Shares Issuance of Year 2013" times the Issue Price.

"Bank" means Banque BEMO SAL, a bank incorporated in the Lebanese Republic with limited liability, together with, where appropriate in the context, the Bank's consolidated subsidiaries: BEMO Securitization SAL, Ferticed Limited Holding and Depository & Custody Company S.A.L.

"Bankdata" means Bankdata Financial Services WLL, a Lebanese company providing rankings and financial analysis for banks and financial institutions in Lebanon.

"Basel Accords" refer to the banking supervision accords (recommendations on banking regulations)—Basel I, Basel II and Basel III—issued by the Basel Committee on Banking Supervision (BCBS) of the Bank for International Settlements, as in effect from time to time.

"By laws" means, the by-laws of the Bank as amended to reflect the resolutions adopted by the shareholders of the bank at the Extraordinary General Assembly held on November 25, 2013, to authorize the issuance of the "Preferred Shares Issuance of Year 2013" and as further amended or supplemented from time to time.

"Central Bank" means *"Banque du Liban"*, the central bank of the Lebanese Republic.

"Common Equity Tier I" means the Bank's Common Equity Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Common Equity Tier I capital includes paid-up share capital, issue premiums, shareholders cash contribution to capital not subject to interest payments, legal and statutory reserves (including reserves for unspecified banking risks but excluding reserves allocated for liquidation of real estate properties), retained earnings, funds allocated for investments in real estate properties and minority interests accepted within Common Equity.

"Confirmation EGA" means the General Assembly of Shareholders of the Bank held to confirm and verify the due issuance of the "Preferred Shares Issuance of Year 2013", which is expected to be held on January 17th, 2014.

"Distributable Net Income for the Year" means, for any year, the Bank's net income for such year, calculated after deduction of legal reserves and reserves for unspecified banking risks, as set out in the Bank's audited unconsolidated financial statements as of the end of such year, and as approved by the shareholders of the Bank at the Annual Ordinary General Assembly (or any other General Assembly).

"Eligible Investors" means any person who is not a U.S. citizen, Chairman or member of the Board of Directors of the Issuer, the General Manager of the Issuer, spouse or minor child of aforementioned persons or any person acting on their behalf.

"Escrow Agent" means Banque BEMO SAL in its capacity as escrow agent for the Aggregate Issue Price paid by each subscriber in connection with his subscription in "Preferred Shares Issuance of Year 2013".

"Final Allotment Date" means the final date of the Official Subscription Period, which is expected to be ***December 23, 2013 and*** on which the Bank shall finally accept or reject each Irrevocable Undertaking to Subscribe, in whole or in part, and allot the "Preferred Shares Issuance of Year 2013" to Eligible Investors.

"Deed of Irrevocable Undertaking to Subscribe" or *"Irrevocable Undertaking to Subscribe"* means a purchase application in the prescribed form for the subscription in the "Preferred Shares Issuance of Year 2013", a copy of which is attached to this Private Placement Memorandum as Exhibit B.

"Issuance of Year 2013 Distribution", "Distributions" and *"Dividends"* have the meaning assigned to them on the front cover of this Private Placement Memorandum, subject to adjustments to reflect the occurrence of an Adjustment Event. "Preferred Shares Issuance of Year 2013 Distributions" has the same meaning.

"Issuance of Year 2013 Liquidation Preference" means, in respect of any "Preferred Shares Issuance of Year 2013", the amount in Lebanese Pounds, which the owners of such Shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders, before any payment shall be made on the Ordinary Shares, in the event of any liquidation, dissolution or winding-up of the Bank. This amount shall equal the sum of (i) the Lebanese pound equivalent of USD 100.00 per share, subject to adjustment to reflect the occurrence of an Adjustment Event, plus (ii) all declared but unpaid Dividends on the "Preferred Shares Issuance of Year 2013".

"Issue Date" means **January 17, 2014** or such other date as shall be determined by the Bank following the fulfilment of all conditions precedent to the Issuance of the "Preferred Shares Issuance of Year 2013".

"Issue Price" means USD 100.00 per share.

"Issue Premium" means the balance of the issue price in excess of the par value of each "Preferred Shares Issuance of Year 2013". It is expected that the Issue Price, consisting of the nominal value and the premium, will constitute Tier 1 and Tier 2 Capital.

"Issuer" means the Bank.

"Law 308" means Law No. 308 of the Lebanese Republic, dated April 3, 2001, relating to the issuance by banks of shares and dealing therein, the issuance by banks of bonds and the ownership by banks of real property.

"Lebanese Pounds" means the official currency of the Lebanese Republic.

"Midclear" means Midclear S.A.L, a joint stock company organized under the laws of the Lebanese Republic and owned 99 per cent by the Central Bank of Lebanon, and which acts as the central depositary and clearing house in the Lebanese Republic.

"Official Subscription period" means the period from and including December 20, 2013 at 8:00 a.m., Beirut time through and including December 23, 2013 at 1:00 p.m., Beirut time, or such other period as the Bank shall designate for the purpose of receiving subscription for "Preferred Shares Issuance of Year 2013".

"Ordinary Shares" means the common shares of the Bank, each with a nominal value of LBP 1,000.

"Regulation S" means Regulation S under the Securities Act of 1933, as amended.

"Regulatory Event" means a change in any applicable Lebanese law or regulation which would likely rule out the Bank's right to account for the Preferred Shares as Tier 1 Capital or the right to maintain the premiums of the Preferred Shares in US Dollars or in any other foreign currency – though the Bank shall have no obligation to maintain these premiums in US Dollars or in any other foreign currency.

"Preferred Shares Issuance of Year 2006" means the 8.00% Perpetual, Non-Cumulative "Preferred Shares Issuance of Year 2006" of the Bank, with par value of LBP 1,000 per share, offered by the Bank in May 2006.

"Subscription Escrow Account" means the account maintained by the Escrow Agent captioned "Preferred Shares Issuance of Year 2013 Subscription Escrow Account" for the purpose of receiving and holding the Aggregate Issue Price paid by each Eligible Investor in respect of "Preferred Shares Issuance of Year 2013".

"Tier I Capital" means the Bank's Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier 1 capital is the sum of Common Equity Tier I Capital and Additional Tier I Capital as defined above.

"Tier II Capital" means the Bank's Tier II Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier II capital comprises preferred shares (other than preferred shares which are both perpetual and non-cumulative), subordinated loans, and any unrealized gain in participations and stocks held classified as Other Comprehensive Income (OCI), the revaluation surplus of the bank's properties – subject to the Central Bank of Lebanon approval, and general provisions constituted on assets exhibiting similar risk characteristics subject to approval of the Banking Control Commission.

"USD" or *"U.S. Dollars"* means the official currency in the United States.

"Unites States" and *"US Persons"* have the meanings assigned to such terns in Regulations S.

TERMS OF THE OFFERING

The following is a summary of certain information pertaining to the offering by Banque BEMO SAL (the "Bank") of "Preferred Shares Issuance of Year 2013", including the principal terms thereof. This summary does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Private Placement Memorandum, as well as by reference to the resolutions of the Extraordinary General Assembly of shareholders held on November 25, 2013, authorizing the increase of the Bank's share capital and the issuance of the "Preferred Shares Issuance of Year 2013", a copy of which is available, in Arabic, for review to prospective subscribers at the General Management offices of the Bank located at the address indicated on the back cover to this Private Placement Memorandum.

The Offering: Pursuant to the offering described herein, the Bank is offering 350,000 Preferred Shares for subscription by Eligible Investors.

Issuer: Banque BEMO SAL

Type: Tier 1 Non-Cumulative Perpetual "Preferred Shares Issuance of Year 2013" (the "Preferred Shares"), par value LBP 1,000 per share. The Preferred Shares are in no circumstances convertible into common shares.

Issue Size: USD 35,000,000 (US Dollars thirty five million)

Issue Date: January 17, 2014 (the "Issue Date").

Maturity/ Tenor: Perpetual, subject to purchase by the Bank at its sole discretion as provided for below in section "Optional Purchase of the Preferred Shares by the Bank".

Issue Price: USD 100 per share ("the Issue Price"). Out of the Issue Price per share, the amount equivalent to LBP 1,000 shall represent the par value for each share, and the balance, which the Bank intends to maintain in foreign currency, shall constitute the share's issue premium (the "Issue Premium").

It is expected that the Issue Price, consisting of the nominal value and the Issue Premium, will be accounted for as Tier 1 Capital within the limit authorized by the regulatory authorities.

Distributions: The owners of Preferred Shares are entitled to receive annual dividends at a rate of 7.00% (seven per cent) as from the non consolidated after-tax net profits of fiscal year 2014 onwards (the "Dividends"), to the exclusion of any other distribution whatsoever which is not expressly provided for in the minutes of the Extraordinary General Assembly held on November 25, 2013, and described here-below.

In addition, the amount of Dividends payable on the Preferred Shares Issuance of Year 2013 will be subject to adjustment to reflect the occurrence of an Adjustment Event (as defined below).

In the event that the Bank purchases the Preferred Shares starting the fifth year from the Issuance Date, owners of the purchased Preferred Shares shall not be entitled to receive Dividends relating to the fiscal year during which the purchase is made.

If no profits are registered during a given fiscal year, no amounts will be distributed with regards to said fiscal year, and the right to these amounts is barred and is not carried forward to the following fiscal year; and if the profits available for a given fiscal year are not sufficient to pay the owners of Preferred Shares the entire annual amount of Dividends, then said annual amount of Dividends is decreased accordingly.

It is noted that the Annual Ordinary General Assembly is compelled to declare sufficient Dividends in relation with the Preferred Shares, if available, as long as it is not barred from doing so for legal or regulatory reasons.

No dividend can be paid to common shares, for a given fiscal year, before payment of the Dividends to the owners of Preferred Shares.

The Dividends are payable to the owners of Preferred Shares Issuance of Year 2013 only from the non-consolidated after-tax net profits of the Bank available for the payment of such Dividends. Except for the payments due to the holders of Preferred Shares Issuance of Year

2006 for the year 2013, such payments of Dividends are subject to availability of sufficient net profits of the Bank for the relevant year to cover such Dividends and dividends in respect of the Bank's Preferred Shares Issuance of Year 2006 and any other preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Preferred Shares Issuance of Year 2013.

All profits available after payment of the Dividends to the owners of Preferred Shares are owed exclusively to the owners of the common shares, and the owners of Preferred Shares are not entitled to share with them such profits, whether these profits are distributed or not.

Adjustment Events: For purposes of calculation of the Preferred Shares Issuance of Year 2013 Dividends and for the calculation of the Preferred Shares Issuance of Year 2013 Liquidation Preference and the amount payable upon any redemption of the Preferred Shares Issuance of Year 2013 (see below), "Adjustment Events" means any stock split affecting the Bank's share capital.

Distributions Subject to Withholding Tax: Dividends are subject to withholding dividend taxes in the Republic of Lebanon, currently at the rate of 10 percent and for companies listed on the Beirut Stock Exchange at the rate of 5 percent.

Distributions Not Cumulative: The Dividends are non-cumulative, meaning that if no dividends are declared and paid during any fiscal year, the owners of Preferred Shares shall not have the right to receive such amounts, whether or not they become available, in the following years.

Distribution Payment: The Dividends shall be distributed on the first time by virtue of a resolution of the Annual Ordinary General Assembly which shall meet in 2015 to approve the financial accounts of fiscal year 2014.

In subsequent years, Dividends shall be distributed by the Annual Ordinary General Assembly which meets to approve the financial accounts of the preceding fiscal year.

The Dividends are paid within a two-month period from the date of the relevant Annual Ordinary General Assembly, provided that, for all the above, the Bank complies with applicable ratios set by Central Bank of Lebanon, and by the Banking Control Commission, and with all applicable regulations.

Restriction on Payment of Dividends Upon Common Shares: No dividends can be paid with respect to common shares for a given fiscal year before the Dividends are duly and fully paid to the owners of the Preferred Shares.

No Voting Rights: The owners of Preferred Shares do not have the right to participate in discussions, nor do they have the right to vote at the General Assemblies, except in the cases which are limitatively enumerated in Paragraph 5 of Article 2 of Law No.388/2001.

Law No. 308/2001 provides for the automatic creation of an assembly of owners of the Preferred Shares Issuance of Year 2013, to protect the interests of such owners.

Liquidation Preference: In the event of any liquidation or winding-up of the Bank, the owners of the Preferred Shares Issuance of Year 2013 will be entitled to be paid, out of the assets of the Bank which are available for distribution to its shareholders, before any payment shall be made on the common shares of the Bank, an amount per Preferred Shares still outstanding equal to the sum of (i) the Lebanese Pound equivalent of USD 100 per share, subject to adjustment to reflect the occurrence of an Adjustment Event, and (ii) all declared but unpaid Dividends on the Preferred Shares Issuance of Year 2013 .

Ranking: The Preferred Shares Issuance of Year 2013 shall rank senior to the Bank's common shares and *pari passu* with the outstanding Preferred Shares Issuance of Year 2006; but rank junior to the Bank's debts and to other undertakings, so that in the event of liquidation or dissolution of the Bank, the Bank's creditors will be paid prior to the payment of any amount to the owners of Preferred Shares.

The Preferred Shares are not secured by any surety whatsoever, and the Bank does not give the owners thereof any guarantee, nor does it make any undertaking other than what is expressly

provided for in the minutes of the Extraordinary General Assembly held on November 25, 2013 and in the applicable laws and regulations.

No Preferential Rights of Subscription:

The owners of Preferred Shares do not have a preferential right of subscription in:

1. Any increase of the Bank's capital through the issuance of new common shares or preferred shares. However, the preferential right of subscription may be granted to the owners of Preferred Shares by the Extraordinary General Assembly which will resolve the increase of capital. The owners of Preferred Shares are not entitled to any distribution whatsoever resulting from the increase of the Bank's capital by way of incorporation of profits or reserves.

2. Any issuance of bonds by the Bank, either ordinary, convertible or other.

Optional Purchase of the Preferred Shares by the Bank:

The Preferred Shares are perpetual, but the Bank has the option, in its entire and sole discretion, to purchase part or all of the Preferred Shares, subject to compliance with the ratios and regulations set by Central Bank of Lebanon and by the Banking Control Commission, pursuant to the following terms and conditions:

1. The first purchase can be made within a two-month period from the date of the meeting of the Annual Ordinary General Assembly which shall meet to approve the annual financial accounts of fiscal year 2018. The owners of the Preferred Shares which would be purchased by the Bank shall not be entitled to receive Dividends relating to fiscal year 2019
2. In subsequent years, the purchase operations could be made within the same two-month period, and the owners of the Preferred Shares purchased by the Bank shall not be entitled to receive Dividends relating to the fiscal year during which the purchase operation is made
3. The purchase operations can be made at any time as from the date of issuance of the Preferred Shares in case of an occurrence of a regulatory event or of an amendment to legal or regulatory texts, whatever the form, nature or source of such an amendment, which could, explicitly or implicitly, lead to rule out the Bank's right to account for the Preferred Shares as Tier 1 Capital or to rule out the Bank's right to maintain the shares' premiums in foreign currency. The purchase can be made in one operation or in successive stages, provided that, in the latter case, each purchase operation covers no less than 20% of the outstanding Preferred Shares at the date of such a purchase.
4. The purchase price shall always be equal to the issuance price of the Preferred Shares USD 100 per share (subject to adjustment to reflect the occurrence of an Adjustment event), to which the approved and unpaid Dividends for the Preferred Shares are added.
5. In the event that the Bank purchases only part of the Preferred Shares, the purchase operation shall be made on a *pro rata basis* with the number of Preferred Shares held by each owner thereof.
6. The owners of Preferred Shares are forced to sell in case the Bank decides to purchase Preferred Shares.
7. Upon the purchase of the Preferred Shares by the Bank, such Preferred Shares will be cancelled, and the Extraordinary General Assembly will take all necessary measures.
8. The Bank has no obligation whatsoever to purchase any Preferred Share, and the owners of Preferred Shares can never and under no circumstances request from the Bank, nor force it, to purchase any or all of their Preferred Shares or to convert them into common shares.

Listing:

It is the intention of the Bank to list the Preferred Shares Issuance of Year 2013 on the Beirut Stock Exchange before end of February 2014.

Form; Settlement & Clearing:

The Preferred Shares Issuance of Year 2013 will be issued in registered form and inscribed in the respective names of the purchasers thereof on the Bank's register of shareholders

	maintained by Midclear S.A.L. Ownership of the Preferred Shares Issuance of Year 2013 will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear S.A.L.
Eligible Investors:	Preferred Shares Issuance of Year 2013 will be offered and sold only to Eligible Investors which are persons other than U.S. persons, the Chairman and members of the Board of Directors of the Bank, the General Manager of the Bank, any spouse or minor child of such persons, or any person acting on behalf of any such persons.
Restriction on Transfer:	Except for what is provided for in applicable laws and regulations and in the minutes of the Extraordinary General Assembly to be held on November 25, 2013, the sale and transfer of Preferred Shares are not subject to any specific conditions or limitations and, accordingly, the Preferred Shares Issuance of Year 2013 shall be freely transferable.
Current structure of the Capital (Tier 1 and Tier 2):	Common shares: LBP 62,200,000,000 (including LBP 200,000,000 consisting of the par value representation of Preferred Shares issued in 2006) Preferred shares Issuance 2006: USD 20,000,000.-(US Dollars twenty million) Subordinated Bonds Issuance 2009: USD 40,000,000.-(US Dollars forty million)
Governing Law – Jurisdiction:	The Preferred Shares and the whole issue are governed by the substantive laws of the Republic of Lebanon. Any dispute arising out of the Preferred Shares or the whole issue or in relation therewith shall be of the exclusive jurisdiction of the Beirut tribunals

SUBSCRIPTION TIMETABLE AND PROCEDURES

Timetable and Authorizations

The following is a summary timetable and schedule of authorizations relating to the offering of the "Preferred Shares Issuance of Year 2013". Prospective subscribers should note that this timetable is tentative and subject to change. Nevertheless, subject only to acceptance by, or on behalf of, the Bank, each subscription is final and irrevocable under all circumstances, regardless of delays in the closing of the transaction.

October 28, 2013:	A meeting of the Board of Directors of the Bank was held to convene an Extraordinary General Assembly of Shareholders and to propose hereto to increase the Bank's capital by issuing the "Preferred Shares Issuance of the Year 2013".
November 8, 2013:	A letter was sent by the Bank to the Governor of the Central Bank of Lebanon seeking preliminary approval on the issuance of the "Preferred Shares of the Year 2013"
November 12, 2013	A letter was received from the Governor of the Central Bank of Lebanon addressed to the Bank approving the in-principle issuance of the "Preferred Shares of the Year 2013"
November 25, 2013:	An Extraordinary General Assembly of Shareholders was held. It resolved, *inter alia*, the issuance of "Preferred Shares Issuance of the Year 2013", determined the size of the issue to be USD 35,000,000, made consequential amendments to the Bank's Articles of Incorporation and granted existing owners of Ordinary Shares and holders of Preferred Shares Issuance of the Year 2006 a right to priority allocation of the "Preferred Shares Issuance of the Year 2013".
November 25, 2013 :	A letter was sent by the Bank to the Governor of the Central Bank of Lebanon, attaching a copy of the minutes of the Extraordinary General Assembly of Shareholders held to authorize the issuance of the "Preferred Shares of the Year 2013" seeking final approval for the issuance of the "Preferred Shares of the Year 2013".
December 12, 2013:	The Chairman of the Board of Directors of the Bank, pursuant to the authority granted to him by the Board of Directors and the Extraordinary General Assembly of Shareholders, set the Official Subscription Period. A notice is expected to be published in the Official Gazette and in an economic newspaper and a daily local newspaper in accordance with Articles 81 and 206 of the Lebanese Code of Commerce, inter alia, to advise as of the dates of the Official Subscription Period.
December 17, 2013:	The Central Bank of Lebanon, acting through its Central Council, approved the issuance of the "Preferred Shares of Year 2013".
December 20, 2013 to 1:00 p.m., Beirut time, December 23, 2013:	**Official Subscription Period** – Prospective Eligible Investors wishing to subscribe for "Preferred Shares Issuance of Year 2013", including owners of Ordinary Shares and holders of "Preferred Shares Issuance of Year 2006" exercising their priority rights, must submit duly completed "Deed of Irrevocable Undertaking to Subscribe" to the Issuer in accordance with the instructions contained therein no latter than 1:00 p.m., Beirut time, on the last day of the Official Subscription Period (i.e., December 23, 2013). (From 8:00 a.m., Beirut time) through December 23, 2013 (until 1:00 p.m., Beirut time) (tentative).
December 23, 2013 (tentative):	**Final Allotment Date** – The final allotments of the "Preferred Shares Issuance of Year 2013" are expected to be made by the Bank. The Bank will notify each subscriber of its acceptance or rejection, in whole or in part, of its "Deed of Irrevocable Undertaking to Subscribe" and allotments, if applicable.

December 26, 2013:	A meeting of the Board of Directors of the Bank is expected to be held to confirm the Bank's acceptance of new shareholders and to convene the Extraordinary General Assembly which will verify and confirm the due issuance of the "Preferred Shares Issuance of Year 2013".
December 26, 2013:	The list of the selected owners of the "Preferred Shares Issuance of Year 2013" is submitted to the legal department of the Central Bank of Lebanon. Funds held by the Bank are expected to be irrevocably transferred to the relevant subscription account at the Central Bank of Lebanon in respect of accepted "Deed of Irrevocable Undertaking to Subscribe" (or part thereof).
January 17, 2014 (tentative):	The Extraordinary General Assembly of Confirmation called by the Board of Directors is scheduled to be held. **Issue Date** – The "Preferred Shares Issuance of Year 2013" are expected to be issued. A meeting of the Board of Directors of the Bank is scheduled to be held to convene the first meeting of the Assembly of holders of the "Preferred Shares Issuance of the Year 2013".
January 31, 2014 (tentative):	The first meeting of the Assembly of holders of the "Preferred Shares Issuance of the Year 2013" is held.

Procedures for Subscription

Application for Subscription; Acceptance by the Bank

Prospective Eligible Investors wishing to subscribe in the Preferred Shares Issuance of Year 2013 must submit a "Deed of Irrevocable Undertaking to Subscribe" in the prescribed form, a copy of which is attached to this Private Placement Memorandum as Exhibit B. Copies of this Private Placement Memorandum and the form of "Deed of Irrevocable Undertaking to Subscribe" are also available at the offices of the Bank located at the address indicated on the back cover of this Private Placement Memorandum and at the Bank's General Management and branch offices.

The "Deed of Irrevocable Undertaking to Subscribe" must be duly completed in full in accordance with the instructions contained therein, signed by the prospective subscriber and submitted to the Bank in triplicate. A "Deed of Irrevocable Undertaking to Subscribe" submitted by a corporation must be signed by a duly authorized representative in accordance with the constitutive documents of such corporation. A "Deed of Irrevocable Undertaking to Subscribe" shall be deemed received by the Bank only upon execution by the prospective subscriber of payment of Aggregate Issue Price and receipt thereof by the Bank, such receipt to be evidenced by the return of a fully-executed copy of the "Deed of Irrevocable Undertaking to Subscribe" to the prospective subscriber. The Issuer may, in its sole discretion, reject any "Deed of Irrevocable Undertaking to Subscribe" in whole or in part and/or terminate the offering of the Preferred Shares Issuance of Year 2013 at any time and for any reason whatsoever. In either such event, no person shall have any right to purchase the Preferred Shares Issuance of Year 2013 from the Issuer at any time. The "Deed of Irrevocable Undertaking to Subscribe" will be received by the Bank only if submitted by Eligible Investors and only if submitted together with full payment of the relevant Aggregate Issue Price.

Priority Allocation; Official Subscription Period

The Extraordinary General Assembly of Shareholders of the Bank held on November 25, 2013, has granted the owners of Ordinary Shares and holders of Preferred Shares Issuance of Year 2006 (who are Eligible Investors) inscribed in the Bank's register of shareholders, held by Midclear SAL, as of the first day of the Official Subscription Period, a priority right to subscribe in the Preferred Shares Issuance of Year 2013, *pro-rata* to their existing nominal holdings of Ordinary Shares and Preferred Shares Issuance of Year 2006 , in an irreducible and reducible way. If all the Preferred Shares are not subscribed in priority by the existing owners of Ordinary Shares and Preferred Shares Issuance of Year 2006, then the right to present a request for subscription to the Preferred Shares which were not subscribed passes to non-shareholders and non-holders of Preferred Shares Issuance of Year 2006 investors, provided each investor subscribes at least to 500 shares (USD 50,000), subject to increase per range of 100 shares (USD 10,000) each range. If the requests for subscription exceed the number of Preferred Shares available for subscription, the Board of Directors of the Bank shall decide, in its entire and sole discretion and without any justification, to accept or reject any request for subscription, in part or in whole. The Issuer and its Board of

Directors shall bear no responsibility or liability whatsoever towards any existing owner of Ordinary Shares and/or holder of Preferred Shares Issuance of Year 2006 who do not receive the benefit of its priority subscription right in whole or in part, nor towards any non-shareholder investor whose request for subscription was rejected in whole or in part.

Prospective Eligible Investors wishing to subscribe in the Preferred Shares Issuance of Year 2013, including owners of Ordinary Shares and/or holders of Preferred Shares Issuance of Year 2006 exercising their priority right of subscription, should submit a completed form of "Deed of Irrevocable Undertaking to Subscribe" to the Bank together with the full relevant Aggregate Issue Price no later than 1:00 p.m., Beirut time on December 23, 2013. Any form received after that time will not be considered.

Payment of Aggregate Purchase Price

Upon submission of a "Deed of Irrevocable Undertaking to Subscribe", a prospective subscriber is required to transfer funds, in U.S. Dollars, to the Escrow Agent for credit to the "Preferred Shares Issuance of Year 2013 Subscription Escrow Account", in an amount equal to the Net Aggregate Issue Price (i.e. the product of the number of the Preferred Shares Issuance of Year 2013 being subscribed for times the issue price per share (i.e. USD 100.00)). Bank charges and other related fees and expenses, if any, incurred in connection with the payment amounts in respect of the Aggregates Issues Price will be for the account of the applicant.

In the event that the private placement of the Preferred Shares Issuance of Year 2013 is canceled or if a "Deed of Irrevocable Undertaking to Subscribe" is rejected in whole or in part, the Aggregate Issue Price or a corresponding portion thereof received by the Bank will be promptly refunded to the relevant applicant. At the end of the official Subscription Period, the Bank shall convert that portion of the funds received by it in respect of the Aggregate Issue Price for the Preferred Shares Issuance of Year 2013, which corresponds to the nominal value of the Preferred Shares Issuance of Year 2013 (i.e. the USD equivalent of LBP 1,000 per Issuance of Year 2013 Preferred Shares, into Lebanese Pounds at the applicable USD/LBP spot rate of exchange, and thereafter irrevocably transfer the Lebanese Pounds so obtained, together with the balance, in USD, of the subscription funds received by it to the relevant account at the Central Bank for subscription to the Preferred Shares Issuance of Year 2013, on behalf of the respective Eligible Investors whose "Deed of Irrevocable Undertaking to Subscribe" have been accepted. The Lebanese Pound amount transferred to the Central Bank shall be credited to the Bank's share capital account, while the USD balance of the subscription funds shall be applied to the Bank's issue premium account.

Allotment

The Preferred Shares Issuance of Year 2013 will be allotted first to the existing owners of the Bank's Ordinary shares and holders of Preferred Shares Issuance of Year 2006 who are Eligible Investors and who are exercising their priority subscription rights on a pro-rata basis to their existing holdings of Ordinary Shares and holdings of Preferred Shares Issuance of Year 2006, in an irreducible and reducible way. Thereafter, and to the extent remaining, any unallocated Preferred Shares Issuance of Year 2013 will be allotted at the sole discretion of the Bank to Eligible Investors who have submitted a valid "Deed of Irrevocable Undertaking to Subscribe" that has been accepted by the Bank. It is expected that all allotments of the Preferred Shares Issuance of Year 2013 will be made on or about December 23, 2013. If the aggregate number of the Preferred Shares Issuance of Year 2013 subscribed for exceeds the maximum aggregate number of the Issuance of Year 2013 Preferred Shares being offered, the Preferred Shares Issuance of Year 2013 will be allocated among all subscribers at the sole discretion of the Bank prior to the Issue Date. The Bank will send notices of allotments to subscribers on or promptly following the Final Allotment Date once the final allotments have been made. Until such time, no subscriber shall have any right or interest in any Preferred Shares Issuance of Year 2013.

Issuance in Registered Form; Interests Held through Midclear

The Preferred Shares Issuance of Year 2013 will be issued in registered form in the respective names of the owners thereof in the Bank's shareholders register maintained by Midclear in respect of the Bank's capital. Interests in the Preferred Shares Issuance of Year 2013 will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear. Neither the Bank nor any of its directors, officers shall have any responsibility or liability for any aspect of the records relating to or payments made on account of interests in the Preferred Shares Issuance of Year 2013 or for maintaining, supervising, or reviewing any records relating to ownership of the Issuance of Year 2013 Preferred Shares.

Each Eligible Investor's purchase and ownership of the Preferred Shares Issuance of Year 2013 shall constitute automatic and irrevocable authorization and direction to Midclear to disclose such Eligible Investor's ownership of Preferred Shares Issuance of Year 2013, together with the number of Preferred Shares Issuance of Year 2013 held by such Eligible Investor and such other relevant information concerning the Eligible Investor and its interest in the Preferred Shares Issuance of Year 2013 as may be necessary in connection with any exercise by the Bank of its right to purchase the Issuance of Year 2013 Preferred Shares held by such Eligible Investor.

CERTAIN INVESTMENT CONSIDERATIONS

The subscription to, and purchase of, Preferred Shares involve substantial risks and is suitable only for, and should be made only by, Eligible investors that are fully familiar with the Lebanese Republic in general and with the Lebanese Banking Industry laws and regulations in particular, and that have such other knowledge and experience in financial and business matters enabling them to evaluate the risks and the merits of an investment in the Preferred Shares Issuance of Year 2013. The following section does not describe all of the risks of an investment in the Preferred Shares Issuance of Year 2013. Prior to making an investment decision, prospective investors should consider carefully, in light of their own financial circumstances and investment objectives, all the information set forth herein and, in particular, the investment considerations set forth below. Prospective investors in the Preferred Shares Issuance of Year 2013 should make such inquiries as they think appropriate regarding the Preferred Shares Issuance of Year 2013, the Bank, the Lebanese Republic and the Lebanese Banking Industry, using their independent legal, financial and fiscal advisors, without relying on the Bank.

Summarized below are a number of risk factors generally associated with emerging markets such as Lebanon. However, these are not intended to be exhaustive and there may be other risk factors that should be taken into account in relation to a particular investment. Investors should also note that a feature of emerging markets is that they are subject to rapid change, and the information set out below may become outdated relatively quickly. The Issuer has no obligation to update the information here below for any circumstances or events occurring after the date of this Private Placement Memorandum.

Considerations Relating to the Lebanese Republic

The Bank operates in the Lebanese Republic and, accordingly, its financial condition, its results of operations and business prospects are closely related to the overall political, social and economic situation in the Lebanese Republic, which in turn is linked to the geo-political situation in the region. Lebanon's economic future is dependent, to a significant extent, on the absence of military conflict among its neighbors and on internal stability.

Lebanon is located in a region which has been subject to ongoing political and security concerns, especially in recent years. Internal and external factors combined led to a heavily militarized conflict, which lasted from April 1975 until October 1990. Repetitive series of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982 leaving the country with substantial physical and infrastructure damage and a significant decline of government authority, as well as a large public sector deficit and capital outflows. The post-conflict era has been characterized by large public sector deficits and setbacks in the implementation of political and economic reforms due, among other matters, to differences in views between political leaders and disagreements within the executive branch of the Lebanese Government. Pursuant to the attacks of September 11, 2001 and the U.S. intervention in Afghanistan and Iraq, political instability in the Middle East has increased. Current disputes between the U.S., Iran and Syria also have an impact on the economic and political situation in Lebanon.

During the past four years and especially the past 18 months, Lebanon experienced dramatic events starting from the assassination of Prime Minister Rafic Hariri on February 14th, 2005 and a 37 days' war and invasion by Israeli military forces in July 2006 leading to large infrastructure damage. This was coupled with renewed tensions between the supporters of the Government and the opposition which culminated to civil unrest on May 7th, 2008 imposing an intervention by the Arab League. This intervention led to an agreement in Doha (Qatar) between the different parties which ended the stalemate and led to the election on May 25, 2008 of General Michel Sleiman as President of the Republic paving the way towards new parliamentary elections. A new electoral law was drafted changing the voting system for the parliamentary polls in 2009. Following the successful elections, a new government was formed in 2009 headed by Prime Minister Saad Hariri. On 12 January 2011, this government was overthrown due to large disagreements between its members mainly the commitment to the Special Tribunal of Lebanon, that investigated the murder on former Prime Minister Rafik Hariri. Directly after the resignation, President Sleiman appointed Najib Mikati as new prime minister. He won the support of a majority of the members of the parliament and was asked to form a new government. After five months of laborious negotiations with the different political parties, a new 30-member cabinet took office on 13 June 2011.

Recent political developments

On 22 March 2013 Prime Minister Najib Mikati resigned after his divided cabinet was unable to agree on a new election law and the parliament's refusal to extend the tenure of the country's police chief. The opposition blocked the creation of a body to supervise parliamentary elections. After the resignation of Prime Minister Mikati, President Sleiman appointed Mr. Tamam Salam as new prime minister who received the backing of the majority of the political parties to form a new government. Tamam Salam is an independent member of the Lebanese parliament and is regarded as being moderate. In May 2013 the parliament voted to put off elections until November 2014 because of security concerns. Up until the publication of this Private Placement Memorandum, and due to the large disagreements between the different political parties, the new government is still not constituted and the resigned Mikati government is still acting as caretaker with inability to take important executive decisions.

Conflict in Syria and spillover effect on Lebanon
In addition to the aforementioned, the Syrian conflict which started in April 2011 had a large adverse impact on Lebanon. A year after neighboring Syria began its descent into civil war, deadly clashes between rival religious groups erupted in Tripoli and Beirut raising fears that the conflict was beginning to spill over the border and that Lebanon's already fragile political truce could once more collapse into sectarian strife. The massive influx of people fleeing the Syrian conflict - by September 2013, Syrian refugees were estimated to make up around a seventh of the population - has placed a severe strain on the country's resources.

In addition to the above, a series of terrorist car bomb explosions were witnessed starting October 2012 further attenuating the ailing political situation.

Discovery of Hydrocarbon resources in Lebanon
Major natural gas reserves and hydrocarbon deposits recently discovered off the coast of Lebanon and other Middle Eastern countries have ignited considerable interest in the hydrocarbon potential of the region. Being a new player in the hydrocarbon industry, Lebanon is under pressure to demonstrate to investors it has the aptitude to manage the development of its hydrocarbon resources efficiently and in a timely manner despite regional instability and potential geopolitical obstacles. Lebanon has received a substantial amount of interest when 52 companies from 25 different countries participated in its pre-qualification round in spring of 2013. Since then, several delays have postponed the licensing round and might have affected the country's credibility. Earlier this week, caretaker energy and water minister announced that abundant quantities of oil and gas are suspected to be found in Lebanon's EEZ off the coats of Mount Lebanon and Beirut. The concerned minister's statement reiterated Lebanon's large hydrocarbon potential and its need to approve on the maritime block and revenue-sharing plan in the shortest delay for contracts to be awarded and activities to start.

However, Lebanon's biggest handicap remains its internal political discord. The question of whether the caretaker government should be allowed to exceptionally issue the pending legislation through an extraordinary meeting has divided officials. While some argue that the Lebanese law only gives such a power to a full-powered cabinet and that under no circumstance should a precedent be set by allowing a caretaker government to commit the country to 25 years long agreements, others consider that Lebanon should no longer delay the process and permit such an exception. Whether a new government will be formed in the near future remains a mystery in a deeply divided country.

Other points of divergence include whether the ten blocks should all be allocated for licensing during the first round, and at once, or if the blocks should instead be licensed progressively. Lebanon's fear that Israel might be stealing its gas, the fact that neighboring countries are way ahead in their energy developments and Lebanon's reputation as a reliable and trustworthy partner are amongst the many factors that should motivate Lebanon to no further delay its activities and take advantage of these reserves that could change the fate of its people and readjust its bleeding economy.
The situation as described remains precarious and any improvement is tied to the resolution of the conflict in Syria which will eventually lead to a potential agreement between divided political groups.

Sovereign Debt Ratings

As at the date of this Private Placement Memorandum, the Lebanese Republic's obligations denominated in foreign currency were rated as follows:

Rating Agency	**Tenor**	**Rating**	**Outlook**
Standard & Poor's Ratings Services*	Long Term	**B-**	**Negative**
	Short Term (less than one year)	B	Negative
Moody's Investors Service Limited	Long Term	B1	**Negative**
Fitch IBCA Limited	Long Term	B	Stable
	Short Term (Less than one year)	B	Stable

** On November 1, 2013, Standard & Poor's lowered its long-term foreign and local currency sovereign credit ratings on Lebanon from B to B- keeping a negative outlook. According to S&P, political risk in Lebanon has risen as no new government has been formed for over six months while sectarian tensions are rising, fuelled by the spill-over from Syria. After nearly three years of weak GDP growth, dented by an internal political environment not conducive to policymaking, public finances have deteriorated and the debt-to-GDP ratio is again trending upward, S&P said. The influx of Syrian refugees, which now account for nearly 25% of Lebanon's population, will strain the country's resources and public finances while potentially destabilizing Lebanon's demographic balance, S&P warned. But Lebanon's ratings remain supported by the banking sector, which finances the government's borrowing requirements. The latter benefit from steady deposit inflows and cash reserves, S&P noted.*

The ratings agency also warned that even if a new government is formed, Lebanese policymaking will remain constrained amid a divisive political environment, which is accentuated by the regional crisis, according to S&P. Lebanon's GDP growth will remain weak, expanding

by 2% or less through 2015, as the conflict in Syria continues to depress all potential growth drivers for Lebanon, including tourism, trade, and investment, S&P noted. The Lebanese economy will not contract though as the country has proven its macroeconomic resilience in previous crises, S&P said. In addition, and according to S&P statement, confidence in the Lebanese banking system underpins Lebanon's sovereign creditworthiness. Despite the regional turbulence, this confidence remains intact, supported by remittances from the Lebanese diaspora and the interest rates banks pay on deposits, S&P said.

Prospective purchasers of the "Preferred Shares Issuance of Year 2013" should note the following:
-All of the ratings referred to above are non-investment grade. A security rating is not a recommendation by the rating organization, or by any other person, to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning ratings organization and each should be evaluated independently from the other.
-Any change in the sovereign debt rating of Lebanon by any major rating agency may significantly impact yields on both sovereign and corporate debt securities on the local and international market.
The "Preferred Shares Issuance of Year 2013" has not been, nor is expected to be, rated by any rating agency.

The definition applicable to Standard & Poor's Rating Services ratings referred to above is that debt of this rating is generally regarded as having significant speculative characteristics, and that the Lebanese Republic's capacity or willingness to meet its financial commitment on its securities will be dependent upon favorable business, financial, and economic conditions.

The definition applicable to the Moody's Investor Services Limited ratings referred to above is that debt of this rating is generally regarded as lacking characteristics of desirable investment, and that assurance of interest and principal payments or maintenance of other terms in connection with such debt over a long period may be small.

The definition applicable to the Fitch Ratings' ratings referred to above is that debt of this rating is generally regarded as indicating that significant credit risk is present, but that a limited margin of safety remains. Financial commitments are currently being met; however, the capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

Budget Deficit and Macro-Economic Instability

As a result of Lebanon's more than 10-year reconstruction effort and recurring large budget deficits, the Lebanese state has accumulated a high level of public debt estimated currently at around 140% of GDP. Although a recovery plan has been devised by the Government with the help of the international financial community, and financial contributions have been received by Lebanon in the framework of the Paris II and Paris III Agreements, the implementation of related structural reform plans has been delayed. These plans include the privatization of state assets and other measures, which are expected to contribute significantly to the reduction of the public debt and consequently improve the overall fiscal position. Lebanon's debt-to-GDP ratio fell to 135 percent more than a year ago. But the failure to increase revenues or trim spending over the last year has contributed to a surge in the public debt, which is now estimated at more than $55 billion.

Lebanon's budget deficit in the first eight months of 2013 soared to 28.96 percent of spending compared to 18.48 percent in the same period of 2012. The deficit reached LL3.952 trillion ($2.63 billion) through August of this year compared to LL2.245 trillion in the same period of last year. The primary surplus in the reporting period fell by LL1.615 trillion to record a deficit of LL428 billion. In the first eight months of 2012, the primary surplus recorded a surplus of LL1.187 trillion, or 9.77 percent of total government spending. The Finance Ministry said both falling government revenues and increasing state expenditures were behind the budget deficit. The Lebanese economy is open and service-oriented, with a particular emphasis on banking and tourism. The constant threat of instability within the adversarial political parties and regional violence makes it very difficult for the country's economy to maintain momentum. Economic growth was strong from 2007 through 2010; however, due to the political unrest starting in 2011, tourism, foreign direct investment and real estate are suffering which has caused a deceleration in growth, to 1.5% in 2011 and 1.5% in 2012. Such turmoil and lack of needed reforms could lead to economic instability moving forward.

The potential failure by the Government to implement reform and privatization plans may lead to additional borrowings to cover a high budget deficit. Investors should bear in mind that such developments may place pressure on the market price of the Preferred Shares Issuance of Year 2013 in the secondary market.

Accuracy of Financial and Statistical Information

The analysis of the economic situation and prospects in Lebanon is hampered by the lack of reliable data on the economy. Presently, only the monetary accounts and the fiscal operations of the Lebanese Government are available on a regular basis. However, even here, there are important gaps in informational and institutional coverage. All other data (balance of payments

components, prices, production, employment and finances of both public and private sectors) are, for all practical purposes, best estimates.

Emerging Markets

Investing in financial instruments involving emerging market risk, such as Lebanese risk, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. These higher risks include, but are not limited to, high volatility, limited liquidity and changes in the regulatory, fiscal and political environments that may affect the ability of investors to receive payment, in whole or in part, in respect of their investments. There can be no assurances that the market for securities bearing Lebanese risk, such as the Preferred Shares Issuance of Year 2013, will not be affected negatively by events elsewhere, especially in emerging markets.

Considerations Relating to the Bank and the Banking Industry

The investment in the Preferred Shares Issuance of Year 2013 constitutes an investment in the equity of the Bank. Holders of these Preferred Shares shall not have creditor rights against the Bank in respect to the Preferred Shares, including the non-payment of distributions, except to the extent described in this Private Placement Memorandum.

Global Financial Crisis

A global financial crisis continues as at the date of this Private Placement Memorandum, which has contributed to the failures of a number of financial institutions in the United States and Europe and unprecedented action by governmental authorities, regulators and central banks around the world. The most notable impact on countries and sovereigns was the default of Greece during 2012. Cyprus a large holder of Greek government and corporate bonds, which sharply declined in value, had a particularly severe negative impact on Cypriot banks. The value of Greek debt was written down as part of the bailout deal for Greece meaning that holders of Greek debt had to sustain large losses on their holdings. On March 16, 2013, Cyprus reached a bailout deal with the euro zone and the International Monetary Fund for a €10 billion bailout whereby it agreed to impose a one-off levy of 6.75% to insured depositors (under €100,000) and of 9.9% to uninsured ones (over €100,000). On March 19, 2013, Cyprus's parliament rejected a redrafted one-off levy on deposits that would have to shield savers with less than €20,000 but also fell short of fundraising target. On March 22nd, 2013, the parliament in Cyprus passed two crucial pieces of legislation, allowing for capital controls and creating a resolution framework to wind down banks. On March 24, 2013, Cyprus reached a new bailout deal with the euro zone and the IMF in Brussels. It includes winding down Cyprus Popular Bank, the second-largest lender, and radically restructuring Bank of Cyprus, the largest. Insured depositors are protected, but people and businesses with over €100,000 in savings in the two banks stand to take heavy losses.

Noting that the capital controls imposed in Cyprus were gradually removed and are expected to be fully abolished by January 2014, the majority of international banks having presence in Cyprus (including the Bank's onshore branch in Limassol) were exempted from restrictions on limits for money transfers and withdrawals for international clients starting May 17, 2013. Until the date of the publication of this Private Placement Memorandum, there were no direct losses associated with the measures implemented by Cypriot authorities or with the overall economic situation in this country.

It is difficult to predict how long the persisting volatility in the financial sector and capital markets will exist or whether related concerns about further failures of financial and other institutions will exacerbate the prevailing difficulties in the global economy and, accordingly, it is not possible to foresee the specific impacts these conditions may have on the Lebanese Republic. In particular, the global financial crisis may have adverse effects on the Lebanese Republic, including with respect to: (i) losses by, or reduced income of, Lebanese nationals overseas, which may result in reduced inflows and remittances; and (ii) the general slowdown in economic activity in the Lebanese Republic, which may impact the assets and profitability of Lebanese banks, including the Bank. If current global market conditions and circumstances deteriorate further, or continue for protracted periods of time, this could lead to a decline in available funding and credit quality and increases in defaults and non-performing debt, which may impact the investments and finances of the Bank.

Liquidity

With respect to the Lebanese banking sector, liquidity levels were historically maintained at high levels rendering short-term inter-bank loans readily available and comparatively cheap. As of December 31, 2012, the Bank's net loans accounted for 48.68% of customers' deposits, while liquid assets to customers' deposits stood at 59.25%. Taking into consideration the fact that as of December 31, 2012, total loans granted against pledged deposits amounted to LBP 191,707 million, the adjusted net loans to customers' deposits ratio would drop to 42.91% while liquid assets to customers' deposits would stand at 65.93%. There can be no assurance that these liquidity conditions will continue to prevail over the long term.

Exposure to Lebanese Government Risk

In common with other Lebanese banks, a portion of the Bank's liquidity in both Lebanese Pounds and foreign currency is invested in Lebanese Government obligations or maintained as reserves with Banque du Liban or as Certificates of Deposits issued by Banque du Liban. The composition of the Bank's investment and trading portfolio and placements with Banque du Liban remained relatively stable as at December 31, 2011 and 2012, with Lebanese and other governmental treasury bills and bonds and placements/Certificates of Deposits with Banque du Liban (in both LBP and foreign currency) comprising 34% of the Bank's interest earning assets at the end of 2012 compared to 54% at the end of 2011. Such investments remain largely below the average for the Lebanese Banking Sector at the end of 2012 where the share of the Lebanese sovereign exposure constituted around 50% of total interest earning assets of the consolidated balance sheet of Lebanese banks. Nonetheless, it is important to note that any default by the Lebanese Government or Banque du Liban on any of its obligations, or any significant reduction in value or liquidity of Government securities the Bank holds, or in the regulatory or accounting treatment thereof, would have a material adverse effect to the Bank's business, liquidity, results of operations, financial condition and prospects, as well as on other Lebanese banks.

U.S. and European Union Sanctions on Syria

The Bank owns a 22% stake in its associate bank Banque BEMO Saudi Fransi (also known as BBSF) established and operating in Syria. In addition, the Bank has been dealing since establishment with prime Syrian privately owned corporate clients extending credit facilities to support their business operations. Since 2003, the U.S. Treasury Department Office of Foreign Assets Control ("OFAC") has been administering the Transactions Regulations, which include sanctions imposed on Syria prohibiting U.S. persons from engaging in certain transactions, including investments, with the Syrian Government and certain private parties, as well as other parties, designated by OFAC as Specially Designated Nationals of Syria.

In addition, Syria's relations with the United States and the international community have deteriorated in recent years, especially pursuant to the hostilities and measures initiated in Syria in 2011 where new sanctions against Syria were imposed prohibiting all foreign assistance to the country, as well as exports and re-exports of items on the U.S. Munitions List, all items on the Commerce Control List, and all other U.S. products except food and medicine. U.S. sanctions prohibit any financial transaction with the Syrian government and block all property of the Syrian government, its senior leaders, U.S. persons that support the Syrian government, and individuals and entities involved in the planning, sponsoring, organizing, or perpetrating of terrorist attacks.

In addition and in May 2011 the European Union imposed sanctions on Syria including an embargo on the supply of arms, military equipment and equipment which might be used for internal repression. The European Union also imposed asset freezing measures on certain persons identified as being responsible for the hostilities. The scope of the measures were subsequently widened to also cover natural or legal persons and entities associated with them.

Noting that through its conservative approach, the Bank has been extremely diligent in terms of ensuring abidance to said sanctions. However, there can be no assurance regarding OFAC's and/or EU's enforcement policy with regard to Syria or other countries where the Bank may develop operations, and it is possible that OFAC and/or EU may take a different view regarding the measures the Bank has taken or the status of the Bank's investments in Syria. The imposition of any sanctions or designations of individuals or entities within the Bank as Specially Designated Nationals may result in U.S./E.U persons or affiliates associated with the Bank being subject to restrictions and penalties. These sanctions could also have a material adverse effect on the Bank's business, liquidity, results of operations, financial conditions and prospects.

Currency Considerations and Devaluation Risks

The Central Bank of Lebanon has been successful during the past several years in maintaining a stable rate of exchange against the U.S. Dollars. However, there can be no assurances that the Central Bank of Lebanon will continue, be willing or able to maintain a stable currency through intervention in the currency markets or otherwise. The Central Bank's Foreign Assets, aided by sovereign deposits mainly from Gulf countries reached US$ 35,630 million as at October 31, 2013 (US$ 51,010 million as at October 30, 2012).

The Lebanese economy and banking sector are highly dollarized. According to data published by the Central Bank, over 65% of total banking sector deposits were in foreign currencies as at the end of October 2013. In case the Lebanese Pound devalues against the US Dollar, the financial conditions and results of operations of Lebanese companies, including the Bank and its customers in Lebanon, would be affected. Furthermore, since a substantial portion of the loans of the banks operating in Lebanon are denominated in US Dollars, a devaluation of the Lebanese Pound would increase the debt service burden of borrowers whose income is in Lebanese Pound and therefore would likely increase the level of the Bank's non-performing loans.

Potential Lack of Investments Alternative

The Bank extends loans and overdraft facilities to a growing number of customers in Lebanon and neighboring countries. While all credit facilities are subject to a strict credit approval process, including sufficient securities (e.g., mortgages, liens and co-guarantors), proper enforcement of such collateral, particularly outside Lebanon, remains subject to the efficiency of the local judicial system. Besides lending activities, the Bank also invests its funds in interest bearing deposits in EU and US banks and financial institutions, internationally traded securities and the remaining amount in Lebanese Government debt securities and deposits with the Central Bank of Lebanon.

Competition

The market for financial and banking services in Lebanon is competitive. As of November 30, 2013, there were 55 active commercial banks, 17 specialized medium and long-term credit banks and 53 financial institutions operating in a country with a population of approximately four million. These banks and financial institutions include branches of foreign large international financial banks and institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly strong since the end of the war in 1990. As a result of the competitive environment in which the Bank operates, the Bank's expenses may increase and its revenues may decrease, depending on the extent and intensity of the competition.

Considerations Relating to the Offering

Condition of Payment of Distributions

The owners of the "Preferred Shares Issuance of Year 2013" shall have the right to receive Distributions only if these following cumulative conditions are met:

(i) The Bank has sufficient Distributable Non-Consolidated after-tax Net Income available for the payment of such Distributions and dividends in respect of the Preferred Shares Issuance of Year 2006 and any other preferred shares of the Bank at the time outstanding and ranking pari passu with the Preferred Shares Issuance of Year 2013;

(ii) The Bank is in compliance with applicable ratios and regulations at the time as imposed by the Central Bank of Lebanon, the Banking Control Commission and the Financial Markets Authority in respect of the payment of dividends or other distributions;

(iii) Such Distributions have been declared by the Board of Directors and approved by the Bank's Annual Ordinary General Assembly of Shareholders in which the annual accounts of the Bank are approved and in which the amount and payment of such distributions are approved, noting that the Bank's General Assembly is compelled to approve the distribution of non-consolidated distributable after tax net income of the Bank for the relevant year if available, except when the Bank is prevented from making such distributions by virtue of applicable law or regulations. Refer to the section entitled *"Description of the Share Capital of Banque Bemo S.A.L/Description of the Preferred Shares Issuance of year 2013/ Distributions".* If the Bank does not have sufficient Distributable Non-Consolidated after-tax Net Income, or if the Annual ordinary General Assembly does not approve Distributions for any particular year, Preferred Shares Issuance of year 2013 Distributions will not be paid for said year.

Distribution Not-Cumulative

The Dividends are non-cumulative; i.e., if no dividends are declared and paid during any fiscal year, the owners of the Preferred Shares Issuance of Year 2013 shall not have the right to receive such amounts, whether or not they become available in subsequent years. Refer to the section entitled *Description of the Share Capital of Banque Bemo salL/*Description *of the Preferred Shares Issuance of year 2013/Distributions.*

Limited Voting Right

The owners of the Preferred Shares Issuance of Year 2013 have no right to participate in discussions nor to vote at the Bank's General Assemblies, except in the following cases which are limitatively enumerated in Article 2, paragraph 5, of the Law No. 308/2001:

(i) The General Assembly's agenda encompasses the amendment of the object of the Bank or its form, the increase of its capital in kind, its early dissolution, or merger transactions in which the Bank is a party;

(ii) The full Distributions have not been paid during three consecutive year; or

(iii) The Bank did not permit the owners of the Preferred Shares Issuance of Year 2013 to benefit from all the rights, priorities and prerogatives which were granted to them by the Bank's Extraordinary General Assembly held on November 25, 2013

No Fixed Redemption

The Preferred Shares Issuance of Year 2013 **are perpetual**. The Bank has no obligation whatsoever to purchase any Preferred Shares, and the owners of Preferred Shares can never and under no circumstances request from the Bank or force it to purchase any or all of their Preferred Shares or to convert them in "Ordinary" Shares since the Preferred Shares are not convertible. As a result, purchasers of the Preferred Shares Issuance of Year 2013 must be willing and able to hold their investment indefinitely.

No Distributions Payable Upon Redemption

In the event that the Bank exercises its option to purchase and cancel the Preferred Shares Issuance of Year 2013 at any time on the terms and subject to the conditions described herein, no Dividends shall be payable in the respect of the year in which Preferred Shares Issuance of year 2013 are redeemed.

Potential Conflict of Interest

The Bank and its affiliates have been and will continue to be involved in many aspects of the transactions relating to the Preferred Shares Issuance of Year 2013, including, in the capacity as Issuer and Placement Agent and as the participant in Midclear to whom the Preferred Shares Issuance of Year 2013 will initially be delivered upon the issuance thereof, without the advice of separate legal counsel in respect of its various roles. As a result, it is possible that the Bank and its affiliates may be subject to competing interests in their relationship with the owners of the Preferred Shares Issuance of Year 2013. The various roles of the Bank and affiliates raise potential conflicts of interest which prospective subscribers in the Preferred Shares Issuance of year 2013 should carefully consider.

Preferred Shares of the Year 2013 are Non-Participating

Owners of the "Preferred Shares Issuance of Year 2013" have no right to receive or participate in any distribution which is not expressly provided for in the minutes of the Extraordinary General Assembly held on November 25, 2013, and in the applicable laws and regulations. *Refer to Description of the Share Capital of Banque BEMO SAL / Description of the Preferred Shares Issuance of Year 2013.*

Secondary Market and Liquidity

It is in the intention of the Bank to list the "Preferred Shares Issuance of Year 2013" on the Beirut Stock Exchange before the end of January 2014. But there can be no guarantee that this will provide liquidity of investment or will continue for the life of the "Preferred Shares Issuance of Year 2013". Moreover, no guarantee can be given that it will be possible for the owners of the "Preferred Shares Issuance of the Year 2013" to sell their Preferred Shares, effect a sale of a "Preferred Shares Issuance of the Year 2013" or that, if a sale were to take place, it would not be at a discount to the Issue Price.

The market price for the "Preferred Shares Issuance of the Year 2013" is likely to be influenced by a number of factors, including the financial performance and standing of the Bank, as well as the overall political, economic and social conditions in the Lebanese Republic and the surrounding region, which are outside the control of the Issuer. As a result, the price of the "Preferred Shares Issuance of the Year 2013" may be subject to volatility.

REPRESENTATIONS AND WARRANTIES OF SUBSCRIBERS

Each prospective subscriber in the"Preferred Shares Issuance of year 2013" will be required to make a representation and warranties set forth in the Deed of Irrevocable Undertaking to Subscribe attached under Exhibit B to this Private Placement Memorandum to, and for the benefit of, the Issuer and the Placement Agent, on and as of the date of its application to purchase Preferred Shares Issuance of Year 2013 and on and as of the Issue Date. The Preferred Shares Issuance of Year 2013 will be sold to such subscriber in reliance on such representations and warranties. See "Exhibit B: Deed of Irrevocable Undertaking to Subscribe".

Capitalization and Use of Proceeds

The following table outlines the long-term liabilities and shareholders' equity of the Bank as of December 31, 2012. Except as otherwise disclosed in this Offering Circular, there has been no material change in the Bank's long-term liabilities, shareholders' equity, or total capitalization since December 31, 2012. The table also outlines the bank's potential capitalization pursuant to the intended Preferred Shares Issuance of the Year 2013 Offering.

Components of Eligible Equity

Components of Capital	Audited 2012	Unaudited June 2013	Unaudited Post Offering
Common Equity Tier 1			
Common stock – Paid in Capital…….	62,000	62,000	62,000
Cash Contribution to Capital……...	29,105	29,105	29,105
Eligible Reserves……	24,499	28,444	28,444
Retained Earnings……..	10,989	-3,476	-3,476
Common Equity Tier 1	***126,593***	***116,073***	***116,073***
Less: Deductions/Regulatory Adjustments			
Less: Treasury Shares……	(2,198)	(2,198)	(2,198)
Less: Intangible assets……	(700)	(579)	(579)
Less: participations…….	(30,694)	(19,021)	(19,021)
**NET Common Equity Tier 1…….. **	***93,001***	***94,275***	***94,275***
Additional Tier 1			
Perpetual, Non-Cumulative Preferred Shares Year 2006……	30,150	30,150	30,150
Perpetual, Non-Cumulative Preferred Shares Year 2013[(1)]……	-	-	34,105
TOTAL Tier 1 (A)……	***123,151***	***124,425***	***158,530***
Supplementary Capital – Tier 2			
Subordinated Bonds[(2)]……	24,120	12,080	-
Perpetual, Non-Cumulative Preferred Shares Year 2013[(3)]……	-	-	18,657
TOTAL Tier 2 (B)……	***24,120***	***12,080***	***18,657***
**Total Eligible Capital (A+B)…….. **	**147,271**	**136,485**	**177,187**

Notes:
1. As per Central Bank of Lebanon requirements, the cumulative amount of all preferred shares issuance considered under Tier 1 should not exceed 35% of Total Tier 1 Equity. Based on the latter and applying the formula prescribed by BDL, total preferred shares issuances that can be considered as Tier 1 would be equivalent to LL 64,255 million (indicating that only LL 34,105 million of the new Preferred shares issuance of the Year 2013 is considered as Tier 1 Equity while the remaining portion shall be considered as Tier 2 Equity).
2. Subordinated Bonds for USD 40 mln issued back in 2009 and maturing in June 2014. The amount considered as Tier 2 Equity is amortized on a 20% basis per year. As of the present date of the Private Placement Memorandum, the amount considered as Tier 2 will be fully amortized
3. Remaining portion of the new Preferred Shares Issuance of the Year 2013 considered as Tier 2 Equity

Use of Proceeds

The net proceeds of the issue of the Bonds will be used by the Bank to shore-up the Bank's capital base, a measure intended by the Bank to enhance its capital adequacy ratio and meet the required prerogatives of the Central Bank of Lebanon Intermediary Circular No 282 (concerning Basel III Implementation). The improved capital structure will support the expected growth of the Bank's assets, its funding needs, and the expansion of its commercial banking activities and services in the respective markets of Lebanon and the neighboring Arab markets.

BEMO Capitalization Ratios

		Audited December 31, 2012	Unaudited June 30, 2013	Unaudited Post Offering*
Common Equity Tier 1 Ratio……	%	6.55	6.13	6.13
Tier I Capital Ratio……	%	8.63	8.09	10.30
Total Capital Ratio……	%	10.30	8.87	11.52

**Assuming Total Risk Weighted Assets are constant as per June 30, 2013 amounting to LL 1,538,749 million*
Source: BEMO

OVERVIEW OF BANQUE BEMO SAL

Banque BEMO SAL is a Lebanese joint-stock company registered in the Beirut Commercial Registry under No. 17837 and on the Central Bank of Lebanon's Banks List under No. 93. The Bank's Head Office is located in Bemo Building, Elias Sarkis Avenue, Achrafieh, Beirut, Lebanon, and the General Management Offices in Esseily Building, Riad el Solh square, Beirut Central District.

The Obegi Group, major shareholder of the Bank, has a long and successful banking history. In 1961, the Obegi Family founded "Crédit Libanais SAL", one of the leading commercial banks in Lebanon and in which they sold their majority shareholding in 1985. In 1973, they founded "Banque de l'Europe Méridionale SA" currently "BEMO Europe-Banque Privée", in Brussels-Belgium with offices and operations in Paris (1976), Luxembourg (1982) and Cyprus (1986). In 1994, and with the renewed confidence in the country, the Obegi family through "Sharikat Al Istismarat Al Oropia Lil Shark Al Aousat (Holding) SAL" re-entered the banking sector in Lebanon by acquiring "Future Bank SAL" a small, problem-free commercial bank and renamed it "Banque Bemo SAL".

The Bank's **total assets** were equivalent to LBP 2,245 billion (US$ 1,489.39 million) as at December 31, 2012 as compared to LBP 2,300 billion (US$ 1,525.44 million) as at December 31, 2011, reflecting a year-on-year decrease of 2.4%. The un-audited balance sheet as at June 30, 2013 reveals that the total assets' base reached LBP 2,186 billion (US$ 1,449.99 million) declining by 2.6%.

The Bank's **loans and advances to customers** *(including loans and advances granted to related parties and net of provisions for non-performing loans and unrealized interests)* were equivalent to LBP 920.73 billion (US$ 610.77 million) as at December 31, 2012 as compared to LBP 828.91 billion (US$ 549.86 million) as at December 31, 2011, reflecting a year-on-year increase of 11.08%. The un-audited balance sheet as at June 30, 2013 reveals that loans and advances to customers were equal to LBP 878.24 billion (US$ 582.58 million) declining by 4.6%.

The Bank's **customers' accounts at amortized cost** *(including related parties accounts)*, were equivalent to LBP 1,891.49 billion (US$ 1,254.72 million) as at December 31, 2012 as compared to LBP 1,688.65 billion (US$ 1,120.16 million) as at December 31, 2011, reflecting a year-on-year increase of 12%. The un-audited balance sheet as at June 30, 2013 reveals that customers' accounts at amortized cost reached LBP 1,825.52 billion (US$ 1,210.96 million) declining by 3.48%.

The Bank's **shareholders' equity** reached LBP 159.2 billion (US$ 105.61 million) as at December 31, 2012 as compared to LBP 163.66 billion (US$ 108.56 million) as at December 31, 2012, reflecting a year-on-year decrease of 2.72%. The un-audited balance sheet as at June 30, 2013 reveals that the Bank's shareholders' equity reached LBP 150.72 billion (US$ 99.97 million) decreasing by 5.3%.

It is important to note that on December 7th, 2011, the Central Bank of Lebanon issued an intermediary circular No 282 amending its basic circular No 44 and decision no 6939 related to solvency calculation in Lebanese commercial banks. The new requirements are a reflection of the amendments introduced by the Basel Committee following the financial crisis (namely Basel III) and cover the following (solely to be used for solvency calculation purposes):
After conducting the necessary deductions as directed by BDL and BCC requirements, the new minimum solvency requirements will be as follows:

- **Common Equity Tier 1 Ratio** = Minimum of 8%
- **Core Capital Funds (Tier 1) Ratio =** Minimum of 10%
- **Total Capital Ratio** = Minimum of 12%

The above is to be achieved based on a phased in approach ensuring that full abidance will be observed by the end of 2015:

Description	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Common Equity Tier 1 Ratio	5%	6%	7%	8%(*)
Tier 1 Ratio	8%	8.5%	9.5%	10%(*)
Total Capital Ratio	10%	10.5%	11.5%	12% (*)

(*) including the Capital Conservation Buffer required by Basel Committee equivalent to 2.5%

As of December 31, 2012, the Bank's solvency ratios were in line with the requirements set forth by the Central Bank whereby the Net Common Equity Tier 1 Ratio reached 6.5%, the Tier 1 Ratio was equivalent to 8.6% and the Total Capital Ratio reached 10.30%.

As at December 31, 2012, the Bank's staff consisted of 224 employees and its network consisted of 9 branches in Lebanon and one branch in Limassol. At the time of publication of this Private Placement Memorandum, the Bank had obtained the in-principle approval of the Central Bank of Iraq to establish 2 branch offices in Baghdad and Erbil (Kurdistan).

SELECTED CONSOLIDATED FINANCIAL INFORMATION & OPERATING DATA

The selected financial information for the Bank (including financial ratios and statistical data) set forth below as at and for the years ended December 31, 2011 and 2012 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to the audited consolidated financial statements of the Bank included on Page 79. The condensed interim consolidated un-audited financial information and review report for the six month period ended June 30, 2013 were also included for information purposes. Analysis of performance and financial results is conducted on the audited results of 2011 and 2012 with indicative information provided on the performance as of June 30, 2013.

Balance Sheet Data

	Audited		Un-audited
LBP Thousand	**2011**	**2012**	**June 2013**
Assets			
Cash and Central Banks……	430,401,780	299,446,044	318,847,461
Deposits with banks and financial institutions……..	484,847,457	413,701,379	322,157,592
Financial assets at fair value through profit or loss……..	95,593,280	64,375,917	50,757,384
Loans to banks and financial institutions……..	8,506,235	25,676,016	23,762,413
Loans and advances to customers…….	823,794,632	916,880,834	876,442,111
Loans and advances to related parties……..	5,116,058	3,848,770	1,794,763
Investment securities…….	348,626,050	437,198,159	515,267,396
Customers' liability under acceptances…….	26,932,190	23,865,731	30,569,163
Investments in associates……..	42,218,248	30,693,799	20,345,907
Assets acquired in satisfaction of loans……	2,831,019	2,831,019	2,831,019
Property and equipment……	17,062,091	15,492,186	14,741,773
Intangible assets……	922,023	699,742	578,898
Other assets……..	12,757,950	10,544,789	7,770,976
Total Assets…….	**2,299,609,013**	**2,245,254,385**	**2,185,866,856**
Financial Instruments with Off-Balance sheet risk			
-Documentary and commercial letters of credit……	50,690,531	38,274,650	42,549,145
-Guarantees and standby letters of credit……..	56,334,119	67,580,258	96,180,860
-Forward contracts……...	231,528,659	720,754,919	730,153,975
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	11,015,988	8,469,905	16,388,803
Liabilities			
Deposits and borrowings from banks……	344,363,518	93,934,270	102,978,413
Customers' accounts at amortized cost……..	1,630,117,624	1,837,531,533	1,745,398,301
Related parties' accounts at amortized cost…….	58,535,831	53,967,424	80,118,590
Acceptance liability……..	26,932,190	23,865,731	30,569,163
Other liabilities……..	9,889,771	8,311,948	9,569,910
Provisions…….	5,860,653	6,042,458	6,235,737
	2,075,699,587	**2,023,653,364**	**1,974,870,114**
Subordinated bonds……...	60,248,632	62,397,734	60,280,516
Total Liabilities……..	**2,135,948,219**	**2,086,051,098**	**2,035,150,630**
Equity			
Share capital……...	62,000,000	62,000,000	62,000,000
Treasury shares……	(1,614,350)	(2,197,625)	(2,197,625)
Preferred shares…….	30,150,000	30,150,000	30,150,000
Shareholders' cash contribution to capital……	29,104,984	29,104,984	29,104,984
Reserves……..	21,451,441	25,052,144	29,139,121
Retained earnings……	18,004,106	22,503,411	20,014,719
Currency translation adjustment……...	(5,352,789)	(13,003,565)	(22,180,423)
Profit for the year……..	9,917,361	5,593,850	4,685,383
Equity attributable to the Group…….....	163,660,753	159,203,199	150,716,159
Non-controlling interests……..	41	88	67
Total Equity……	**163,660,794**	**159,203,287**	**150,716,226**
Total Liabilities and Equity……	**2,299,609,013**	**2,245,254,385**	**2,185,866,856**

Income Statement Data

	Audited		Un-audited
LBP Thousand	**2011**	**2012**	**June 2013**
Interest income……	74,377,827	87,609,374	44,167,516
Interest expense……..	(57,745,501)	(64,631,845)	(31,363,504)
Net interest income……..	**16,632,326**	**22,977,529**	**12,804,012**
Fee and commission income……..	8,127,308	7,238,270	3,941,822
Fee and commission expense…….	(642,023)	(588,711)	(756,743)
Net fee and commission income……..	**7,485,285**	**6,649,559**	**3,185,079**
Net interest and other gain/(loss) on financial assets at fair value through profit or loss……...	10,491,316	9,129,762	5,553,935
Gain on exchange……	2,399,784	1,724,693	900,672
Other operating income/(loss)…….	6,637,020	(628,184)	317,281
Net financial revenues……	**43,645,731**	**39,853,359**	**22,760,979**
Allowance for impairment of loans and advances and other receivables…..	(3,009,545)	(6,278)	(846,715)
Collective provision for loan impairment …….....	-	(1,959,750)	-
Write-back of impairment loss on loans and advances…….	368,902	930,988	521,027
Loans recoveries…….	-	240,004	-
Net financial revenues after net impairment charge……..	**41,005,088**	**39,058,323**	**22,435,291**
Staff costs……	(16,325,080)	(18,806,172)	(9,649,114)
Administrative expenses…….	(10,375,054)	(10,134,436)	(5,514,949)
Depreciation and amortization…….	(2,424,729)	(2,329,791)	(1,063,687)
Write-back of provision for foreign currency fluctuation……	54,097	33,949	(770)
Write-back of provision for contingencies……..	(489,729)	591,270	(43,968)
Impairment of property and equipment……...	-	(275,000)	-
Total expenses……	**(29,560,495)**	**(30,920,180)**	**(16,272,488)**
Profit before income tax……	11,444,593	8,138,143	6,162,803
Income tax expense…….....	(1,527,221)	(2,544,235)	(1,477,383)
Profit for the year/period……..	**9,917,372**	**5,593,908**	**4,685,420**
Attributable to:			
Equity holders of the group…….....	9,917,361	5,593,850	4,685,383
Non-controlling interest……	11	58	37
	9,917,372	**5,593,908**	**4,685,420**
Basic and diluted earnings per share……	**121/78**	**51/64**	**36/89**

Selected Financial Ratios and Statistics

	2010	2011	2012
Rankings*			
Ranking in total assets	17	16	16
Ranking in customer deposits	16	16	17
Ranking in loans and advances to customers	16	17	17
Ranking in total corporate & SME loans	12	14	14
Ranking in shareholders' equity	21	19	20
Ranking in L/C openings for the year	13	12	18
Ranking in fiduciary accounts and Assets Under Management	11	10	10
Ranking in doubtful loans/gross loans	2	6	1
Asset and Liability Management			
Interest earning assets to total assets	90.1%	90.5%	91.8%
Interest bearing liabilities to total liabilities	96.6%	97.7%	97.8%
Profitability and Efficiency			
Net interest margin[1]	26.36%	22.36%	26.23%
Return on interest earning assets[2]	0.77%	0.48%	0.27%
Return on earning assets[3]	0.70%	0.45%	0.26%
Return on Assets[4]	0.69%	0.43%	0.25%
Return on average Assets[5]	0.69%	0.48%	0.25%
Return on Equity[6]	10.51%	6.45%	3.64%
Return on average Equity[7]	10.61%	7.25%	3.64%
Cost-to-income[8]	66.93%	72.09%	79.16%
Staff expenses to total operating expenses[9]	61.66%	61.14%	64.98%
Capital Adequacy, Liquidity and Solvency			
Basle II Capital Adequacy Ratio[10]	11.08%	9.80%	10.30%
Equity to assets[11]	7.26%	7.12%	7.09%
Loans to deposits[12]	46.8%	49.09%	48.68%
Loans to total assets[13]	39.16%	36.05%	41.01%
Net liquid assets to deposits[14]	60.21%	60.11%	59.25%
Net liquid assets to total assets[15]	50.38%	44.14%	49.92%
Doubtful loans to gross loans[16]	0.47%	2.42%	0.54%
Loan loss provisions to doubtful loans	88.31%	27.11%	95.68%
Loan loss provisions to gross loans	0.41%	0.66%	0.52%
Net doubtful loans to equity[17]	0.29%	9.58%	0.14%

Source: BEMO; Bilanbanques 2013

Notes: Rankings are provided by Bilanbanques 2013(as published by BankData) analyzing the performance of 64 commercial banks*

1. Net interest income after provisions/Interest revenues

2. Net income/(Cash & Central Bank; Lebanese Government securities; fixed income securities; deposits with other institutions; loans and advances to customers)

3. Net income/(Total Assets less: fixed assets; Regularization accounts)

4. Net income/Total Assets

5. Net income/Average total assets

6. Net income/Total Shareholders' equity

7. Net income/Average Shareholders' equity

8. Salaries and general operating expenses/net financial revenues

9. Total salaries and related expenses/total operating expenses (excluding depreciation and losses on investment properties)

10. Central Bank of Lebanon BIS capital adequacy ratio (Basel I Calculations)

11. Shareholders' Equity/Total Assets

12. Net loans/Customer deposits

13. Net loans/Total Assets

14. Net liquid assets/customer deposits; net liquid assets include cash; deposits at Central Bank and other institutions; investments in securities maturing within one year

15. Net liquid assets/Total Assets

16. Doubtful loans/Gross loans

17. Doubtful loans/Shareholders' equity

DESCRIPTION OF THE BANK

History

Banque BEMO SAL is a Lebanese joint-stock company registered in the Beirut Commercial Registry under No. 17837 and on the Central Bank of Lebanon's banks list under No. 93. The Bank's Head Office is located in Bemo Building, Achrafieh, Beirut, Lebanon, and the General Management Offices in the Esseily Building, Riad el Solh square, Beirut Central District.

The Obegi Group, major shareholder of the Bank, has a long and successful banking history. In 1961, the Obegi Family founded "Crédit Libanais S.A.L.", one of the leading commercial banks in Lebanon and in which they sold out their majority shareholding in 1985. In 1973, they founded "Banque de l'Europe Méridionale S.A." currently "BEMO Europe-Banque Privée", in Brussels-Belgium with offices and operations in Paris (1976), Luxembourg (1982) and Cyprus (1986).

In 1994, the Obegi family through "Sharikat Al Istismarat Al Oropia Lil Shark Al Aousat (Holding) SAL", (hereinafter referred to as "Istismarat"), re-entered the banking sector in Lebanon by acquiring "Future Bank SAL" a small, problem-free commercial bank and renamed it first "BEMO - Banque Européenne pour le Moyen-Orient SAL" and then "Banque Bemo SAL".

Since its takeover by the current owners in 1994, the Bank has established itself as one of the leading providers of Private, Corporate, Trade-oriented, and Wealth Management banking services for the Lebanese and the neighbouring Arab markets.

Istismarat, the controlling shareholder of the Bank, includes among its founding shareholders the Obegi Group and other prominent industrialists. Additional shareholders of the Bank include major business people from Lebanon and Saudi Arabia. Established since more than 100 years, the Obegi Group is a reputable merchant group with strong business ties and activities in Lebanon and the Levant region. The activities of the Group extend from manufacturing to general trading, international agency representation, insurance and banking.

In 1993, the Obegi Group established "BEMO Securitization SAL", a leading debt securitization financial institution in Lebanon and the Gulf Region and in which the Bank holds 96%.

In 1999, Banque BEMO SAL listed its shares on the Beirut Stock Exchange. Banque de l'Europe Méridionale S.A ceases its activities in Brussels and concentrates its European activities in Paris and Luxembourg emphasizing on offering its clients customized private banking services.

In 2003, the Bank was the first Lebanese bank to enter the Syrian market by establishing in partnership with Banque Saudi Fransi, a leading player in the banking industry in Saudi Arabia, the first privately held commercial bank in Syria "Banque Bemo Saudi Fransi". In April 2003, Banque Saudi Fransi acquired a 10% stake in the Bank.

In June 2006, the Bank issued USD 20,000,000.-(US Dollars twenty million) perpetual non-cumulative preferred shares callable starting the fifth year. In November 2006, Bemo Group and Oddo et Cie., the first independent French financial company, incorporated a joint venture called Bemo Oddo Investment Firm Ltd. in Dubai aimed at selling European investment opportunities to Gulf investors.

In May 2009, the Bank successfully issued USD 40,000,000.-(US Dollars forty million) subordinated bonds maturing in 5 years.

In 2011, the Bank's capital funds were further strengthened through a capital increase of LBP 46 billion of which LBP 30 billion fresh cash injection. In November 2011, Banque Saudi Fransi KSA is no longer a member of the Board of Directors of the Bank.

In October 2012, a large explosion targeting a highly ranked security official largely impacted the headquarters of the Bank in Ashrafieh where severe damage and losses occurred. The Business Continuity Plan was immediately activated and the Bank was able to ensure resumption of business activities and services to clients within 24 hours where IT servers/systems and operations staff immediately relocated to the Bank's Disaster Recovery Site in Rabieh. Since then, the latter departments as well as others are still operating from these premises. It is important to note that the Bank rented a new prime location in Pasteur Street-Gemmayzeh area consisting of 2 floors (presently) where commercial staff were relocated and started operating since early December 2013. The next phase of the relocation process will include the Operations Units (Transfers/Trade Finance) which will move from Rabieh to Riad El Solh during the month of January 2014.

Strategy

Since its establishment, the Bank's objective has been to develop into a specialized quality bank, by building on the long-established professional expertise of its shareholders and management team. The Bank's vision is to be the Reference in Corporate and Private Banking in Lebanon and Syria while its mission statement is stated as follows:" Live our Values while achieving high return on equity and offering our customers outstanding Quality".

Banque BEMO SAL is active on two pillars: **Private and Corporate Banking**, two well-defined market niches with a strong potential for growth in the local and regional markets. The Bank is committed to offering outstanding services to leading corporations and high-net worth individuals based on a deep understanding of their needs.

The Bank's Private Banking offering emphasizes one-to-one services that are essential for high net worth individuals and their families. The private banking division adopts a client driven approach that aims at taking a comprehensive view of the clients' needs and offering informed advice and creative solutions. Within the framework of the Client Centricity approach, the Bank strives to make efficient use of customer profiling and business processes in order to provide value-added services leading to a higher level of customer satisfaction and loyal customer base.

The Bank aims at helping customers strengthen and grow their business for the next generations while managing risk and maintaining personal wealth.

The Bank's Board of Directors and Senior Management are entirely committed to apply the Bank's core values of **Professionalism**, **Conservatism**, **Honesty** and **Family Spirit** which constitute their driving force aiming at achieving the Bank's long term success while maintaining the highest standards of responsibility in partnering with all its stakeholders.

Operations

Principal Banking Activities & Services

The Bank's principal banking activities consist of (i) private banking / financial advisory to both corporate and individual clients, providing access to capital and money markets; (ii) corporate banking, which, in conjunction with the financial advisory unit, extends credit facilities to leading corporate clients; (iii) trade finance, which encompasses the issuance of letters of credit, letters of guarantee, and other forms of documentary credits to commercial and trading entities to finance their needs in imports and business projects.

Private Banking and Wealth Management

The Bank's Private Banking Division is keen to build long term relationships with its clients based on the fundamental values of professional commitment, integrity and reliability that constitute the foundation of the adopted Client Centric business approach. The interests of clients, being at the center of the Bank's priorities, the Private Banking division consists of a team of confirmed financial advisors who identify and structure clients' personal financial objectives, understand their constraints and always aim at designing strategies that assist them in enhancing and improving their asset allocation in accordance with their risk tolerance, financial goals, time horizon and unique circumstances. The division's commitment is to foster relationships based on trust through insightful and impartial advice to clients in making informed investment decisions according to defined priorities.

The Bank's network in Lebanon and Cyprus, equipped with the necessary sophisticated tools, guided by the rigorous policies and procedures, and inspired by the Client Centric approach, offers a diverse array of personalized and superlative products and services covering the core personal banking areas.

Family Office: In 2012, the Bank initiated the set up of the "Family Office" department which constitutes a part of the Private Banking and Wealth Management activities. The Family Office at Banque Bemo is structured as a Multi-Family Office aiming at assisting clients in preserving their wealth by offering support with wealth protection, growth, and succession planning which will enable clients to handle issues pertaining to generational planning, implementing broader succession, leadership, and governance plans. It provides efficient means of monitoring and managing families's wealth and investments and will provide legal structures that help to smooth the transfer of wealth between generations while at the same time secure a steady income for a decent life style during their retirement. Banque Bemo - Family Office seeks as well to provide clients with a reliable and stable assistance in every aspect of their daily lives through a diverse array of services that simplify their matters. Along with the services and investment advice provided, clients benefit from the services of a team of specialists with legal, fiscal and financial technical skills to safeguard the present and to build for the future .

Corporate Banking
Corporate banking services provided by the Bank encompass corporate loans, discounting of commercial drafts, working capital financing, foreign exchange transactions, domestic and international transfers, direct debits and standing orders, in addition to special subsidized programs for corporate capital expenditure.

The Corporate Banking Division, after its continuous success throughout the past 10 years, escalated its strategic vision level "To be the Reference in Corporate Banking". To achieve this new vision level, Corporate Banking Division had to revisit and update its "Relationship Management Model", and adopt the "Client Centric" approach. The Relationship Management aimed to strengthen the relationship with the client, to stay closer to them, to better plan their business, and to attain maximum level of client satisfaction.

Client Centricity led to a better understanding of customers' needs, and respecting their interest. This necessitated a continuous review of business processes to further improve the Bank's services and to reach higher competitive advantage. Client Centricity, enhanced profitability per customer through exploiting cross selling with the other services offered by the Bank. Given the above, and while preserving the transparency, conservatism, and risk awareness policy, year 2012 results for Corporate Banking Division were encouraging, despite the tough competition and the negative economical indicators. Advances (including acceptances) witnessed notable growth of 14.5%. Trade Finance, witnessed a remarkable and significant 38.7% increase in volume of opened letters of credit, and a 219% marked growth in volume of issued letters of guarantees.

A prudent and conservative lending policy has proved successful as is manifested in doubtful and substandard amounts for less than 1% provisioned at 90% while the remaining uncovered amount is shielded by first mortgages on properties held in Lebanon.

Treasury and Capital Markets
Treasury and Capital Markets Unit undertakes the responsibility under the guidance of the ALCO Committee of the Bank to manage the assets and liabilities of the bank, thus allowing it to capitalize on market opportunities, while at the same time monitoring and hedging against risk exposure. Funds not utilized for lending are deposited with prime banks overseas and with other Lebanese banks or the Central Bank of Lebanon. The Bank also prices foreign exchange transactions for its individual clients, corporate clients and other local banks

Financial advisory services to corporate clients are provided as a complementary service to corporate banking and trade finance services by structuring creative financing solutions for specific corporate clients needs. This is achieved through a close relationship between the client and a team of specialized financial advisors, who advise clients on hedging against foreign exchange and other market risks, while offering tailor-made financial products to implement such hedging strategies. Moreover, the financial advisors assist corporate clients in optimizing their borrowing strategies.

The Securities Sales Desk offers clients access to international stock exchanges, fixed income products, derivatives products, commodities and both off-the-shelf and tailor-made investment products. The team is highly trained and undergoes frequent training and development programs. The unit is equipped with a state-of-the-art trading floor, providing real-time monitoring of global financial markets, in addition to swift and accurate execution for 16 continuous hours every week day. In addition, the unit has been able to structure and offer to clients diversified and innovative investment funds such as the High Dividend Yield fund offered starting 2011.

Trade Finance
The Bank's managerial skills, its strong ties with the local merchant and trading communities and its network of Correspondent Banks contribute to its competitive advantage in trade finance. This banking niche is complemented by the Bank's adequate knowledge of the geographic areas, the industry segments and the growing community of traders and merchants it services. The Bank's trade finance operations in the Lebanese and the neighbouring Arab markets depend to a large extent on the long established reputation of the clients and the specific nature of the goods traded. In Lebanon, the Bank's trade finance services have focused on imports of finished and non-perishable goods such as machinery, electronics, auto parts, other specialized products, raw materials such as fibres for the textile industry, heavy machinery and equipment used in manufacturing plants in agro-business, and pharmaceuticals, in addition to the exports of finished products such as textiles and cotton.

The Bank's growing trade finance activities include the issuance of Documentary Letters of Credit, Letters of Guarantees, Forex and Trading Advisory Services, Foreign Credit Investigations, and Documentary Collections. To promote export trade business especially between the Arab Countries, the Bank's industrial corporate clients benefit from diversified funding programs. In addition, the Bank provides companies and financial institutions with special expertise when structuring or

negotiating complex trade finance transactions. The Bank's network of International Correspondents has played a major role in maintaining long-term client relations whilst attracting new ones.

Financial Institutions and Correspondent Banking

The Financial Institutions activity is a core line of business within the Bank. Its strategy consists in catering for all types of Financial Institutions such as Deposit Taking and Non-Deposit Taking, by maintaining an effective Relationship Management Model, taking into consideration the main risk factors such as Market risk, Political risk, Economic risk, Country rating and, Bank rating. Throughout 2012, the Financial Institutions was able to grow its successful and trustful business with all the major international correspondents. The Bank was granted in 2012 and for the 5th consecutive year, the Award of Excellence from Deutsche Bank and from Commerzbank, and anchored itself as an active and reliable player in the correspondent banking arena.

Financial Institutions is constantly developing its activity among its correspondent banking network, aiming to provide always a high quality of services to clients and other Financial Institutions in the treasury services, investment and trading, global payment services, international trade finance services, syndication and structured products.

Financial Institutions is in the process of applying and implementing sophisticated automated solutions that can reduce administrative time consumption and add real value to the final outcomes and results.

List of Correspondent Banks

Country	City	Correspondent Bank
Belgium	Brussels	Deutsche Bank AG
China	Beijing	Bank of China Limited
Denmark	Copenhagen	Nordea Bank Denmark A/S
Finland	Helsinki	Nordea Bank Finland PLC
France	Paris	Banque de l'Europe Meridionale
Germany	Frankfurt	Deutsche Bank AG Commerzbank AG
Italy	Milan	Intesa Sanpaolo SPA
Japan	Tokyo	Deutsche Bank AG
Korea	Seoul	Deutsche Bank AG Commerzbank AG
KSA	Riyadh	Banque Saudi Fransi
Norway	Oslo	Nordea Bank Norge ASA
Spain	Madrid	Banco Sabadell SA
Sweden	Stockholm	Nordea Bank AB
Switzerland	Zurich	UBS AG
Taiwan	Taipei	Deutsche Bank AG
UAE	Dubai	MashreqBank PSC
UK	London	Deutsche Bank AG
USA	New York	The Bank of New York Mellon

Operations

Operations mobilize 16.5% of the Bank's total workforce covering a broad panel of competencies. Operations staff members enjoy an extensive set of background and experience in banking activities in addition to being supported by an infrastructure that ensures high level of accuracy, speed and quality of service while maintaining adequate levels of flexibility to tailor the Bank's response to clients' needs. The mission of Operations is to build and maintain an appropriate set of infrastructure and processes to support the Bank's Strategic Objectives, the current and future Organizational needs, and to ensure the delivery of an outstanding Quality customer focused service. Being at the execution end of clients' transactions, Operations are at the final stage of the Bank's value creation chain. Due to this situation, Operations plays an important role in ensuring that the Bank is capable of effectively processing its clients' requests in compliance with the required due diligence, speed and high quality standards. Operations division plays a key role in ensuring that required controls are effective and that ultimately, transactions processed are in line with local and international requirements. Operations objectives are reflected in the enhancements that were set up during year 2012, which include:

- An increased automation levels to improve efficiency and accuracy
- The enhancement of Operations division process reliability and resilience
- The alignment of Operations efforts with the Bank's strategic objectives, i.e: putting the clients at the center of the value chain.

Government Entities Business Development

In line with the Bank's strategy in establishing a brand name in the Local Governments' Business Segment , the Bank signed a partnership with The World Bank , to explore the financial capacities and needs of Municipalities in Lebanon. It was one of

the first times that the Private Banking Sector showed some interest in financing capital expenditures projects at the local level.
A rational approach of Municipalities' "Creditworthiness Assessment" through the Rating process was adopted in order to cover comprehensively all aspects pertaining to their situation. A report was prepared by an Independent Rating Agent. The financing was split evenly between Banque Bemo and The World Bank, each one of them having financially sponsored a specific Municipality. However the review of the report was jointly conducted and commonly challenged with the Rating Agent by the two Banks.

Mediation
Over the last decade, Mediation has remarkably received growing attention and recognition as an alternate dispute resolution approach around the world. Mediation is a voluntary and confidential process that allows two or more disputing parties to prevent or to resolve their conflict in a mutually agreeable way, with the help of mutually selected impartial and neutral third party, a Mediator. Mediation spirit has always constituted one of the Bank's fundamentals to preserve smooth business relationships based on trust.

The Banking Mediation Unit established in 2010 at the Bank offers an independent, impartial, informal and confidential conflict resolution service. The Banking Mediation Unit's purpose is to prevent or resolve the potential conflicts between the Bank and its clients or suppliers. The Mediation process is materialized through the Mediation Chart which aims to define the context in which Mediation takes place, and to inform clients and suppliers of their respective rights and obligations and the role of the Mediator.

Mediation offers parties the opportunity to exercise greater control over the way their dispute would be resolved than would be the case in court litigation. Mediation's confidentiality allows the parties to negotiate more freely and productively, without fear of publicity, especially in the banking field where commercial reputations and trade secrets are involved.
The Mediator, with his independent and impartial support, helps the parties to explore options and find their own satisfactory, workable solutions by being an effective facilitator and by providing structure, focus and assistance with communication.
Through Mediation, the parties can agree to resolve in a short time frame process a dispute, avoiding the complexity of multijurisdictional litigation, the risk of inconsistent results and all related expenses.

Parties who have reached their "own-customized" agreements are generally more likely to follow through and comply with its terms than those whose agreements has been imposed by a third party decision-maker. Mediation agreements, which are the result of negotiated and future oriented solutions, are able to preserve present and future relationships.

The Banking Mediation Unit works continuously in close relationship with the Professional Centre for Mediation of Saint Joseph University on integrating mediation into its organization through informative seminars and trainings that raises awareness on the benefits of Mediation for potential disputes. The Banking Mediation Unit will always spread the mediation culture in order to establish, restore and preserve a relationship of dialogue, mutual understanding and trust between the Bank and its clients and suppliers.

Communication and Quality
The Communication and Quality Department strives to enhance the Bank's Corporate image, reflecting its vision "to be the Reference in Private & Corporate Banking" and fostering the Client Centricity approach while aiming the highest levels of Customers' satisfaction.
Providing our customers with outstanding quality services remains our main concern; thus monitoring the clients' satisfaction level and following on any complaint or incident that we are informed of, constitute our first priority in order to take adequate action and to avoid its reoccurrence.
Quality is reflected as well by the attention provided to the limited number of internships welcomed for a summer internship where the adequate rotation plan elaborated by the HR management in accordance with the student educational program, coupled with a close supervision of the Communication and Quality department ensures that proper support by the dedicated mentors is implemented leading to fulfill the interns expectations

Social Responsibility
The Bank is committed to operating its business in a socially responsible way. This reflects the Bank's will to contribute to the welfare of its customers, shareholders, employees and the entire society guided by Corporate Social Responsibility. Through its collaboration with devoted NGOs, the Bank strives to support Children, Youth and Elderly. Initiatives related to healthcare, drug addiction rehabilitation, dysfunctional families and environment have been adopted in addition to awareness activities.

The Bank promotes the importance of reducing waste and the benefits of recycling. In light of this, the Bank supported the E-Waste Awareness Campaign conducted by "Beeatoona" who is specialized in collecting the electronic waste for a healthier environment.
The Bank demonstrates its firm commitment to a healthy environment through its partnership with Tobacco Free Initiative (TFI) who is conducting campaigns in schools to fight against tobacco consumption, in order to help improving the quality of life by fostering the culture of a smoke-free environment.

Education, Culture and Sports constitute another main concern: the Bank pursues its sponsorship activities to sports and cultural events: in 2012 the Bank sponsored for the 4th year in a row the "Arab Semi Final and Final Tennis Tournament Games" which took place at the Brummana High School courts as well as the Cultural activities of the "Centre Sportif, Culturel et Social" of College Notre-Dame de Jamhour, which were sponsored by the Bank for the seventh consecutive year.

The Bank's employees participated as usual in the "Beirut Marathon 2012" with the Lebanese NGO "Oum el Nour" who is committed to serving individuals by helping them overcome addiction in order for them to reintegrate into a healthy society. At the end of 2012, which proved to be difficult, corporate gifts and year end celebration festivities were replaced by donations to NGOs and particularly to "Offre Joie", who made it its mission to work on the restoration of Al Mounzer Street at Achrafieh, following October 2012 tragic explosion.

Branch Network
A refocused management strategy aims at increasing the responsibilities of the Bank's branches, to better capitalizing on the relationship oriented nature of the Bank's clientele. As of the date of this Private Placement Memorandum, the Bank's network of branches comprised 10 branches in Lebanon with a concentration on the Greater Beirut area, in addition to a fully-fledged branch located in Limassol, Cyprus.

The following lists the Bank's current branches by areas/locations:

Lebanon			**Cyprus**
Riad El Solh	Chtaura	Zouk	Limassol
Ashrafieh	Verdun	Chtaura	
Dora	Sin El Fil		
Kantari	Rabieh		
Zouk	Gemmayzeh		

**opened in December 2013*

Subsidiaries, Affiliates and Sister Banks/Financial Institutions

Bemo Securitization SAL – BSEC (www.bsec-sa.com)
BSEC is a financial institution that covers all the services of an investment bank and is mainly specialized in structured finance. The business activity is set to provide financing solutions to middle market companies in Lebanon and MENA countries. BSEC enjoys an image of know-how and professionalism as well as a solid track-record in providing financing to diversified business sectors such as automotive, industry, retail, real estate and others.

In line with growing market needs, BSEC offers a broad range of services to clients with sophisticated funding requirements.

These services cover 3 main areas of finance:
1. the debt and structured finance (securitization and asset based financing, syndications and structured lending, bonds and Sukuk issuance, and project finance);
2. the M&A (buy-side/sell-side, joint-ventures) and capital raising;
3- the administration and agency services, (calculation and paying agency, fund administration agency).

In 2012, BSEC successfully closed an innovative short term Auto Loans Asset-Backed Securities and launched the largest Asset-Backed Issuance in the history of the Lebanese Capital Markets with a size of USD 185 million. BSEC is proud of its achievements and remains the sole active Securitization solutions provider to the local companies.

These transactions offer alternative sources of financing to clients, confirm the success of BSEC structuring capabilities, and validate the trust of both the clients and the investors. BSEC has been rewarded on many occasions by international industry (ISR, Euromoney etc.) for its innovative structures in both conventional and Islamic finance areas.

BSEC is regulated by the Central Bank of Lebanon and the Banking Control Commission and is member of the Association of Financial Institutions in Lebanon.

Its head office is located at:
3rd Floor, Two Park Avenue Building, Park Avenue, Beirut Central District, Minet El Hosn

Banque Bemo Saudi Fransi SA – Syria (www.bbsfbank.com)
BBSF is the trading name for Banque Bemo Saudi Fransi, a Syrian privately owned joint stock company operating in accordance with world-class standards. Established in 2004 as Syria's first private bank, BBSF, in less than 9 years, has grown in size and stature to become a frontline financial institution, a key player in financing corporate and commercial, industrial, and contracting activities, hence largely contributing to the development of these sectors and the overall economy of Syria.

BBSF's retail banking strives to provide its customers with a broad spectrum of products and services including loans, deposits, payments and cash management services. Banque Bemo Saudi Fransi aims to maintain its leadership in the banking sector in Syria, with a strong focus on retail and commercial banking. BBSF services as well multinational and financial institutions.

The competitive advantage lies on the wide coverage of BBSF branches in Syria, being the only privately-owned bank with a network that encompasses all Syrian Governorates, on its expansive correspondent network in the world, and on a very high standard of quality services.

Ownership Structure as of 31/12/2012:

Shareholders	Country	Shares in Capital
Banque Saudi Fransi (BSF)	Saudi Arabia	27%
Banque Bemo Sal	Lebanon	22%
Obegi Family	Syria	7.18%
Other shareholders	Syria	43.82%

BBSF Head Office is located at: 29 Ayyar Street, P.O.Box: 31117 Damascus - Syria

Bemo Oddo Investment Firm Ltd. – Dubai (www.oddo.eu)
In November 2006, Bemo Group and Oddo et Cie., incorporated a joint venture called Bemo Oddo Investment Firm Ltd. in Dubai aimed at selling European investment opportunities to Gulf investors. Oddo et Cie is an independent leading financial partnership in France with more than 100 years of history. The company is active in investment banking (brokerage and corporate banking) and capital management (asset management and custody/account services).

Oddo et Cie manages assets of more than EURO 21 billion. Bemo Oddo Investment Firm's main focus and strategy are to promote third party financial products, and to work in close collaboration with Bemo Securitization – BSEC in the Origination and Placement programs in the MENA/GCC markets. Bemo Oddo Head Office is located at Gate Village, Bldg 1, Level 1, Dubai International Financial Centre – Dubai (UAE)

Bemo Europe - Banque Privée (Fully owned by EMIC S.A. – Luxembourg)- Sister Bank

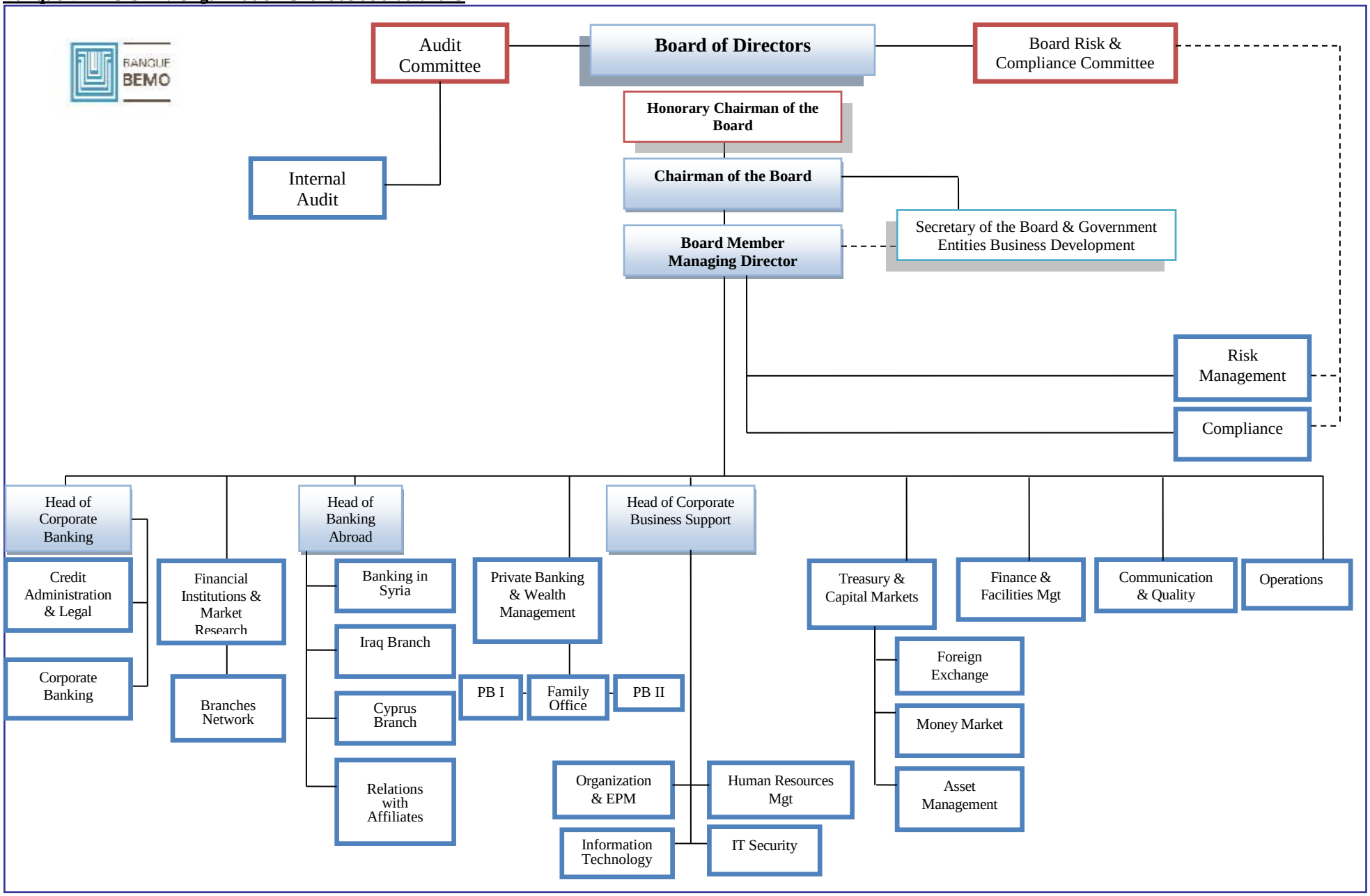
BEMO Europe was founded in 1976 as a generalist bank. It subsequently developed its European activities, specializing in Private Banking and Wealth Management.

Since the 1st of April 2013 the head office was transferred to Luxembourg, whereby Paris became its full branch The Bank is regulated by the Commission de Surveillance du Secteur Financier (CSSF), Luxembourg and the Paris branch by the French Banking Commission (BDF) and the French Financial Market Authority (AMF).

With the skills of a highly qualified team of professionals and bankers, it provides customized solutions in Wealth and Portfolio Management. The bank prides itself for a comprehensive approach and the personalized relationship management it offers its clients, within an extensive range of quality products and services.

Its main activities revolve around the following:
- Wealth Management, Financial Estate Planning, Family Office Services
. Asset Allocation. Portfolio Advisory and Management. Cash Management.
. Credit and Loan Accounts (Lombard, property, personal)
. Treasury and Foreign Exchange
. Fiduciary operations. Wealth structuring, domiciliation and management

Banque BEMO SAL: Organization Chart as at 01/01/2013

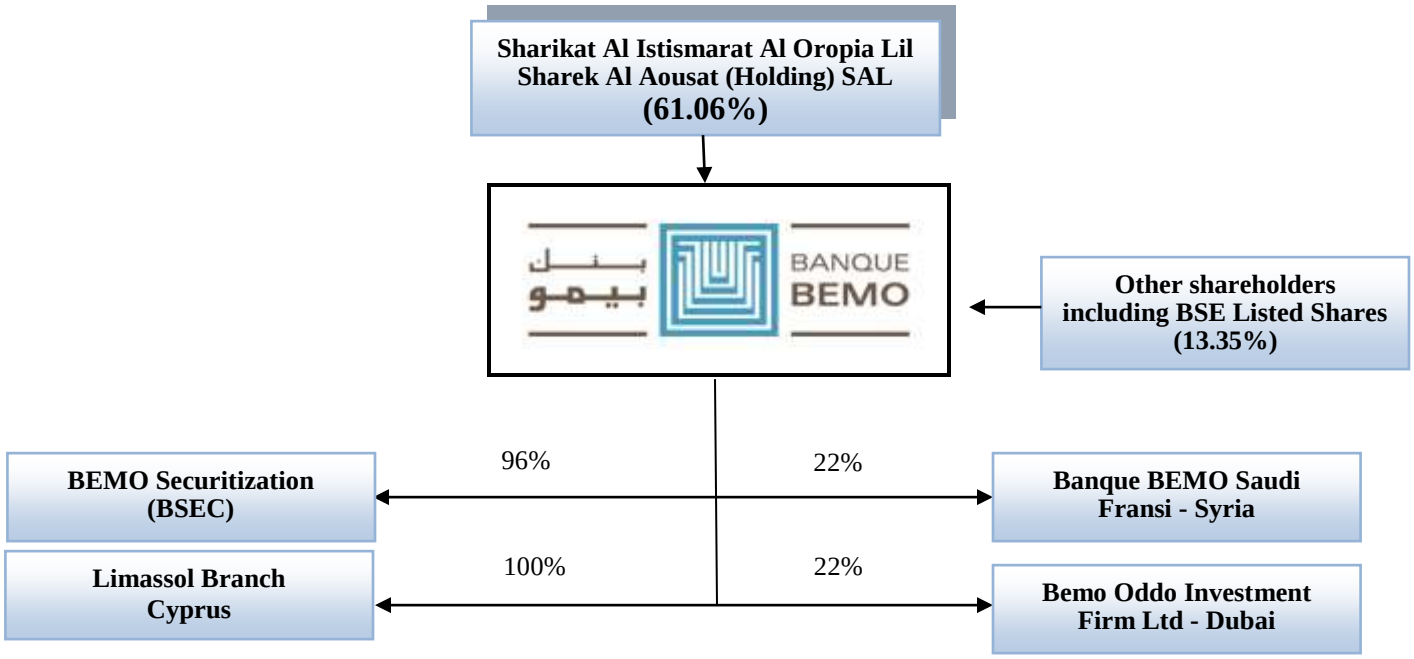


Ownership Structure

Subsequent to the capital increase approved by the General Assembly of shareholders in 2011 and after obtaining the ratification of the regulatory authorities, the Bank's capital is equivalent to LBP 62.2 billion, consisting of 62,000,000 shares of common stock ("Ordinary" Shares) and 200,000 shares representing the par value of Preferred Shares Issuance of Year 2006. Out of the total 62,000,000 shares, 51,400,000 shares are publicly held and listed on the Beirut Stock Exchange (BSE). The listing of shares on the Beirut Stock Exchange has been initiated since January 1999. The ownership structure of the Bank's capital as of November 29th, 2013 is as follows:

		Ownership Type					
Name	**Country of Origin**	**Not Listed**	**%**	**Listed**	**%**	**Total**	**%**
Sharikat Al Istismarat Al Oropia Lil Sharek Al Aousat (Holding)	*Lebanon*	7,673,995	*72.40*	30,181,793	*59.57*	**37,855,788**	***61.06***
Mr. Maroun Antanos Semaan	*Lebanon*	715,765	*6.75*	5,746,801	*11.18*	**6,462,566**	***10.42***
Banque Saudi Fransi	*Saudi Arabia*	1,590,045	*15.00*	4,813,218	*9.36*	**6,403,263**	***10.33***
Mr. Georges Ghaleb Farha	*Lebanon*			2,010,510	*3.91*	**2,017,510**	***3.24***
Sheikh Isam Mohamad Kheiri Kabbani	*Saudi Arabia*	446,144	*4.21*	1,454,729	*2.83*	**1,900,873**	***3.07***
Al Amir Libanaise Holding SAL	*Lebanon*			1,509,637	*2.94*	**1,509,637**	***2.43***
Mr. Samih Halim Saadeh	*Lebanon*	120,852	*1.14*	769,207	*1.50*	**890,059**	***1.44***
Abdallah Bakhesh	*Saudi Arabia*			642,289	*1.25*	**642,289**	***1.04***
Mr. Henry Yordan Obegi	*Lebanon*	9,441	*0.09*	28,006	*0.05*	**37,447**	***0.06***
Mr. Georges Bechara Obegi	*Lebanon*	9,441	*0.09*	28,006	*0.05*	**37,447**	***0.06***
Dr. Ara Ohannes Hrechdakian	*Lebanon*	4,969	*0.05*	14,740	*0.03*	**19,709**	***0.03***
Mr. Antoine Mansour Wakim	*Lebanon*		*0.00*	19,709	*0.04*	**19,709**	***0.03***
Sheikh Hassan Isam Mohamad Kabbani	*Saudi Arabia*	5,000	*0.05*	15,151	*0.03*	**20,151**	***0.03***
Mr. Riad Bechara Obegi	*Lebanon*	4,969	*0.05*	14,740	*0.03*	**19,709**	***0.03***
Mr. Jean Victor Hajjar	*Lebanon*	4,969	*0.05*	14,740	*0.03*	**19,709**	***0.03***
Emir Karim Samir Abillamaa	*Lebanon*	4,969	*0.05*	14,740	*0.03*	**19,709**	***0.03***
Late Pierre Georges Khoury	*Lebanon*	7,081	*0.07*	7,335	*0.01*	**14,416**	***0.02***
Mrs. Tatiana Khoury Naayem	*Lebanon*	2,360	*0.02*	2,445	*0.00*	**4,805**	***0.01***
Other Investors* (through Beirut Bourse)				4,112,204	*8.00*	**4,112,204**	***6.63***
Total Common Shares		**10,600,000**	**100**	**51,400,000**	**100**	**62,000,000**	**100**
Preferred Shares 2006 ***(Par Value Representation)***		**-**	-	**200,000**	**100**	**200,000**	**100**
Total		**10,600,000**	**17.04**	**51,600,000**	**82.96**	**62,200,000**	**100**

In summary, the ownership structure is depicted below:



Management and Human Resources

Board of Directors – Chairman – General Manager

The management of the Bank is vested in its Board of Directors (the "Board"), the Chairman-General Manager, the General Manager and the various Committees. Without prejudice to the provisions contained in the Articles of Association, and in order to ensure a high standard of corporate governance practice for the bank, the responsibilities of the Board of Directors center on :

- Implement a process for the selection of Board members who can add value and meaningfully contribute independent judgment to the formulation of sound corporate strategies and policies
- Establish clear corporate objectives and formulate sound business strategies for achieving them. Periodically evaluate and monitor the implementation of such strategies and policies, including the business plans, and operating budgets
- Select and appoint officers who are qualified to administer the Bank's affairs effectively and soundly, and to establish an adequate selection process. The Board shall apply at all times the fit and proper rule on the selection of key management personnel. Integrity, technical expertise, and experience in the Bank's line of business shall be the key considerations in the selection process. Moreover, an effective succession plan to ensure management continuity.
- Monitor, assess and control the performance of management.
- Identify key risk areas and performance indicators and monitor these factors with due diligence to enable the Bank to anticipate and prepare for possible threats to its operational and financial viability
- Ensure the bank's faithful compliance with all applicable laws, regulations and best business practices
- Review financial statements and other disclosures, with a focus on the integrity and clarity of these disclosures
- Ensure the integrity and transparency of related party transactions between and among the bank, and its subsidiaries, affiliated companies, directors, officers, shareholders and related interests
- Conduct the affairs of the Bank with a high degree of integrity. For this purpose, the Board of Directors has prescribed corporate values, codes of conduct and other standards of appropriate behavior for itself, senior management and other employees
- Keep the individual members of the Board and the shareholders fully informed with balanced and understandable assessment of the Bank's performance, financial condition and prospects
- Keep the activities and decisions of the Board within its authority under the Bank's Articles of Incorporation and Bylaws, and in accordance with existing laws, rules and regulations
- Prescribe a clear assignment of responsibilities and decision-making authorities. The Board of Directors shall establish in writing the limits of the discretionary powers of each officer, committee, and such othe groups for the purpose of lending, investing or committing the Bank to any financial undertaking or exposure to risk at any time
- Assisted by the Board Risk and Compliance Committee, adopt and maintain an adequate risk management policy. The Board of Directors shall be responsible for the formulation and maintenance of written policies and procedures relating to the management of risks throughout the Bank. In that respect, the Board shall approve and oversees the implementation of the Bank's overall risk strategy, risk tolerance and risk appetite and ratify the bank's risk management framework.
- Ensure that the Bank has a beneficial influence on the economy. The Board has a continuing responsibility to provide those services and facilities that shall be supportive of the national economies where it operates. It shall identify the sectors in the community in which the Bank operates, or are directly affected by its operations, and formulate a clear policy of accurate, timely and effective communication with them
- Constitute an Audit Committee and such other committees it deems necessary to assist the Board in the performance of its duties and responsibilities

Role and Responsibility of the Chairman of the Board of Directors of the Bank:

The Chairman shall be elected by the Board of Directors. Without prejudice to the provisions contained in the Articles of Association, the Chairman shall:

(a) Ensure that the Board acts efficiently, fulfills its responsibilities and discusses all material issues in a timely manner;
(b) Be responsible for preparing and approving the agenda of every meeting of the Board taking into consideration any matter proposed by the other Board Directors.
(c) Encourage all Board Directors to fully and efficiently participate in handling the affairs of the Board for ensuring that the Board is working in the best interests of the Bank;
(d) Take the proper actions for ensuring efficient communication with shareholders and communicating their opinions to the Board; and
(e) Allow efficient participation of the Non-Executive Directors in particular and to develop constructive relations between Executive and Non-Executive Directors.
(f) Be available to shareholders as representative of the Bank and its principal voice on all matters.

The number of Board of Directors meetings held during 2012 was equivalent to 5.

.The following table sets forth the names of the members of the Board of Directors, as of December 31, 2012.

Mr. Henry Yordan Obegi	Honorary Chairman	
Mr. Riad Bechara Obegi	Chairman, General Manager	Executive
Mr. Samih Saadeh	Managing Director ,General Manager*	Executive
Sharikat Al Istismarat Al Oropia (Holding) sal	Member	Non executive
Dr. Ara Ohannes Hrechdakian	Member	Independent
Mr. Jean Victor Hajjar	Member	Non executive
Mr. Antoine Mansour Wakim	Member	Independent
Sheikh Hassan Isam Mohamed Kabbani	Member	Independent
Mr. Georges Bechara Obegi	Member	Non executive
Emir Karim Samir Abillamaa	Member	Non executive

** Mr. Samih Saadeh has been nominated for the position of Vice Chairman & General Manager during the Board of Directors' meeting held on June 7th, 2013.*

Mr. Henry Yordan Obegi – Honorary Chairman. Born in 1926, Mr. Obegi's professional experience spans over more than 67 years covering a range of positions in commerce, industry and banking. Starting initially with Maison Yordan Obegi in 1945, Mr. Obegi held the position of Chairman and General Manager of Société Arabo Allemande Yordan Obegi SAL between 1955 and 1986.
Current Appointments include
• Honorary Chairman of the Board of Directors of Banque BEMO SAL (since 31.05.2010).
• Chairman and General Manager of Obegi Group Holding sal
• Chairman and General Manager of Henkel Lebanon sal
• Chairman and General Manager of Obegi Group SA-Luxembourg
• Board Member of Unifert Holding sal
Former Appointments include:
• Co-founder and Board Member of Credit Libanais sal (1961-1985)
• Chairman-General Manager Banque BEMO SAL (1994-May 2010)
• Chairman and General Manager of Banque de l'Europe Meridionale (Brussels)(1973-1984)
• President of European Arab Bank AG (Frankfurt) (1978-1985)

Dr. Riad Bechara Obegi – Chairman, General Manager. Born in 1958, Mr. Obegi holds a PHD degree in economics from Université Lyon Lumière, a Masters degree in Business Administration from Université Paris IX Dauphine, a Masters degree from IEP-Paris. Dr. Obegi is currently acting as:
• Chairperson of the Board Credit Committee
• Member of Nominating, Remuneration and Corporate Governance Committee
• Member of the Board Risk and Compliance Committee
• Chairperson of the Executive Committee/Strategy Committee
• Chairperson of Senior Executive Management Committee (SEMC)
In addition to the above, Dr. Obegi's current appointments include:
• Chairman-General Manager of Banque BEMO SAL (since 31.05.2010)
• Chairman of Banque de l'Europe Meridionale (Luxembourg-Paris) (1995-Present)
• Chairman of Banque Bemo Saudi Fransi SA - Syria
• Chairman of Obegi Chemicals Group SA - Luxembourg
• Chairman of Sharikat Al Istismarat Al Oropia Lil Shark Al Aousat (Holding) sal
• Board Member and General Manager of Obegi Group Holding sal
• Represents Sharikat Al Istismarat Al Oropia Lil Shark Al Aousat (Holding) sal in Banque BEMO's Board.
Former Appointments include:
• General Manager Banque BEMO SAL (2001-2003)
• Vice Chairman of the Board of Directors and CEO of Banque Bemo Saudi Fransi – Syria (2007-2009)

Mr. Samih Saadeh – Vice Chairman, General Manager. Born in 1952, Mr. Saadeh graduated from the American University of Beirut with an MBA and from the Lebanese University with a degree of Law.
Mr. Saadeh's experience started with American Express Bank Ltd New York and Beirut followed by ABN Amro Bank - Beirut, whereby he managed and led many departments starting from Corporate and Financial Institutions to Corporate and

Private Banking. Mr. Saadeh joined Banque BEMO SAL in January 2003 as General Manager and was appointed Managing Director-General Manager in 2010.
Mr. Saadeh's current appointments include
• Vice Chairman - General Manager Banque BEMO SAL (since June 7th, 2013)
• Member of the Board of Directors of Bemo Securitization (BSEC)
• Represents Banque BEMO SAL in the Board of Directors of Banque Bemo Saudi Fransi-SA Syria (BBSF)
• Chairperson of various specialized committees in Banque BEMO SAL
Mr. Saadeh has given lectures and seminars at the Association of Lebanese Banks and the Centre d'Etudes Bancaires and published articles at the Lebanese American University on Country Risk, Corporate and Retail Banking, and Capital Markets issues.

Dr. Ara Ohannes Hrechdakian – Member. Born in 1924, Dr. Hrechdakian holds a PHD in Economics and Political Sciences from Hiedelberg University/Germany. Dr. Hrechdakian started his professional career in 1948 as a founder and General Manager of ARA & Co established in Lebanon and Syria acting as exclusive representatives and distributors of many European big companies in many fields.
In 1962, Dr. Hrechdakian founded S.L.I.D SAL based in Lebanon for the trade of cosmetics and chemicals, where he acted as CEO until 2010. Dr Hrechdakian held several leading positions acting as founder and Board Member and sometimes as CEO in several holdings in Europe and Lebanon such as:
• In Luxembourg : Fertitrust, EMIC S.A.
• In Belgium: Western Chemicals
• In Lebanon: Hoechst Middle East SAL, Hostapharma SARL, Unifert SAL, Unifert Holding SAL, Uniterminals SAL, UNILEC SAL, Societé des Entrepots Industriels & Commerciaux SARL, Societé Anonyme de Frigos & Entrepots SAL.

Mr. Jean Victor Hajjar – Member. Born in 1930, Mr. Hajjar started his professional career in Aleppo-Syria. He assumed the position of Deputy General Manager at Crédit Libanais sal until 1985. In 1986 Mr. Hajjar joined Banque de L'Europe Meridionale in Paris, Brussels and Luxembourg as General Manager and he acted as General Manager of Banque BEMO SAL - Lebanon from 1994 to 2001. Current appointments include:
- Attendee in the Audit Committee
- Member of the Board Credit Committee
- Member of Nominating, Remuneration and Corporate Governance Committee
- Member of the Board Risk and Compliance Committee

Mr. Antoine Mansour Wakim – Member. Born in 1945, Mr. Wakim, holds an AMP from INSEAD (1978) and followed Actuary studies in University of Lausanne, Switzerland (1967). Mr. Wakim, Former Chairman and CEO of Allianz SNA, developed the business of SNA in the Arab world, established in 1978 "la Marocaine - Vie in Morocco" , Maghrebia - Tunisia 1976, Jordan Eagle Jordan1977, Allianz Egypt 2005, Allianz Saudi Arabia 2005 and Allianz Takaful in Bahrain 2008. Mr. Wakim served as University lecturer for over 12 years in various universities in Lebanon.
Mr. Wakim's current appointments include:
• Board member of Allianz SNA,
• Board member of Hotel Dieu de France,
• Member of the Board Governors of the American Hospital of Paris.
• Member of the Swiss Association of Actuaries (SAA)
• Member of the International Association of Actuaries (IAA) (1969)
• Board member of the National Social Security Fund in Lebanon
• Member of the Advisory Board of the Family Business Institute at LAU.
Former Appointments include
• University lecturer for over 10 years in various universities in Lebanon
• Former member of the Advisory Board of the Business School at AUB

Sheikh Hassan Isam Mohamed Kabbani – Member. Born in 1966, Sheikh Kabbani graduated from Pepperdine University, UCLA. He started his professional career in 1992 when he joined the BMC & UNITECH Company as their Business Development Manager. In 1998, he was appointed Director of Administration and Credit Control of the IKK Group of Companies, a leading business group of Saudi Arabia which encompasses many companies in the MENA Region. In 1999, Sheikh Kabbani was assigned the post of Vice Chairman of the IKK Group of companies, and was promoted in October 2010 to that of Acting Chairman, a position that he continues to hold at present, which involves the management of all aspects related to this business group, in and out of Saudi Arabia. In addition to his membership in the Board of Directors, Sheikh Kabbani is a member of the Audit Committee.
Sheikh Kabbani sits on the Board of many companies of the IKK Groups and on that of the Saudi United Cooperative Insurance (Walaa) and is a member of the American Businessmen of Jeddah.

Mr. Georges Bechara Obegi – Member. Born in 1965, Mr. Obegi holds an MBA degree from INSEAD in Fontainebleau, France, a Degree in Economics from Université Paris IX Dauphine and a Degree in Business Administration from Ecole des Hautes Etudes Commerciales (HEC Paris). His current appointments in the Bank include:
- Member of the Board Credit Committee
- Member of Nominating, Remuneration and Corporate Governance Committee
- Member of the Board Risk and Compliance Committee

Mr. Obegi holds several leading positions within the Obegi Group of companies, his current appointments are: Chairman-CEO Obegi Consumer Products Holding; Chairman-CEO Unifert Holding sal; Board Member Obegi Chemicals Group SA-Luxembourg.

Emir Karim Samir Abillamaa – Member. Born in 1966, Mr. Abillama'a holds an MBA degree from INSEAD in Fontainebleau, France, a Master of Engineering degree in Industrial Engineering from the Ecole Polytechnique in Montreal, Canada and a Bachelor of Science degree in Mechanical Engineering from Boston University, USA. His current appointments in the Bank include:
- Member of the Audit Committee
- Member of the Board Credit Committee
- Member of the Nominating, Remuneration and Corporate Governance Committee

Since 1993, Mr. Abillamaa has been acting as Managing Director of Mitsulift and Equipment SAL. He also acts as Member of the Board of Directors of Mitsulift and Equipment sal, Mistsulift Mediterranean Ltd, Cylift and Equipment Ltd, Mitsulift Hellas SA, Mitsulift and Equipment Syria Ltd. He is also a Founding Member of 22°C and Chairman of Mitsulift Levant (Offshore) SAL and Mitsulift Africa (Offshore) SAL

Specific duties of Directors

A Board Director specific duties center around the following:

(a) Conduct business transactions with the Bank fairly and ensure that personal interest does not bias Board decisions;
(b) Devote the time and attention necessary to properly discharge his/her duties and responsibilities on the Board and in any Committee(s) to which he/she is appointed from time to time by the Board;
(c) Act judiciously;
(d) Have a working knowledge of the statutory and regulatory requirements affecting the Bank.
(e) Observe confidentiality;
(f) Ensure the continuing soundness, effectiveness and adequacy of the Bank's control environment;
(g) Adhere to loyal behaviour taking into consideration the Bank's and shareholders' interests, take such due care and diligence as taken by a normal person in similar circumstances; and
(h) Notify the Board of all positions he/she holds at the time of his/her appointment to the Board and promptly update the Board as to any changes thereto.

Duties and Responsibilities of Non-Executive Directors /Independent Directors

In addition to the above duties and responsibilities, a Non-Executive Director/ Independent Director duties and responsibilities center around the following:

(a) To participate in the meetings of the Board and to provide independent opinion on strategic matters, policy, performance, accounting, resources, key appointments and standard operations;
(b) To give priority to the interests of the Bank and its shareholders if and when any conflict of interest situation arises;
(c) To control the Bank's performance in realizing its agreed objectives and goals and to monitor its performance reports;
(d) To develop procedural rules for the Bank's governance and supervise and monitor their implementation in compliance therewith; and
(e) To provide the Board and its different Committees with his/her skills, experience, diversified specialties and qualifications through regular presence and efficient participation in the General Assembly meetings and through the acquisition of a balanced understanding of shareholders' opinions.

Board's Members Remuneration

Total remunerations paid to the members of the Board of Directors for each of the years 2011 and 2012 amounted to a total of LBP 15.1 million (US$10,000) annually for each member of the Board. This fee covers the members' attendance to the Board of Directors meetings.

Balances/Transactions with Related Parties

Article 152 of the Code of Money and Credit provides that advances and credit facilities to directors or managers of banks, or to companies having common directors with the Bank's or to principal shareholders or their close relatives, must be authorized by the Ordinary General Assembly of Shareholders of the bank and must not exceed, in aggregate, 2% of the shareholders' equity of the Bank, provided that unsecured loans do not exceed 1% of the shareholders' equity. The Bank is in

strict compliance with Article 152 of the Code of Money and Credit. Balances with related parties excluding accrued interest and balances eliminated on consolidation consist of the following:

	2011	2012
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
- Secured loans and advances	296	326
- Unsecured loans and advances	1,832	8
- Deposits	15,592	10,106
Associated companies:		
Direct facilities and credit balances:		
- Secured loans and advances	2,534	2,667
- Unsecured loans and advances	437	828
- Deposits	42,955	43,831
Indirect facilities:		
- Letters of guarantee	166	10

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LL 302 million and by pledged deposits of the respective borrowers to the extent of LBP 2.67 billion as at end of 2012.

Corporate Governance

BEMO Group and Banque BEMO have long been committed to sound corporate governance. Since over 100 years, "Business with ethics" has been diligently implemented by the Group. Presently, the Bank remains focused and committed towards this approach. In practice, this means that in all the business operations the Bank seeks to earn the trust of all its stakeholders, including shareholders, customers, employees and communities. This is achieved through ethical conduct of business and based on the principles of honesty, transparency, and accountability. Since 2006, and in line with the local, regional and international increasing awareness by supervisory authorities, credit rating agencies, and investors, the Board of Directors of the Bank adopted to the best possible the Corporate Governance Guidelines setting out the specific roles, duties and responsibilities and rights of the Directors of the Bank. The main objective of the guidelines was to act as the Modus Operandi for the sound application of the Corporate Governance requirements at the Bank. Acting in accordance with the prerogatives of BDL Intermediary Circular No 255 published in April 2011, the Bank restated its corporate governance guidelines under a newly published Corporate Governance Manual whereby its sole purpose was to realign the Bank's Corporate Governance principles and guidelines with the amendments and new practices introduced by international bodies and requirements of regulatory authorities.

Corporate governance is the process and structure used to direct and manage the business and affairs of a company with the objective of ensuring its safety and soundness, and enhancing shareholder value.

At Banque BEMO SAL, effective corporate governance practices are essential to achieving and maintaining public trust and confidence in the banking system, which are critical to the proper functioning of the banking sector and economy as a whole. At the micro level, the Bank operates with the main concern to meet its shareholders expectations, protect the interests of its depositors and continuously earn the trust of all its stakeholders, guaranteeing the successful achievement of its long term strategy and objectives.

As such, Banque BEMO SAL is committed through the dedication of its Board of Directors and Senior Management, to ensuring strict corporate governance practices in line with the local regulators requirements and international corporate governance standards, inclusive of but not limited to those stipulated in the following documents:

- BDL basic circular no. 106- Corporate governance in conventional banks (2006, updated in 2011 with the intermediary circular no. 255)
- BDL basic circular no. 118- Board practices and board committees
- BDL basic circular no. 77- Internal controls
- BCC circular no. 271- Guidelines for the implementation of internal control systems
- Corporate Governance Principles of the Organization for Economic Co-operation and Development (OECD)
- Basel Committee publications and consultative document: « Enhancing corporate governance of banking organizations » - published in 2010.

• The principles for sound compensation practices of the Financial Stability Forum
• The publications of the International Accounting Standard's Board (IAS and IFRS).

The Board of Directors believes that solid corporate governance is an enterprise-wide culture set for by a strong tone at the top. Accordingly the corporate governance manual of the bank as approved and adopted by the Board since December 2011, outlines the expected conduct of all parties at every business level and with all activities.

The corporate governance framework at the bank encompasses the abidance by the following internal policies, ethical standards and deontology principles.

The **Board Governance Principles**, that define the board's mission, the selection of directors, their duties and functions as well as the board's meetings and decision making process. Through these principles, the Board of Directors is fully committed to attaining and sustaining the highest standards of corporate governance. This is ensured through the implementation of policies, procedures and practices which encompass the fundamental principles of good governance, mainly:
• Independent functioning of the Board
• Clear separation of responsibilities of the Board and Management
• Strategic Planning by the Board
• Management of risk
• Integrity of Internal Control and Management Information System
• Integrity in conducting banking operations
• Monitoring of Senior Management

The **Deontology Principles**, code of professional ethics that sets the standards of business conduct and ethical behavior to be adopted throughout the Bank. The **Anti Bribery and Corruption Policy**, which draws together the Bank's principles on fighting corruption in all its variants. The **Whistle-Blowing Policy**, designed to promote a culture of open communication that enables staff members to voice their concerns at the earliest opportunity. The **Compliance Charter,** which aims to strengthening, monitoring and controlling the observation of laws, regulations, and internal rules and principles that are relevant to the integrity and to the reputation of the Bank. The **Disclosure Policy** where the Bank ensures to communicate to the public all relevant information in a timely and accurate manner, and in accordance with applicable legal, regulatory, and stock exchange requirements. Disclosure is completed through the Bank's website, published annual and quarterly financial reports as well as daily summary reports available in both Arabic and English languages.

In addition to the principles and guidelines stated in the above documents. The proper implementation of the corporate governance framework is guaranteed through:
• The ownership structure of the Bank
• The composition of its Board of Directors
• The defined corporate values of the Bank
• The management organization and structure
Lastly, the acknowledged business standards, ethics and values and their implementation are assessed through the board of directors self assessment checklists and the monitoring of customers' complaints.

Management Structure
The structure of the Bank relies on a focused management and an organizational platform enabling swift reaction to changing market opportunities, yet without jeopardizing the existing operations of the Bank.

Management Conduct
Proper conduct, control, and professionalism in management are the basis of the Bank's operational standards. As earlier mentioned, the Bank follows a "Code of Conduct" to ensure the prevention of and the retribution against, any self-dealings, preferential treatments, privileged transactions or political abuse. In addition, internal control principles were defined in line with regulatory requirements and best practices. The primary duty of the Bank's management and other key officers and employees is to the Bank, its welfare and success. The success of the Bank, in the management's view, will protect and enhance the Shareholders' investments. In a general sense, the Board of Directors and the Bank's management are responsible towards the Shareholders (present and future) who assess their performance and conduct through the means of corporate democracy at Annual Shareholders' Ordinary and Extraordinary meetings. The Bank's management is fully aware that it has responsibilities to other constituents of the Bank including its regulators, clients, employees, and to the community at large. These are fiduciary responsibilities that must, however, be exercised in the context of the management primary objective to operate the Bank in the best interests of its Shareholders.

Management Professionalism

Whilst the Bank is currently owned at majority by Istismarat, which includes amongst its founders prominent family groups from Lebanon and Saudi Arabia, the management of the Bank is nonetheless entrusted to a group of independent senior executives. The independence of management is ensured through the trust gained by the owners throughout the years in the business its focused banking skills and its knowledge of the markets in which it operates. The senior managers of the Bank have, among their banking achievements, assisted in building and managing major local banking institutions, such as "Credit Libanais S.A.L." and other dynamic European private banking entities such as "BEMO Europe- Banque Privée". In addition, members of the Bank's senior management have held high-level managerial responsibilities in the banking industry, among which the local operations of foreign banks (ABN AMRO).

This group of seasoned managers has covered since the early sixties both the Lebanese and Syrian markets, and has established throughout the years and across all economic sectors strong and long term relations with first-tier manufacturers, traders, merchants and financiers who remain dominant players in said markets. The decision-making process of the management team is not subject to any interference by the controlling Shareholder in the Bank's day-to-day operations nor is yet disrupted by the lack of any inter-locking positions between the controlling Shareholder and the management team. However, the management significantly benefits from the collective business experience of the Bank's Board of Directors which comprises financiers, traders and prominent industrialists. This interaction between an independent management and a seasoned, diversified Board allows for a free exchange of ideas and the setting of far reaching strategies in an increasingly challenging banking environment.

Management Approach

The Bank's management approach is geared towards productivity and aims at achieving the highest level of quality throughout the hierarchy of the workforce. As such, the Bank's organization and human resources division aim to promote the required know-how among employees as part of its competitive strategy. The Bank has already succeeded to a large extent in this regard, gaining the recognition for the loyalty of its employees. Management strives to strengthen the sense of partnership among all of its staff members. All members of the workforce are encouraged to contribute to the growth of the Bank, and, for that end, are assisted through training seminars to improve their marketing and salesmanship skills. On the other hand, every employee is equally responsible and accountable for his/her actions on the job, as part of an overall performance management approach.

The table below is a summary list of names of the senior management of the Bank as of September 30, 2013:

Dr. Riad B. Obegi	Chairman - General Manager
Mr. Samih H. Saadeh	Vice Chairman - General Manager
Mr. Georges Y. Matloub	Assistant General Manager - Corporate Banking
Mr. Joseph H. Raffoul	Assistant General Manager - Banking Abroad
Mr. Gaby S. Frangieh	Assistant General Manager – Risk Management

Senior Management

Mr. Georges Matloub – AGM – Corporate Banking Division. Born in 1951, he holds a Bachelor's degree in Political and Administrative Sciences from the Lebanese University. Mr. Matloub joined the Bank in 1994 and is currently in charge of the Corporate Banking Division. Mr. Matloub's banking career started in 1970 with Crédit Libanais SAL as trainee in all major departments. He was then responsible of several branches including the representative office in Limassol which he established, and became regional manager in 1989. Later, he worked with Banque de l'Europe Meridionale as a representative in Beirut and commercial manager in Limassol. He then worked with Banque BEMO SAL acting as manager off the Dora branch until 2000.

Mr. Joseph Raffoul – AGM – Personal Banking Division. Born in 1947, he holds a Bachelor's degree in Economics from Saint Joseph University. Mr. Raffoul joined the Bank in 1994 and is currently in charge of the Personal Banking Division and Financial Institutions. His banking career started in 1966 with Crédit Libanais SAL where he became the first Chief Dealer in 1972. In 1973, he started Banque de l'Europe Meridoniale Brussels that was then an affiliate to Crédit Libanais SAL. From 1975 to 1978, he worked with Kuwait Financial Centre in Kuwait as Foreign Department manager. In 1978, he rejoined Crédit Libanais as Foreign Department manager. In 1979, he joined again Banque de l'Europe Meridoniale Brussels as Foreign Department and Customer Relations manager until 1982 when he came back to Crédit Libanais. In 1984, he joined Banque de l'Europe Meridoniale Paris as manager of the Customer Relations and Foreign Department.

Mr. Gaby Frangieh – AGM – Head of Risk Management Department. Born in 1973, Mr. Frangieh holds a Bachelor's degree in Business Administration and a Masters Degree in Money and Banking from the American University of Beirut. Mr.

Frangieh started his banking career at ABN Amro Bank as a team head and relationship manager in Corporate Banking. He later joined Banque Bemo in early 2003 as Credit & Market Risk Manager where he has established related policies to manage and measure risks in compliance with the requirements of regulators. In 2010, Mr. Frangieh was appointed Chief Risk Officer. Since June 2013, Mr. Frangieh has been promoted to Assistant General Manager-Head of Risk Management Division. Mr. Frangieh is a lecturer at the Association of Banks in Lebanon since 2003 and at the Union of Arab Banks since 2008.

Senior Executive Management

The Bank's Senior Executive Management Team consists of the following:

Mr. Antoine T. Chamandi	Chief Financial Officer
Ms. Claudine M. Feghaly	Director - Organization & Enterprise Program Management
Ms. Lina E. Ghantous	Director -Corporate Banking
Dr. Rebel Y. Hanna	Director- Branches Network , Financial Institutions & Market Research
Mr. Farid D. Meshakka	Director- Government Entities Business Development
Mr. Joseph F. Mikhael	Acting Director - Treasury and Capital Markets
Mr. Antoine Z. Miskawi	Director - Banking Abroad
Mr. Kamal A. Nader	Director- Corporate Banking
Ms Hala M. Nasr	Director- Human Resources Management
Mr. Fares G. Sawaya	Director- Private Banking & Wealth Management
Mr. Talal F. Shaykha	Director- Corporate Banking
Ms. Myrna Z. Soufan	Chief Operating Officer
Ms. Claude M. Tabet	Director -Communication & Quality
Ms. Annie S. Tchouboukjian	Compliance Officer
Mr. Sami M. Ziadé	Director -Private Banking I

Bank Committees

Bank Committees are established with clear missions, authorities and responsibilities. Each specialized Committee has a detailed charter indicating the aforementioned. The Committees' respective authorities are generally consultative, with all recommendations requiring Board approval and being submitted through the Chairman-General Manager for review, decision and ratification. The Bank has several functional Committees including, *inter alia*, the Nominating, Remuneration and Corporate Governance Committee, the Audit Committee, the Risk and Compliance Committee, the Executive/Strategy Committee, the Real Estate Investments, Purchase and Renting Committee, the Credit Committee, the Assets & Liabilities Committee, the IT Security Committee, the BDL 110 Steering Committee and the Anti-Money Laundering/CFT Committee as more fully described below. The Board is fully aware of all decisions governing the Bank's overall operations as submitted and recommended by the various Committees.

The table below outlines the list of the Bank's committees as last updated to date of this Private Placement Memorandum.

Committee	**Composition**	**Requested by regulators**
Audit Committee	Board	Yes
Credit Committee	Board	Yes
Nominating, Remuneration & Corporate Governance Committee	Board	Yes
Board Risk & Compliance Committee	Board	Yes
Executive Committee / Strategy Committee	Management	Yes
Assets & Liabilities Committee (ALCO)	Management	Yes
BDL 110 Steering Committee	Management	Yes
AML/CFT Committee	Management	Yes
Credit Committee	Management	Yes
IT Security Committee	Management	Yes
Real Estate Investments, Purchase & Renting Committee	Management	Yes
Asset Management & New Product Approval Committee	Management	No
Senior Executive Management Committee (SEMC)	Management	No

Nominating, Remuneration and Corporate Governance Committee. As per its charter, the main objective of this Committee is to ensure adherence to the Corporate Governance Guidelines as approved by the Board of Directors. In addition, the Committee acts as remuneration Committee and decides on the compensation, merit increases, performance

bonuses, succession planning or replacement of Senior Management. Moreover, the Committee is responsible for recommending for the Board's selection, Director Nominees for election to the Bank's Board and for filling vacancies occurring between annual meetings of shareholders.

This Committee is composed of the following members: Messrs. Henry OBEGI-Honorary Chairman and Chairperson of the Committee, Riad OBEGI- Chairman of the Board, Jean HAJJAR- Board Member, Georges OBEGI- Board Member, Karim ABILLAMA-Board Member, Samih SAADEH -Board Member & Managing Director.

Audit Committee. As per its charter, the committee acts on behalf of the Board of Directors and provides oversight on the bank's financial reporting and control as well as internal and external audit functions. It has the following specific functions:
a- Review the qualifications and independence of external and internal auditors
b- Review and control of financial statements including the disclosure principles adopted by the Bank
c- Monitor and evaluate the adequacy and effectiveness of the Bank's internal control system
d- Follow up on the execution of the recommendations put in place by the Internal Audit Department, supervisory authorities and external auditors
e- Monitor the abidance of the bank to the recommendations issued by the Central Bank and Banking Control Commission

This Committee is composed of the following members: Messrs. Karim ABILLAMA-Board Member and Chairperson of the Committee, Hassan KABBANI-Board Member, Antoine WAKIM-Board Member. Attendees include: Messrs. Jean HAJJAR- Board Member, Samih SAADEH -Board Member & Managing Director, Constantin HADDAD- Attendee Board Audit Committee, Karine ASSO - Acting Internal Audit Manager.

Board Risk and Compliance Committee. As per its charter, the committee is responsible for the development and oversight of the Bank's overall risk management framework. Its role is the continual review and approval of the Bank's Risk Policies, and the consideration and approval of related limit applications. The Committee reviews and makes recommendations to the Board regarding the medium-term and annual risk strategy/appetite, within which business strategy, objectives and targets are formulated. In addition, it assists the Board of Directors in fulfilling its Compliance responsibilities within the context of Corporate Governance and regulations.

This Committee is composed of the following members: Messrs. Riad OBEGI-Chairman of the Board, Jean HAJJAR-Board Member, Antoine WAKIM-Board Member and Chairperson of the Committee, Georges OBEGI - Board Member. Attendees include: Messrs. Gaby Frangieh-Assistant General Manager, Head of Risk Management Department and Annie Tchouboukjian - Compliance Officer

Executive/Strategy Committee. The Executive Committee's main task is to implement the decisions of the Board of Directors concerning the Bank. Its main authorities are as follows:
- Monitoring of the Bank's operations and its management and take all measures needed to ensure the running of the Bank's affairs and improve its performance and profitability
- Preparing the yearly budget plans and submit to the Board of Directors

The Executive Committee acts as an advisory body to the Chairman-General Manager on all issues relating to the Bank's general policies. During monthly meetings, this Committee reviews all operational activities and establishes the objectives and actions needed.

This Committee is composed of the following members: Messrs. Riad OBEGI - Chairman of the Board, Samih SAADEH- Board Member & Managing Director, Georges MATLOUB- Assistant General Manager, Head of Corporate Banking, Joseph RAFFOUL- Assistant General Manager, Head of Banking Abroad, Gaby FRANGIEH - Chief Risk Officer, Claudine FEGHALY - Director, Organization & EPM, Fares SAWAYA -Director, Private Banking & Wealth Management, Talal SHAYKHA -Director , Corporate Banking, Myrna SOUFAN-Chief Operating Officer, Claude TABET- Director, Communication & Quality.

Bank Credit Committee. The Credit Committee meets weekly and ensures that the Bank's lending policies are adequate and that lending activities are conducted in accordance with the Bank's policy and with applicable laws and regulations. It approves new credit facilities. It is also entrusted with the vital function of monitoring the Bank's loan portfolio quality. This Committee ensures that management follows adequate procedures to identify problems early, recognize adverse trends, take appropriate corrective actions, and maintain adequate provisions for estimated loan losses.

This Committee is headed by Mr. Samih Saadeh-Board Member and Managing Director and is composed of the following members: Mr. Georges Matloub (AGM) and Mr. Joseph Raffoul (AGM).

Assets and Liabilities Committee (ALCO). The ALCO meets monthly and is responsible for identifying, measuring and managing the financial and operational risks (including market risk, liquidity risk, currency exposure and interest rate risk). It also determines interest rates and pricing strategies, reviews and determines assets and liabilities structures.

This Committee is chaired by Mr. Samih SAADEH-Board Member & Managing Director and includes as members: Messrs. Joseph RAFFOUL-Assistant General Manager, Head of Banking Abroad, Georges MATLOUB-Assistant General Manager,Head of Corporate Banking, Antoine CHAMANDI- Chief Financial Officer, Gaby FRANGIEH –Assistant General Manager, Head of Risk Management, Fares SAWAYA- Director Private Banking & Wealth Management, Joseph MIKHAEL -Acting Director, Treasury & Capital Markets.

Anti-Money Laundering/CFT Committee. The Committee meets quarterly and is responsible for (i) reviewing and updating the KYC form and cash-exemption list, (ii) ensuring proper application of the due diligence money laundering procedures, (iii) reviewing and assessing the reports submitted by the Anti Money Laundering Reporting unit and the Internal Audit Department and (iv) ensuring proper training of the staff.

This Committee is composed of the following members: Messrs. Samih SAADEH-Board Member & Managing Director, Gaby FRANGIEH- Chief Risk Officer (Representing BRCC Chairman), Rebel HANNA -Director, FIs, Branches Network & Market Research, Myrna SOUFAN-Chief Operating Officer, Annie TCHOUBOUKJIAN -Compliance Officer, Karine ASSO-Acting Internal Audit Manager and as attendee Mrs. Zeina MOUAWAD -AML/CFT Officer.

Organization Management and Enterprise Program Management (EPM)

The primary goal of Enterprise Program Management (EPM) is to have a center of excellence that will add value and ensure Business Success.

Integration of the Relationship Management Model Project: The Board of Directors has endorsed the project of "Integration of Relationship Management Model" in line with the new strategic plan. The following phases were covered in close collaboration of CDS consultants:
Phase I: Design of Banque BEMO Relationship Management Model (RMM)
Phase II: Development of the organization, operations and management systems to support the relationship management function
Phase III: Putting into execution the RMM global implementation plan.

With the assistance of CDS consultants, Banque Bemo Management developed factual information and recommended optimum solutions with a special emphasis on:
- Being a trusted advisor of the clients with regard to their corporate and private concerns
- Building a long-term profitable relationships with clients
- Fostering client centricity and operational excellence

FATCA Impact Assessment Project: FATCA was enacted into law in March 2010 as a part of the HIRE Act in the United States. With this Act, the USA aims to strengthen US information reporting and compliance with respect to accounts held by US persons outside the USA; and to compel the financial institutions to support its fight against tax evasion.

Banque Bemo signed an agreement with Deloitte LLP experts to conduct a high level assessment of FATCA legislations and regulations to cover:
- Initial review of the business and potential impact on the organization, the clients, investors, counterparties and service providers
- Identification of key requirements at group level and within the Bank
- Development of compliance roadmap
- Delivering training sessions to increase overall awareness.

For that purpose, a project team was established to execute this project, take actions, and set working plans for addressing FATCA business challenges and preparing for entering into Foreign Financial Institutions agreement.

Employees, Training and Human Resources Management

Family Spirit, Professionalism, Conservatism and Honesty represent the Bank's core values and the cornerstone of its policies. All employees are expected to demonstrate the highest level of professional and ethical conduct in the performance of their duties.
The Bank's Code of Professional Ethics, Code of Conduct and the Employee Handbook set forth the standards and guidelines that all employees are bound by and expected to adhere to at all times.

Spreading the transparency culture over the organization is promoted by the Bank's Management. Furthermore, the "Whistle Blowing policy" has been tailored to promote a culture of open communication that enables staff members to voice their concerns at the earliest opportunity, while preserving the confidentiality of the staff member disclosing the malpractice.

The "Code of Business Conduct" coupled with "The Anti-Bribery and Corruption policy" aim to reduce the risk of the Bank from offering, receiving or extorting bribes, or conducting an act of corruption thus to mitigate the risk of the Bank being subject to legal or regulatory sanctions and reputational damage.

New recruits induction program was launched during 2012, providing new recruits with needed information enabling them to integrate into the organization smoothly and hence allowing them to become efficient and effective quicker. Throughout the induction period, new employees are ingrained with the Bank's culture, organizational structure, as well as the Bank's orientation and strategic goals.

For the period ending December 31, 2012, the Bank's workforce consisted of 224 full time employees. The Bank is currently undergoing an expansion of its workforce with highly selective hiring procedures to strengthen its various departments.

Age Structure	**Number of Employees**
< 25 years old	14 employees
From 26 to 35	87 employees
From 36 to 45	61 employees
From 46 to 55	40 employees
> 55 years old	22 employees
Total	**224 employees**

Training and Development

The Bank is committed to training and career development as an integral part of its personnel management policy. Throughout 2012, 157 employees from all division attended training sessions. The training program in 2012 focused on the development of staff needed skills and competencies that help them in being more knowledgeable and better equipped to respond to and exceed clients' needs. The training program focused mainly on Achieving Relationship Management Mastery.

The Bank was awarded in June 2012 by l'Ecole Supérieure des Affaires – ESA the "Securities Outstanding Success Rate" certificate as First Bank among all banks and financial institutions operating in Lebanon. This great achievement was possible through the commitment and dedication of staff members.

Internal Mobility

During the year, 9.5% of staff were internally transferred from one department to another. At Banque Bemo, internal mobility is considered as a motivating factor for our employees that fosters a learning environment and provides staff with development and growth opportunities.

Employee Engagement and Satisfaction Survey

During 2012, HR management designed and launched an "Employee Engagement & Satisfaction Survey". The purpose of the survey was to promote open communication and allow employees to speak up their opinion without fear. Also, it was intended to listen to staff concerns and ideas. As well, it aimed at helping the management in obtaining information about general atmosphere of the Bank and in taking appropriate actions in the areas that need improvement.

In this respect, HR Management collected the information and produced a report that was presented to the Senior Executive Management Committee. Furthermore, each manager received a part of the report related to his business line, and was requested to come up with suggestions for improvement and draw an action plan in order to close the gaps of the identified weak areas.

The Bank maintains, and fully pays for, a medical insurance plan for each of its employees and their children. The Bank also maintains a life insurance plan for each of its employees whereby the Bank contributes the entire premium. The retirement age for the Bank's employees is 64. The Bank has an annual bonus plan for its entire staff, which varies according to seniority and performance, in addition to a number of other incentive plans. A collective bargaining agreement that governs the working conditions of all Lebanese banks employees up to certain seniority is negotiated and signed every two years between the Bank Employees Federation and the Lebanese Banks Association. The collective agreement covers the main categories of employees in the banking sector in respect of minimum wages, minimum increases in basic salary, holidays, medical protection when out of work, discipline, end of service indemnities and special loans for employees.

The Human Resources Management's mission is to provide development opportunities, leadership and expertise in attracting, developing, and motivating our workforce, to deliver our organizational business goals.

Certain Transactions

No executive or senior manager at the Bank has an interest in any contract, arrangement or transaction entered into by the Bank which is or was unusual in its nature or conditions or significant in relation to the business of the Bank as a whole, and which was effected during the current or immediately preceding financial year, or was effected during an earlier financial year and remains in any respect outstanding or unperformed. Presently, the Bank does not have a stock option plan for its senior managers, officers, or other employees.

Information Technology

Management has carefully considered factors such as hardware and software selection, phasing of programs and its ability to absorb new technology in order to support its future growth and development plans. Currently, the Bank's branches are connected through an online system. In addition, the Bank offers its clients easy access to their account through "eBemo", its online banking product. Proper controls are exercised over the systems relating to authorized access, uninterrupted power supply, daily backups and safe-keeping of backups in separate locations. Contingency plans and Disaster Recovery plans have been devised to deal efficiently with any situation that might disrupt the normal functioning of the Bank.

The Bank uses IBM's recent "iSeries" as its main hardware platform and has a continuous contact with the leading IBM local vendor to maintain and update its systems.

The Bank is currently using the SAB software program to support the principal banking applications. The SAB system is used to maintain all customer accounts and manage the general ledgers with separate modules to handle the Trade Finance and Foreign Exchange transactions. In addition, the Bank utilizes personal computers which interface with the main SAB system and at the same time support most of the office functions for word-processing, special worksheet management reports and other separate functions such as payroll processing. In addition, the Bank is undergoing ongoing and regular upgrades to its SAB systems, installing additional modules to provide customers with more services and products, and undertaking the development of new applications in relation to risk management, financial reports, and other internal procedures.

Litigation

The Bank has been, in the normal course of its business, subject to certain litigations either as claimant or as defendant. The Bank's legal counsel has represented the interests of the Bank on all said actions. The Bank's counsel provides the Bank's senior management, on a regular basis, with progress reports regarding all claims whether settled or pending.

Insurance

The Bank maintains ongoing insurance policies with prime insurers for its real estate properties, office fixtures, civil liability, motor vehicles and electronic equipment. The Bank has policies to cover the risk of fire, flood and natural catastrophes. Additionally, the Bank has insurance coverage regarding theft, forgery, counterfeit, transport of funds, robbery, employees' infidelity, and other business risks. In order to safeguard and better insure the Bank's interests in the best way possible, the Bank has chosen to go through insurance coverage deals via a professional insurance consultant to negotiate term and conditions of each policy on his behalf.

Statutory Auditors

In accordance with Lebanese banking regulations, the Bank is required to have joint statutory auditors appointed by the Ordinary General Assembly. The audit is conducted in accordance with the International Standards on Auditing ("ISA") and banking regulations in Lebanon. The Bank has appointed Deloitte and DFK-Fiduciaire du Moyen Orient as statutory auditors for 2012. Deloitte and DFK-Fiduciaire du Moyen Orient have been the statutory auditors of the Bank since more than 3 years.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL RESULTS AND POSITION

Basis of presentation

The following discussion has been prepared by the Bank's management using for comparison purposes the audited consolidated financial statements of the Bank as at December 31, 2011 and 2012. The unaudited balance sheet and income statement as at June 30, 2013 were also included for information purposes. The discussion and analysis should be read in conjunction with the audited consolidated financial statements as at December 31, 2011 and 2012 and the condensed review as at June 30, 2013 included elsewhere in the Private Placement Memorandum under "Selected Consolidated Financial Information".

The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission, and include the results of the Bank and its consolidated subsidiaries BEMO Securitization SAL, Ferticed Limited Holding and Depository & Custody Company SAL. Where appropriate in the context, references to the Bank include the Bank and such consolidated subsidiaries.

The Bank maintains its accounts in Lebanese Pounds. Accordingly, U.S. Dollar amounts stated in this Private Placement Memorandum have been translated from Lebanese Pounds at the rate of exchange prevailing at the relevant balance sheet date, in the case of balance sheet data, and at the average rate of exchange for the relevant period, in the case of income statement data, and are provided for convenience only. In each case, the relevant rate for both balance sheet data and income statement data was LBP 1,507.5 per USD 1.00, as, throughout the periods covered by this Private Placement Memorandum, the Central Bank has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1507.5 per USD 1.00. Banking sector information has been derived from Central Bank statistics, Bankdata Financial Services WLL and the Bank's internal sources.

Unless otherwise stated, reference in this Private Placement Memorandum to the Bank's customer deposits and loans and advances *(other than such references in the audited consolidated financial statements of the Bank and its consolidated subsidiaries included elsewhere herein)* shall be deemed to include deposits of, loans and advances to, related parties.

Financial Results

Net Income

The Bank's net income reached LBP 5.59 billion (US$ 3.71 million) in 2012 as compared to LBP 9.92 billion (US$ 6.58 million) for 2011 reflecting a decrease of 43.6%. The decrease in net income witnessed in 2012 was mainly attributed to the share of the Bank from losses witnessed in Banque BEMO Saudi Fransi-Syria as well as collective provisions on loan impairments booked during the year.

The comparative profitability indicators are listed below:

	Banque BEMO SAL		**Lebanese Banking Sector***	
In percentage	**2011**	**2012**	**2011**	**2012**
Net Return on Average Equity……	7.25	3.64	12.27	12.27
Net Return on Average Assets……....	0.48	0.25	1.08	1.06

** Banking Sector data: Bilanbanques 2013 published by Bank Data*

Net Interest Income

Interest income increased by 17.8% to LBP 87,609 million (US$ 58.11 million) in 2012 as compared to LBP 74,377 million (US$ 49.34 million) in 2013, while interest expense increased by 11.9% to LBP 64,632 million (US$ 42.87 million) in 2012 as compared to LBP 57,745 million (US$ 38.31 million) in 2011. It is to be noted that interest income on the Bank's trading portfolio is included under "net interest and other gains/(losses) on trading assets at fair value through profit or loss".

As a result, net interest income received by the Bank for 2012 increased by 38.1% as compared to 2011.

The increase was mainly due to the ability of the Bank to enhance its interest earning assets while maintaining an adequate cost of funding enabling a satisfactory rise in overall interest income generated exceeding the growth in interest expenses.

The following table sets forth a breakdown of the Bank's net income for the period under analysis:

	Audited		*Variation*	Unaudited
LBP Thousand	**2011**	**2012**	***12-11***	**June 2013**
Interest income	74,377,827	87,609,374	*+17.8%*	44,167,516
Interest expense	(57,745,501)	(64,631,845)	*+11.9%*	(31,363,504)
Net interest income	**16,632,326**	**22,977,529**	***+38.1%***	**12,804,012**
Fee and commission income	8,127,308	7,238,270	*-10.9%*	3,941,822
Fee and commission expense	(642,023)	(588,711)	*-8.3%*	(756,743)
Net fee and commission income	**7,485,285**	**6,649,559**	***-11.2%***	**3,185,079**
Net interest and other gain/(loss) on financial assets at fair value through profit or loss	10,491,316	9,129,762	*-12.9%*	5,553,935
Gain on exchange	2,399,784	1,724,693	*-28.1%*	900,672
Other operating income/(loss)	6,637,020	(628,184)	-	317,281
Net financial revenues	**43,645,731**	**39,853,359**	***-8.69%***	**22,760,979**
Allowance for impairment of loans and advances and other receivables	(3,009,545)	(6,278)	-	(846,715)
Collective provision for loan impairment	-	(1,959,750)	-	-
Write-back of impairment loss on loans and advances	368,902	930,988	*+152.3%*	521,027
Loans recoveries.	-	240,004	-	-
Net financial revenues after net impairment charge	**41,005,088**	**39,058,323**	***-4.7%***	**22,435,291**
Staff costs	(16,325,080)	(18,806,172)	*+15.2%*	(9,649,114)
Administrative expenses	(10,375,054)	(10,134,436)	*-2.3%*	(5,514,949)
Depreciation and amortization	(2,424,729)	(2,329,791)	*-3.9%*	(1,063,687)
Write-back for foreign currency fluctuation	54,097	33,949	*-37.2%*	(770)
Write-back of provision for contingencies	(489,729)	591,270	-	(43,968)
Impairment of property and equipment	-	(275,000)	-	-
Total expenses	**(29,560,495)**	**(30,920,180)**	***+4.6%***	**(16,272,488)**
Profit before income tax	11,444,593	8,138,143	*-28.9%*	6,162,803
Income tax expense	(1,527,221)	(2,544,235)	*+66.7%*	(1,477,383)
Profit for the year/period	**9,917,372**	**5,593,908**	***-43.6%***	**4,685,420**

Interest Income

The following table sets forth a breakdown of the Bank's interests and similar income for the years ending December 31, 2011 and 2012 (Audited figures) and June 30, 2013 (Unaudited figures):

	Audited		*Variation*	Unaudited
LBP Million	**2011**	**2012**	***12-11***	**June 2013**
From Term Deposits with Central Banks……....	4,164	4,815	*+15.6%*	1,918
From Deposits with banks and Financial Institutions*……..	1,512	1,589	*+5.1%*	849
From Financial Assets at Amortized Cost……...	17,841	24,376	*+36.6%*	12,363
From Loans and Advances to customers…….	50,625	56,100	*+10.8%*	28,975
Interest realized on impaired loans and advances to customers…..	235	729	*+210%*	61
Total……	**74,377**	**87,609**	***+17.79%***	**44,167**

**including interest income from deposits held with related party banks and financial institutions*

Total Interest received was equivalent to LBP 87,609 million (US$ 58.11 million) in 2012 as compared to LBP 74,377 million (US$ 49.34 million) in 2011 reflecting a year-on-year increase of 17.79%. This increase was primarily due to an increase in the interest received from loans and advances to customers which reached LBP 56,101 million (US$ 37.21 million) in 2012 and constituted **64.03%** of total interest income as compared to LBP 50,625 million (US$ 33.58 million) and **68.06%** in 2011.

Interest received from deposits with banks, financial institutions and from Term Deposits with Central Bank reached LBP 6,404 million (US$ 4.25 million) in 2012 and constituted **7.31%** of total interest and similar income as compared to LBP 5,676 million (US$ 3.76 million) and **7.63%** in 2011. Interest earned on financial assets held at amortized cost reached LBP

24,375 million (US$ 16.17 million) in 2012 and represented **27.82%** of total interest income as compared to LBP 17,841 million (US$ 11.83 million) and **23.98%** in 2011 reflecting a year-on-year increase of 36.6%. Unlike the Lebanese Banking Sector, the Loans and Advances portfolio constituted the main source of interest income generated during the past years. This is mainly a result of the business model of the Bank to primarily target Corporate Banking clients while limiting exposure on the sovereign below the banking sector levels.

Interest Expense

The following table sets forth a breakdown of the Bank's interests and similar charges for the years ending December 31, 2011 and 2012 (Audited figures) and June 30, 2013 (Unaudited figures):

	Audited		***Variation***	**Unaudited**
LBP Million	**2011**	**2012**	***12-11***	**June 2013**
Deposits and Borrowings from Banks and financial institutions*…….	1,686	2,360	*+39.9%*	691
Customers' accounts and deposits…….	51,817	58,018	*+11.9%*	28,569
Subordinated bonds……	4,242	4,254	-	2,104
Total…….	**57,745**	**64,632**	***+11.9%***	**31,364**

**including interest expense on deposits and borrowings from related party banks and financial institutions*

Interest and similar charges reached LBP 64,632 million (US$ 42.87 million) in 2012 as compared to LBP 57,745 million (US$ 38.30 million) in 2011 reflecting a year-on-year increase of 11.9%. The increase is mainly due to the growth witnessed in interest paid on customers' deposits which grew from LBP 51,817 million (US$ 34.37 million) in 2011 to LBP 58,018 million (US$ 38.49 million) in 2012 constituting 89.77% of total interest and similar charges compared to and 89.73% in 2011.

Fee and Commission Income and Expense

The following table sets forth a breakdown of the Bank's fee and commission income and expense for the years ending December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

	Audited		***Variation***	**Unaudited**
LBP Million	**2011**	**2012**	***12-11***	**June 2013**
Commissions on documentary credits……	2,118	1,350	*-36.3%*	
Service fees on customers' transactions…….	4,932	4,538	*-7.9%*	
Other commissions (including LGs)……..	1,077	1,350	*+25.3%*	
Fees and Commission income…….	*8,127*	*7,238*	*-10.9%*	3,942
Fees and Commissions expense.……	*(642)*	*(588)*	*-11.5%*	*(757)*
Total……	**7,485**	**6,650**	***-11.2%***	**3,185**

Total fee and commission income declined by 11.16% reaching LBP 6,650 million (US$ 4.41 million) in 2012 as compared to LBP 7,485 million (US$ 4.96 million) in 2011. The major contributors to commissions, fees and other revenues in 2012 were service fees on customers' transactions representing 62.71% of the total (60.68% in 2011), while commissions on documentary credits represented 18.64% (26.1% in 2011), other commissions (including LGs) were equivalent to 18.65% (13.25% in 2011). With respect to fees and commissions expenses, the latter declined from LBP 642 million (US$ 426 thousand) in 2011 to LBP 588 million (US$ 390 thousand) in 2012.

Net Interest and Other Gains / (Losses) on Trading Assets at FVTPL and Other Operating Income

The following table sets forth a breakdown of the net financial revenues for the years ending December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

	Audited		***Variation***	**Unaudited**
LBP Million	**2011**	**2012**	***12-11***	**June 2013**
Net interest and other (losses)/gains on financial assets at FVTPL…….	10,491	9,130	*-12.9%*	5,554
Gain on exchange……..	2,400	1,725	*-28.1%*	901
Other operating income/(loss) (out of which)…….	6,637	(628)	-	317
Share in (losses)/profits from associates…….	*3,891*	*(3,899)*	-	*(1,151)*
Other……	*2,745*	*3,271*	*+19.1%*	*1,468*
Net Financial Revenues……..…..	**19,528**	**10,227**	***-47.6%***	**6,772**

Net Interest and Other Gains / (Losses) on Trading Assets at FVTPL and Other Operating Income declined to LBP 10,227 million (US$ 6.78 million) as at December, 31 2012 as compared to LBP 19,528 million (US$ 12.95 million) as at December, 31 2011 reflecting a year-on-year decrease of 47.6%. This was mainly due to the decrease in other operating income/(loss) which regressed from LBP 6,637 million (US$ 4.40 million) in 2011 to a loss of LBP 628 million (US$ 416 thousand) as at December 31, 2012 as a result of the share in losses registered in the associate bank Banque BEMO Saudi Fransi as a result of the hostilities in Syria and the decline of business activity in that country. With respect to the foreign exchange income generated, the latter declined to LBP 1,725 million (US$ 1.14 million) as at December, 31 2012 reflecting a year-on-year reduction of 28.1% as compared to December, 31 2011 (LBP 2,400 million or US$ 1.59 million). The decline is mainly due to the increasing volatility of the FX markets witnessed in 2012 which limited clients' interest in FX related products leading to a large reduction in the volume of business routed by clients to the bank.

Net Impairment Charge

The following table sets forth a breakdown of the Bank's net impairment charge for the years ending December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

	Audited		**Unaudited**
LBP Million	**2011**	**2012**	**June 2013**
Allowance for impairment of loans and advances and other receivables……..	(3,009)	(6)	(847)
Collective provision for loan impairment …….	-	(1,960)	-
Write back of impairment loss on loans and advances …….	369	931	-
Loans recoveries…….	-	240	521
Total……	**(2,640)**	**(795)**	**(326)**

The table above shows a net impairment charge of LBP 795 million (US$ 0.527 million) as at December 31, 2012 as compared to LBP 2,640 million (US$ 1.75 million) as at December 31, 2011.

Allowance for impairment of loans and advances amounted to LBP 3,009 million (US$ 1.99 million) in 2012 as compared to a negligible amount in 2012. The collective provisions LBP 1,960 million (US$ 1.3 million), which were constituted in the year 2012 at the request of the Banking Control Commission as a result of several stress tests conducted on loans extended to Syrian clients which were adversely affected by the outbreak of hostilities in Syria.

The write-back of impairment loss was LBP 369 million (US$ 0.24 million) in 2011 as compared to LBP 931 million (US$ 0.617 million) in 2012.

General Expenses

The following table sets forth a breakdown of the Bank's general expenses for the years ending December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

	Audited		***Variation***	**Unaudited**
LBP Million	**2011**	**2012**	**12-11**	**June 2013**
Staff costs…….	(16,325)	(18,806)	*+15.2%*	(9,649)
Administrative expenses……..	(10,375)	(10,134)	*-2.3%*	(5,515)
Depreciation & amortization……	(2,425)	(2,330)	*-3.9%*	(1,064)
Write-back of provision for foreign currency fluctuation……	54	34		(1)
Write-back of provision/(provision for contingencies)……	(490)	(591)	*+20.6%*	(44)
Impairment of property and equipment……	-	(275)	-	-
Total……	**(29,560)**	**(30,920)**	**+4.6%**	**(16,273)**

The Bank's total general expenses reached LBP 30,920 million (US$ 20.51 million) in 2012 as compared to LBP 29,560 million (US$ 19.61 million) in 2011 increasing by 4.60%. This increase was mainly due to an increase in staff costs, which reached LBP 18,806 million (US$ 12.47 million) in 2012 as compared to LBP 16,325 million (US$ 10.83 million) in 2011 reflecting a year-on-year increase of 15.2% and mainly due to the hiring of new staff members and impact of salary increase.

On the other hand, administrative expenses declined by 2.3% to LBP 10,134 million (US$ 6.72 million) in 2012 from LBP 10,375 million (US$ 6.88 million) in 2011 reflecting success of measures to eliminate redundant costs.

The Bank's cost-to-income ratio increased to 79.16% in 2012 compared to 72.09% for 2011.

Analysis of Financial Position

Total Assets

Total Assets witnessed a slight decrease of 2.4% in 2012 reaching LBP 2,245,254 million (US$ 1,489.4 million) as at December 31, 2012 as compared to LBP 2,299,609 million (US$ 1.525.4 million) in 2011. Loans and advances to customers (including related parties) reached LBP 920,730 million (US$ 610.8 million) as at December 31, 2012 as compared to LBP 828,911 million (US$ 549.8 million) in 2011 reflecting a year-on-year increase of 11.1%. Deposits with banks and financial institutions represented 18% of total assets in 2012. The Bank maintains a major portion of its assets in deposits with foreign banks for the purpose of securing its correspondent banking needs that are directly related to the documentary credit and other trade finance related facilities. Careful consideration and thorough financial risk assessment is applied when selecting correspondent banks; only prime names in terms of financial posture, risks exposure reputation and credit rating are selected not to mention the historical relationship maintained.

Total Liabilities

Total Liabilities reached LBP 2,086,051 million (US$ 1,383.8 million) as at December 31, 2012 as compared to LBP 2,135,948 million (US$ 1,416.9 million) in 2011 reflecting a year-on-year decrease of 2.34%. This decrease in Liabilities was mainly due to a decrease of 73% in deposits from banks and financial institutions which declined from LBP 344,364 million (US$ 228.4 million) in 2011 to LBP 93,934 million (US$ 62.31 million) at the end of 2012.

The following table sets forth the financial position of the Bank as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

Major Balance Sheet Items

	Audited		*Variation*	Unaudited	*Variation*
LBP Million	**2011**	**2012**	***12-11***	**June 2013**	***Jun 13-12***
Cash, compulsory reserve and central banks……....	430,402	299,446	*-30.4%*	318,847	*+6.5%*
Deposits with banks and financial institutions……	484,848	413,701	*-14.7%*	322,158	*-22.1%*
Loans to banks…….	8,506	25,676	*+201.8%*	23,762	*-7.4%*
Loans and advances to customers……	828,911	920,730	*+11.1%*	878,237	*-4.6%*
Investment securities and financial assets held as FVTPL.....	444,219	501,574	*+12.9%*	566,025	*+12.8%*
Bank acceptances.....	26,932	23,866	*-11.4%*	30,569	*+28.1%*
Other assets and investment in associates……...	75,791	60,261	*-20.5%*	46,269	*-29.8%*
Total Assets…….	**2,299,609**	**2,245,254**	***-2.4%***	**2,185,867**	***-2.6%***
Customer Deposits…….....	1,688,653	1,891,499	*+12.0%*	1,825,517	*-3.5%*
Engagement by acceptances……	26,932	23,866	*-11.4%*	30,569	*+28.1%*
Deposits from banks and financial institutions……...	344,364	93,934	*-72.72%*	102,978	*+9.6%*
Subordinated Bonds……	60,249	62,398	*+3.6%*	60,281	*-3.3%*
Other Liabilities……...	15,750	14,354	*-8.8%*	15,806	*+10.1%*
Total Liabilities…….	**2,135,948**	**2,086,051**	***-2.3%***	**2,035,151**	***-2.4%***
Total Shareholders' Equity…….	**163,661**	**159,203**	-2.7%	**150,716**	***-5.3%***
Total Liabilities & Equity……..	**2,299,609**	**2,245,254**	***-2.4%***	**2,185,867**	***-2.6%***
Net Income for the Year/Period……	**9,917**	**5,594**	***-43.6%***	**4,685**	***NA***

Loans and advances as well as deposits include related parties accounts.

Loan Portfolio

The Bank's loans and advances to customers reached LBP 916,881 million (US$ 608.2 million) as at December 31, 2012 as compared to LBP 823,795 million (US$ 546.4 million) in 2011 reflecting a year-on-year increase of 11.3%. Loans and advances to related parties (as defined by Article 152 of the Code of Money and Credit) were equivalent to LBP 3,849 million (US$ 2.55 million) as at December 31, 2012 as compared to LBP 5,116 million (US$ 3.39 million) in 2011 reflecting a year on year basis decrease of 24.8%.

In accordance with Article 152 of the Code of Money and Credit, advances and credit facilities to directors or managers of banks, or to companies having common directors with the Bank's or to principal shareholders or their close relatives, must be authorized by the Ordinary General Assembly of Shareholders of the bank and must not exceed, in aggregate, 2% of the shareholders' Tier 1 equity of the Bank, provided that unsecured loans do not exceed 1% of the shareholders' equity.

Analysis of the Loan Portfolio by type of Borrower and Loan Classification (including related parties)

The following table sets forth the breakdown of the bank's loans (Gross), by classification, as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

	Audited		***Variation***	**Unaudited**	***Variation***
LBP million	**2011**	**2012**	***12-11***	**June 2013**	***Jun 13-12***
Regular Loans……....	812,654	920,446	*+13.3%*	876,820	*-4.7%*
Substandard Loans……..	1,395	1,601	*+14.7%*	2,645	*+65.2%*
Doubtful Loans……..	19,660	3,585	*-81.7%*	3,173	*-11.5%*
Bad Loans …….	542	1,466	*+170.5%*	1,584	*+8.0%*
Accrued Interest receivable……	900	826	*-8.2%*	1,121	*+35.7%*
Total gross loans…….	**835,151**	**927,924**	***+11.1%***	**885,343**	***-4.6%***
Unrealized Interest on Substandard Loans……	(763)	(402)	*-47.3%*	(522)	*+29.8%*
Unrealized Interest on Doubtful Loans……..	(1,290)	(1,504)	*+16.6%*	(1,656)	*+10.1%*
Unrealized Interest on Bad Loans……..	(192)	(283)	*-47.4%*	(293)	*+3.5%*
Provision Allowance on Doubtful Loans……	(3,645)	(1,863)	*-48.9%*	(1,300)	*-30.2%*
Provision Allowance on Bad Loans……	(350)	(1,182)	*+237.7%*	(1,291)	*+9.2%*
Collective Provision for Loan Impairment……..	-	(1,960)	-	(2,044)	*+4.3%*
Total net loans……..	**828,911**	**920,730**	***+11.3%***	**878,237**	***-4.6%***
Unrealized interest /substandard loans (%)…….	*54.70*	*25.11*		*19.74*	
Unrealized interest & Prov/ doubtful and bad loans (%)…..	*27.11*	*95.66*		*95.43*	
Net Doubtful & Bad Loans / Total loans (%)…….	*1.78*	*0.02*		*0.02*	

The Bank's conservative and prudent credit policy as well as the continuous monitoring of the Bank's asset quality resulted in a low level of "Net doubtful & bad debts/Total loans" in both 2011 (0.02%) and 2012 (0.02%) as highlighted in the table above. In 2012, the Bank maintained its Number 1 ranking in Lebanon *(as per Bilanbanques 2013 published by Bank Data)* in terms of having the lowest ratio of doubtful loans to gross loans. The data pool consisted of 50 banks.

The Bank's doubtful and bad loans amounted to LBP 5,051 million (US$ 3.35 million) as at December 31, 2012 compared to LBP 20,202 million (US$ 13.4 million) as at December 31, 2011 reflecting a decrease of 75%. Unrealized interest and provisions on doubtful and bad debts reached LBP 1,787 million (US$ 1.185 million) as at December 31, 2012 as compared to LBP 1,482 million (US$ 0.98 million) as at December 31, 2011 reflecting a decrease of 20.6%. The coverage ratio *(Unrealized Interest and Provisions/Doubtful and bad loans)* for 2012 was equivalent to 95.66% as compared to 25.11% for 2011, maintained at satisfactory levels noting that in 2011, the bank had obtained the Banking Control Commission approval to own a property estimated by BCC at US$11 mln in cover of a doubtful loan. Said property was eventually sold in April 2012 and proceeds thereof were injected in the account settling a major portion of this doubtful facility. Substandard Loans, net of unrealized interest, reached LBP 1,199 million (US$ 0.79 million) as at December 31, 2012 as compared to LBP 632 million (US$ 0.419 million) at the end of 2011, reflecting a year-on-year increase of 89.7%.

Analysis of the Loan Portfolio by Currency

The following table sets forth the breakdown of the Bank's loan portfolio by currency as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

Bank's loan portfolio	**June 30, 2013 (C/V in LBP)-Unaudited**			
	LBP (million)	**US$ (million)**	**Euro (million)**	**Other (million)**
Loans and advances to customers……	25,321	740,648	82,797	27,676
Loans and advances to related parties…….	-	1,419	376	-
Total Loans…….	**25,321**	**742,067**	**83,173**	**27,676**
Bank's loan portfolio	**December 31, 2012 (C/V in LBP)-Audited**			
	LBP (million)	**US$ (million)**	**Euro (million)**	**Other (million)**
Loans and advances to customers……	23,704	758,471	77,485	57,220
Loans and advances to related parties…….	-	3,635	213	-
Total Loans…….	**23,704**	**762,106**	**77,698**	**57,220**
Bank's loan portfolio	**December 31, 2011 (C/V in LBP)-Audited**			
	LBP (million)	**US$ (million)**	**Euro (million)**	**Other (million)**
Loans and advances to customers……	19,136	694,060	62,831	47,768
Loans and advances to related parties…….	-	5,071	44	1
Total Loans…….	**19,136**	**699,131**	**62,875**	**47,769**

The Bank's loan portfolio is characterized by a high level of dollarization matching the currency composition of the sources of funds. As at December 31, 2012, 97.4% of total loans were denominated in foreign currencies as compared to 97.69% in 2011 while the Lebanese banking sector average reached 76.7% as at September 30, 2013 *(as per the figures released by the Association of Banks in Lebanon).*

Analysis of the Loan Portfolio by Economic Sector

The following table sets forth the breakdown of the Bank's loan portfolio by economic sector as at December 31, 2011 and 2012 (Audited figures) **(excluding the collective provision for loan impairment):**

LBP million	**Audited**		***Variation***	***% of total***
Sector	**2011**	**2012**	***12-11***	***2012***
Financial Services…….	10,725	26,735	*+149.3%*	2.9%
Real Estate Development……..	125,330	163,244	*+30.3%*	17.7%
Manufacturing……..	142,540	150,239	*+5.4%*	16.3%
Consumer Goods Trading……	400,373	434,869	*+8.6%*	47.1%
Services…….	56,365	49,173	*-12.7%*	5.3%
Private Individuals……	92,677	97,604	*+5.3%*	10.6%
Other…….	899	825	*-8.2%*	0.09%
**Total……..	**828,911**	**922,689**	***+11.3%***	**100%**

The Bank seeks to diversify the credit risk of its loan portfolio by distributing loans among the different sectors of the economy, with a focus on sectors that are considered to be as representing acceptable risks. As at December 31, 2012, up to 47% of the loans are extended to businesses with trading activities in various consumer products,16% to manufacturing, 17.7% to real estate development (including prime contractors of private residential and commercial buildings duly covered by first rate mortgages and assignment of project proceeds), and the remaining 19 % to other economic sectors. With respect to the Lebanese Banking Sector, and as per the Central Bank's 2013-Second Quarter Economic Bulletin, 34.6% of the credits are extended to trade and services activities, 11.47% to industry, 16.69% to construction and 37.24% to other economic sectors (including individuals) as at December 31, 2012. The main difference between the Bank and the sector is the Bank's minimal share related to retail/individual lending as it does not fall under the Bank's Target Market Criteria.

Analysis of the Loan Portfolio by Maturity

The following table sets forth the breakdown of the Bank's loan portfolio by maturity as at December 31, 2011and 2012 (Audited figures):

LBP Million	**Audited**		***Variation***	***Share***	
Maturity	**2011**	**2012**	***12-11***	***2011***	***2012***
Accounts with no maturity……..	571,822	666,958	*+16.6%*	*68.9%*	*72.4%*
Up to 3 months……..	227,810	229,440	*-0.7%*	*27.5%*	*24.9%*
3 to 12 months…….	27,879	21,593	*-22.5%*	*3.4%*	*2.3%*
12 months and above…….	1,400	2,739	*+95.6%*	*0.2%*	*0.3%*
**Total……..	**828,911**	**920,730**	***+11.1%***	***100%***	***100%***

Similar to the current market practice in Lebanon, the major portion of the Bank's loan portfolio is of short-term nature (overdrafts), with maturities rarely exceeding the 12 months period reflecting a credit management strategy that aims at matching the maturities of the Bank's sources of funds and its corresponding uses of funds, while maintaining adequate levels of liquidity.

Furthermore, more than 95% of loans granted by the Bank carry floating interest rates with minimum rates applied mitigating the bank's exposure to interest rate risk.

Analysis of the Loan Portfolio by Size (excluding related parties, accrued interest, unearned interest and collective provisions)

The following table sets forth below classifies the outstanding loan balances by size as at December 31, 2011 and 2012 (Audited figures):

Outstanding Loan Balances	Audited – 2011				Audited - 2012			
Bracket	# of Clients	% to Total Clients	LBP million	**%** to Total Loans	# of Clients	% to Total Clients	LBP million	**%** to Total Loans
Less than LL 500 mln*…….	1,026	78.8%	61,980	7.5%	1,068	78.2%	55,372	6.1%
From LL 500 mln – LL 5 bln..	236	18.1%	410,872	49.9%	254	18.6%	455,586	49.6%
Over LL 5.0 bln……....	40	3.1%	350,059	42.5%	43	3.1%	407,077	44.3%
Total……..	**1,302**	**100.0%**	**822,911**	**100.0%**	**1,365**	**100.0%**	**918,035**	**100.0%**

**including numerous incidental debtor accounts*

The total loan portfolio (excluding related parties) is spread over 1,365 clients, with 21.8% of the clients covering 93.9% of the loan portfolio as at December 31, 2012. The Bank manages the diversification of its portfolio to avoid undue credit risk concentrations. Credit risk concentrations exist in lending to single customer groups, borrowers engaged in similar activities, or diverse groups of borrowers that could be affected by similar economic or other factors. To manage these concentrations, exposure limits are established for single borrowing groups and industry segments. In this respect, analyses of large customer group exposures are regularly conducted, and the lending and financing units undertake regular account updates, monitoring and management of these exposures.

Industry and sectoral analyses are also incorporated within the overall credit risk management framework. In this respect, the Bank seeks to continually update lending and financing guidelines based on periodic reviews and updates of industry and sectoral risk factors and economic outlooks. This facilitates the better management of credit concentration risks.

Analysis of the Loan Portfolio by Counterparty type

The following table sets forth below classifies the outstanding loan balances by counterparty type as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures) (carrying amount net of unrealized interest and impairment allowance and excluding related parties):

LBP Million	Carrying amount net of unrealized interest Audited		*Variation*	Unaudited	Share of Total Loans
Counterparty type	**2011**	**2012**	***12-11***	**June 2013**	**June 2013**
Regular Retail Customers……..	**83,226**	**101,750**	***+22.2%***	**86,242**	**11.1%**
- Mortgage loans……	*33,613*	*47,480*	*+41.2%*	*45,837*	*5.2%*
- Personal loans……	*9,604*	*9,701*	*+0.1%*	*9,111*	*1.1%*
- Overdrafts……..	*18,054*	*15,919*	*-11.8%*	*17,787*	*1.7%*
- Other……	*21,955*	*28,650*	*+30.5%*	*13,507*	*3.1%*
Regular Corporate Customers……	**724,328**	**814,867**	***+12.5%***	**788,784**	**88.8%**
- Corporate……	*561,120*	*640,657*	*+14.2%*	*618,091*	*69.8%*
- Small and medium enterprises……	*163,208*	*174,210*	*+6.7%*	*170,693*	*19.0%*
Classified Retail Customers……	**3,724**	**5**	***-99.86%***	**-**	**-**
- Substandard……	-	-	-	-	-
- Doubtful……	*3,724*	*5*	*-99.86%*	-	-
- Bad……	-	-		-	-
Classified corporate customers……..	**11,634**	**1,412**	***-87.8%***	**2,340**	**0.1%**
- Substandard……..	632	1,199	*+89.7%*	*2,123*	*0.1%*
- Doubtful……..	11,002	213	*-98.1%*	*217*	-
- Bad……..	-	-	-	-	
Collective Provision for Loan Impairment……	**-**	**(1,960)**	-	**(2,044)**	
Accrued interest receivable……	**883**	**806**	*-8.7%*	**1,120**	**0.1%**
Total……..	**823,795**	**916,880**	***+11.3%***	**876,442**	**100%**

Building on the Bank's strategic direction to mainly service prime corporations (locally & regionally) – mainly top ranked tiers in each respective industry – the table above is an indication of the Target Market Criteria of client selection whereby more than 69.8% of the overall Loan & Advances exposure is allocated to corporate customers as at December 31, 2012.

Collateralization of Loans

The following table sets forth the breakdown of the fair value of collateral held by the Bank covering the loans and advances granted to customers as at December 31, 2011 and 2012 (Audited figures):

(LBP Million)	Audited 2011	Audited 2012	*Variation 12-11*
Pledged funds……..	187,783	200,576	*+6.8%*
Equities..…….	21,612	16,916	*-21.7%*
Real estate mortgage…….....	100,575	114,625	*+13.9%*
Total……	**309,970**	**332,117**	***+7.1%***

The table above shows that the bank is still maintaining adequate coverage on loans and advances extended to customers.

Distribution of Loan Portfolio by Geographical Area

The following table shows the distribution of the Bank's Loan Portfolio (excluding related parties) by geographic area as at December 31, 2012 and June 30, 2013 (Unaudited figures):

(LBP Million)	Audited 2012	% of Total	Unaudited June 2013	% of Total
Lebanon……..	824,921	*90%*	831,601	*94.87%*
Syria……	40,169	*4.4%*	18,700	*2.1%*
Middle East and Africa……	38,693	*4.2%*	15,262	*1.8%*
North America…….	1,255	*0.1%*	309	*0.03%*
Europe…….	11,781	*1.3%*	10,570	*1.2%*
Other…….....	61	-	-	-
Total……	**916,881**	***100%***	**876,442**	***100%***

As per the breakdown of the above table, the main concentration in terms of the Loan Portfolio is in Lebanon where 94.8% of loans and advances are extended. With respect to exposure to Syrian customers, the latter witnessed a continuous and gradual decline as a result of measures and strict follow up applied by the bank. The remaining exposure is covered by pledged deposits, quoted equity pledged instruments, and real estate mortgages in Lebanon.

Lending policies

The Lebanese supervisory authority vested in the Central Bank of Lebanon and the Banking Control Commission imposes several specific lending limits on banks mainly relating to the following:

1. Central Bank of Lebanon Directive No 7055 as amended dated August 13, 1998, sets a maximum allowable weighted credit limit to a single borrower or group of related borrowers. Through its intermediary circular No 311, dated December 20, 2012, the Central Bank introduced new definitions and new limits concerning country risk, the criteria used to define one-obligor exposures, stress testing of credit risk concentrations, internal risk limits, impairment testing and related. In addition to BDL 311, the governing circulars related to the aforementioned are the following: BDL Basic Circular No 48 and its subsequent amendments No 126, 232, 237 & 261 + BCC Circ. No 258

   I. DEFINITIONS:

   a) Interconnected Group of Obligors / One Obligor: 1- Two persons (moral or individual) or more who have a shared risk because one of them is the main responsible (directly or indirectly) for the other(s) risks. For example: the group of entities where one has the majority of ownership rights or voting rights in the Board or having the ability to influence its management or having the control over its financial and operational management, the group of two or more institutions where one of them contributes in at least 20% of the other entity's capital funds, the group of two or more interrelated guarantors (such as Cross guarantees), two persons or more (where the aforementioned criteria does not apply) but can be considered as a "group of related debtors" as a result of the high level of Interconnectedness between them where the financial difficulties faced by one of the entities affects the other entity, negatively impacting the ability of the latter entity to obtain financing or secure repayment.

   b) Granted Facilities: are the banking facilities authorized or utilized (whichever is greater) to one or to a related group of debtors whether funded or non-funded after applying the risk weighting and deducting the amount of provisions constituted by the bank in cover (if existing). The bonds issued by a group of related debtors and purchased by the bank are considered as part of the granted facilities.

   c) Facilities granted on consolidated level: Facilities granted by the bank in Lebanon, its branches abroad and its subsidiaries (banks or financial institutions) subject to consolidation.

   d) Large facilities: Facilities equivalent to or greater than 10% of the Bank's Core Equity.

   e) Equity of the Bank for branches in Lebanon and abroad : Core Tier 1 Equity of the bank calculated in accordance with the regulations issued by BDL and based on the financial statements of the bank for branches in Lebanon and abroad.

   f) Consolidated Equity: Core Tier 1 Equity of the bank calculated in accordance with the regulations issued by BDL and based on the consolidated financial statements of the bank in Lebanon and its branches abroad and its subsidiaries (banks and financial institutions in Lebanon and abroad).

g) Credit facilities against Spot or Forward transactions: Credit facilities granted to borrowers to conduct foreign exchange transactions for speculation purposes whether spot or forward in one foreign currency against another foreign currency

h) Subsidiaries: Banks or financial institutions subject to consolidation based on the Global Integration method.

The Bank is currently in compliance with the Directive's provisions in relation to its exposures.

2. Central Bank of Lebanon Intermediary Circular No 126 dated November 9, 2006, sets specific limitations on credit extended to residents/non-residents as well as concentration as per the following guidelines amended as per the prerogatives of Intermediary Circular No 311:

Description	Funds use	Regulatory Limits
1. Maximum Limits of Facilities granted on a consolidated level to one client or a group of interrelated clients	In Lebanon and abroad	*Maximum 20% of Consolidated Core Equity*
2. Maximum Limits of Facilities granted by the Bank from its branches in Lebanon and abroad to one client or a group of interrelated clients	In Lebanon and abroad	*Maximum 20% of Core Equity for branches in Lebanon and abroad*
3. Maximum Limits of Facilities granted by the Bank from its branches in Lebanon and abroad to one client or a group of interrelated clients	Outside Lebanon	*Maximum 10% of Core Equity for branches in Lebanon and abroad*
4. Large Exposures: Total Facilities granted by the Bank (limits or exposures whichever is larger) where each represents 10% of the consolidated core equity	In Lebanon and abroad	*Maximum 4 times the Consolidated Core Equity of the Bank*
5. Maximum Limits of Facilities granted by the Bank from its branches in Lebanon and abroad for usage outside Lebanon (regardless of the sovereign rating of the country where the facilities are used)	Outside Lebanon	*Maximum 4 times the Core Equity for branches in Lebanon and abroad*
Credit Ceiling per one Country outside Lebanon (1)		
6. Maximum Limit of Facilities granted to clients by the Bank from its branches in Lebanon and abroad	Used in a country rated BBB & above	*Maximum 50% of Core Equity for branches in Lebanon and abroad*
	Used in a country rated below BBB or unrated	*Maximum 25% of Core Equity for branches in Lebanon and abroad (1)*
Credit Ceiling per a group of countries outside Lebanon (2)		
7. Maximum Limit of Facilities granted to clients by the Bank from its branches in Lebanon and abroad	Used in all countries rated BBB or unrated	*Maximum 100% of Core Equity for branches in Lebanon and abroad (2)*

(1) In addition to the ceiling imposed, Lebanese banks are allowed to grant an additional 25% of Core Equity in a country rated below BBB or unrated subject to having a presence in this country and that the additional amount is financed from the deposits in that respective country

(2) Similar to above, Lebanese banks are authorized to grant an additional 25% of Core Equity in all countries rated below BBB or unrated subject to the conditions cited above

N.B.: Credit ratings used are the ratings set by S&P or their equivalent published by an International Credit Rating Agency

The Bank is currently in compliance with the Directive's provisions in relation to its exposures

For more information, please refer to "The Banking Sector and Banking regulation in the Lebanese Republic – Credit Limit".

The Bank's credit approval process begins with a credit application submitted in a prescribed form as per the directives imposed by the Central Bank of Lebanon and showing the purpose of the requested facility, the proposed source and schedule for repayment, and the proposed collateral. The application is analyzed by the relationship manager, who evaluates particularly the purpose of the requested facility and the borrower's creditworthiness through an in-depth analysis of a series of criteria such as the proposed source and method of repayment and the proposed collateral (if any). The collateral may be in the form of asset security, bank, personal or corporate guarantees, cash collateral, or assignment of proceeds derived from contracts. During this preliminary evaluation, the relationship manager confers with the head of the concerned division regarding the creditworthiness and the reputation of the potential borrower as well as to the type of business or activities undertaken by the latter. To proceed further, the head of division must provide the preliminary approval.

In the event of a negative feedback from the head of division, the application will be declined and the file closed. If the feedback is positive, the application is submitted to the Risk Management Department for a technical review and a second independent opinion to assess the quality of the analysis and the risks entailed. This includes a detailed review of the purpose of the requested facility, the source of repayment, the business risks that could inhibit repayment (nature of the business/industry, competitiveness, operating efficiency, management), and the financial analysis of the borrower (financial

statement analysis and cash flow analysis, projection, "debt capacity" review and other financial risks). The technical review produces an evaluation report with comments and recommendations. Notwithstanding the amount of the credit requested, the approval process follows the same internal procedure which includes, after the review by the Risk Management Department, the review and majority approval by the members of the Credit Committee. The decision is passed to the Board of Directors for approval only if the amount of credit requested exceeds different thresholds. Once granted, the ongoing review and accounting for loans becomes the responsibility of the relationship manager who undertakes the "Preliminary Evaluation". The relationship manager and the head of division are both responsible for monitoring the performance of the loan and checking that the funds are employed for the purpose stated in the loan application. Regular visits are made to the premises of borrowers and every account is submitted to a thorough review and reassessment each year by the relationship manager, the Risk Management Department and by the Credit Committee. The renewal of facilities is subject to the same approval procedure as the original initiation and extension of facilities.

The Risk Management Department oversees the review and follow-up procedures performed at the division and bank's level. It is also responsible for monitoring the markets in which the Bank's borrowers operate in order to foresee any significant developments that might affect either beneficially or adversely the performance of borrowers. Within the Risk Management Department, the credit control unit also retains the responsibility for safe keeping and updating, when required, all collateral documentation received with the credit applications from the respective divisions. Article 152 of the Code of Money and Credit provides that advances and credit facilities to directors or managers of banks, or to companies having common directors with the Bank's or to principal shareholders or their close relatives, must be authorized by the Ordinary General Assembly of Shareholders of the bank and must not exceed, in aggregate, 2 % of the shareholders' equity of the Bank, provided that unsecured loans do not exceed 1% of the shareholders' equity. Such advances must be made on normal commercial terms. The Bank is in compliance with Article 152 of the Code of Money and Credit.

In accepting collateral in the form of company shares against loans, the Bank normally requires that the value of the collateral corresponds to at least 200 % of the loan to which it relates noting that top up and close out ratios are included as essential conditions. In addition, and prior to obtaining a pledge on quoted equities, the Bank ensures their quality and characteristics fit within the required prerogatives set by the Central Bank Intermediary Circular No 323 dated May 20, 2013.
With respect to mortgages, the value of the collateral should correspond to at least 120% of the loan to which it relates. On the renewal date of each loan, the related file is reviewed by the Bank and the real estate collateral is re-evaluated by independent experts appointed by the Bank.

Classification of loans and provisioning
A well-established internal credit rating system to assess the creditworthiness of new and existing counter parties is applied. This system takes into account criteria related to the borrower (e.g. nature of the activity, financial performance and structure, credit history, cash flows, projected financials and management) and to the credit quality (e.g. purpose, amount, tenor, collateral presented as a second way out). In addition to the performing loans categories, rating classes used are as follows:
-Special Mention /Vulnerable: Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring.
-Past due but not impaired: Loans past due but not impaired are loans where contractual interest or principal are past due but the Bank's management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Bank.
-Substandard loans: Substandard loans are loans that are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged in favor of the Bank. Exposures where an indication of the possibility that the Bank will sustain a loss if certain irregularities and deficiencies are not addressed exists are classified under this category.
-Doubtful loans: Doubtful loans have, in addition to the weaknesses existing in substandard loans, characteristics indicating that current existing facts and figures make the collection in full highly improbable. The probability of loss is high but certain reasonable and specific pending factors which if addressed could strengthen the probability of collection, result in the deferral of the exposure as an estimated loss until a more exact status is determined.
-Loss: Loans classified as loss are considered as uncollectible and of such minimal value that their classification as assets is not warranted. This does not mean that the loan is absolutely unrecoverable or has no salvage value. However, the amount of loss is difficult to measure and the Bank does not wish to defer the writing of the loan even partial recovery might occur in the future. Loans are charged off in the period in which they are deemed uncollectible and therefore classified as loss.
With reference to the Bank's loan classifications mentioned above, loan provisioning is acquired under the supervision and the prior approval of the Banking Control Commission.

The Central Bank of Lebanon retains the right to review the loan portfolio of every bank in Lebanon and has the power to impose provisions upon specified loans if it considers them doubtful or inadequately secured. **Such a review of the Bank's loan portfolio was performed in 2011-2012 where all requested comments by the regulatory authorities were timely abided by and no significant irregularities were reported to the Bank.**

Investment Securities Portfolio

The Bank classifies its portfolio in line with the requirements of IFRS 9 Financial Instruments which was early applied by the Bank during 2011 with date of initial application being January 1, 2011. According to this standard, all recognized financial instruments are measured in their entirety at either amortized cost or fair value, depending on their classification:

- Debt instruments: Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):
  - They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, 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 amount outstanding.

  Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL"). In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL. Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

- Equity instruments: Investments in equity instruments are classified as at FVTPL, unless the Bank designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition (see below).

  Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss. On initial recognition, the Bank can make an irrevocable election (on an instrument-by instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment. Designation at FVTOCI is not permitted if the equity investment is held for trading.

  A financial asset is held for trading if:
  - it has been acquired principally for the purpose of selling it in the near term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that the Bank manages together and has evidence of a recent actual pattern of short-term profit taking; or
  - it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

The following tables sets forth the breakdown of the Bank's investment securities portfolio, by classification (amortized cost and trading assets at fair value through profit or loss) as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

1) Trading Assets at Fair Value Through Profit or Loss (FVTPL):

(LBP Million)	**Audited 2011**	***Share***	**Audited 2012**	***Share***	**Unaudited June 2013**	***Share***
Quoted equity securities……	6,656	*6.96%*	5,385	*8.4%*	5,838	*11.5%*
Lebanese treasury bills……..	18,888	*19.8%*	21,893	*34.0%*	6,941	*13.7%*
Foreign treasury bill……..	465	*0.5%*	-	-	-	-
Lebanese government bonds…….	310	*0.3%*	-	-	-	-
Cert. of deposit issued by Central Bank……	48,630	*50.9%*	26,969	*41.9%*	15,535	*30.6%*
Cert. of deposit issued by comm. Banks……	10,663	*11.1%*	2,249	*3.5%*	1,574	*3.1%*
Corporate Bonds……	7,837	*8.2%*	6,672	*10.4%*	20,034	*39.5%*
Accrued interest receivable……	2,144	*2.24%*	1,208	*1.9%*	835	*1.6%*
Total Trading Assets at FVTPL……	**95,593**	***100%***	**64,376**	***100%***	**50,757**	***100%***

Total Trading Assets at FVTPL reached LBP 64,376 million (US$ 42.7 million) for the year 2012 compared to LBP 95,593 million (US$ 63.4 million) in 2011 reflecting a decrease of 32.6%. Around 76% of the latter assets are sovereign investments (Central Bank of Lebanon and Treasury Bills issued by the Lebanese Government) at the end of 2012 compared to 70.5% at the end of 2011. FVTPL assets represented respectively 4.1% and 2.9% of total assets at the end of 2011 and 2012.

With respect to the currency composition of Trading Assets at FVTPL, the latter was as follows as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

(LBP Million)	**Audited 2011**	***Share***	**Audited 2012**	***Share***	**Unaudited June 2013**	***Share***
LBP Base Accounts……..	58,276	*60.9%*	49,925	*77.5%*	11,539	*22.7%*
Foreign Currency Base Accounts c/v of F/Cy……	37,316	*39.1%*	14,451	*22.5%*	39,218	*77.3%*
Total Trading Assets at FVTPL……	**95,593**	***100%***	**64,376**	***100%***	**50,757**	***100%***

The table above reveals that the share of LBP Base Accounts accounted for 77.5% of total trading assets held at FVTPL in 2012 compared to 60.9% at the end of 2011. In comparison, the share of Foreign Currency Base Accounts decreased from 39.1% in 2012 to 22.5% by the end of 2012.

2) <u>Financial assets held at Amortized Cost and at Fair Value through Other Comprehensive Income (FVTOCI)</u>:

(LBP Million)	**Audited 2011**	***Share***	**Audited 2012**	***Share***	**Unaudited June 2013**	***Share***
Lebanese treasury bills……	92,484	*26.6%*	124,801	*28.6%*	171,391	*33.3%*
Lebanese government bonds……..	73,302	*21.1%*	83,436	*19.1%*	139,303	*27.2%*
Cert. of deposit issued by Central Bank…….	132,550	*38.1%*	191,266	*43.8%*	168,960	*32.8%*
Cert. of deposit issued by Comm. Banks……	31,743	*9.1%*	15,075	*3.4%*	11,472	*2.2%*
Corporate Bonds…….	11,473	*3.3%*	15,111	*3.5%*	15,208	*2.9%*
Accrued interest receivable…….	6,431	*1.8%*	6,865	*1.6%*	8,289	*1.6%*
Total Financial Assets held at Amortized Cost	**347,983**	***100%***	**436,554**	***100%***	**514,623**	***100%***
Financial assets at fair value through other comprehensive income	**644**		**644**		**644**	

Total Financial Assets held at Amortized Cost reached LBP 436,554 million (US$ 289.6 million) for the year 2012 compared to LBP 347,983 million (US$ 230.8 million) in 2011 reflecting an increase of 25.4%. Around 47.7% of the latter assets are investments in Lebanese Treasury Bills and Government Bonds, while 44% are investments with the Central Bank of Lebanon (Certificates of Deposits) at the end of 2012. Total financial assets held at Amortized Cost represented respectively 15.1% and 19.4% of total assets at the end of 2011 and 2012.

With respect to the currency composition of Financial Assets held at Amortized Cost, the latter was as follows as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

(LBP Million)	**Audited 2011**	***Share***	**Audited 2012**	***Share***	**Unaudited June 2013**	***Share***
LBP Base Accounts……	185,086	*53.2%*	232,774	*53.3%*	281,192	*54.6%*
Foreign Currency Base Accounts c/v of F/Cy……	162,897	*46.8%*	203,780	*46.7%*	233,431	*45.4%*
Total Financial Assets held at Amortized Cost	**347,983**	***100%***	**436,554**	***100%***	**514,623**	***100%***

The table above reveals that the share of LBP Base Accounts accounted for 53.3% of total financial assets held at Amortized Cost in 2012 compared to 53.2% at the end of 2011. In comparison, the share of Foreign Currency Base Accounts slightly decreased from 46.8% in 2012 to 46.7% by the end of 2012

It is to be noted that since 2003, the bank has documented an investment policy approved regularly by ALCO and the Board of Directors detailing the investment strategy and subsequent asset allocation and limits.

Customers' Deposits

The Bank's customers' deposits were equivalent to LBP 1,837,532 million (US$ 1,218.9 million) as at December 31, 2012 as compared to LBP 1,630,118 million (US$ 1,081.3 million) as at December 31, 2011, reflecting a year-on-year increase of 12.72%. Deposits of related parties at amortized cost amounted to LBP 58,536 million (US$ 38.83 million) as at December 31, 2012 as compared to LBP 53,967 million (US$ 35.80 million) as at December 31, 2011.

Currency Composition and Cost of Funds

In 2011 and 2012, the Bank's Customers' Deposits represented respectively 76.3% and 88.1% of total liabilities. Time Deposits represent the largest portion of the Bank's deposits, owing to the private/selective banking nature of the operations.

The following table details the breakdown of the Bank's Customers' Deposits *(excluding related parties deposits)* by currency as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

Bank's Customers' Deposits by Currency	**LBP (million)**	**US$ (million)**	**Euro (million)**	**GBP (million)**	**Other (million)**
	June 30, 2013 (C/V in LBP)-Unaudited				
Customers' Accounts at amortized cost……	270,690	1,212,656	209,431	30,236	22,385
In percentage…….	*15.5%*	*69.5%*	*12.0%*	*1.7%*	*1.3%*
Total Customers' Deposits in LBP (million)……			**1,745,398**		
	December 31, 2012 (C/V in LBP)-Audited				
Customers' Accounts at amortized cost……	278,729	1,297,473	215,989	29,528	15,813
In percentage…….	*15.2%*	*70.6%*	*11.7%*	*1.6%*	*0.9%*
Total Customers' Deposits in LBP (million)……			**1,837,532**		
	December 31, 2011 (C/V in LBP)-Audited				
Customers' Accounts at amortized cost……	216,355	1,161,483	204,029	32,227	16,023
In percentage…….	*13.3%*	*71.3%*	*12.5%*	*1.9%*	*1.0%*
Total Customers' Deposits in LBP (million)……			**1,630,118**		

Customers' Deposits in Lebanese Pounds accounted for only 15.2% of total deposits as of December 31, 2012, with the remaining balance being in foreign currency deposits. Such an allocation, coupled with the relatively lower interest rates on foreign currency deposits resulted in an acceptable average cost of funds.

The average cost of funds on customers' deposits at amortized cost (including related party deposits) during the last 3 years was as follows:

Year	**Average Rate LBP** (%)	**Average rate FCY** (%)
2012…….	6.01	2.76
2011…….	5.93	2.77
2010…….	6.20	2.90

Customers' Deposits by Size (excluding related parties)

The following table sets forth the Bank's customers deposits (excluding related parties accounts) by size as at December 31, 2011 and 2012:

	2011-Audited			**2012-Audited**		
By size in LBP million	**Amount**	**%**	**% to Total No. of customers**	**Amount**	**%**	**% to Total No. of customers**
< 200 million……..	150,638	9.24	78.1	163,662	8.91	77.7
200 million – 1.50 Billion……..	585,511	35.92	17.8	610,838	33.24	17.8
Over 1.5 Billion…….	893,969	54.84	4.1	1,063,031	57.85	4.5
Total……	**1,630,118**	**100%**	**100%**	**1,837,531**	**100%**	**100%**

Customers' Deposits by Maturity

The following table sets forth the distribution of the Bank's customers' deposits by initial stated maturity as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

	Audited				**Unaudited**	
Maturity	**2011**	**%**	**2012**	**%**	**June 2013**	**%**
Accounts with no maturity…….	358,082	21.97	374,078	20.4	549,300	31.5
Up to 3 months……..	1,170,072	71.77	1,332,517	72.5	1,079,742	61.9
3 to 12 months……	86,143	5.28	123,328	6.7	112,402	6.4
12 months and above…….	15,821	0.98	7,608	0.4	3,954	0.2
Total……	**1,630,118**	**100%**	**1,837,531**	**100%**	**1,745,398**	**100%**

Short-term deposits with maturities up to 3 months and accounts with no maturity accounted for around 92.9% of total customers' deposits while deposits with maturities of up to 12 months exceeded 99% of total customers' deposits as at December 31, 2012.

Capital and Capital Adequacy

The major current components of Tier One and Tier Two Capital of the Bank are as follows:

1. Eligible share capital: The issued and outstanding share capital of the Bank consists of 62 million nominative shares authorized and fully paid with a par value of LBP 1,000 per share and divided as follows:

Listed Shares: 51,400,000
Unlisted Shares: 10,600,000

2. Preferred Shares Issuance of Year 2006: On June 1, 2006, the Bank issued preferred shares in the amount of USD 20 million (LBP 30 billion) on the basis of 200,000 shares at USD 100. The preferred shares are callable five years from the issuance data on June 1, 2011 and bear interest on a non-cumulative basis at an annual rate of 8%.

3. Shareholders' cash contribution to capital: This caption represents capital injection of USD 19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Bank's equity. Effective 2011, the General Assembly of shareholders approved to call-off interest on cash contribution to capital. This sort of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

4. Reserves: Reserves consist of the following as at December 31, 2011 and 2012:

(LBP Million)	**Audited 2011**	**Audited 2012**
Legal reserve……	1,193	1,795
Reserve for general banking risks……	14,327	17,185
Reserve for assets acquired in satisfaction of loans…….	412	554
Other reserves……..	5,518	5,518
Total Reserves……	**21,451**	**25,052**

Eligible reserves are created by accumulated appropriations of profits and are maintained for future growth. In accordance with the requirements of Lebanese Money and Credit Law, the Bank transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution. The reserve for general banking risks is constituted according to local banking regulations from income on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP 2 billion and LBP 15.19 billion, respectively, in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

5. Eligible retained earnings: This represents the accumulated undistributed profits

6. Currency Translation Adjustments: This mainly represents the currency translation adjustment related to the investment in an associate incorporated in Syria where the carrying value was readjusted for the effect of prolonged decline in exchange of the Syrian Pound against the US Dollar caused by the ailing economic situation as a result of the hostilities initiated in 2011.

The Bank is subject to the capital adequacy requirements and guidelines as defined by the Central Bank of Lebanon which are based on the guidelines of the Basel Committee on Banking Supervision. In April 2006, the Central Bank of Lebanon (BDL) issued a circular (BDL Circular No 104) requiring banks in Lebanon to report their capital requirements according to the Basel II guidelines. On December 7th, 2011, BDL issued an intermediary circular No 282 related to solvency calculation in Lebanese commercial banks. The new requirements are a reflection of the amendments introduced by the Basel Committee following the financial crisis **(namely Basel III)** and cover the following (solely to be used for solvency calculation purposes):

Definition and components of equity

- Total equity includes the following:
  - **Core Capital Funds (Tier 1 Capital)** consisting of the following:
    - *Common Equity Tier 1*
    - *Additional Tier 1 Capital*
  - **Tier II Capital**

- Risk Weighted Assets: consist of total assets and off balance sheet items weighted by their corresponding credit, market and operational risk weights
- **Solvency** definition now consists of the following:
  - **Common Equity Tier 1 Ratio** = Common Equity Tier 1 divided by Risk Weighted Assets
  - **Core Capital Funds (Tier 1) Ratio =** Tier 1 divided by Risk Weighted Assets
  - **Total Equity Ratio** = Total (eligible) Equity divided by Risk Weighted Assets

Minimum capital requirements:

- After conducting the necessary deductions as directed by BDL and BCC requirements, the new minimum solvency requirements will be as follows:
  - **Common Equity Tier 1 Ratio** = Minimum of 8%
  - **Core Capital Funds (Tier 1) Ratio =** Minimum of 10%
  - **Total Capital Ratio** = Minimum of 12%

The above is to be achieved based on a phased in approach ensuring that full abidance will be observed by the end of 2015:

Description	31/12/2012	31/12/2013	31/12/2014	31/12/2015
Common Equity Tier 1 Ratio	5%	6%	7%	8%(*)
Tier 1 Ratio	8%	8.5%	9.5%	10%(*)
Total Capital Ratio	10%	10.5%	11.5%	12% (*)

(*) including the Capital Conservation Buffer required by Basel Committee equivalent to 2.5%

SCOPE OF APPLICATION OF CENTRAL BANK CAPITAL ADEQUACY CALCULATION

The name of the top corporate entity in the group, to which these regulations apply, is Banque Bemo SAL. The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards (IFRS). The following entities of the group are fully consolidated with the results of Banque Bemo SAL for regulatory purposes:

1. BEMO Securitization SAL (BSEC): This entity is 96% owned by the Bank. It is regulated by the Central Bank of Lebanon and Banking Control Commission and undertakes securitization transactions locally and structured finance deals

2. Ferticed Limited Holding (Luxembourg): This entity is 100% owned by the Bank and is mainly involved in providing insurance services

3. Depository and Custody Company SAL: This entity is majority owned by the Bank and its subsidiary BEMO Securitization SAL and it undertakes depository and custody of securities activities.

Investments in the following entities associated with the group are deducted from **Common Equity Tier 1** for regulatory purposes:

1. Banque BEMO Saudi Fransi (BBSF): BBSF is incorporated in Syria as a commercial bank. The Bank owns 22% of the ordinary share capital of BBSF

2- BEMO Oddo Investment Firm – Dubai, where the bank owns 25% of its ordinary share capital.

There are no other group entities for regulatory purposes that are neither consolidated nor deducted.

Components of Capital	**2011**	**2012**
Common Equity Tier 1		
Common stock – Paid in Capital…….	62,000	62,000
Cash Contribution to Capital……...	29,105	29,105
Eligible Reserves……	21,040	24,499
Retained Earnings……..	18,004	10,989
Common Equity Tier 1	***130,149***	***126,593***
Less: Deductions/Regulatory Adjustments		
Less: Treasury Shares……	(1,614)	(2,198)
Less: Intangible assets……	(922)	(700)
Less: participations…….	(47,142)	(30,694)
**NET Common Equity Tier 1……..	***80,471***	***93,001***
Additional Tier 1		
Perpetual, Non-Cumulative Preferred Shares……	30,150	30,150
**TOTAL Tier 1 (A)…….	***110,621***	***123,151***
Supplementary Capital – Tier 2		
Subordinated Bonds……	36,180	24,120
**TOTAL Tier 2 (B)……	***36,180***	***24,120***
**Total Eligible Capital (A+B)……..	**146,801**	**147,271**

Approaches to calculate Risk Weighted Assets

The approaches adopted by the Bank for measuring minimum capital requirements under Pillar 1 of the Basel Accord are described in the following sections.

Credit Risk: Pursuant to the Central Bank requirements, the Bank has adopted the "Standardized Approach" for measuring minimum capital requirement for credit risk. Under this approach, exposures are spread into portfolio segments based on the type of counterparty. The major portfolios defined as per Central Bank directives (BDL Basic Circular No 115) are sovereigns, banks, corporate, SME, Commercial Real Estate, Other retail (including securities lending), residential financing, equity, and others. Depending on the ratings assigned by qualified external credit rating agencies, a counterparty risk weight ranging from 0% to 150% is set for each portfolio segment. After application of specific provisions (if any) and / or acceptable credit risk mitigations, initial funded and non-funded exposures are multiplied by the specified risk weight of the counterparty to arrive at the corresponding Risk Weighted Asset (RWA). Using product type specified Credit Conversion Factors (CCFs), off-balance sheet exposures are adjusted before determining the RWAs.

Market Risk: The "Standard Measurement Approach" is used by the Bank to calculate the regulatory capital requirements relating to market risk (covering interest rate risk in the trading book, equity price risk, foreign exchange risk and commodity prices risk). As indicated by the Basel Committee, the resulting measure of capital charge is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for market risks.

Operational Risk: The Bank presently uses the "Basic Indicator Approach" for calculation of regulatory capital requirements in terms of operational risk. This approach applies a beta coefficient of 15% to the average gross income of the Bank for the preceding three financial years. Similarly to market risk capital charge, the resulting measure of capital charge for operational risk is multiplied by 12.5 (reciprocal of 8%) to provide a comparable risk weighted exposure number for market risks.

Risk Weighted Assets composition:

The Capital Adequacy measurement after application of corresponding risk weights based on the aforementioned approaches is detailed in the following table:

Capital Adequacy	**2011**		**2012**	
(LBP million)	**Amount**	**Share**	**Amount**	**Share**
Credit Risk Weighted Assets – Standardized Approach	**1,381,787**	**92.2%**	**1,325,821**	***92.6%***
Sovereign Risk……	512,181	*37.1%*	429,197	*29.9%*
Banks Risk…….	154,696	*11.2%*	140,346	*9.8%*
Public Sector Entities…….	3		3	
Loans to Corporate Clients……	395,602	*28.6%*	466,419	*32.6%*
Loans to SMEs…….	127,635	*9.2%*	98,045	*6.8%*
Other Retail Loans……	22,716	*1.6%*	18,213	*1.3%*
Residential Loans…….	10,932	*0.8%*	17,713	*1.2%*
Commercial Real Estate Loans……	107,194	*7.8%*	123,894	*8.6%*
Securitization ……...	4,096	*0.3%*	3,221	*0.2%*
Non-Performing Loans…….	16,970	*1.2%*	1,791	*0.1%*
Other Assets…….	29,764	*2.1%*	26,979	*1.9%*
Market Risk Weighted Assets – Standard Measurement Approach	**56,125**	**3.7%**	**38,962.5***	***2.7%***
Interest Rate Risk (Trading Book)……	44,325		26,350	
Equity Price Risk (Trading Book)……	6,300		4,750	
FX Risk…….	5,500		7,862.5	
Commodities Risk (Not applicable)……			-	
Operational Risk– Basic Indicator Approach	**60,671**	**4.1%**	**67,652**	**4.7%**
Total Risk Weighted Assets…….	**1,498,583**		**1,444,667**	
Total Capital Ratio……	**9.80%**		**10.30%**	
Tier 1 Capital Ratio……..	**7.38%**		**8.63%**	
Net Common Equity Tier 1……...	**5.37%**		**6.50%**	

Supervisory authorities in Lebanon decided to apply market risk capital charges on the financial instruments classified as FVTPL noting that the majority of these instruments are held by the bank for liquidity purposes and not for trading intent.

The capital base is intended to act as buffer against the risks to which the Bank is exposed to and comprises the sum of Tier-1 and Tier-2 capital. The purpose of the Bank's capital management is to ensure the efficient use of capital in the light of the

Bank's overall capital targets. The Bank takes the capital targets into account in the determination of its risk profile. This means that the capital level must be sufficient to cover both organic growth and current fluctuations in the risks taken on. The Bank's capital policy serves two purposes. The first is to ensure that the Bank's capital strength is sufficient to support the strategy set out in the business plan and to ensure that capital adequacy is always higher than the minimum regulatory requirement. The other purpose is to maintain capital strength that supports high creditworthiness. When assessing the adequacy of its capital, the Bank takes the following objectives into consideration:

1. Capital is held to safeguard the Bank's ability to continue as a going concern and to maintain an adequate capital base in order to preserve the rights of all stakeholders including; shareholders, depositors, the community and its' employees.
2. Capital is held with the purpose to meet the assessed Capital Adequacy Requirements, for Pillar I and II, so that the actual Tier 1 and Tier 2 capital meets regulatory targets.

The efficient use of capital is achieved through active management of the balance sheet with respect to different asset, liability and risk categories. The goal is to enhance returns to the shareholder while maintaining a prudent risk and return relationship.

Credit Risk Exposures

A breakup of gross credit risk exposures i.e. exposures after offsetting provisions but before application of credit risk mitigations **(including non-funded exposures and after applying credit conversion factors)** is presented below with the respective risk weights:

Assets Segments *(LBP million)*	**Risk Weights**	**2011**	**2012**
Sovereign Risk o.w……..		**724,209**	**694,804**
Placements in LL with Banque du Liban……...	0%	114,690	140,810
Placements in FC with Banque du Liban……...	100%	434,539	338,979
Placements in FC with other Central banks……...	50%	6,235	-
Placements in FC with other Central banks……...	150%	-	3,436
Lebanese Treasury Bills in LL……...	0%	94,221	126,515
Lebanese Eurobonds in FC……	100%	74,524	85,064
Other government bills……..	0%	-	-
Banks Risk o.w……		**510,366**	**467,795**
Long and short term placements……...	20%	384,482	386,214
Long and short term placements……..	50%	93,532	27,655
Long and short term placements……..	100%	32,352	53,528
Long and short term placements……..	150%	-	398
Public Sector Entities……		**1,297**	**1,665**
Public Sector Entities in LL……..	0%	1,294	1,662
Public Sector Entities in FC……..	100%	3	3
Loan Portfolio Risk o.w……		**907,802**	**998,222**
Loans to Corporate Clients……..	20%	1,728	460
Loans to Corporate Clients……..	50%	1,027	-
Loans to Corporate Clients……..	100%	482,921	565,160
Loans to Corporate Clients…….	150%	-	8,013
Loans to SME Clients…….	100%	178,139	141,890
Loans to Other Retail……..	100%	41,994	45,905
Residential Loans……	35%	35,418	57,314
Claims secured by Commercial Real Estate……	100%	144,559	172,571
Securitization……..	50%	3,052	3,051
Securitization……..	75%	3,426	2,260
Non-performing…….	100%	15,538	1,598
Other Assets o.w……		**61,259**	**55,350**
Other Assets (Cash, Regularization Accounts)…….	0%	17,368	13,918
Other Assets (Checks Purchased)…….	20%	17,905	17,443
Other Assets (Receivables)……	50%	894	998
Other Assets (Fixed, Investments, Assets acquired in satisfaction of loans)……..	100%	24,663	22,991
Participations not deducted from common equity…….	250%	429	-

For the measurement of minimum capital requirement for market risks under Pillar 1, the Bank uses the Standard Measurement Approach as per the table below:

(LBP million)	**2011**		**2012**	
Traded Interest Rate Risk……..	3,546	79%	2,108	68%
Traded Equity Price Risk……..	504	11%	380	12%
Foreign Exchange Risk…….	440	10%	629	20%
Commodity Price Risk……..	-	-	-	-
Total Capital Charge for Market Risks…….	*4,490*		*3,117*	
MRWA (Capital Charge for Market Risk* 12.5)……	***56,125***		***38,962.5***	
Share of Market RWA out of Total RWA……...	***3.74%***		***2.7%***	

As stated above the Bank currently uses the Basic Indicator Approach for assessment of minimum capital requirement for operational risks under Pillar 1 of the Accord:

(LBP million)	***2011***		***2012***
Average Gross Income (2008-2010)…….	32,357	Average Gross Income (2009-2011)……..	35,634
Coefficient …….	15%	Coefficient ……..	15%
Operational Risk Capital Charge……..	4,854	Operational Risk Capital Charge……	5,345
Operational Risk Weighted Assets……..	60,671	Operational Risk Weighted Assets……	67,562
Share of Total Risk Weighted Assets…..	4.05%	Share of Total Risk Weighted Assets…...	4.7%

Asset and Liability Management

Required Reserves

Pursuant to the Central Bank Directive No 7835 dated June 2, 2001, as amended, all banks operating in Lebanon, except investment banks and specialized banks that only extend medium and long term loans, must maintain a compulsory reserve in cash with the Central Bank equal to the sum of 25% of the weekly average of Lebanese Pound-denominated sight deposits, and 15% of the weekly average of Lebanese Pound-denominated term deposits.

On September 27, 2001, the Central Bank issued Directive No 7935, as amended, implementing Directive No 7926 dated September 20, 2001 pursuant to which all banks operating in Lebanon must maintain in cash with the Central Bank interest-bearing deposits equal to 15% of foreign currency-denominated deposits, notes, certificates of deposit, bank's certificates and other debt instruments and loans granted by the financial sector with a remaining maturity of one year or less, against payment of interest at the rate applied by the Central Bank on foreign currency-denominated deposits.

During its monthly meetings, and in line with its Charter and approved policy guidelines, the Asset Liability Management Committee (ALCO) ensures that above requirements are adhered to. On a daily basis, the Bank's Treasury Unit decides in close co-operation with the Bank's senior management on the uses of funds available while keeping an eye on set limits and regulatory requirements.

Interest Sensitive Assets and Liabilities

The Bank maintains a satisfactory level of interest sensitive funds on both sides of its balance sheet. The table below shows the composition of assets and liabilities as at December 31, 2011 and 2012 (Audited figures) and as of June 30, 2013 (Unaudited figures):

Interest Sensitive Assets and Liabilities	**Audited**		**Un-audited**
In percentage	**2011**	**2012**	**June 2013**
Interest earning assets to total assets……..	90.55	91.85	91.67
Interest bearing liabilities to total liabilities……	97.75	97.81	97.65

The major components of interest earning assets are cash held at the Central Bank, Lebanese T-Bills, bonds and financial instruments with fixed income, deposits at other banks and financial institutions, and loans and advances to customers. As to interest bearing liabilities, customer deposits and engagements constitute the largest component.

Liquidity

Liquidity Risk is the risk that the Bank is not able to meet financial obligations when they fall due. The purpose of the Bank's liquidity risk management is to maintain a sufficient amount of funds to meet present and future financial obligations while managing the use of the funds to generate an appropriate return in light of prevailing market conditions.

Liquidity Risk Management: The Bank diversifies its sources of funds and manages its liquidity through domestic money and capital markets, and through international money and capital markets in currencies such as the US dollar and Euro. The Bank seeks to minimize its liquidity costs and risks in line with market conditions by closely managing its liquidity position on a short-term and long-term basis. The Bank also plans to raise long-term funding as market conditions permit. It is the policy of the Bank to maintain liquidity at a high level; this policy is expected to prevail so long as the current economic weakness continues in the Lebanese Republic and the surrounding region.

The Bank's management strives to maintain a satisfactory liquidity level at the Bank in line with approved policy guidelines and regulatory requirements. The management's efforts with regards to the maturities of funding sources and uses are reflected in the Bank's satisfactory liquidity position.

In addition, the bank has been performing regular stress tests since 2012 guided by the regulatory authorities to calculate the newly proposed liquidity ratio by the Basel Committee under the new capital standard (Basel III) namely the Liquidity Coverage Ratio (LCR). The liquidity position of the Bank is monitored by the Bank's ALCO, which aims at minimizing risk, while ensuring the best use of funds in the prevailing economic conditions. The management's efforts with regards to the maturities of funding sources and uses are reflected in the Bank's satisfactory liquidity position. Similar to other banks in the sector, the Bank had negative maturity gaps concentrated in maturities of up to 3 months, while the maturity gaps were positive for maturities of more than 3 months. The table below summarizes the maturity profile of the Bank's assets and liabilities and the related maturity gaps for 2011 and 2012:

- For LBP Base Accounts

In LBP millions	Accounts with no maturity	Up to 3 months	From 3 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	From 5 to 10 years
2012 maturity gap……	34,116	(186,961)	(7,072)	64,352	88,331	59,957
2012 cumulative maturity gap……	34,116	(152,845)	(159,917)	(95,565)	(7,234)	52,723
2011 maturity gap……	38,608	(163,104)	4,754	119,959	20,466	36,107
2011 cumulative maturity gap……	38,608	(124,496)	(119,742)	217	20,683	56,790

- For Foreign Currency Base Accounts

In LBP millions	Accounts with no maturity	Up to 3 months	From 3 months to 1 year	From 1 year to 3 years	From 3 years to 5 years	Over 5 years
2012 maturity gap……	546,776	(722,682)	(26,846)	203,197	89,646	16,390
2012 cumulative maturity gap……	546,776	(175,906)	(202,752)	445	90,091	106,481
2011 maturity gap……	329,661	(672,968)	162,681	165,448	105,392	16,657
2011 cumulative maturity gap……	329,661	(343,307)	(180,626)	(15,178)	90,214	106,871

The basis of the remaining period at the relevant balance sheet date is mainly determinant of the contractual maturities of assets and liabilities not taking into consideration the effective maturities of many of the Bank's liabilities indicated by the track record of deposit retention at the Bank and subsequent continuous availability of liquid funds. The Bank's foreign currency placements maintained with international banks carry a maturity of three months or less. Moreover, the Bank's loans and advances portfolio is mainly of a short-term nature.

Net liquid assets to deposits stood at 59.25% while total loans to deposits stood at 48.68% in 2012. The latter calculations exclude the impact of the pledged deposits held in cover of facilities granted by the bank. The Bank's main source of funds remains its customers' deposits, which constituted 84.24% of the Bank's total assets, as at December 31, 2012, as compared to 73.43% as at December 31, 2011. Time deposits represent the majority of total deposits owning to the Bank's private/selective banking nature of the operations.

Interest Rate Sensitivity

The Bank is exposed to interest rate risk as a result of mismatches in interest rate repricing of assets and liabilities and off-balance sheet items that mature or reprice in a given period. The ALCO monitors interest rate risk through the continual repricing of assets and liabilities on the basis of forecasted rates in both national and international markets, as well as through other traditional risk management strategies.

The Central Bank has in the past used interest rates to stabilize the money markets. In times of political uncertainty, some investors withdrew time deposits in Lebanese Pounds with a view of exchanging Lebanese Pounds for US Dollars. This situation created problems for banks which were charged high rates of interest by the Central Bank on repurchase transactions to meet the funding cost of customer withdrawals. A number of developments have occurred in the market to mitigate the risk, including a trend of discouraging customers from breaking term deposits by increasing the associated costs. Customers are generally not permitted to withdraw time deposits prior to their maturity date and the cost of repurchase transactions is now generally passed on to the customers. In addition, the Bank has established the Interest Rate Risk Management Policy which provides for the governance of interest rate whereby sensitivity triggers are applied on earnings for the bank. Stress testing is also performed regularly to determine the adequacy of capital in meeting the impact of extreme interest rate movements on the balance sheet. Such tests are also performed to provide early warnings of potential extreme losses, facilitating proactive management of interest rate in an environment of rapid financial market changes.

The interest rate sensitivity position based on contractual re-pricing arrangements for 2011 and 2012 are shown in the table below (Earnings at Risk Impact for one year only):

Consolidated as at 31/12/2012 (amounts in LBP Millions)	**Less than 1 Month**	**From 1 to 3 Months**	**From 3 to 6 Months**	**From 6 to 12 Months**
Total Assets	1,244,473	344,562	70,312	33,215
Total Liabilities	1,632,261	196,540	90,424	51,673
TOTAL	(387,788)	148,022	(20,112)	(18,458)
Term Position	1,647	4	509	-
PERIODIC GAP	(386,141)	148,026	(19,603)	(18,458)
CUMULATIVE GAP	(386,141)	(238,115)	(257,718)	(276,176)
Earnings at Risk - 2012	***(322)***	***(794)***	***(1,933)***	***(4,143)***
Consolidated as at 31/12/2011 (amounts in LBP Millions)	**Less than 1 Month**	**From 1 to 3 Months**	**From 3 to 6 Months**	**From 6 to 12 Months**
Total Assets	1,222,667	368,574	132,838	67,689
Total Liabilities	1,752,701	160,091	56,554	51,467
TOTAL	(530,034)	208,483	76,284	16,222
Term Position	292	2,231	3,168	0
GAP	(529,742)	210,714	79,452	16,222
CUMULATIVE GAP	(529,742)	(319,028)	(239,576)	(223,354)
Earnings at Risk - 2011	***(441)***	***(1,063)***	***(1,797)***	***(3,350)***

The above shows that the effect of a 200 basis point change in interest rates upwards or downwards on the earnings of the Bank for the year ended December 31, 2012 is equivalent to LBP 4.143 billion increase/decrease compared to LBP 3,350 billion increase/decrease for the year ended December 31, 2011.

Exchange Rate Sensitivity

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Bank that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Bank's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

In line with Central Bank regulations, the Bank's management attempts to match foreign currency exposure to the maximum extent possible. On both sides of the balance sheet, assets and liabilities are held in foreign currencies, mainly the US Dollar.. At the outset the Bank's overall currency risk exposures is split into:

- *Open Currency Positions on the Group's trading books:* The management of these risks is done via Trading books under the responsibility of the Treasury and Capital Markets Division.
- *Corporate currency exposure:* This is the foreign currency risk embedded in the Bank's international banking operations. These risks are managed centrally by the ALCO.
- *Structural exchange positions:* The ALCO decides on the level of the structural exchange positions to be held against the LBP denominated equity, to ensure proper hedging.

The treasury department is responsible for monitoring the compliance with the regulatory ratios set by the Regulatory Authorities. ALCO is supported by the finance department, internal audit and risk management through reports on any breach of these ratios.

Risk Management

Banque BEMO SAL recognizes that effective risk management is fundamental to good banking practice. Accordingly, the Bank has established guidelines for managing risk in each area of its business to ensure that it has effective risk management mechanisms in place. Over the past few years, the Bank has continuously analyzed major risk factors which could affect its financial operations and reshaped its organizational structure and risk management processes. This is to ensure that its risk management system is in line with international standards and is in accordance with the guidelines under the principles of Basel II.

The Bank's Board Risk & Compliance Committee plays a significant role in prescribing the risk management policy, reviewing the sufficiency of the risk management policy and system, defining the strategy for risk management, and monitoring the Bank's risk to an appropriate level, in compliance with the Bank's risk management policy which has been approved by the Board of Directors. The objectives are to manage the relevant risks within designated boundaries and limits, in particular the maintenance of capital in accordance with the revised capital adequacy requirements under the Basel III guidelines as set forth by the Central Bank of Lebanon in December 2011.

Important processes in the risk management system comprise the identification of significant risks which may potentially impact the Bank's business operations, the assessment of each type of risk, the monitoring of risks to an appropriate level under the Bank's policy, and the reporting of the status of each type of risk to relevant parties so as to enable them to manage and/or handle the risks in a timely manner.

The key principle of the risk management system is that business units shall be responsible for continuously managing their risk exposures in order to ensure that the risk is within the specified limits and in compliance with the overall risk management policy approved by the Board of Directors, while the Risk Management Unit is responsible for monitoring and controlling the risks on a regular and ongoing basis. The general guidelines were indicated for each type of risk. In addition, and given its significance, the bank has laid down processes and procedures for the management of operational risks.

Operational Risk is the risk of loss from failed or inadequate internal processes, people and systems, or from external events. This includes legal risks, but does not include strategic risks and reputation risks.

Operational Risk Factors: Significant operational risk factors include internal factors and external factors.
Internal factors are:
• The efficiency of internal processes and internal control systems, including operational processes supporting business operations and processes for taking care of personnel.
• The Bank's personnel, including appropriate staffing levels, staff qualifications and efficiency.
• The Bank's operating systems, including the capability to support business operations, the complexity of systems which may cause risks, the issue of data security, the accuracy of data processing, and the development of and changes in technologies.
External factors are:
• Actions by outsiders such as theft or embezzlement of assets or data.
• Catastrophe and natural disasters that damage the Bank's assets.

The Bank understands that good operational risk management is vital to sustainable business success, particularly in the current environment of uncertainty, both domestic and international. The Bank therefore places great importance on effective operational risk management with sufficient coverage of all aspects of operations, and is prepared to deal promptly with any unpredictable event.

Operational Risk Management: The Bank's operational risk management includes defining, assessing, monitoring, mitigating and controlling risk. Every unit in the Bank is directly responsible for managing its operational risk and for establishing measures to mitigate and control risk to the designated level by allocating appropriate resources and establishing an organizational culture for managing operational risk.

A key principle underlying the Bank's operational risk management is to educate staff throughout the Bank by providing them with a consistent understanding of operational risk, so that they are able to accurately and completely identify the operational risks, assess the significance of each potential risk, analyze details to find appropriate solutions to mitigate risks, and implement the selected solutions to minimize risks. This is followed by the systematic monitoring of progress, the measurement of potential risk, as well as regular reviews of the entire process.

The Bank has a dedicated unit for operational risk management under its Risk Management Unit which has taken steps to enhance its operational risk management system to be in line with international standards. The enhancements include monitoring and supporting every unit in implementing the operational risk management framework at the unit level, managing operational risk at the organization level, reviewing operational risk management in product and service development, calculating the capital required for operational risk in line with the Basel II framework, and maintaining and analyzing data of the operational risk loss data system as well as Key Risk indicators for the critical activities.

Business resilience (including business continuity management and crisis management)
Business resilience is defined as the ability of the bank's business operations to rapidly adapt and respond to internal or external dynamic changes – opportunities, demands, disruptions or threats – and continue operations with limited impact to the business through pro-active management and resilient infrastructure. Business resilience is primarily focused on developing and maintaining a pro-active and holistic response. Crisis management is based on a streamlined command and control process for managing the business through a crisis to full recovery. These processes may also be deployed to manage non-operational crises, including business crises, at the discretion of senior management.

The Bank has implemented business continuity management to help minimize the impact of operational risk loss events from external factors. The Bank has adopted the business continuity management policy and has developed the business continuity plan which has been mainly tested successfully following the explosion next to the bank's headquarters whereby and despite the large losses sustained and destruction witnessed, the bank was able to resume activities and operations within 24 hours from its disaster recovery site.

Compliance and Anti- Money Laundering ("AML")

Definition of Money Laundering/Terrorist Financing
Money laundering is the process by which proceeds from a criminal activity are disguised to cancel their illicit origin. Terrorist financing, on the other hand, is the provision or collection of funds for the support, advancement or perpetration of acts of terrorism.

The Bank is strongly committed to preventing the use of its products or services for the legalization of revenue from criminal activity and for terrorism financing. The main objective is to protect the Bank's status and reputation.

Anti- Money Laundering and Combating Terrorist Financing Regulations
The Bank abides strictly with all BDL and SIC directives relating to AML/CFT activities and to international sanctions. In case the applicable anti-money laundering laws and regulations for its overseas Cypriot branch require higher standards, the Bank conforms also to these standards for its Cypriot branch so as to keep its operations on a clean and reliable path.
The principal Lebanese legislation can be summarized as follows:
• The Lebanese parliament has adopted and the President of the Republic promulgated the text of Law 318 on April 20, 2001 – Fighting Money Laundering. Recently, the Lebanese bank regulatory authority proposed amendments to Anti Money Laundering Law 318 by adding the offense of terrorism financing, in addition to other amendments.
• BDL has issued over the years circulars and put measures to fight money laundering and combat terrorism financing. On May 18, 2001 BDL issued circular No 83, and amended it several times after its issuance.
• Many circulars have been also issued by the Special Investigation Commission "SIC". All these circulars are in accordance and comply with the FATF 40 recommendations.

Anti-Money Laundering/ Combating Terrorist Financing Policies and Procedures
The Bank is constantly increasing its tools, including systems and procedures, for fighting money laundering and terrorist financing. The "know your customer KYC" procedures have been improved, all customers names are screened against local and international watch-list ex: SIC, OFAC, EU CBC and UN. All of our customers are required to identify the "source of

their funds", "beneficial right owner" and their financial status, in addition to other information. No account is to be opened without obtaining all the required information and the approval of the "Customer Acceptance Committee CAC". Noting that, the Compliance Officer is a member in this committee. Continuous monitoring of transactions are also conducted by branches and compliance staff, and transactions that suspected for hiding illegal activities are reported to SIC.

FATCA implementation
The compliance department has already started to set- up efforts to comply with the new challenge concerning the new US Tax regulation.

Training and awareness
All staff attend internal training sessions covering the awareness of due diligence and money laundering and terrorist financing fighting method.
Compliance department staff and branches AML/CFT Officers attend also training organized outdoor to stay updated with the international sanction and new tools used to launder money and to finance terrorism.
Finally, Banque Bemo sal is in compliance with all applicable sanctions laws, rules and regulations. The Bank is committed to the highest standards of integrity and regulatory compliance in all its businesses.
All precautions and necessary measures are taken to ensure full compliance with all AML laws and regulations, FATF recommendations and international standards of Basel Committee regarding "know your customer KYC" procedures in order to prevent the Bank for being used for illegal or criminal operations.

Internal Audit

The Internal Audit Function provides independent assurance to the Board of Directors and Senior Management on the quality and effectiveness of the Bank's internal control, risk management and governance systems and processes, areas in which supervisory authorities have a keen interest, thereby helping the Board and Senior Management protect the Bank and its reputation.

The Internal Audit Function has sufficient standing and authority within the Bank which is translated in the direct reporting to the Board of Directors, through the Audit Committee, and the independence from the audited activities, enabling consequently internal auditors to carry out their assignments with objectivity.

The mission of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities with regard to the adequacy of accounting and financial reporting policies, internal control and the compliance system; the integrity of financial statements and reliabilities of disclosures; the appointment, remunerations qualification, the independence and effectiveness of the external auditors; the independence and effectiveness of the Internal Audit Function.

The purpose, scope and authority of the Audit Committee and the Internal Audit Function are articulated in their charters and manuals which are periodically reviewed and submitted to the Board of Directors for ratification. The Internal Audit Charter empowers the Internal Audit Function, whenever relevant to the performance of its assignments, to initiate direct communication with any member of staff, to examine any activity or entity of the Bank, and to have full and unconditional access to any records, files, data and physical properties of the Bank. This includes access to Management Information Systems and records and the minutes of all consultative and decision-making bodies.

Audit Plan
The Head of Internal Audit is responsible for establishing an annual internal Audit Plan within a two-year period, based on a robust assessment of the Bank's entire activities, including its subsidiaries and branches. It is regularly updated, at least annually, giving due consideration of regulatory interest matters.

Professional Competence
The Head of Internal Audit is responsible for acquiring human resources with sufficient qualifications and skills to effectively deliver on the mandate for professional competence, and to efficiently carry out audit engagements using the suitable methodologies and tools and sufficient knowledge of auditing techniques. Moreover, the Head of Internal Audit makes sure that the staff is acquiring proper ongoing training in order to meet the increasing diversity of tasks stemming from the release of new products and processes and other developments in the financial sector.

The Banking Sector and Banking Regulation in the Lebanese Republic

Role of the Central Bank of Lebanon

The Central Bank of Lebanon was created by virtue of Law No. 13513 dated August 1st, 1963 enacting the Code of Money and Credit. The Central Bank is an autonomous legal entity, and is vested with financial autonomy. It is considered a commercial institution in its relations with third parties. It is located in Beirut and has branches in Tripoli, Jounieh, Saida, Zahle, Bikfaya, Aley, Tyre, Nabatiyeh and Baalbek. The Central Bank is governed by a Governor assisted by four Vice-Governors, altogether constituting the Governorship of the Bank, as well as by a Central Council chaired by the Governor and composed of the Vice-Governors, the Director- General of the Ministry of Finance and the Director-General of the Ministry of Economy and Trade.

The Central Bank is the sole custodian of public funds, supervises and regulates the banking system and is vested by law with the exclusive authority of issuing the national currency. The Central Bank primary role is to safeguard the currency and promote monetary stability, thereby creating a favourable environment for economic and social progress. The Central Bank also advises the Government on various economic and financial matters. In conducting its monetary management function, the Central Bank utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on foreign currency deposits in commercial banks, Treasury Bills repurchase and swap agreements with commercial banks, as well as Lebanese Pound denominated certificates of deposit issued by the Central Bank.

The Governor of the Central Bank is appointed for a six-calendar-year tenure, by decree taken by the Council of Ministers, acting on the proposal of the Minister of Finance. The Vice-Governors are appointed for a five-calendar-year tenure pursuant to the same process.

As a result of high inflation prior to 1992 coupled with ailing economic conditions, the Lebanese economy became substantially dollarized.

Banking Regulations

Banking activities in Lebanon are governed by *inter alia* the Code of Money and Credit, the Code of Commerce, Directives/Circulars issued by the Central Bank and decisions of the Banking Control Commission. The Banking Control Commission has the responsibility to supervise banking activities and to ensure compliance with the legal and regulatory framework. The Banking Control Commission undertakes both off-site reviews and on-site examinations to assess, *inter alia*, compliance with banking laws and regulations, reliability of bank reporting and levels of liquidity, capital adequacy and lending to deposit ratios.

Banks regularly submit reports to the Central Bank, including monthly statements on their daily foreign exchange positions, monthly financial information on customers and inter-bank deposits and audited financial statements. Banks also submit monthly reports to the Banking Control Commission on their lending portfolio and monthly financial statements.

Furthermore, banks, like all commercial companies registered in Lebanon, must have their Article of Incorporation and minutes of certain General Assembly of Shareholders, as well as Board of Directors' meetings, whose objects relate to, or otherwise affect, third parties, registered with the Registrar of Commerce and they should be submitted to the Central Bank and the Banking Control Commission.

Free Exchange System

The Lebanese banking system allows for free exchange and free movement of capital and earnings. The Lebanese currency is fully convertible and can be exchanged freely with any other currency. Moreover, no restrictions are put on the free flow of capital and earnings into and out of the Lebanese economy.

Banking Secrecy Law

The Banking Secrecy Law enacted on September 3rd, 1956, subjects all banks established in Lebanon as well as foreign banks' branches to a strict bank secrecy duty. All bank managers and employees cannot reveal their clients' names, assets or holdings to any party whatsoever, whether individuals or public authorities, be they administrative, fiscal or judicial. Such information is released only pursuant to a written authorization granted by the client or his/her heirs. However, the disclosure

is mandatory in case of bankruptcy, or in case of any litigation between the bank and the client, or in case of money laundering investigation. Furthermore, pursuant to Article 150 of the Code of Money and Credit, banks are allowed to open code-numbered accounts. Neither the Banking Control Commission nor the external auditors have the right to either look into the movement of such accounts or ask the bank to reveal the identity of the account holder. However, within the applicable Anti Money Laundering procedures, the Bank is reluctant to open code-numbered accounts despite being authorized by law.

Centralization of Credit Risk

Banks are required under Article 147 of the Code of Money and Credit to furnish the Central Bank with monthly statements, listing the credits they have granted. The Central Bank computes all such information for the operation of its Central Service of Banking Risks. Banks are charged a fee by the Central Bank whenever they inquire about the total outstanding credit exposure of a specific customer.

The Central Service of Banking Risks report summarizes the total facilities taken by a debtor customer and all related companies thereto from any bank in Lebanon. It also reflects the total credit limit, the amount drawn down or utilized, the amount of credit issued against guarantees, and the total indirect risk (Letters of Guarantees and Letters of Credits) that each customer has outstanding with any bank.

Bank's Share Issuing

In accordance with Law No. 308 of April 3rd, 2001, the Central Bank issued Directive No. 7814 dated May 11th, 2001, enforcing the rules and regulations on issuing and trading the shares of Lebanese banks and specifying the cases that necessitate the prior approval of Central Bank. Law No. 308 provides that the capital stock of a Lebanese bank constitutes a single category, governed by a single set of regulations with respect to ownership and trading. These shares are to be registered with, and safeguarded by, Midclear, in its capacity as central depositary, and trading operations have to be effected through the books of Midclear. On the other hand, Law No. 308 authorizes Lebanese banks to issue preferred shares, subject to the authorization of Central Bank. In all events, any transfer or trading in shares which renders its owner the holder of 5% or more of the capital stock of a Lebanese bank necessitates the prior approval of the Central Bank.

Related Party Transactions

Transactions with related parties are governed by the Code of Commerce and the Code of Money and Credit and the Central Bank Directive No. 7776 dated February 21st, 2001, which collectively provide that a transaction with a related party must be formally authorized by the Ordinary General Assembly of the bank's shareholders and approved by the Bank's Board of Directors. As amended effective November 13th, 2003, Directive No. 7776 provides that advances and credit facilities to directors, managers and companies having common directors with a bank may not exceed five percent of shareholders equity.

The Central Bank Directive No. 7156 dated November 10th, 1998, provides that the net inter-bank deposits among foreign related banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25% of Tier I capital.

Reserve Requirements

Pursuant to the Central Bank Directive No. 7835 dated June 2nd, 2001, as amended, all banks operating in Lebanon, except investments banks and commercial banks making medium and long terms loans, must maintain a compulsory reserve in cash with the Central Bank equal to the sum of 25% of the weekly average of Lebanese Pound-denominated term deposits, and 15% of the weekly average of Lebanese Pound-dominated term deposits.

On September 27th, 2001, the Central Bank issued Directive No. 7935, as amended, implementing Directive No. 7926 dated September 20th, 2001 pursuant to which all banks operating in Lebanon must maintain in cash with the Central Bank an interest-bearing deposit equal to 15% of foreign currency-denominated deposits, notes, certificates of deposit, bank's certificates and other debt instruments and loans granted by the financial sector with a remaining maturity of one year or less, against payment of interest at the rate applied by the Central Bank on foreign currency-denominated deposits.
On December 16th, 2002, the Central Bank issued Directive No. 8312, as amended, implementing Directive No. 7926, dated September 20th, 2001, pursuant to which all banks operating in Lebanon must subscribe to Lebanese treasury bills or Eurobonds issued by the Lebanese Republic, which do not bear interest and have a maturity of two years. The aggregate amount of such Lebanese treasury bills or Eurobonds subscribed by each bank must equal 10% of the relevant bank's deposits in all currencies as at October 31st, 2002. Subscription has been effected in five equal instalments on each of January 2003, February 2003, March 2003, July 2003 and August 2003; all such securities subscribed to fulfil these mandatory obligations have now matured without any obligation to reinvest. Subscriptions were permitted to be made in either cash (in

Lebanese Pounds of US Dollars) or in Lebanese treasury bills or Eurobonds. Thereafter, the Central Bank issued interest-bearing certificates of deposit, which the banks were permitted to purchase in satisfaction of their subscription obligations.

The Central Bank Directive No. 6101 dated February 8th, 1996, grants, on a case-by-case basis, to commercial banks advancing medium and long term loans the same reserve requirements concessions as those granted to "specialized banks" governed by Decree-Law No. 50 dated July 15th, 1983.

The Central Bank Directive No. 7693 dated October 18th, 2000, as amended, provides that all banks operating in the Lebanese Republic must maintain a minimum of 10% of foreign currency-denominated deposits, debt securities, certificates of deposit, bank's certificates and other debt instruments granted by the financial sector with maturity equal to or less than one year in liquid assets consisting of: (i) cash in a bank's vaults, (ii) cash deposited with the Central Bank, and (iii) cash deposited with other banks with a remaining time to maturity of one year or less.

The Central Bank Directive No. 7694 dated October 18th, 2000, as amended, provides that all banks and financial institutions operating in the Lebanese Republic must also maintain a minimum of 40% of their Tier 1 capital in Lebanese Pounds, after provisions and distributions of profits, in liquid assets, consisting of (i) cash in the bank's vaults, (ii)) cash deposited with the Central Bank, (iii) cash deposited with other banks for a period equal to or less than one year, and (iv) Lebanese treasury bills with a remaining time to maturity of one year or less.

Capital Adequacy

Pursuant to Central Bank Directive No. 6939 dated March 25th, 1998, all banks operating in the Lebanese Republic are required to maintain a minimum capital adequacy ratio of 12% as from December 31st, 2001.

During the past years, the capital of commercial banks in Lebanon has increased substantially. As at December 31st, 2006, the average Capital Adequacy Ratio was approximately 25%, according to statistics compiled by the Central Bank.

The Central Bank's Directive No. 6939 was amended on September 8th, 2005, to provide that the aggregate amount of preferred shares (convertible and non-convertible into ordinary shares) and financial instruments that are deemed part of a bank's Tier I capital according to the applicable regulations cannot exceed 49% of the bank's Tier I capital; that the aggregate amount of preferred shares (non-convertible into ordinary shares) and financial instruments that are deemed part of a bank's Tier I capital according to the applicable regulations cannot exceed the sub-limit of 35% of the bank's Tier I capital; and that the aggregate amount of financial instruments that are deemed part of a bank's Tier I capital according to the applicable regulations cannot exceed the sub-limit of 15% of the bank's Tier I capital. The excess above these limits of preferred shares (convertible and non-convertible) and financial instruments that would otherwise form part of the bank's Tier I capital, would be included in the bank's Tier II capital.

Pursuant to the Central Bank Directive No. 9302 dated April 1st, 2006, as amended, adopted with respect to the application of the Basel II International Convention regarding Capital Adequacy, all banks operating in Lebanon must gradually apply Basel II International Convention for the calculation of capital adequacy on a consolidated and non-consolidated basis, where applicable, in accordance with the standards set forth in Directive No. 9302 and any subsequent decisions adopted in that regard starting from January 1st, 2008. In addition, as of December 31st, 2006, Lebanese banks must include in the calculation of their capital adequacy ratio, reserves for unspecified banking risks. Pursuant to Article 7 of Directive No. 9302, banks operating in Lebanon were required to appoint an expert in risk management to be in charge of applying Basel II International Convention and notify the Banking Control Commission of the name of such person and contact details prior to April 30th, 2006.

"Common Equity Tier I" means the Bank's Common Equity Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Common Equity Tier I capital includes paid-up share capital, issue premiums, shareholders cash contribution to capital not subject to interest payments, legal and statutory reserves (including reserves for unspecified banking risks but excluding reserves allocated for liquidation of real estate properties), retained earnings, funds allocated for investments in real estate properties and minority interests accepted within Common Equity.

"Additional Tier I Capital" means the additional Tier I Capital of the Bank as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Additional Tier I capital shareholders cash contribution to capital subject to interest payments, non-cumulative perpetual preferred shares, and financial instruments that: (i) are issued and fully paid, and (ii) are permanent, subject to early redemption at the Issuer's discretion following five years from their issue date and after

exchanging such instruments with equivalent financial instruments and minority interest accepted within Additional Tier I Capital.

"Tier I Capital" means the Bank's Tier I Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier 1 capital is the sum of Common Equity Tier I Capital and Additional Tier I Capital as defined above.

"Tier II Capital" means the Bank's Tier II Capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of the Central Bank of Lebanon, which are based generally on the Basel Accords. Tier II capital comprises preferred shares (other than preferred shares which are both perpetual and non-cumulative), subordinated loans, and any unrealized gain in participations and stocks held classified as Other Comprehensive Income (OCI), the revaluation surplus of the bank's properties – subject to the Central Bank of Lebanon approval, and general provisions constituted on assets exhibiting similar risk characteristics subject to approval of the Banking Control Commission.

Corporate Governance

The Central Bank Directive No. 9382 dated July 26th, 2006 issued in line with the implementation of the Basel II Capital Adequacy Directive regarding the banks' corporate governance, has outlined the general guidelines for the banks' corporate governance, regarding inter alia, (i) the directors' competence to hold their positions, (ii) the Board of Directors' role in specifying the strategic goals and corporate values of the bank and to ensure implementation thereof, (iii) the Board of Directors' duty to clearly provide for responsibilities and accountability and to ensure that such responsibility and accountability are thoroughly applied, and (iv) the transparent management of the bank.

Credit Limits

The Central Bank Directive No. 7055 dated August 13th, 1998, as amended by Intermediary Directive No. 9456, sets the maximum allowable weighted credit limit for loans to a single borrower (or group of related borrowers) at (i) 20% of a bank's shareholders equity with respect to loans extended to borrowers (or group of related borrowers) resident in the Lebanese Republic, the proceeds of which are to be used in Lebanon, (ii) 20% of a bank's shareholders equity with respect to loans extended to resident borrowers or non-resident borrowers (or group of related borrowers), the proceeds of which are to be used in countries with sovereign ratings of A+ and above and (iii) 10% of a bank's shareholders equity with respect to loans extended to resident borrowers or non-resident borrowers (or group of related borrowers), the proceeds of which are to be used in countries with sovereign ratings below A+, provided that (x) the aggregate exposure for countries rated from A to BBB- does not exceed 200% of the bank's shareholders' equity and the aggregate exposure to each of these countries does not exceed 50% of the bank's shareholders' equity or (y) the aggregate exposure for countries rated below BBB- does not exceed 100% of the bank's shareholders' equity and the aggregate exposure to each of these countries does not exceed 25% of the bank's shareholders' equity.

Intermediary Directive No. 9456 gave non-compliant banks until December 31st, 2007 to comply with its provisions.

Foreign Exchange Trading

The Central Bank Directive No. 6568 dated April 24th, 1997, as amended, prohibits Lebanese banks from maintaining at any time (i) net trading position against Lebanese Pounds in an amount greater than 1 percent of Tier I capital, and (ii) net trading positions in all currencies in an amount greater than 40% of Tier I capital. Lebanese banks, however, are allowed, under Directive No. 6568, to hold a structural foreign exchange position up to 60% of Tier I capital denominated in the Lebanese Pounds.

Loan Classification

The Central Bank Directive No. 7159 dated November 10th, 1998, as amended, introduces specific rules relating to loan classification and provisioning in accordance with the Basel Committee Regulations. This Decision classifies loan facilities into five categories: ordinary/regular accounts, accounts to be followed-up and regularized, sub-standard accounts, doubtful accounts, and bad or ailing accounts.

Credit Losses and Provisions for Doubtful Debts

The Banking Control Commission requires specific provisions to be established for identified credit losses. Interest on substandard and doubtful loans is considered unrealized interest and accounted for as a "memo" entry. Sub- standard and doubtful loans must be accounted for on a non-accrual basis and any interest subsequently received should be booked to income on a cash basis, as and when received. Such loans are those as to which the bank's management has determined that the borrower may be unable to meet principal and/or interest payment obligations and/or account performance is otherwise unsatisfactory, unless the loans are adequately secured and/or in the process of liquidation.

Reserves for General Banking Risk

Pursuant to Directive No. 7129, dated October 15th, 1998, Lebanese banks are required to allocate on a yearly basis a general reserve (to be included in Tier I capital) for unspecified banking risks, out of net profits in an amount equal to a minimum of 0.2% and a maximum of 0.3% of risk-weighted assets. Such reserve must reach a cumulative maximum of 1.25% of risk-weighted assets within a period of 10 years (2008) and 2% of risk-weighted assets within a period of 20 years (2018).

Anti-Money Laundering

A special law, Law No. 318 dated April 3rd, 2001 has been enacted, the object of which is to fight money laundering. To this end, the "Special Investigation Commission" which includes amongst its members the Governor of the Central Bank and the Chairman of the Banking Control Commission, was established to investigate money-laundering operations and to monitor compliance with the rules and procedures stipulated by Law No. 318. In accordance with Article 5 of Law 318, the Central Bank promulgated the rules and regulations on the control of banking operations to fight money laundering.

Accounting Standards

Since 1997, all Lebanese banks are required to prepare their financial statements in accordance with International Financial Reporting Standards. The Banking Control Commission has issued instructions which correspond to International Financial Reporting Standards, among which the recognition of interest on classified loans only on a cash basis, guidelines for the effects of hyper-inflation, the recording of exchange gains and losses arising from revaluation of foreign exchange positions and a statement of non-monetary assets acquired in settlements of debts at current price. There are also certain restrictions on lending to shareholders and directors and on investments in subsidiaries and affiliates.

The Central Bank Directive No 6576 dated April 24th, 1997, required Lebanese banks to prepare consolidated financial statements. Consolidated financial statements should include all companies (financial and non-financial) of which the bank has exclusive control (evidenced by ownership of more than 50% and/or control over the financial and operating policies of the entity). Companies in which the Bank has joint control (evidenced by direct or indirect ownership ranging from 20% up to 50%) should be accounted for using the "equity method" in the consolidated financial statements and either at cost or in accordance with IAS 39 in standalone financial statements.

Exhibit B - Form of Subscription Application

BANQUE BEMO SAL - "PREFERRED SHARES ISSUANCE OF YEAR 2013"
(Law No.308 dated April 3rd, 2001)

VALID ONLY IF DULY SIGNED AND REMITTED TO BANQUE BEMO SAL
IN TRIPLICATE ORIGINAL WITH ALL DOCUMENTS MENTIONED IN PARAGRAPH 3 BELOW
NO LATER THAN DECEMBER 23RD, 2013

Date: _____ 2013.

The Undersigned on the present Deed of Irrevocable Undertaking to Subscribe (the "Deed"):

For Natural Persons
Mr. / Ms. _____
(Name, Father's Name, Surname) (English & Arabic)

Residence Full Address: _____
(not P.O. Box)
Telephone Number: _____ / Telecopy Number: _____
BEMO Shareholder: Yes _____ / No _____
BEMO Client: Yes _____ / No _____

For Legal Entities
Denomination & Legal Form: _____

Incorporated and Registered in: _____
(Country and Register of Commerce)

Represented by Mr. / Ms. _____
(Name, Father's Name, Surname) (English & Arabic)
in his capacity as _____

Headquarter Full Address: _____
(not P.O. Box)
Telephone Number: _____ / Telecopy Number: _____
BEMO Shareholder: Yes _____ / No _____
BEMO Client: Yes _____ / No _____

I, the undersigned, by signing the present Deed, and with the full intention to be legally and irrevocably bound towards Banque BEMO SAL, hereby:

1. Declare that I have received a confidential copy of, and carefully and thoroughly read, understood, accepted and fully adhered to and consider myself bound by the terms of, the Private Placement Memorandum dated December 16th, 2013, (the "PPM") relating to the issuing (the "Issuing") by "Banque BEMO SAL" ("BEMO") of 350,000 perpetual and non-cumulative preferred shares of a par value of USD 100 each, titled "**Preferred Shares Issuance of Year 2013**" (the "Preferred Shares"), especially but not limited to the Section entitled "CERTAIN INVESTMENT CONSIDERATIONS" and the Section entitled "TERMS OF THE OFFERING" of the PPM detailing the particulars, and the terms and conditions of the Preferred Shares. I also declare that, although I am a qualified investor, I have taken third party professional advice. I recognize that the PPM is not intended to provide investment, tax, legal, accounting, financial or otherwise advice and I recognize that, although the PPM has been drafted with all due care and diligence by BEMO and its advisors, it is based on business assumptions and market conditions which could vary in the future, and I agree that this will not be considered by me as a breach of any representation or warranty concerning the valuation and/or the projected future income and strategy. I acknowledge that I have not received any representation, information, declaration or advice in connection with the Issuing which is not fully in line with the contents of the PPM.

2. Undertake, and the present Deed is binding for me (and for my successors by operation of law such as *inter alia* heirs, executors, administrators, etc.) and is irrevocable until December 23rd, 2013, noon Beirut time, as follows:

   a) To subscribe to the number of Preferred Shares detailed in the Particulars below;
   b) To deposit in cash, in the special transitory account number 3412USD0201 opened with Banque BEMO SAL under the denomination of "Preferred Shares Issue 2013", as from the date of the present Deed and at the latest before the end of the Subscription Period in the Preferred Shares which is set on December 23rd, 2013, the full and net amount of my subscription as detailed in the Particulars below. And I hereby instruct and empower BEMO to act on my behalf and for my account, pursuant to the present Undertaking, specifically in ensuring closing of the Preferred Shares Issuance of Year 2013 with Central Bank of Lebanon (Banque du Liban);
   c) More generally, to take all necessary measures, either spontaneously or upon BEMO's request, to hasten and satisfactorily close the Issuing.

3. Remit to Banque BEMO SAL, upon its first request following the signature of the present Deed, any and all documents pertaining to my identification.

4. Declare solemnly that the present Deed is strictly personal, and I cannot transfer it nor assign it; that I am signing it for my own personal account as principal (*inter alia* no fronting and no agency), and that no other person will be the beneficial owner thereof, nor will any other person have a direct or indirect interest in these Preferred Shares (until Preferred Shares, if any, are inscribed in my name with MIDCLEAR SAL after closing of the Issuing); and that I will bear alone the full risk of the present Deed and the subsequent eventual subscription.

5. Agree that my subscription might be rejected by BEMO, in whole or in part, on a fully discretionary basis and without any motivation being due to me; and that the whole Issuing might be cancelled by BEMO, at its entire discretion, if the full amount of the Issuing is not fully subscribed and paid up and/or if the whole Issuing is not satisfactorily closed by December 23rd 2013. If my subscription is rejected in whole or in part, then the amount of my subscription shall be refunded in whole or in part as applicable, by crediting my bank account mentioned in the Particulars below.

6. Agree to indemnify BEMO, its officers, directors, employees, affiliates, its external advisors and legal counsels, for any and all losses, liabilities, claims, damages, costs and expenses whatsoever, *inter alia* in connection with any threatened or commenced lawsuit, arbitration, claim whatsoever, arising out of or based upon any false statement, information, representation, warranty, breach, violation, or failure from my part to comply with any covenant, representation, warranty, agreement, applicable laws and regulations relating to the Issuing.

7. Agree that the Preferred Shares are perpetual and that BEMO has the option, as of the Annual Ordinary General Assembly which shall meet to approve the annual financial accounts of fiscal year 2018, and in its entire and sole discretion, to purchase part or all of the Preferred Shares, subject to compliance with the ratios and regulations set by the Central Bank of Lebanon, the Banking Control Commission and the Financial Markets Authority, and pursuant to the terms and conditions described in the Section entitled "DESCRIPTION OF THE SHARES" of the PPM which provide, *inter alia*, that: I am forced to sell, part of or all, my Preferred Shares in case BEMO decides to purchase; the purchase price is always equal to the issuance price of the Preferred Shares, to which the Dividends decided for the Preferred Shares but not yet distributed are eventually added; BEMO has no obligation whatsoever to purchase any Preferred

Shares, and I can never and under no circumstances require BEMO nor force it to purchase any or all of my Preferred Shares or to convert them into common shares since the Preferred Shares are not convertible. Consequently, I hereby irrevocably agree and empower BEMO and give it the right to take, with its sole signature and without contacting me, any and all measures necessary to unilaterally perfect its purchase of my Preferred Shares, including *inter alia* to give instructions to Midclear SAL to register the sale in BEMO's Register of Shareholders deposited with Midclear SAL and to sign any and all required documents with any third party without my signature, being fully understood and agreed by me that the sale of the Preferred Shares to BEMO and the transfer of their ownership from me to BEMO become legally effective immediately upon the full payment by BEMO of the amount due to me and credited to my bank account where the last payment of dividends was made; these right and powers which I hereby give to BEMO are final and irrevocable (even by judicial decision) because they are linked to third parties' interests, and I hereby waive any and all my rights which are in conflict with the above, and I also waive all my rights to the formalities set by applicable laws and regulations or by Midclear SAL with regard to the sale and the transfer of ownership of the Preferred Shares to BEMO.

8. Agree that the present Deed supercedes and cancels the "Deed of Pre-Subscription Booking" that I signed on _____ 2013.

9. Agree that the present Deed, the PPM and all the documents and legal deeds which are mentioned therein or arising there out of or in connection there with, as well as the whole process of the Issuing, shall be governed by and construed in accordance with the substantive laws of Lebanon. All disputes arising out of or in connection with the present Deed, the PPM and all the documents and legal deeds which are mentioned therein as well as the whole process of the Issuing shall be finally settled under the Rules of Conciliation and Arbitration of the Chamber of Commerce and Industry of Beirut by three arbitrators appointed in accordance with the said Rules. I declare to adhere to the provisions of said Rules, undertake to abide by them and waive all right of recourse against the award. Each party shall bear definitely its own expenses and costs of arbitration.

Particulars

Subscription to "Preferred Shares Issuance of Year 2013" of Banque BEMO SAL, Beirut, Lebanon (minimum subscription: Five Hundred Preferred Shares).

Number of Preferred shares to which I irrevocably undertake to subscribe:

_____ (_____) Preferred Shares out of a total 350,000 Preferred Shares Issuance of Year 2013.

Total amount of my subscription which I irrevocably undertake to fully pay as provided here-above in my present Undertaking:

LBP _____ (_____ Lebanese Pounds) and USD _____ (_____ US dollars).

My bank account to be eventually credited pursuant to the provisions of Paragraph 5 above is opened with Bank _____ (_____ branch) account number _____.

Executed, in Beirut in triplicate original remitted to Banque BEMO SAL, on the aforementioned date.

Natural Persons

Full Name : _____

Signature : _____

Legal Entities

Denomination : _____

Represented by : _____

Signature : _____

Audited Financial Statements

BANQUE BEMO S.A.L.

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2012

BANQUE BEMO S.A.L.
CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
YEAR ENDED DECEMBER 31, 2012

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INDEPENDENT AUDITORS' REPORT

To the Shareholders
Banque Bemo S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of BANQUE BEMO S.A.L. AND ITS SUBSIDIARIES (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, 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, 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.

Auditor's 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 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, within the framework of the existing banking laws in Lebanon. The procedures selected depend on our 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, we 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 consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Banque Bemo S.A.L. Group as of December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
April 27, 2013

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	December 31, 2012 LBP'000	December 31, 2011 (Restated) LBP'000
Cash and Central Banks	6	299,446,044	430,401,780
Deposits with banks and financial institutions	7	413,701,379	484,847,457
Trading assets at fair value through profit or loss	8	64,375,917	95,593,280
Loans to banks and financial institutions	9	25,676,016	8,506,235
Loans and advances to customers	10	916,880,834	823,794,632
Loans and advances to related parties	11	3,848,770	5,116,058
Investment securities	12	437,198,159	348,626,050
Customers' liability under acceptances	13	23,865,731	26,932,190
Investments in associates	14	30,693,799	42,218,248
Assets acquired in satisfaction of loans	15	2,831,019	2,831,019
Property and equipment	16	15,492,186	17,062,091
Intangible assets	17	699,742	922,023
Other assets	18	10,544,789	12,757,950
Total Assets		2,245,254,385	2,299,609,013
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	40		
Documentary and commercial letters of credit		38,274,650	50,690,531
Guarantees and standby letters of credit		67,580,258	56,334,119
Forward contracts		720,754,919	231,528,659
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	41	8,469,905	11,015,988

THE ACCOMPANYING NOTES 1 TO 50 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

		December 31,	
LIABILITIES	**Notes**	**2012**	**2011 (Restated)**
		LBP'000	**LBP'000**
Deposits and borrowings from banks	19	93,934,270	344,363,518
Customers' accounts at amortized cost	20	1,837,531,533	1,630,117,624
Related parties' accounts at amortized cost	21	53,967,424	58,535,831
Acceptance liability	13	23,865,731	26,932,190
Other liabilities	22	8,311,948	9,889,771
Provisions	23	6,042,458	5,860,653
		2,023,653,364	2,075,699,587
Subordinated bonds	24	62,397,734	60,248,632
Total liabilities		2,086,051,098	2,135,948,219
EQUITY			
Share capital	25	62,000,000	62,000,000
Treasury shares	25	(2,197,625)	(1,614,350)
Preferred shares	26	30,150,000	30,150,000
Shareholders' cash contribution to capital	27	29,104,984	29,104,984
Reserves	28	25,052,144	21,451,441
Retained earnings		22,503,411	18,004,106
Currency translation adjustment	14	(13,003,565)	(5,352,789)
Profit for the year	30	5,593,850	9,917,361
Equity attributable to the Group		159,203,199	163,660,753
Non-controlling interests	29	88	41
Total equity		159,203,287	163,660,794
Total Liabilities and Equity		2,245,254,385	2,299,609,013

THE ACCOMPANYING NOTES 1 TO 50 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED INCOME STATEMENT

	Notes	Year Ended December 31, 2012 LBP'000	2011 LBP'000
Interest income	32	87,609,374	74,377,827
Interest expense	33	(64,631,845)	(57,745,501)
Net interest income		22,977,529	16,632,326
Fee and commission income	34	7,238,270	8,127,308
Fee and commission expense	35	(588,711)	(642,023)
Net fee and commission income		6,649,559	7,485,285
Net interest and other gain on trading assets at fair value through profit or loss	36	9,129,762	10,491,316
Gain on exchange		1,724,693	2,399,784
Other operating income	37	(628,184)	6,637,020
Net financial revenues		39,853,359	43,645,731
Allowance for impairment of loans and advances and other receivables	10, 18	(6,278)	(3,009,545)
Collective provision for loan impairment	10	(1,959,750)	-
Write-back of impairment loss on loans and advances	10	930,988	368,902
Loans recoveries		240,004	-
Net financial revenues after net impairment charge		39,058,323	41,005,088
Staff costs	38	(18,806,172)	(16,325,080)
Administrative expenses		(10,134,436)	(10,375,054)
Depreciation and amortization	16, 17	(2,329,791)	(2,424,729)
Write-back of provision for foreign currency fluctuation		33,949	54,097
Write-back of provision/(provision for contingencies)	23	591,270	(489,729)
Impairment of property and equipment	16	(275,000)	-
		(30,920,180)	(29,560,495)
Profit before income tax		8,138,143	11,444,593
Income tax expense	22	(2,544,235)	(1,527,221)
Profit for the year	30	5,593,908	9,917,372
Attributable to:			
Equity holders of the Group		5,593,850	9,917,361
Non-controlling interests		58	11
		5,593,908	9,917,372
Basic and diluted earnings per share	39	51/64	121/78

THE ACCOMPANYING NOTES 1 TO 50 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	Year Ended December 31, 2012 LBP'000	(Restated) 2011 LBP'000
Profit for the year		5,593,908	9,917,372
Other comprehensive income ("OCI"):			
Loss arising from currency translation adjustment	14	(7,650,776)	(5,352,789)
Net other comprehensive loss for the year		(7,650,776)	(5,352,789)
Total comprehensive (loss)/income for the year		(2,056,868)	4,564,583
Attributable to:			
Equity holders of the Group		(2,056,984)	4,564,572
Non-controlling interests		58	11
		(2,056,868)	4,564,583

THE ACCOMPANYING NOTES 1 TO 50 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to the Group														
	Capital LBP'000	Treasury Shares LBP'000	Preferred Shares LBP'000	Shareholders' Cash Contribution to Capital LBP'000	Legal Reserve LBP'000	Reserve for General Banking Risks LBP'000	Other Reserves LBP'000	Reserve for Assets Acquired in Satisfaction of Loans LBP'000	Currency Translation Adjustment LBP'000	Retained Earnings LBP'000	Cumulative Change in Fair Value of Investment Securities LBP'000	Income for the Year LBP'000	Total LBP'000	Non-Controlling Interests LBP'000	Total LBP'000
Balance at December 31, 2010	16,000,000	(1,547,330)	30,150,000	29,104,984	7,323,802	11,922,607	12,718,363	270,500	-	13,718,210	22,937	12,686,412	132,370,485	(39,982)	132,330,503
Prior years currency translation adjustment	-	-	-	-	-	-	-	-	1,835,036	-	-	-	1,835,036	-	1,835,036
Impact of IFRS 9 early adoption	-	-	-	-	-	-	-	-	-	(754,014)	(22,937)	-	(776,951)	-	(776,951)
Balance at December 31, 2010 (Restated)	16,000,000	(1,547,330)	30,150,000	29,104,984	7,323,802	11,922,607	12,718,363	270,500	1,835,036	12,964,196	-	12,686,412	133,428,570	(39,982)	133,388,588
Total comprehensive income for the year 2011	-	-	-	-	-	-	-	-	-	-	-	9,917,361	9,917,361	11	9,917,372
Allocation of income for the year 2010	-	-	-	-	735,900	2,404,718	-	141,551	-	9,404,243	-	(12,686,412)	-	-	-
Dividends paid - Note 32	-	-	-	-	-	-	-	-	-	(2,412,000)	-	-	(2,412,000)	-	(2,412,000)
Acquisition of treasury shares	-	(67,020)	-	-	-	-	-	-	-	-	-	-	(67,020)	-	(67,020)
Increase of share capital - Note 25	46,000,000	-	-	-	(6,866,000)	-	(8,860,000)	-	-	(274,000)	-	-	30,000,000	-	30,000,000
Transfer from retained earnings to reserves	-	-	-	-	-	-	1,660,000	-	-	(1,660,000)	-	-	-	-	-
Non-controlling interest	-	-	-	-	-	-	-	-	-	(18,978)	-	-	(18,978)	40,012	21,034
Other movement	-	-	-	-	-	-	-	-	-	645	-	-	645	-	645
Balance at December 31, 2011	62,000,000	(1,614,350)	30,150,000	29,104,984	1,193,702	14,327,325	5,518,363	412,051	1,835,036	18,004,106	-	9,917,361	170,848,578	41	170,848,619
Prior years currency translation adjustment	-	-	-	-	-	-	-	-	(7,187,825)	-	-	-	(7,187,825)	-	(7,187,825)
Balance at December 31, 2011 (Restated)	62,000,000	(1,614,350)	30,150,000	29,104,984	1,193,702	14,327,325	5,518,363	412,051	(5,352,789)	18,004,106	-	9,917,361	163,660,753	41	163,660,794
Prior years adjustment	-	(569,104)	-	-	-	-	-	-	-	594,635	-	-	25,531	-	25,531
Total comprehensive loss	-	-	-	-	-	-	-	-	(7,650,776)	-	-	5,593,850	(2,056,926)	58	(2,056,868)
Allocation of income for the year 2011	-	-	-	-	601,429	2,857,723	-	141,551	-	6,316,658	-	(9,917,361)	-	-	-
Dividends paid - Note 32	-	-	-	-	-	-	-	-	-	(2,412,000)	-	-	(2,412,000)	-	(2,412,000)
Acquisition of treasury shares	-	(14,171)	-	-	-	-	-	-	-	-	-	-	(14,171)	-	(14,171)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)
Other movement	-	-	-	-	-	-	-	-	-	12	-	-	12	-	12
Balance at December 31, 2012	62,000,000	(2,197,625)	30,150,000	29,104,984	1,795,131	17,185,048	5,518,363	553,602	(13,003,565)	22,503,411	-	5,593,850	159,203,199	88	159,203,287

THE ACCOMPANYING NOTES 1 TO 50 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year Ended December 31, 2012 LBP'000	2011 (Restated) LBP'000
Cash flows from operating activities:			
Profit before tax		8,138,143	11,444,593
Adjustments to reconcile profit to net cash provided by/(used in) operating activities:			
Depreciation and amortization	16, 17	2,329,791	2,424,729
Provision for credit losses	10	(930,988)	2,637,226
(Write-back of provision)/provision for loss on foreign currency position		(33,949)	16,827
(Write-back of provision)/provision for collective loan impairment	10	1,959,750	-
Provision for other receivables	18	6,278	3,417
Non-controlling interest		(11)	21,034
Provision for end-of-service indemnities (net)	23	812,242	174,202
(Write-back of provision)/provision for risk and charges	23	(591,270)	489,729
Impairment of property and equipment		275,000	-
Unrealized loss on financial assets at fair value through profit or loss/trading securities	36	958,062	1,698,939
Equity loss/(income) from investment in associates	37	3,899,204	(3,891,588)
(Gain)/loss from sale of property and equipment		277	(3,769)
Settlement of end-of-service indemnity	23	(12,667)	(46,567)
Decrease/(increase) in deposits with banks and financial institutions		134,210,495	(128,439,193)
Trading assets at fair value through profit or loss		30,215,647	(94,254,855)
Increase in loans and advances		(111,288,602)	(122,787,933)
Net decrease/(increase) in other assets		5,028,118	(8,304,457)
Increase in customers' and related parties' deposits at amortized cost		206,954,298	165,821,146
(Increase)/decrease in non-interest earning compulsory reserve		(620,705)	8,718,770
Increase in due to banks and financial institutions		(253,714,093)	329,587,961
Net decrease in other liabilities		(4,363,887)	(248,931)
Taxes paid		(2,544,235)	(1,086,487)
Others (including effect of exchange rate changes)		(108,215)	116,760
Net cash provided by /(used in) operating activities		20,578,683	(164,091,553)
Cash flows from investing activities:			
Investment securities		(88,845,242)	34,521,595
Treasury shares		(14,171)	(67,020)
Property and equipment		(719,029)	(637,118)
Proceeds from sale of property and equipment		41,004	3,769
Investments in associates	14	-	(9,134,129)
Intangible assets		(134,857)	(467,155)
Net cash used in investing activities		(89,672,295)	24,219,942
Cash flows from financing activities:			
Dividends paid	31	(2,412,000)	(2,412,000)
Subordinated bonds		2,149,102	(2,106,591)
Increase of share capital	25	-	30,000,000
Net cash provided by/(used in) financing activities		(262,898)	25,481,409
Effect of exchange rates changes on cash and cash equivalents - Beginning of year		969,753	(551,779)
Net (decrease)/increase in cash and cash equivalents		(68,386,757)	213,241,125
Cash and cash equivalents - Beginning of year		413,928,520	200,687,395
Cash and cash equivalents - End of year	43	345,541,763	413,928,520

THE ACCOMPANYING NOTES 1 TO 50 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

BANQUE BEMO S.A.L.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2012

1. GENERAL INFORMATION

Banque Bemo S.A.L. is a Lebanese joint-stock company listed on the Beirut Stock Exchange and registered in the Commercial Register under Number 17837 and on the list of banks published by the Central Bank of Lebanon under Number 93. The Bank's headquarters are located in Beirut.

The Bank provides a full range of commercial, corporate and private banking activities through a network of 9 branches in Lebanon in addition to a branch in Limassol, Cyprus. The Bank is in the process of opening two branches in Iraq.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 New and revised Standards and Interpretations effective for the current period

There are no new Standards, amendments to Standards and Interpretations that are effective for the first time for the financial year beginning on January 1, 2012 that had a material impact on the Group's financial statements.

2.2 New and revised IFRS(s) in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012 and have not been applied in preparing these consolidated financial statements, except for IFRS 9 *Financial Instruments* which was early applied by the Group during 2011 with date of initial application January 1, 2011. Those new and amended standards and interpretations which are applicable to the Group's operations or might have an effect on the consolidated financial statements of the Group in the period of initial application are set out below:

- IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee and includes a new definition of control. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. IAS 27 *Consolidated and Separate Financial Statements* and IAS 28 *Associates and Joint Ventures* have been amended for the issuance of IFRS 10 and SIC-12 *Consolidation Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10 (Annual periods beginning on or after January 1, 2013).

- IFRS 11 *Joint Arrangements* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of the parties to the joint arrangement, rather than its legal form. Joint control involves the contractual agreed sharing of control, and arrangements subject to joint control are classified as either a joint venture or a joint operation. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenues and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11 and SIC-13 *Jointly Control Entities* will be withdrawn upon the effective date of IFRS 11 (Annual periods beginning on or after January 1, 2013).

- IFRS 12 *Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

- Amendment to IFRSs 10, 11 and 12 on transition guidance: These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. Effective for annual periods beginning on or after 1 January 2013.

- IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. IFRS 13 is applicable for both financial and non-financial items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements, except in specified circumstances. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

- Amendments to IAS 32 *Financial Instruments Presentation:* relating to application guidance on the offsetting of financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014, with retrospective application needed.

- Amendments to IFRS 7 *Financial Instruments Disclosures:* enhancing disclosures about offsetting of financial assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2013, and disclosures should be provided retrospectively for all comparative periods.

- IAS 27 *Separate Financial Statements* (revised 2011) includes the requirements relating to separate financial statements and outlines the accounting requirements for dividends and contains numerous disclosure requirements. IAS 27 (revised 2011) is effective for annual periods beginning on or after January 1, 2013.

- IAS 28 *Associates and Joint Ventures* (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11. IAS 28 (revised 2011) is effective for annual periods beginning on or after January 1, 2013.

- Annual improvements to IFRSs 2009 – 2011 Cycle. These include:

    - Amendment to IAS 1 *Presentation of Items of Other Comprehensive Income*. The amendment requires to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. Income tax on items of other comprehensive income is required to be allocated on the same basis. Amendment is effective for annual periods beginning on or after July 1, 2012.

    - Amendments to IAS 32 *Financial Instruments*, clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. (Effective for annual periods beginning or after January 1, 2013).

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB).

Basis of Preparation and Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following measured at fair value:

- Financial instruments at fair value through profit or loss.
- Investments in equities.
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest.
- Derivative financial instruments.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

The principal accounting policies adopted are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Banque Bemo S.A.L. Group incorporate the financial statements of the Banque Bemo S.A.L. (the "Bank") and enterprises controlled by the Bank (its subsidiaries). Control is achieved when, among other things, the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries consist of:

Company	Country of Incorporation	Date of Acquisition or Incorporation	Percentage of Ownership %	Business Activities
Bemo Securitisation S.A.L.	Lebanon	1998	96.00	Securitization & Structured Finance
Ferticed Limited Holding	Luxembourg	1995	100.00	Holding Company
Depository & Custody Company S.A.L.	Lebanon	2007	99.90	Depository and custody of securities

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group transactions, balances, income and expenses (except for foreign currency transaction gains or loss) are eliminated on consolidation. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and

the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds (LBP) which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollars. The Lebanese Pound is constant to the U.S. Dollars since many years.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's reporting currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period when this is a reasonable approximation. Exchange differences arising are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

E. Recognition and Derecognition of Financial Assets and Liabilities:

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

The Group derecognizes financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized

and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

F. Classification of Financial Assets:

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

Debt Instruments:

Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost less impairment loss (except for debt investments that are designated as at fair value through profit or loss on initial recognition):

- They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, 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 amount outstanding.

Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL"). In addition, debt instruments that meet the amortized cost criteria but are designated as at FVTPL are measured at FVTPL.

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Equity Instruments:

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition (see below).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss.

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Designation at FVTOCI is not permitted if the equity investment is held for trading.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument or a financial guarantee.

Reclassification:

Financial assets are reclassified between FVTPL and amortized cost or vice versa, if and only if, the Group's business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date.

Reclassification is not allowed where:

- the 'other comprehensive income' option has been exercised for a financial asset, or
- the fair value option has been exercised in any circumstance for a financial instrument.

G. Financial Liabilities and Equity Instruments:

Classification as debt or equity:

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Bank's own equity instruments.

The component parts of compound instruments (convertible notes) issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

Financial Liabilities:

Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's

documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

H. Offsetting:

Financial assets and liabilities are set-off and the net amount is presented in the consolidated statement of financial position when, and only when, the Group has a legal right to set-off the amounts or intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

I. Fair Value Measurement of Financial Instruments:

Fair value is the amount agreed to exchange an asset or to settle a liability between a willing buyer and a willing seller in an arm's length transaction.

When published price quotations exist, the Group measures the fair value of a financial instrument that is traded in an active market using quoted prices for that instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the market for a financial instrument is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument is based on one or more factors such as the time value of money and the credit risk of the instrument, adjusted for any other factors such as liquidity risk.

J. Impairment of Financial Assets:

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar financial assets, taking into account the fair value of collaterals and guarantees.

The Group considers evidence of impairment for assets measured at amortized cost at both specific asset and collective level.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

For investments in equity securities, a significant or prolonged decline in fair value below cost is objective evidence of impairment.

K. Derivative Financial Instruments:

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- is not measured at fair value with changes in fair value recognized in profit or loss.
- is not an asset within the scope of IFRS 9.

Hedge Accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

L. Loans and Advances

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading. Loans and advances are measured at amortized cost net of unearned interest and provision for credit losses where applicable. Bad and doubtful debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

M. Financial Guarantees:

Financial guarantees contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, and credit-insurance contracts).

Financial guarantee liabilities are initially measured at their fair value, and subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

N. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The currency translation effect of investment in associates is recorded to currency translation adjustment as reflected in the statement of comprehensive income and shareholders' equity.

Restatement of Prior Year Financial Statements:

Comparable financial statements for the year ended December 31, 2011 were restated in respect of a currency translation adjustment related to investment in an associate incorporated in Syria, where the carrying value of the investment was not previously adjusted for the effect of prolonged decline in exchange of the Syrian Pound against the U.S. Dollar and resulting in currency translation adjustment amounting to LBP5.35billion up to December 31, 2011.

O. Property and Equipment

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures, less their residual values, if any, over the estimated useful lives of the related assets. Depreciation is calculated systematically using the straight-line method on the basis of the following annual rates:

	Rate %
Property	2.5
Furniture and fixtures	7.5 to 8
Equipment	10 to 12
Computer hardware	20
Installations	15 to 20
Vehicles	12 to 20

Leasehold improvements are depreciated over the shorter of the lease term and their useful lives estimated at five years.

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

P. Intangible Assets:

Intangible assets are stated at cost less any accumulated impairment loss. Intangible assets, other than goodwill consist of computer software and are amortized over a period of 5 years and are subject to impairment testing.

Q. Assets acquired in satisfaction of loans

Non-financial assets acquired in satisfaction of loans are reported separately in the statement of financial position as their acquisition is regulated by the local banking authorities and do not meet the definition of investment properties nor the definition of non-current assets held for sale. These assets are recorded at the lower of their fair value and the carrying amount of the loan at the date of exchange and are subsequently carried at cost less any impairment loss. Assets acquired in satisfaction of loans are subject to a regulatory reserve appropriated from profit for the year in case these assets are not liquidated within 2 years from acquisition.

R. Impairment of Tangible and Intangible Assets:

At each statement of financial position date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Intangible assets with indefinite useful lives are tested for impairment at each reporting date and whenever there is an indication that the asset may be impaired.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the statement of financial position date less cost to sell, if any. To determine fair value of properties, the Bank adopts the market comparability approach as indicated later in this note.
- Value in use assessed as the present value of estimated future cash flows expected to arise from the continuing use of asset and from its disposal at the end of its useful life, only for applicable assets with cash generation units, as applicable.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

The fair value of the Group's owned properties and of properties acquired in satisfaction of debts, is the estimated market value, as determined by real estate appraisers on the basis of market comparability; that is, by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale and after applying a haircut percentage.

The impairment loss is recognized in the income statement.

S. Employees' Benefits:

Obligations for contributions to defined employees' benefits are recognized as an expense on a current basis.

Employees' End-of-Service Indemnities: (Under the Lebanese Jurisdiction)

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were terminated at the statement of financial position date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months remunerations and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

Defined benefit plans: (Under other jurisdictions)

Obligations in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

T. Provisions:

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, 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 at the statement of financial position date. Provisions are discounted where the impact is material

U. Revenue and Expense Recognition:

Interest income and expense are recognized on an accrual basis, taking into account the amount of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include discount and premium amortization.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost.
- Interest on available-for-sale investment securities.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income, dividend income, realized and unrealized fair value changes and foreign exchange differences on financial assets designated at fair value through profit or loss and on trading assets at fair value through profit or loss are presented separately in the income statement.

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income in accordance with IFRS 9 are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income. Prior to January 1, 2011 dividends on available-for-sale securities were presented in other revenue.

Revenue from securitization contracts is recognized based on the following:

Where the outcome of a securitization contract can be estimated reliably, revenue and costs are recognized by reference to the stage of completion of the contract activity at the balance sheet date. This is normally measured by the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion.

Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognized as expenses in the period in which they are incurred. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized as an expense immediately.

V. Treasury Shares:

Treasury shares are stated at cost. Any gain or loss on sale is reflected as an adjustment to retained earnings.

W. Fiduciary Deposits:

Fiduciary assets are held or invested on behalf of customers on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, these assets are reflected as off-balance sheet accounts.

X. Income Tax:

Income tax expense is the sum of the tax currently payable and deferred tax. Income tax is determined and provided for in accordance with the tax prevailing laws in the jurisdictions of the respective entities of the Group.

Income tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income (OCI), in which case it is recognized in OCI.

Current Tax

Current tax payable is calculated based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible, (other than temporary timing differences). The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Part of the debt securities invested by Group entities operating in Lebanon is subject to withheld tax by the issuer, and deducted at year end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

Deferred Tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to other comprehensive income, in which case the deferred tax is also dealt within other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Y. Earnings Per Share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares

outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees, if applicable.

Z. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

A. Critical accounting judgments in applying the Group's accounting policies:

Classification of Financial Assets

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:

Once the Group determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group that would be consistent with amortized cost measurement include:

- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:

- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowances for Credit Losses - Loans and Advances to Customers:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession. Loans collectively assessed for impairment are determined based on losses incurred by loans portfolios with similar characteristics.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3(I). For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

Where available, management has used market indicators in its mark to model approach for the valuation of the Lebanese government debt securities and Central Bank of Lebanon certificates of deposit at fair value. The IFRS fair value hierarchy allocates the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. The fair value hierarchy used in the determination of fair value consists of three levels of input data for determining the fair value of an asset or liability.

Level 1 - quoted prices for identical items in active, liquid and visible markets such as stock exchanges,

Level 2 - observable information for similar items in active or inactive markets,

Level 3 -unobservable inputs used in situations where markets either do not exist or are illiquid.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data. Where practical, the discount rate used in the mark to model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the

applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the Lebanese Government debt securities and Central Bank of Lebanon certificates of deposit.

5. CLASSIFICATION OF FINANCIAL ASSETS ON THE DATE OF INITIAL APPLICATION OF IFRS 9

Effective January 1, 2011 the Group has early adopted IFRS 9 Financial Instruments. Below is a summary of impact on the opening retained earnings and cumulative change in fair value of financial assets as at January 2011:

	Retained Earnings	Cumulative Change in Fair Value (Under Equity)
	LBP'000	LBP'000
Balance, December 31, 2010	13,718,210	22,937
Transfer to retained earnings of cumulative change in fair value of available-for-sale and held-to-maturity securities reclassified to financial assets at fair value through profit or loss (net of deferred tax)	(754,014)	884,478
Offset of cumulative change in fair value of available-for-sale securities reclassified to financial assets at amortized cost (net of deferred tax)	-	(907,415)
	12,964,196	-

6. CASH AND CENTRAL BANKS

	December 31,	
	2012	2011
	LBP'000	LBP'000
Cash on hand	10,615,168	10,349,533
Current accounts with Central Bank of Lebanon (of which compulsory reserves LBP30.55billion in 2012 and LBP23.82billion in 2011)	35,911,118	41,346,519
Compulsory deposits with other central banks	3,430,728	6,230,114
Term placements with Central Bank of Lebanon	249,022,885	371,738,700
Accrued interest receivable	466,145	736,914
	299,446,044	430,401,780

Compulsory deposits with central banks are not available for use in the Group's day-to-day operations and are reflected at amortized cost.

Cash compulsory reserves with Central Bank of Lebanon represent non-interest earning deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with the local banking regulations.

Term placements with Central Bank of Lebanon include an amount of LBP220billion as at December 31, 2012 (LBP234billion as at December 31, 2011) representing the equivalent in foreign currencies of amounts deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions.

Current accounts with other central banks include an amount of LBP3.4billion as at December 31, 2012 (LBP6.2billion in 2011) representing the equivalent of compulsory deposits in Euro placed with the Central Bank of Cyprus in accordance with Cypriot banking regulations. These compulsory deposits are interest earning.

7. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2012	2011
	LBP'000	LBP'000
Checks in course of collection	17,443,420	17,904,683
Current accounts	212,728,314	174,838,657
Current accounts - related parties	8,341,990	1,109,969
Term placements	111,689,902	242,834,732
Term placements - related parties	753,750	5,421,750
Pledged deposits - related parties	8,274,994	8,233,455
Margin accounts	54,341,963	34,280,062
Accrued interest receivable	127,046	224,149
	413,701,379	484,847,457

Deposits with banks and financial institutions include deposits in the amount of LBP14.62billion subject to right of setoff by the related correspondents against trade finance and other facilities at 2012 year end (LBP15.76billion against trade finance and other facilities as at December 31, 2011).

Margin accounts and pledged deposits are blocked against trade finance and treasury transactions and banking facilities (Refer to Note 44).

8. TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Trading assets at fair value through profit or loss consist of the following:

	December 31, 2012			December 31, 2011		
	LBP Base Accounts	Foreign Currency Base Accounts	Total	LBP Base Account	Foreign Currency Base Account	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	5,385,159	5,385,159	-	6,656,267	6,656,267
Lebanese treasury bills	21,892,877	-	21,892,877	18,887,850	-	18,887,850
Foreign treasury bills	-	-	-	-	464,823	464,823
Lebanese Government bonds	-	-	-	-	309,851	309,851
Certificates of deposit issued by the Central Bank of Lebanon	26,968,468	-	26,968,468	37,693,543	10,936,912	48,630,455
Certificates of deposit issued by banks	-	2,249,039	2,249,039	-	10,663,308	10,663,308
Corporate bonds	-	6,672,160	6,672,160	-	7,836,787	7,836,787
Accrued interest receivable	1,063,802	144,412	1,208,214	1,695,390	448,549	2,143,939
	49,925,147	14,450,770	64,375,917	58,276,783	37,316,497	95,593,280

9. LOANS TO BANKS AND FINANCIAL INSTITUTIONS

Loans to banks are reflected at amortized cost and represent letters of credit and acceptances discounted by customers and maturing subsequent to the statement of financial position date.

During December 2012, the Bank granted a 1 year term loan to a resident financial institution in the amount of USD10,000,000 (LBP15billion) against a pledged deposit in Lebanese Pounds amounting to LBP15million.

10. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers are reflected at amortized cost and consist of the following:

	December 31, 2012				December 31, 2011			
	Gross Amount Net of Unearned Interest	Unrealized Interest	Impairment Allowance	Carrying Amount	Gross Amount Net of Unearned Interest	Unrealized Interest	Impairment Allowance	Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular Retail Customers:								
- Mortgage loans	47,480,397	-	-	47,480,397	33,612,612	-	-	33,612,612
- Personal loans	9,701,207	-	-	9,701,207	9,603,754	-	-	9,603,754
- Overdrafts	15,919,257	-	-	15,919,257	18,054,630	-	-	18,054,630
- Other	28,650,346	-	-	28,650,346	21,955,133	-	-	21,955,133
Regular Corporate Customers:								
- Large enterprises	640,657,380	-	-	640,657,380	561,120,065	-	-	561,120,065
- Small and medium enterprises	174,209,506	-	-	174,209,506	163,208,071	-	-	163,208,071
Classified Retail Customers:								
- Doubtful	46,323	(3,920)	(37,687)	4,716	4,034,270	-	(310,545)	3,723,725
- Bad	244,289	(115,717)	(128,572)	-	295,248	(141,192)	(154,056)	-
Classified Corporate Customers:								
- Substandard	1,600,957	(402,250)	-	1,198,707	1,395,149	(763,142)	-	632,007
- Doubtful	3,538,305	(1,499,684)	(1,825,196)	213,425	15,625,833	(1,289,847)	(3,334,276)	11,001,710
- Bad	1,221,747	(168,473)	(1,053,220)	54	246,957	(50,982)	(195,975)	-
Collective provision for loan Impairment	-	-	(1,959,750)	(1,959,750)	-	-	-	-
Accrued interest receivable	805,589	-	-	805,589	882,925	-	-	882,925
	924,075,303	(2,190,044)	(5,004,425)	916,880,834	830,034,647	(2,245,163)	(3,994,852)	823,794,632

The movement of substandard loans with related unrealized interest during 2012 and 2011 is summarized as follows:

	2012		
	Substandard Loans	**Unrealized Interest**	**Net Book Value**
	LBP'000	**LBP'000**	**LBP'000**
Balance January 1	1,395,149	(763,142)	632,007
Reclassified loans	1,001,876	-	1,001,876
Additions to unrealized interest	311,546	(311,546)	-
Settlements	(1,042,330)	-	(1,042,330)
Write-back of unrealized interest	-	616,034	616,034
Transfer to doubtful and bad loans	(65,284)	56,404	(8,880)
Balance December 31	1,600,957	(402,250)	1,198,707

	2011		
	Substandard Loans	**Unrealized Interest**	**Net Book Value**
	LBP'000	**LBP'000**	**LBP'000**
Balance January 1	1,399,774	(724,527)	675,247
Reclassified loans	9,372	-	9,372
Additions to unrealized interest	136,548	(136,548)	-
Settlements	(132,741)	-	(132,741)
Write-back of unrealized interest	-	80,050	80,050
Write-off	(15,740)	15,740	-
Effect of exchange rate changes	(2,064)	2,143	79
Balance December 31	1,395,149	(763,142)	632,007

The movement of doubtful, bad and rescheduled loans and related unrealized interest and allowance for impairment during 2012 and 2011 is summarized as follows:

	2012				2011			
	Rescheduled and Doubtful and Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000	Rescheduled and Doubtful and Bad Loans LBP'000	Unrealized Interest LBP'000	Allowance for Impairment LBP'000	Net Book Value LBP'000
Balance January 1	20,202,308	(1,482,021)	(3,994,852)	14,725,435	3,339,509	(1,439,532)	(1,509,587)	390,390
New doubtful loans	-	-	-	-	17,370,933	-	-	17,370,933
Withdrawals on existing doubtful loans	7,312	-	-	7,312	5,885	-	-	5,885
Settlement of loans	(15,652,070)	-	-	(15,652,070)	(558,159)	-	-	(558,159)
Additions to unrealized interest and allowance for impairment	434,674	(434,674)	-	-	307,639	(307,639)	(3,006,129)	(3,006,129)
Write-back	-	112,714	930,988	1,043,702	-	155,082	368,902	523,984
Write-off	(162,012)	91,290	70,722	-	(244,234)	95,778	148,456	-
Transfer from substandard loans	65,284	(56,404)	-	8,880	-	-	-	-
Effect of exchange rate changes	155,168	(18,699)	(51,533)	84,936	(19,265)	14,290	3,506	(1,469)
Balance December 31	5,050,664	(1,787,794)	(3,044,675)	218,195	20,202,308	(1,482,021)	(3,994,852)	14,725,435

Furthermore, and as a result of the outbreak of hostilities in Syria during the last couple of years and its adverse effect on the loan portfolio of Syrian customers, the Group set up a provision for collective impairment in the amount of USD1,300,000 (LBP1,960million) against probable losses in the loan portfolio based on the recommendations of the Banking Control Commission.

11 LOANS AND ADVANCES TO RELATED PARTIES

	December 31,	
	2012	2011
	LBP'000	LBP'000
Regular retail loans	721,039	2,269,801
Large enterprises	3,108,170	2,829,256
Accrued interest receivable	19,561	17,001
	3,848,770	5,116,058

12. INVESTMENT SECURITIES

	December 31, 2012			December 31, 2011		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial assets at fair value through other comprehensive income	615,120	29,071	644,191	615,120	28,498	643,618
	615,120	29,071	644,191	615,120	28,498	643,618
Financial assets at amortized cost	229,904,661	199,783,966	429,688,627	181,773,353	159,778,338	341,551,691
Accrued interest receivable	2,868,884	3,996,457	6,865,341	3,312,186	3,118,555	6,430,741
	232,773,545	203,780,423	436,553,968	185,085,539	162,896,893	347,982,432
	233,388,665	203,809,494	437,198,159	185,700,659	162,925,391	348,626,050

Financial assets at amortized cost are broken down as follows :

	December 31, 2012					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	124,800,677	126,262,184	1,714,818	-	-	-
Lebanese Government bonds	-	-	-	83,436,597	80,684,653	1,627,456
Certificates of deposit issued by the Central Bank of Lebanon	105,103,984	105,301,222	1,154,066	86,161,733	85,175,939	1,973,723
Certificates of deposit issued by banks	-	-	-	15,075,000	15,075,000	10,138
Corporate bonds	-	-	-	15,110,636	15,175,586	385,140
	229,904,661	231,563,406	2,868,884	199,783,966	196,111,178	3,996,457

	December 31, 2011					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	92,483,812	92,991,754	1,736,783	-	-	-
Lebanese Government bonds	-	-	-	73,302,085	70,014,743	1,221,865
Certificates of deposit issued by the Central Bank of Lebanon	89,289,541	91,054,852	1,575,403	43,260,398	43,308,365	1,285,764
Certificates of deposit issued by banks	-	-	-	31,742,862	31,589,980	281,532
Corporate bonds	-	-	-	11,472,993	11,501,510	329,394
	181,773,353	184,046,606	3,312,186	159,778,338	156,414,598	3,118,555

The remaining periods to maturity of financial assets at amortized cost, denominated in **Lebanese Pounds** excluding accrued interest, is as follows:

Contractual Maturity	December 31, 2012 LBP Base Accounts Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Yield %
Lebanese treasury bills:				
- Up to one year	14,000,000	14,023,561	14,031,606	5.58
- 1 year to 3 years	16,632,000	17,125,422	17,150,884	7.77
- 3 years to 5 years	44,955,000	47,073,805	48,905,076	7.54
- Beyond 5 years	44,975,000	46,577,889	46,174,618	7.53
	120,562,000	124,800,677	126,262,184	
Certificates of Deposit issued by the Central Bank of Lebanon:				
- Up to one year	25,000,000	25,743,398	25,849,336	10.86
- 1 year to 3 years	37,000,000	38,103,340	38,521,551	8.53
- 3 years to 5 years	39,000,000	41,257,246	40,930,335	7.90
	101,000,000	105,103,984	105,301,222	
	221,562,000	229,904,661	231,563,406	

Contractual Maturity	December 31, 2011 LBP Base Accounts Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Yield %
Lebanese treasury bills:				
- Up to one year	56,000,000	56,644,574	57,514,849	8.76
- 1 year to 3 years	10,782,000	11,139,229	11,261,049	7.65
- 3 years to 5 years	800,000	800,000	827,481	7.50
- Beyond 5 years	22,975,000	23,900,009	23,388,375	7.51
	90,557,000	92,483,812	92,991,754	
Certificates of Deposit issued by the Central Bank of Lebanon:				
- 1 year to 3 years	68,000,000	71,263,432	72,940,257	9.18
- 3 years to 5 years	8,000,000	8,607,211	8,678,693	7.90
- 5 years to 10 years	9,000,000	9,418,898	9,435,902	7.55
	85,000,000	89,289,541	91,054,852	
	175,557,000	181,773,353	184,046,606	

The remaining periods to maturity of financial assets at amortized cost, denominated in **Foreign Currencies** excluding accrued interest, is as follows:

Contractual Maturity	December 31, 2012 F/Cy Base Accounts Nominal Value	Amortized Cost	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:				
- 1 year to 3 years	45,518,963	47,995,968	46,647,603	7.25
- 3 years to 5 years	30,247,988	32,259,719	30,933,568	6.26
- 5 years to 10 years	3,195,900	3,180,910	3,103,482	5.71
	78,962,851	83,436,597	80,684,653	
Certificates of Deposit issued by the Central Bank of Lebanon:				
- Up to one year	31,778,100	31,974,453	32,158,219	8.94
- 1 year to 3 years	49,747,500	54,187,280	53,017,720	7.34
	81,525,600	86,161,733	85,175,939	
Certificates of Deposit issued by banks:				
- Up to one year	15,075,000	15,075,000	15,075,000	
	15,075,000	15,075,000	15,075,000	
Corporate bonds:				
- Up to one year	8,059,850	8,131,069	8,172,933	5.07
- 5 years to 10 years	7,002,653	6,979,567	7,002,653	3.32
	15,062,503	15,110,636	15,175,586	
	190,625,954	199,783,966	196,111,178	

Contractual Maturity	December 31, 2011 F/Cy Base Accounts Nominal Value	Amortized Cost	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:				
- 1 year to 3 years	50,929,380	54,627,835	52,369,625	7.83
- 3 years to 5 years	15,821,213	17,571,429	16,558,700	7.20
- Beyond 10 years	1,130,625	1,102,821	1,086,418	6.25
	67,881,218	73,302,085	70,014,743	
Certificates of Deposit issued by the Central Bank of Lebanon:				
- 1 year to 3 years	39,315,600	39,953,072	39,993,975	7.50
- 3 years to 5 years	3,015,000	3,307,326	3,314,390	9.12
	42,330,600	43,260,398	43,308,365	
Certificates of Deposit issued by banks:				
- Up to one year	23,851,184	23,994,390	23,927,689	2.39
- 1 year to 3 years	7,509,600	7,748,472	7,662,291	4.97
	31,360,784	31,742,862	31,589,980	
Corporate bonds:				
- Up to one year	2,853,090	2,884,357	2,881,994	6.05
- 1 year to 3 years	452,250	468,075	472,013	4.64
- 5 years to 10 years	8,147,503	8,120,561	8,147,503	7.05
	11,452,843	11,472,993	11,501,510	
	153,025,445	159,778,338	156,414,598	

The movement of financial assets at amortized cost, denominated in **Lebanese Pounds** excluding accrued interest, is summarized as follows:

	2012		
	Lebanese Treasury Bills	**Certificates of Deposit Issued by the Central Bank of Lebanon**	**Total**
	LBP'000	**LBP'000**	**LBP'000**
Balance January 1	92,483,812	89,289,541	181,773,353
Additions	102,050,000	34,000,000	136,050,000
Redemptions	(56,000,000)	-	(56,000,000)
Swap and sales	(16,045,000)	(18,000,000)	(34,045,000)
Net variation in premium	2,311,865	(185,557)	2,126,308
Balance December 31	124,800,677	105,103,984	229,904,661

	2011		
	Lebanese Treasury Bills	**Certificates of Deposit Issued by the Central Bank of Lebanon**	**Total**
	LBP'000	**LBP'000**	**LBP'000**
Balance January 1	-	-	-
Reclassification as per IFRS 9 (Net) (Note 5)	99,931,220	40,628,780	140,560,000
Additions	29,975,000	46,000,000	75,975,000
Redemptions	(37,500,000)	-	(37,500,000)
Net variation in premium	77,592	2,660,761	2,738,353
Balance December 31	92,483,812	89,289,541	181,773,353

The movement of financial assets at amortized cost, denominated in **Foreign Currencies** excluding accrued interest, is summarized as follows:

	2012			
	Lebanese Government Bonds	Certificates of Deposit Issued by the Central Bank of Lebanon	Certificates of Deposit Issued by Banks and Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	73,302,085	43,260,398	43,215,855	159,778,338
Reclassification	18,919,125	-	-	18,919,125
Additions	19,974,376	39,195,000	39,195,000	98,364,376
Redemptions	(226,125)	-	(52,131,803)	(52,357,928)
Swap and sales	(27,585,743)	-	-	(27,585,743)
Net variation in premium	(947,121)	3,706,335	(360,046)	2,399,168
Effect of exchange rates changes	-	-	266,630	266,630
Balance December 31	83,436,597	86,161,733	30,185,636	199,783,966

	2011			
	Lebanese Government Bonds	Certificates of Deposit Issued by the Central Bank of Lebanon	Certificates of Deposit Issued by Banks and Corporate Bonds	Total
	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	-	-	-	-
Reclassification as per IFRS 9 (Net) (Note 5)	49,263,979	20,098,293	29,828,112	99,190,384
Additions	36,903,211	22,612,500	21,860,503	81,376,214
Redemptions	(12,527,325)	-	(7,654,871)	(20,182,196)
Net variation in premium	(337,780)	549,605	(485,580)	(273,755)
Effect of exchange rates changes	-	-	(332,309)	(332,309)
Balance December 31	73,302,085	43,260,398	43,215,855	159,778,338

13. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Group has committed to settle on behalf of its customers against commitments by those customers (acceptances). The commitments resulting from these acceptances are stated as a liability in the balance sheet for the same amount.

14. INVESTMENTS IN ASSOCIATES

Investments in associates, which are unlisted, are as follows:

	Country of Incorporation	Interest Held %	December 31, 2012 Carrying Value LBP'000	December 31, 2011 (Restated) Carrying Value LBP'000
Banque Bemo Saudi Fransi S.A.	Syria	22	30,272,329	41,789,002
BEMO Oddo Investment Firm Ltd.	UAE	25	421,270	429,246
			30,693,799	42,218,248

The movement of investments in associates is as follows:

	2012 LBP'000	2011 (Restated) LBP'000
Balance January 1	42,218,248	36,380,356
Share in net (loss)/profit of associates (Note 37)	(3,899,204)	3,891,588
Share in capital increase of associate bank	-	9,134,129
Currency translation adjustment	(7,650,776)	(7,187,825)
Prior years adjustment	25,531	-
Balance December 31	30,693,799	42,218,248

15. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans have been acquired through foreclosure of security over loans and advances.

16. PROPERTY AND EQUIPMENT

	Land LBP'000	Buildings LBP'000	Furniture LBP'000	Computer Equipment LBP'000	Vehicles LBP'000	Installations and Improvement LBP'000	Advances on Capital Expenditure LBP'000	Total LBP'000
Gross amount:								
Balance, January 1, 2011	7,222,927	5,600,788	2,226,808	4,967,016	667,174	9,655,361	753,298	31,093,372
Additions	-	-	24,678	482,545	42,707	78,724	6,633	635,287
Transfers between categories	-	-	-	74,924	-	678,375	(753,299)	-
Balance, December 31, 2011	7,222,927	5,600,788	2,251,486	5,524,485	709,881	10,412,460	6,632	31,728,659
Additions	-	665,204	9,669	211,056	23,140	48,389	-	957,458
Disposals	-	-	(53,588)	(211,803)	(117,246)	-	-	(382,637)
Write-off	-	-	-	-	-	(2,689,490)	-	(2,689,490)
Balance, December 31, 2012	7,222,927	6,265,992	2,207,567	5,523,738	615,775	7,771,359	6,632	29,613,990
Accumulated depreciation:								
Balance, January 1, 2011	-	787,440	1,394,919	3,454,495	298,458	6,682,944	-	12,618,256
Additions	-	143,772	137,248	500,709	126,888	1,139,695	-	2,048,312
Balance, December 31, 2011	-	931,212	1,532,167	3,955,204	425,346	7,822,639	-	14,666,568
Additions	-	157,961	158,645	479,199	128,469	1,048,379	-	1,972,653
Disposals	-	-	(43,424)	(201,983)	(82,073)	-	-	(327,480)
Write-off	-	-	-	-	-	(2,189,937)	-	(2,189,937)
Balance, December 31, 2012	-	1,089,173	1,647,388	4,232,420	471,742	6,681,081	-	14,121,804
Carrying amount:								
December 31, 2012	7,222,927	5,176,819	560,179	1,291,318	144,033	1,090,278	6,632	15,492,186
December 31, 2011	7,222,927	4,669,576	719,319	1,569,281	284,535	2,589,821	6,632	17,062,091

During 2012, the Group wrote-off damaged property and equipment with net carrying value of LBP500million against impairment in the amount of LBP275million recorded under "Impairment of property and equipment" in the accompanying consolidated income statement and against receivable from insurer for the remaining balance recorded under "Other assets" (Note 18).

17. INTANGIBLE ASSETS

This caption consists of purchased software summarized as follows:

	Purchased Software LBP'000
Cost:	
Balance, January 1, 2011	2,736,937
Acquisitions	467,155
Balance, December 31, 2011	3,204,092
Acquisition	134,857
Balance, December 31, 2012	3,338,949
Amortization:	
Balance, January 1, 2011	1,905,652
Amortization for the year	376,417
Balance, December 31, 2011	2,282,069
Amortization for the year	357,138
Balance, December 31, 2012	2,639,207
Carrying amounts:	
December 31, 2012	699,742
December 31, 2011	922,023

18. OTHER ASSETS

	December 31	
	2012	2011
	LBP'000	LBP'000
Forward exchange contracts	2,160,182	5,691,897
Exchange difference on fixed exchange position	302,578	302,578
Stamps	70,748	61,980
Deferred charges	58,307	70,804
Receivables from securitization operations	1,819,801	730,615
Receivables from an associate bank and financial institution	689,554	540,309
Accrued income	-	226,125
Prepayments	1,279,204	1,402,699
Sundry accounts receivable (Net of provision)	4,164,415	3,730,943
	10,544,789	12,757,950

A provision for doubtful receivables of LBP6.3million was set up during 2012 against receivables from the National Social Security Fund recorded under "Allowance for impairment of loans and advances and other receivables" in the consolidated income statement (LBP3.4million in 2011).

Receivables from an associate bank and financial institution represent amounts paid by the Group on behalf of these related entities

19. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

Deposits and borrowings from banks and financial institutions are reflected at amortized cost and consist of the following:

	December 31, 2012			December 31, 2011		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Current deposits of banks and financial institutions	1,702	32,377,682	32,379,384	1,000	32,621,599	32,622,599
Current deposits - related parties	-	13,747,128	13,747,128	-	90,652,276	90,652,276
Money market deposits	9,925,000	-	9,925,000	34,184,576	3,938,506	38,123,082
Money market deposits - related parties	-	22,562,489	22,562,489	-	182,722,483	182,722,483
Pledged deposits	15,000,000	-	15,000,000	-	-	-
Accrued interest payable	318,961	1,308	320,269	212,229	30,849	243,078
	25,245,663	68,688,607	93,934,270	34,397,805	309,965,713	344,363,518

20. CUSTOMERS' ACCOUNTS AT AMORTIZED COST

	December 31, 2012		
	LBP	Counter Value in LBP of F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
- Current and demand deposits	25,816,265	333,335,753	359,152,018
- Term deposits	225,669,819	1,023,168,646	1,248,838,465
- Collateral against loans and advances	22,510,202	192,104,643	214,614,845
Margins and other accounts:			
- Margins for irrevocable import letters of credit	-	3,391,882	3,391,882
- Margins on letters of guarantee	492,511	1,506,422	1,998,933
- Other margins	713,247	2,246,171	2,959,418
Accrued interest payable	3,527,147	3,048,825	6,575,972
Total	278,729,191	1,558,802,342	1,837,531,533

	December 31, 2011		
	LBP	Counter Value in LBP of F/Cy	Total
	LBP'000	LBP'000	LBP'000
Deposits from customers:			
- Current and demand deposits	22,055,451	325,969,273	348,024,724
- Term deposits	172,146,913	971,170,686	1,143,317,599
- Collateral against loans and advances	20,252,173	108,465,175	128,717,348
Margins and other accounts:			
- Margins for irrevocable import letters of credit	-	3,113,524	3,113,524
- Margins on letters of guarantee	515,811	1,738,659	2,254,470
- Other margins	22,750	838,974	861,724
Accrued interest payable	1,361,915	2,466,320	3,828,235
Total	216,355,013	1,413,762,611	1,630,117,624

Deposits from customers are allocated by brackets of deposits as follows:

	December 31, 2012		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	
- Less than LBP200million	163,662,418	8.91	77.74
- From LBP200million to LBP1.5billion	610,838,043	33.24	17.84
- Over LBP1.5billion	1,063,031,072	57.85	4.42
	1,837,531,533	100.00	100

	December 31, 2011		
	Total Deposits	% to Total Deposits	% to Total No. of Customers
	LBP'000	%	
- Less than LBP200million	150,638,177	9.24	78.15
- From LBP200million to LBP1.5billion	585,510,864	35.92	17.75
- Over LBP1.5billion	893,968,583	54.84	4.1
	1,630,117,624	100.00	100

Term deposits include fiduciary deposits received from a non-resident related bank in the amount of LBP27.68billion (USD18,362,748). (LBP39.18billion (USD25,990,957) for 2011).

Customers' deposits include coded number deposit accounts (secret accounts) stated at Nil as of December 31, 2012 (LBP3.7billion as of December 31, 2011). These accounts were opened under the provisions of Article 3 of the Lebanese Banking Secrecy Law dated September 3, 1956. Under the provisions of this Article, the Group's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

The average balances of customers' deposits at amortized cost, including related party deposits, and related cost of funds over the last 3 years were as follows:

	LBP Base Accounts		F/Cy Base Accounts		
	Average Balance of Deposits LBP'000	Average Interest Rate %	Average Balance of Deposits LBP'000	Average Interest Rate %	Cost of Funds LBP'000
2012	265,376,388	6.01	1,497,312,700	2.76	58,017,816
2011	205,321,519	5.93	1,409,419,281	2.77	51,816,773
2010	206,849,033	6.20	1,238,383,424	2.90	49,261,802

21. RELATED PARTIES' ACCOUNTS AT AMORTIZED COST

	December 31, 2012		
	LBP'000	Counter Value in LBP'000 of F/Cy	Grand Total LBP'000
Current and demand deposits	748,369	21,689,009	22,437,378
Term deposits	3,182,212	26,240,872	29,423,084
Collaterals against loans and advances	76,910	-	76,910
Margins on letters of guarantee	12,000	-	12,000
Other margins	-	1,987,790	1,987,790
Accrued interest payable	6,631	23,631	30,262
	4,026,122	49,941,302	53,967,424

	December 31, 2011		
	LBP'000	Counter Value in LBP'000 of F/Cy	Grand Total LBP'000
Current and demand deposits	951,571	37,211,911	38,163,482
Term deposits	2,750,613	17,585,278	20,335,891
Margins on letters of guarantee	12,000	-	12,000
Accrued interest payable	1,990	22,468	24,458
	3,716,174	54,819,657	58,535,831

Deposits from related parties at amortized cost are allocated by brackets of deposits as follows:

	December 31, 2012	
	Total Deposits	% to Total Deposits
	LBP'000	%
- Less than LBP500million	4,524,253	8.38
- From LBP500million to LBP1.5billion	4,340,120	8.04
- Over LBP1.5billion	45,103,051	83.58
	53,967,424	100.00

	December 31, 2011	
	Total Deposits	% to Total Deposits
	LBP'000	%
- Less than LBP500million	3,723,701	6.36
- From LBP500million to LBP1.5billion	6,420,302	10.97
- Over LBP1.5billion	48,391,828	82.67
	58,535,831	100.00

22. OTHER LIABILITIES

	December 31	
	2012	2011
	LBP'000	LBP'000
Current tax liability	1,119,277	516,309
Deferred tax on gain from investment in associates - Note 14	501,838	501,838
Tax on salaries	345,073	296,598
Tax on interest paid to customers' accounts	308,452	365,646
Other taxes	(6,393)	1,223,971
Due to the National Social Security Fund	316,998	214,539
Checks and incoming payment orders in course of settlement	1,690,207	3,259,669
Accrued expenses	2,877,105	2,671,761
Sundry accounts payable	1,032,302	782,834
Unearned income	127,089	56,606
	8,311,948	9,889,771

The Bank's tax returns since fiscal 2010 remain subject to review and assessment by the tax authorities. Any additional liability depends on the outcome of these reviews.

The Bank's accounts for the years 2006 to 2009 were reviewed by the tax authorities during the year 2011. As a result, additional tax liability in the amount of LBP1.11billion was settled in the subsequent period against accrued charges. The bank has filed an objection to the tax assessment with the tax department. Subsequent to the financial statements date, the Bank collected LBP252million.

The determination of income tax of the Bank is presented as follows:

	2012 LBP'000	2011 LBP'000
Income before income tax (before elimination of inter-company transactions)	11,904,642	7,759,338
Add: Non-deductible expenses/losses	5,184,873	1,953,588
Less:		
- Non-taxable revenues/gains	(457,500)	(339,568)
- Loss/(income) of Cyprus branch and subsidiaries	(358,654)	656,197
Taxable income for the year	16,273,361	10,029,555
Enacted tax rate in Lebanon	15%	15%
	2,441,004	1,504,434
Add: Income tax provision - branches and subsidiaries	103,231	22,787
Income tax expense	2,544,235	1,527,221
Less: Tax paid during the year in the form of withholding tax	(1,404,394)	(1,068,268)
Less: Cyprus income tax paid during the year	(99,704)	(18,219)
	1,040,137	440,734
Brought forward balance from non-resident branch	79,786	76,264
Exchange difference on brought forward balance	(646)	(689)
Current tax liability	1,119,277	516,309

23. PROVISIONS

Provisions consist of the following:

	December 31	
	2012 LBP'000	2011 LBP'000
Provision for staff end-of-service indemnity	3,578,591	2,771,566
Provision for contingencies	2,107,281	2,698,551
Provision for loss on foreign currency position	356,586	390,536
	6,042,458	5,860,653

The movement of provision for staff end-of-service indemnity is as follows:

	2012 LBP'000	2011 LBP'000
Balance January 1	2,771,566	2,653,784
Additions	812,242	191,476
Settlements	(12,667)	(46,567)
Write-back	-	(17,274)
Exchange difference	7,450	(9,853)
Balance December 31	3,578,591	2,771,566

The movement of the provision for contingencies was as follows:

	2012 LBP'000	2011 LBP'000
Balance January 1	2,698,551	2,208,822
Additions	674	534,979
Write-back	(591,944)	(45,250)
Balance December 31	2,107,281	2,698,551

24. SUBORDINATED BONDS

This caption consists of the following:

	December 31	
	2012 LBP'000	2011 LBP'000
Subordinated bonds	60,269,888	60,248,632
Accrued interest payable	2,127,846	-
	62,397,734	60,248,632

Subordinated bonds in the amount of USD40million (divided into 4,000 bonds of USD10,000 each) were issued on May 30, 2009 and mature on June 30, 2014, and are subject to an annual interest of 7% payable on December 31 and June 30 of each year.

The Group maintains enough liquid funds within its liquidity to redeem these bonds at maturity.

Interest expense on the subordinated bonds amounted to LBP4.25billion (LBP4.24billion for 2011) (Note 33).

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purposes of computation of Risk Based Capital Ratio, to be decreased by 20% on a yearly basis.

25. SHARE CAPITAL

As at December 31, 2012 and 2011, the Bank's capital is composed of 62,000,000 issued shares of LBP1,000 per share, authorized and fully paid and divided as follows:

- Listed Shares : 51,400,000
- Unlisted Shares : 10,600,000

The movement of treasury shares during 2012 and 2011 was as follows:

	2012		2011	
	# of Shares	Amount LBP'000	# of Shares	Amount LBP'000
Balance - January 1	375,814	1,614,350	360,995	1,547,330
Acquisition/disposal, net	4,000	14,171	14,819	67,020
Prior years adjustment	-	569,104	-	-
Balance - December 31	379,814	2,197,625	375,814	1,614,350

Prior years adjustment represents realized gain on sale of treasury shares not booked by the Group for the years 2006 till 2009 inclusive.

26. PREFERRED SHARES

On June 1, 2006, the Group issued preferred shares in the amount of USD20million (LBP30billion) on the basis of 200,000 shares at USD100.

The preferred shares are callable five years from the issuance date on June 1, 2011 and bear interest on a non-cumulative basis at an annual rate of 8%. The Group did not exercise the call option.

27. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

This caption represents capital injection of USD19,306,789 made by shareholders, in the form of shareholders' cash contribution to capital, each to the extent of his/her shareholding in the Bank's equity. Effective 2011, the General Assembly of shareholders approved to call-off interest on cash contribution to capital.

This sort of equity instrument consists of non-refundable capital injection which could be converted into share capital and it has the advantage of being booked and maintained in foreign currencies which allows for hedging against national currency fluctuation.

28. RESERVES

Reserves consist of the following as at December 31, 2012 and 2011:

	December 31	
	2012	2011
	LBP'000	LBP'000
Legal reserve	1,795,131	1,193,702
Reserve for general banking risks	17,185,048	14,327,325
Reserve for assets acquired in satisfaction of loans - Note 15	553,602	412,051
Other reserves	5,518,363	5,518,363
	25,052,144	21,451,441

In accordance with the requirements of the Lebanese Money and Credit Law, the Group transfers since its inception 10% of its net income to the legal reserve account. This reserve is not available for distribution.

The reserve for general banking risks is constituted according to local banking regulations from income on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies to the extent of LBP2billion and LBP15.19billion, respectively, in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

29. NON-CONTROLLING INTERESTS

	December 31	
	2012	2011
	LBP'000	LBP'000
Capital	30	30
Profit for the year	58	11
	88	41

30. PROFIT FOR THE YEAR

The consolidated profit for the year is allocated as follows between the Bank and its subsidiaries:

	Year Ended December 31, 2012		
	Bank's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Income of the Bank	6,505,695	-	6,505,695
Income of subsidiaries:			
Bemo Securitization S.A.L.	(969,533)	-	(969,533)
Depository and Custody Company S.A.L.	57,688	58	57,746
Total	5,593,850	58	5,593,908

	Year Ended December 31, 2011		
	Bank's Share	Non-Controlling Interests	Total
	LBP'000	LBP'000	LBP'000
Income of the Bank	11,103,959	-	11,103,959
Income of subsidiaries:			
Bemo Securitization S.A.L.	(1,198,084)	-	(1,198,084)
Depository and Custody Company S.A.L.	11,486	11	11,497
Total	9,917,361	11	9,917,372

31. DIVIDENDS PAID

The following dividends were declared and paid by the Group:

	2012	2011
	LBP'000	LBP'000
USD8 per preferred share paid by the Bank in 2012 and 2011	2,412,000	2,412,000
	2,412,000	2,412,000

32. INTEREST INCOME

	Year Ended December 31	
	2012	2011
	LBP'000	LBP'000
Interest income from:		
Term deposits with Central Banks	4,815,713	4,163,697
Deposits with banks and financial institutions	1,207,796	1,164,808
Deposits with related party banks and financial institutions	380,799	347,503
Financial assets at amortized cost	24,375,737	17,841,293
Loans and advances to customers	55,910,571	50,428,020
Loans and advances to related parties	190,010	197,374
Interest realized on impaired loans and advances to Customers - Note 10	728,748	235,132
	87,609,374	74,377,827

Interest income on the Group's trading portfolio is included under "net interest and other gains/(losses) on trading assets at fair value through profit or loss" (Note 36).

33. INTEREST EXPENSE

	Year Ended December 31	
	2012	2011
	LBP'000	LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	2,122,469	1,243,569
Deposits and borrowings from related party banks and financial institutions	237,740	442,903
Customers' accounts at amortized cost	57,371,480	51,341,797
Related parties' accounts at amortized cost	646,336	474,976
Subordinated bonds - Note 24	4,253,820	4,242,256
	64,631,845	57,745,501

34. FEE AND COMMISSION INCOME

This caption consists of the following:

	Year Ended December 31	
	2012	2011
	LBP'000	LBP'000
Commission on documentary credits	1,349,686	2,118,196
Commission on letters of guarantee	977,888	756,541
Service fees on customers' transactions	4,538,316	4,932,088
Other	372,380	320,483
	7,238,270	8,127,308

35. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	Year Ended December 31	
	2012	2011
	LBP'000	LBP'000
Commission on transactions with banks	227,767	395,586
Commission on transactions with related party banks	16,461	22,665
Other	344,483	223,772
	588,711	642,023

36. NET INTEREST AND OTHER GAINS / (LOSSES) ON TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	Year Ended December 31	
	2012	2011
	LBP'000	LBP'000
Dividends received on equity securities	318,915	358,885
Interest received on debt securities	8,846,982	8,813,346
Unrealized loss (net) - Note 8	(958,062)	(1,698,939)
Realized gain	921,927	3,018,024
	9,129,762	10,491,316

37. OTHER OPERATING INCOME

This caption consists of the following:

	Year Ended December 31	
	2012	2011
	LBP'000	LBP'000
Dividends on financial assets at fair value through other comprehensive income	44,669	44,669
Share in (losses)/profits of associates - Note 14	(3,899,204)	3,891,588
Revenues from securitization operations	2,197,771	1,711,374
Other	1,028,580	989,389
	(628,184)	6,637,020

38. STAFF COSTS

This caption consists of the following:

	Year Ended December 31	
	2012	2011
	LBP'000	LBP'000
Salaries and related charges	16,236,699	14,597,547
Social Security contributions	1,757,231	1,553,331
Provision for end-of-service indemnities (net)	812,242	174,202
	18,806,172	16,325,080

39. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's net income before non-recurring income, net of dividends paid to preferred shares holders, and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

The weighted average number of shares to compute basic earnings per share is 61,620,590 shares in 2012 (61,633,035 shares in 2011).

40. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2012 and 2011 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

41. FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT

	December 31	
	2012	2011
	Resident Customers	Resident Customers
	LBP'000	LBP'000
Fiduciary deposits invested in certificates of deposit issued by the Central Bank of Lebanon	1,623,804	2,965,479
Fiduciary deposits from related parties invested in loans granted to related party companies	5,427,000	6,633,000
Shares in trust	1,419,101	1,417,509
	8,469,905	11,015,988

42. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties excluding accrued interest and balances eliminated on consolidation consist of the following:

	December 31	
	2012	2011
	LBP'000	LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
- Secured loans and advances	326,291	295,991
- Unsecured loans and advances	7,724	1,832,352
- Deposits	10,106,169	15,591,575
Associated companies:		
Direct facilities and credit balances:		
- Secured loans and advances	2,667,485	2,534,081
- Unsecured loans and advances	827,709	436,634
- Deposits	43,830,993	42,954,811
Indirect facilities:		
- Letters of guarantee	9,914	165,571

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LBP302million and by pledged deposits of the respective borrowers to the extent of LBP2.67billion as at December 31, 2012 (LBP372.82million and LBP2.54billion respectively as at December 31, 2011).

The remuneration of executive management amounted to LBP2.94billion during 2012 (LBP2.42billion during 2011) in addition to incentives linked to performance.

43. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the cash flows statement consist of the following:

	December 31,	
	2012	2011
	LBP'000	LBP'000
Cash	10,615,168	10,349,533
Current accounts with Central Bank of Lebanon (excluding compulsory reserve)	5,362,076	17,522,965
Time deposits with Central Bank of Lebanon	6,783,750	-
Checks for collection and current accounts with banks and financial institutions	238,513,724	193,853,309
Time deposits with banks and financial institutions	84,267,045	192,202,713
	345,541,763	413,928,520

Time deposits with and from Central Banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

44. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows:

	December 31, 2012		
	Pledged Amount	Nature of Facility	Amount of Facility
	LBP'000		LBP'000
Deposits with banks and financial institution	54,341,963	Forward contracts	392,518,377
		Options and swaps transactions	24,642,366
		Acceptances less than one year	11,416,158
Pledged deposits with related parties	8,274,994	Letters of credit and letters of guarantee	NIL
	62,616,957		

	December 31, 2011		
	Pledged Amount	Nature of Facility	Amount of Facility
	LBP'000		LBP'000
Deposits with banks and financial institutions	34,280,062	Forward contracts	209,508,606
		Options and swaps transactions	24,990,757
		Acceptances less than one year	8,010,373
		Forward contracts	10,246,078
Pledged deposits with related parties	8,233,455	Letters of credit and letters of guarantees	NIL
	42,513,517		

45. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator.

Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad. Furthermore, the minimum capital adequacy ratio set by the regulator is 10% (Basel II Ratio).

The Group's capital is split as follows:

Tier I capital: Comprises share capital, after deduction of treasury shares, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits, retained earnings (exclusive of current year's net profit) and minority interest. Goodwill, intangible assets and unfavorable change in fair value of investments at fair value through other comprehensive income are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities, collective impairment allowance, cumulative favorable change in fair value of available-for-sale securities and revaluation surplus of owned properties.

Investments in associates are deducted from Tier I and Tier II capital.

Furthermore, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.

The Group has complied with imposed capital requirements throughout the period.

The Group's risk based capital ratio according to Basle II as of December 31, 2011 and 2010, is as follows:

	December 31,	
	2012	2011
	LBP million	LBP million
Risk-weighted assets	1,444,667	1,498,583
Credit risk	1,338,142	1,381,787
Market risk	38,963	56,125
Operational risk	67,562	60,671
Tier I capital (including net income less proposed dividends and Reserves for assets acquired in satisfaction of loans)	124,728	110,621
Tier II capital	24,120	36,180
Total capital	148,848	146,801
Capital adequacy ratio - Tier I	8.63%	7.38%
Capital adequacy ratio - Tier I and Tier II	10.3%	9.80%

The Group's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Basle II.
- Ensure a high Return on Equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's total equity funding consists of the following:

	Balances December 31,		Variation	
	2012	2011 (Restated)	Amount	%
	LBP'000	LBP'000	LBP'000	
Equity allotted to common shares	129,053,199	133,510,753	(4,457,554)	(3.34)
Preferred shares	30,150,000	30,150,000	-	-
Subordinated bonds	62,397,734	60,248,632	2,149,102	3.57
Total equity	221,600,933	223,909,385	(2,308,452)	

46. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group's operating segments are organized as follows: Lebanon and subsidiaries.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has two reportable business segments which reflect the basis on which senior management reviews operations:

	December 31, 2012			December 31, 2011		
	Lebanon and Subsidiaries	Cyprus	Inter-Segment	Lebanon	Cyprus	Inter-Segment
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Total Assets	2,037,244,969	354,607,386	(146,597,970)	2,080,629,676	333,280,725	(114,301,388)
Total Liabilities	1,879,341,469	338,232,599	(131,522,970)	1,917,476,486	317,698,121	(99,226,388)
Total Equity	157,903,500	16,374,787	(15,075,000)	163,153,190	15,582,604	(15,075,000)
Profit for the year	4,294,121	1,299,787	-	9,409,768	507,604	-
ASSETS						
Cash and Central Banks	296,005,786	3,440,258	-	424,163,485	6,238,295	-
Deposits with banks and financial institutions	353,585,835	206,713,514	(146,597,970)	395,202,980	203,945,865	(114,301,388)
Trading assets at fair value through profit or loss	61,075,821	3,300,096	-	90,555,833	5,037,447	-
Loans and advances to customers	859,682,885	57,197,949	-	765,837,853	57,956,779	-
Loans and advances to related parties	3,841,046	7,724	-	4,946,184	169,874	-
Investment securities	354,307,651	82,890,508	-	296,203,742	52,422,308	-
Investment in associate	30,693,799	-	-	42,218,248	-	-
Other	78,052,146	1,057,337	-	61,501,351	7,510,157	-
LIABILITIES						
Deposits and borrowings from banks	205,440,891	19,634,069	(131,140,690)	432,580,115	10,463,679	(98,680,276)
Customers' accounts at amortized cost	1,527,230,599	310,683,214	(382,280)	1,337,428,362	293,235,374	(546,112)
Related parties' accounts at amortized cost	49,240,109	4,727,315	-	54,315,991	4,219,840	-
Other	35,032,136	3,188,001	-	32,903,386	9,779,228	-
Subordinated bonds	62,397,734	-	-	60,248,632	-	-

	December 31, 2012			December 31, 2011		
	Lebanon	Cyprus	Inter-Segment	Lebanon	Cyprus	Inter-Segment
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Interest income	83,055,570	10,382,620	(5,828,816)	70,358,867	10,173,436	(6,154,476)
Interest expense	(60,052,854)	(10,407,807)	5,828,816	(53,355,797)	(10,544,180)	6,154,476
Net interest income	23,002,716	(25,187)	-	17,003,070	(370,744)	-
Fee and commission income	6,845,400	392,870	-	7,074,464	1,052,844	-
Fee and commission expense	(527,541)	(61,170)	-	(591,997)	(50,026)	-
Net fee and commission income	6,317,859	331,700	-	6,482,467	1,002,818	-
Net interest and other gain on trading assets at fair value through profit or loss	6,127,252	3,002,510	-	8,944,242	1,547,074	-
Gain on exchange	1,662,363	62,330	-	2,038,907	360,877	-
Other operating income	(846,441)	218,257	-	6,319,063	317,957	-
Net financial revenues	36,263,749	3,589,610	-	40,787,749	2,857,982	-
Allowance for impairment of loans and advances and other receivables	(6,278)	-	-	(3,009,545)	-	-
Write-back of impairment loss on loans and advances	690,985	240,003	-	363,896	5,006	-
Loans recoveries	240,004	-	-	-	-	-
Collective provision for loan impairment	(1,959,750)	-	-	-	-	-
Net financial revenues after net impairment charge	35,228,710	3,829,613	-	38,142,100	2,862,988	-
Staff costs	(18,115,060)	(691,112)	-	(15,583,633)	(741,447)	-
Administrative expenses	(8,464,872)	(1,669,564)	-	(8,859,051)	(1,516,003)	-
Depreciation and amortization	(2,253,809)	(75,982)	-	(2,347,645)	(77,084)	-
Write back of provision for foreign currency fluctuation	33,949	-	-	54,097	-	-
Write-back of provision/(provision for contingencies)	591,270	-	-	(489,729)	-	-
Impairment of Property and Equipment	(275,000)	-	-	-	-	-
	(28,483,522)	(2,436,658)	-	(27,225,961)	(2,334,534)	-
Profit before income tax	6,745,188	1,392,955	-	10,916,139	528,454	-
Income tax expense	(2,451,067)	(93,168)	-	(1,506,371)	(20,850)	-
Profit for the year	4,294,121	1,299,787	-	9,409,768	507,604	-

Subsequent to the statement of financial position date, Cyprus has been exposed to a severe restructuring of its banking system led by the Troika as a condition precedent to provide the state of Cyprus a financial bailout to support servicing its foreign debts. In the light of the above, there could be adverse economic consequences that may arise from the prevailing situation, a matter of uncertainty that cannot be determined at present. Management is of the opinion that considering the Bank's size and business model of international banking operations with little exposure to the domestic market, it will not be materially affected by the current crisis.

47. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Group has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established a credit and market risk management department and various committees to develop and monitor the Group's risk management policies and their implementation.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Regular review of risk management policies and systems to reflect changes in market conditions, products and services offered is the responsibility of the various committees and the Board of Directors. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A. Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

1. Management of credit risk

The Group manages credit risk by developing policies and procedures that are regularly reviewed to ensure continuous effective credit risk management in light of changes in business strategy.

Credit risk management policies and practices define lending limits, credit approval authorization matrices, and risk identification and monitoring systems. The Group applies an internal rating system that takes into account criteria related to the borrower (e.g. nature of the activity, financial performance and structure, credit history, cash flows, projected financials and management) and to the credit quality (e.g. purpose, amount, tenor, collateral presented as a second way out). The Group also sets lending limits to a single obligor or a related group of obligors.

2. Measurement of credit risk

(a) Loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools. The Group's rating scale reflects the range of default probabilities defined for each rating class as explained below:

- **Special Mention /Vulnerable:** Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring.
- **Past due but not impaired:** Loans past due but not impaired are loans where contractual interest or principal are past due but the Group's management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Group.
- **Substandard loans:** Substandard loans are loans that are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged in favor of the group. Exposures where an indication of the possibility that the Group will sustain a loss if certain irregularities and deficiencies are not addressed exists are classified under this category.
- **Doubtful loans:** Doubtful loans have, in addition to the weaknesses existing in substandard loans, characteristics indicating that current existing facts and figures make the collection in full highly improbable. The probability of loss is high but certain reasonable and specific pending factors which if addressed could strengthen the probability of collection, result in the deferral of the exposure as an estimated loss until a more exact status is determined.
- **Loss:** Loans classified as loss are considered as uncollectible and of such minimal value that their classification as assets is not warranted. This does not mean that the loan is absolutely unrecoverable or has no salvage value. However, the amount of loss is difficult to measure and the Group does not wish to defer the writing of the loan even partial recovery might occur in the future. Loans are charged off in the period in which they are deemed uncollectible and therefore classified as loss.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in its loan portfolio. The main component of its allowance are specific loss component that relate to individually significant exposures, and a minor part of a collective loan loss allowance established for retail and Small and Medium Enterprises (SME's) where there is objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

3. Risk mitigation policies

Collateral:

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

4. Financial assets with credit risk exposure and related concentrations

(a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of financial assets:

(a.1) Deposits with banks and financial institutions (excluding accrued interest):

	December 31, 2012	
Bracket	**Total Amount LBP'000**	**% to Total Deposits %**
Less than LBP5billion	28,253,257	6.83
From LBP5billion to LBP15billion	81,551,158	19.71
Over LBP15billion	303,769,918	73.46
	413,574,333	100.00

	December 31, 2011	
Bracket	**Total Amount LBP'000**	**% to Total Deposits %**
Less than LBP5billion	26,028,213	5.37
From LBP5billion to LBP15billion	68,986,435	14.24
Over LBP15billion	389,608,660	80.39
	484,623,308	100.00

(a.2) Loans and advances to customers (excluding accrued interest and unearned interest and collective provision):

Bracket	December 31, 2012 No. of Counter Parties	Total Amount LBP'000	% to Total %
Less than LBP500million	1,068	55,372,131	6.03
From LBP500million to LBP5billion	254	455,585,584	49.63
Over LBP5billion	43	407,077,280	44.34
	1,365	918,034,995	100.00

Bracket	December 31, 2011 No. of Counter Parties	Total Amount LBP'000	% to Total %
Less than LBP500million	1,026	61,980,047	7.53
From LBP500million to LBP5billion	236	410,872,405	49.93
Over LBP5billion	40	350,059,255	42.54
	1,302	822,911,707	100.00

(a.3) Loans and advances to related parties (excluding accrued interest):

Bracket	December 31, 2012 Total Amount LBP'000	% to Total Deposits %
Less than LBP500million	1,161,723	30.34
Over LBP1.5billion	2,667,486	69.66
	3,829,209	100.00

Bracket	December 31, 2011 Total Amount LBP'000	% to Total Deposits %
Less than LBP500million	729,935	14.32
Over LBP1.5billion	4,369,122	85.68
	5,099,057	100.00

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2012						
				Fair Value of Collateral Held			
	Gross Loans Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular Accounts	912,899,003	-	912,899,003	200,576,014	114,624,983	16,915,843	332,116,840
Past due but not impaired:							
Between 30-60 days	380,192	-	380,192	-	-	-	-
Between 60-90 days	903,624	-	903,624	-	-	-	-
Between 90-180 days	1,160,594	-	1,160,594	-	-	-	-
Beyond 180 days	2,080,269	-	2,080,269	-	-	-	-
Collective provision for loan impairment	-	1,959,750	1,959,750	-	-	-	-
Impaired:							
Substandard	1,198,707	-	1,198,707	-	-	-	-
Doubtful and bad	3,262,870	3,044,675	218,195	-	4,793,850	-	4,793,850
	921,885,259	5,004,425	916,880,834	200,576,014	119,418,833	16,915,843	336,910,690

	December 31, 2011						
				Fair Value of Collateral Held			
	Gross Loans Net of Unrealized Interest	Allowance for Impairment	Net Exposure	Pledged Funds	Property	Equities	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular accounts	806,320,290	-	806,320,290	187,783,190	100,575,310	21,611,834	309,970,334
Past due but not impaired:							
Between 30-60 days	1,734,823	-	1,734,823	-	7,538	-	7,538
Between 60-90 days	61,272	-	61,272	-	-	-	-
Between 90-180 days	152,074	-	152,074	-	-	-	-
Beyond 180 days	168,730	-	168,730	-	-	-	-
Impaired:							
Substandard	632,007	-	632,007	-	723,600	169,059	892,659
Doubtful	18,720,288	3,994,852	14,725,436	603,000	4,672,750	-	5,275,750
	827,789,484	3,994,852	823,794,632	188,386,190	105,979,198	21,780,893	316,146,281

(b) Concentration of financial assets by industry or sector (excluding the collective provision for loan impairment):

	December 31, 2012								
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Consumer Goods Trading	Services	Private Individuals	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cash and central banks	298,714,001	-	-	-	-	-	-	732,043	299,446,044
Deposits with banks and financial institutions	-	413,540,668	-	-	-	-	-	160,711	413,701,379
Trading assets at fair value through profit or loss	48,747,571	5,525,233	3,160,023	-	5,680,225	-	-	1,262,865	64,375,917
Loans to banks and financial institutions	-	25,676,016	-	-	-	-	-	-	25,676,016
Loans and advances to customers	-	26,734,544	163,241,606	149,799,857	432,161,906	49,164,351	96,932,731	805,589	918,840,584
Loans and advances to related parties	-	-	2,228	439,674	2,707,050	8,774	671,483	19,561	3,848,770
Investments at amortized cost	400,456,010	24,697,690	-	460,121	5,245,943	-	-	5,694,204	436,553,968
Financial assets at fair value through other comprehensive income	-	490,120	-	-	-	154,071	-	-	644,191
Customers' Liability under acceptances	-	-	654,133	3,979,783	18,019,521	1,212,294	-	-	23,865,731
Other assets	-	-	-	-	-	-	-	6,673,770	6,673,770
	747,917,582	496,664,271	167,057,990	154,679,435	463,814,645	50,539,490	97,604,214	15,348,743	2,193,626,370
Off-Balance Sheet Risks:									
Documentary and commercial letters of credit	-	-	927,025	9,639,719	27,252,922	454,984	-	-	38,274,650
Guarantees and standby letters of credit	-	10,191,736	21,128,089	13,808,021	16,669,470	3,638,109	2,144,833	-	67,580,258
Forward contracts	-	713,437,702	-	1,507,500	5,653,284	-	156,433	-	720,754,919

	December 31, 2011								
	Sovereign	Financial Services	Real Estate Development	Manufacturing	Consumer Goods Trading	Services	Private Individuals	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance sheet Exposure:									
Cash and central banks	429,664,866	-	-	-	-	-	-	736,914	430,401,780
Deposits with banks and financial institutions	403,330,472	81,128,114	-	-	-	-	-	388,871	484,847,457
Trading assets at fair value through profit or loss	68,292,980	17,096,533	2,371,475	-	5,236,103	452,250	-	2,143,939	95,593,280
Loans to banks and financial institutions	-	8,506,235	-	-	-	-	-	-	8,506,235
Loans and advances to customers	-	10,725,279	125,330,421	142,251,943	397,831,537	56,365,458	90,407,069	882,925	823,794,632
Loans and advances to related parties	-	-	21	287,669	2,541,568	-	2,269,799	17,001	5,116,058
Investments at amortized cost	298,335,837	34,172,323	-	2,656,594	6,386,937	-	-	6,430,741	347,982,432
Financial assets at fair value through other comprehensive income	-	490,120	-	-	-	153,498	-	-	643,618
Customers' Liability under acceptances	-	-	-	7,138,915	19,793,275	-	-	-	26,932,190
Other assets	-	-	-	-	-	-	-	5,001,867	5,001,867
	1,199,624,155	152,118,604	127,701,917	152,335,121	431,789,420	56,971,206	92,676,868	15,602,258	2,228,819,549
Off-Balance sheet Risks:									
Documentary and commercial letters of credit	-	-	237,953	15,257,533	34,952,079	151,941	91,025	-	50,690,531
Guarantees and standby letters of credit	-	8,195,325	16,099,235	14,129,246	11,899,201	3,596,634	2,414,478	-	56,334,119
Forward contracts	-	221,162,515	-	175,374	6,857,732	-	3,333,038	-	231,528,659

(c) Concentration of assets and liabilities by geographical area:

	December 31, 2012					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
ASSETS	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**
Cash and central banks	296,005,787	-	-	3,440,257	-	299,446,044
Deposits with banks and financial institutions	22,727,445	3,534,224	54,117,486	331,922,110	1,400,114	413,701,379
Trading assets at fair value through profit or loss	63,632,075	-	141,396	602,446	-	64,375,917
Loans to banks and financial institutions	24,588,898	-	-	1,087,118	-	25,676,016
Loans and advances to customers	865,089,966	38,693,274	1,255,039	11,780,925	61,630	916,880,834
Loans and advances to related parties	3,841,046	7,724	-	-	-	3,848,770
Financial assets at fair value through other comprehensive income	615,120	-	-	29,071	-	644,191
Investments at amortized cost	413,129,782	-	3,831,986	4,507,063	15,085,137	436,553,968
Customers' liability under acceptances	22,076,657	1,789,074	-	-	-	23,865,731
Investments in associates	7,793,532	22,824,892	-	-	75,375	30,693,799
Assets acquired in satisfaction of loans	2,831,019	-	-	-	-	2,831,019
Property and equipment	14,878,124	-	-	614,062	-	15,492,186
Intangible assets	687,320	-	-	12,422	-	699,742
Other assets	10,313,069	-	-	231,720	-	10,544,789
Total Assets	1,748,209,840	44,024,296	59,345,907	354,227,194	16,622,256	2,245,254,385
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK						
Documentary and commercial letters of credit	27,676,767	8,784,866	-	1,813,017	-	38,274,650
Guarantees and standby letters of credit	63,241,785	4,287,050	1,131	50,292	-	67,580,258
Forward contracts	15,921,993	312,314,549	-	392,518,377	-	720,754,919
LIABILITIES						
Deposits and borrowings from banks	32,005,504	34,493,721	-	27,435,045	-	93,934,270
Customers' accounts at amortized cost	1,230,976,130	459,792,419	29,393,200	104,616,313	12,753,471	1,837,531,533
Related parties' accounts at amortized cost	24,149,251	25,367,068	-	4,451,105	-	53,967,424
Customers' acceptance liability	771,714	1,624,465	5,209,351	11,449,356	4,810,845	23,865,731
Other liabilities	6,860,848	501,831	-	949,269	-	8,311,948
Provisions	3,709,239	1,976,332	-	356,887	-	6,042,458
Subordinated bonds	62,397,734	-	-	-	-	62,397,734
Total liabilities	1,360,870,420	523,755,836	34,602,551	149,257,975	17,564,316	2,086,051,098

	December 31, 2011					
	Lebanon	Middle East and Africa	North America	Europe	Other	Total
ASSETS	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**	**LBP'000**
Cash and central banks	424,163,485	-	-	6,238,295	-	430,401,780
Deposits with banks and financial institutions	40,451,629	25,891,000	80,150,013	337,606,626	748,189	484,847,457
Trading assets at fair value through profit or loss	83,539,063	475,256	7,272,489	3,089,319	1,217,153	95,593,280
Loans to banks and financial institutions	8,506,235	-	-	-	-	8,506,235
Loans and advances to customers	760,567,589	61,739,198	102,869	1,382,465	2,511	823,794,632
Loans and advances to related parties	3,282,938	1,833,120	-	-	-	5,116,058
Financial assets at fair value through other comprehensive income	615,120	-	-	28,498	-	643,618
Investments at amortized cost	313,203,468	-	7,842,206	11,854,874	15,081,884	347,982,432
Customers' liability under acceptances	18,396,905	8,356,646	-	178,639	-	26,932,190
Investments in associates	-	42,218,248	-	-	-	42,218,248
Assets acquired in satisfaction of loans	2,831,019	-	-	-	-	2,831,019
Property and equipment	16,421,925	640,166	-	-	-	17,062,091
Intangible assets	897,105	-	-	24,918	-	922,023
Other assets	12,666,607	-	-	91,343	-	12,757,950
Total Assets	1,685,543,088	141,153,634	95,367,577	360,494,977	17,049,737	2,299,609,013
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:						
Documentary and commercial letters of credit	23,711,894	24,880,704	-	2,097,933	-	50,690,531
Guarantees and standby letters of credit	50,337,322	5,883,060	1,131	112,606	-	56,334,119
Forward contracts	6,288,308	2,201,405	-	223,038,946	-	231,528,659
LIABILITIES						
Deposits and borrowings from banks	41,649,798	273,770,016	17,878,341	11,065,363	-	344,363,518
Customers' accounts at amortized cost	1,118,567,034	369,774,061	14,838,063	91,949,798	34,988,668	1,630,117,624
Related parties' accounts at amortized cost	29,831,292	26,373,560	-	2,330,979	-	58,535,831
Customers' acceptance liability	691,538	3,024,803	143,212	13,711,855	9,360,782	26,932,190
Other liabilities	8,033,029	1,027,284	-	829,458	-	9,889,771
Provisions	3,572,124	1,976,333	-	312,196	-	5,860,653
Subordinated bonds	60,248,632	-	-	-	-	60,248,632
Total liabilities	1,262,593,447	675,946,057	32,859,616	120,199,649	44,349,450	2,135,948,219

B. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1. Management of liquidity risk

Liquidity risk is the Group's ability to ensure the availability of funding to meet commitments, both on-balance and off-balance sheet commitments, at a reasonable cost on time. The management of liquidity should not lead to threats to the Group's solvency.

Liquidity risk arises when in case of crisis, refinancing may only be raised at higher market rates (funding risk), or assets may only be liquidated at a discount to market rates (market liquidity risk). Liquidity risk is also caused by mismatches in the maturities of assets and liabilities (uses and sources of funds).

Residual contractual maturities of financial assets and liabilities:

The tables below show the Group's assets and liabilities in **Lebanese Pounds** base accounts segregated by maturity:

	December 31, 2012 LBP Base Accounts						
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS							
Cash and Central Banks	33,790,248	4,000,000	-	-	-	-	37,790,248
Deposits with banks and financial institutions	1,704,425	-	-	-	-	-	1,704,425
Trading assets designated at fair value through profit or loss	1,063,803	4,026,147	17,484,419	13,971,673	-	13,379,105	49,925,147
Loans and advances to customers	11,499,574	12,198,912	900	4,873	-	-	23,704,259
Financial assets designated at fair value through other comprehensive income	615,120	-	-	-	-	-	615,120
Financial assets designated at amortized cost	2,868,884	15,014,578	24,752,381	55,228,762	88,331,051	46,577,889	232,773,545
Property and equipment	14,871,491	-	-	-	-	-	14,871,491
Intangible assets	687,321	-	-	-	-	-	687,321
Other assets	6,811,737	-	-	-	-	-	6,811,737
Total Assets	73,912,603	35,239,637	42,237,700	69,205,308	88,331,051	59,956,994	368,883,293
LIABILITIES							
Deposits and borrowings from banks	320,663	6,725,000	18,200,000	-	-	-	25,245,663
Customers' accounts at amortized cost	30,549,169	212,216,925	31,109,397	4,853,700	-	-	278,729,191
Related parties' accounts at amortized cost	767,000	3,259,122	-	-	-	-	4,026,122
Other liabilities	4,457,597	-	-	-	-	-	4,457,597
Provisions	3,701,702	-	-	-	-	-	3,701,702
Total Liabilities	39,796,131	222,201,047	49,309,397	4,853,700	-	-	316,160,275
Maturity Gap	34,116,471	(186,961,410)	(7,071,697)	64,351,608	88,331,052	59,956,994	52,723,018

The tables below show the Group's assets and liabilities in **Foreign Currencies** base accounts segregated by maturity:

	December 31, 2012 F/Cy Base Accounts							
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and Central Banks	13,197,214	24,714,212	20,251,305	148,362,430	55,130,635	-	-	261,655,796
Deposits with banks and financial institutions	239,180,987	162,383,978	10,431,989	-	-	-	-	411,996,954
Trading assets designated at fair value through profit or loss	5,972,171	-	-	-	2,249,039	5,680,225	549,335	14,450,770
Loans to banks and financial institutions	10,601,016	-	-	15,075,000	-	-	-	25,676,016
Loans and advances to customers	654,880,625	216,791,056	18,870,710	2,627,947	6,237	-	-	893,176,575
Loans and advances to related parties	577,827	450,040	2,721,755	99,148	-	-	-	3,848,770
Financial assets designated at fair value through other comprehensive income	29,071	-	-	-	-	-	-	29,071
Financial assets designated at amortized cost	3,996,457	42,083,380	13,097,142	102,183,248	32,259,719	10,160,477	-	203,780,423
Customers' liability under acceptances	-	21,790,859	2,074,872	-	-	-	-	23,865,731
Investments in associates	30,693,799	-	-	-	-	-	-	30,693,799
Assets acquired in satisfaction of loans	2,831,019	-	-	-	-	-	-	2,831,019
Property and equipment	620,695	-	-	-	-	-	-	620,695
Intangible assets	12,421	-	-	-	-	-	-	12,421
Other assets	3,733,052	-	-	-	-	-	-	3,733,052
Total Assets	966,326,354	468,213,525	67,447,773	268,347,773	89,645,630	15,840,702	549,335	1,876,371,092
LIABILITIES								
Deposits and borrowings from banks	46,126,118	22,562,489	-	-	-	-	-	68,688,607
Customers' accounts at amortized cost	343,528,926	1,120,301,325	92,218,615	2,753,476	-	-	-	1,558,802,342
Related parties' accounts at amortized cost	23,700,430	26,240,872	-	-	-	-	-	49,941,302
acceptance liability	-	21,790,859	2,074,872	-	-	-	-	23,865,731
Other liabilities	3,854,351	-	-	-	-	-	-	3,854,351
Provisions	2,340,756	-	-	-	-	-	-	2,340,756
Subordinated Bonds	-	-	-	62,397,734	-	-	-	62,397,734
Total Liabilities	419,550,581	1,190,895,545	94,293,487	65,151,210	-	-	-	1,769,890,823
Maturity Gap	546,775,773	(722,682,020)	(26,845,714)	203,196,563	89,645,630	15,840,702	549,335	106,480,269

The tables below show the Group's assets and liabilities in **Lebanese Pounds** base accounts segregated by maturity:

	December 31, 2011						
	LBP Base Accounts						
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS							
Cash and Central Banks	27,026,171	-	-	-	-	-	27,026,171
Deposits with banks and financial institutions	1,475,089	-	-	-	-	-	1,475,089
Trading assets at fair value through profit or loss	1,695,390	-	3,149,866	39,584,750	11,058,389	2,788,388	58,276,783
Loans and advances to customers	9,974,080	9,136,008	25,500	-	-	-	19,135,588
Loans and advances to related parties	34	-	-	-	-	-	34
Financial assets at fair value through other comprehensive income	615,120	-	-	-	-	-	615,120
Financial assets at amortized cost	3,312,186	8,031,207	48,613,367	82,402,661	9,407,211	33,318,907	185,085,539
Property and equipment	16,415,291	-	-	-	-	-	16,415,291
Intangible assets	897,105	-	-	-	-	-	897,105
Other assets	8,937,734	-	-	-	-	-	8,937,734
Total Assets	70,348,200	17,167,215	51,788,733	121,987,411	20,465,600	36,107,295	317,864,454
LIABILITIES							
Deposits and borrowings from banks	213,229	13,000,000	21,184,576	-	-	-	34,397,805
Customers' accounts at amortized cost	23,955,925	164,520,790	25,850,037	2,028,261	-	-	216,355,013
Related parties' accounts at amortized cost	965,561	2,750,613	-	-	-	-	3,716,174
Other liabilities	3,380,407	-	-	-	-	-	3,380,407
Provisions	3,225,401	-	-	-	-	-	3,225,401
Total Liabilities	31,740,523	180,271,403	47,034,613	2,028,261	-	-	261,074,800
Maturity Gap	38,607,677	(163,104,188)	4,754,120	119,959,150	20,465,600	36,107,295	56,789,654

The tables below show the Group's assets and liabilities in **Foreign Currencies** base accounts segregated by maturity:

	December 31, 2011 F/Cy Base Accounts							
	Accounts with No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Over 10 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS								
Cash and Central Banks	31,636,909	28,274,040	137,950,425	122,216,445	83,297,790	-	-	403,375,609
Deposits with banks and financial institutions	171,687,709	280,771,726	30,912,933	-	-	-	-	483,372,368
Trading assets at fair value through profit or loss	7,104,816	6,783,750	1,703,442	13,268,039	1,023,215	6,743,604	689,631	37,316,497
Loans to banks and financial institutions	8,506,235	-	-	-	-	-	-	8,506,235
Loans and advances to customers	561,652,726	216,544,487	25,231,771	1,207,737	22,323	-	-	804,659,044
Loans and advances to related parties	194,901	2,129,834	2,621,415	-	169,874	-	-	5,116,024
Financial assets at fair value through other comprehensive income	28,498	-	-	-	-	-	-	28,498
Financial assets at amortized cost	3,118,556	1,733,249	25,145,498	102,797,452	20,878,756	8,120,562	1,102,820	162,896,893
Customers' liability under Acceptances	20,404,584	6,115,516	412,090	-	-	-	-	26,932,190
Investments in associates	42,218,248	-	-	-	-	-	-	42,218,248
Assets acquired in satisfaction of loans	2,831,019	-	-	-	-	-	-	2,831,019
Property and equipment	646,800	-	-	-	-	-	-	646,800
Intangible assets	24,918	-	-	-	-	-	-	24,918
Other assets	3,820,216	-	-	-	-	-	-	3,820,216
Total Assets	853,876,135	542,352,602	223,977,574	239,489,673	105,391,958	14,864,166	1,792,451	1,981,744,559
LIABILITIES								
Deposits and borrowings from banks	123,304,724	186,068,541	592,448	-	-	-	-	309,965,713
Customers' accounts at amortized cost	334,126,749	1,005,550,787	60,292,515	13,792,560	-	-	-	1,413,762,611
Related parties' accounts at amortized cost	37,234,379	17,585,278	-	-	-	-	-	54,819,657
Acceptance liability	20,404,584	6,115,516	412,090	-	-	-	-	26,932,190
Other liabilities	6,509,362	-	-	-	-	-	-	6,509,362
Provisions	2,635,254	-	-	-	-	-	-	2,635,254
Subordinated Bonds	-	-	-	60,248,632	-	-	-	60,248,632
Total Liabilities	524,215,052	1,215,320,122	61,297,053	74,041,192	-	-	-	1,874,873,419
Maturity Gap	329,661,083	(672,967,520)	162,680,521	165,448,481	105,391,958	14,864,166	1,792,451	106,871,140

Concentration of Liabilities by counterparty:

Information regarding the concentration of liabilities by counterparty is disclosed under the respective notes to the financial statements.

C. Market Risks

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

1. Management of market risks:

Market risks include interest rate risk and exchange risk.

The Group has established an Assets and Liabilities Management Committee (ALCO) to manage market risks. ALCO's primary objective is to maximize interest income spread and trading income while maintaining market risks at an appropriate level through regular management and measurement of these risks.

The Group has developed policies and procedures to manage market risks and ensure compliance with regulatory requirements and limits in addition to internal risk strategies and limits.

2. Foreign exchange risk:

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Group that it will, at all times, adhere to the limits laid down by the Central Bank as referred to below. It is not the Group's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The treasury department is responsible for monitoring the compliance with the regulatory ratios set by the Regulatory Authorities. ALCO is supported by the finance department by reports of any breach of these ratios.

Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

	December 31, 2012					
ASSETS	**LBP** **LBP'000**	**USD C/V in LBP** **LBP'000**	**Euro C/V in LBP** **LBP'000**	**GBP C/V in LBP** **LBP'000**	**Other Currencies C/V in LBP** **LBP'000**	**Total** **LBP'000**
Cash and Central Banks	37,790,248	192,717,954	68,721,942	203,800	12,100	299,446,044
Deposits with banks and financial institutions	1,704,425	316,934,861	27,680,054	25,461,110	41,920,929	413,701,379
Trading assets at fair value through profit or loss	49,925,147	14,450,770	-	-	-	64,375,917
Loans to banks and financial institutions	-	24,588,898	1,087,118	-	-	25,676,016
Loans and advances to customers	23,704,259	758,471,040	77,484,954	3,052,602	54,167,979	916,880,834
Loans and advances to related parties	-	3,635,379	213,391	-	-	3,848,770
Financial assets at fair value through other comprehensive income	615,120	-	29,071	-	-	644,191
Investments at amortized cost	232,773,545	198,584,067	5,196,356	-	-	436,553,968
Customers' liability under acceptances	-	16,894,636	6,707,306	-	263,789	23,865,731
Investments in associates	-	30,693,799	-	-	-	30,693,799
Assets acquired in satisfaction of loans	-	2,831,019	-	-	-	2,831,019
Property and equipment	14,871,491	620,695	-	-	-	15,492,186
Intangible assets	687,321	12,421	-	-	-	699,742
Other assets	6,811,737	12,869,889	66,402,238	484,499	(73,863,392)	12,704,971
Total Assets	368,883,293	1,573,305,428	253,522,430	29,202,011	22,501,405	2,247,414,567
LIABILITIES						
Deposits and borrowings from banks	25,245,663	38,260,549	25,627,377	266,411	4,534,270	93,934,270
Customers' accounts at amortized cost	278,729,191	1,297,472,790	215,988,528	29,528,049	15,812,975	1,837,531,533
Related parties' accounts at amortized cost	4,026,122	38,834,136	6,156,590	650,708	4,299,868	53,967,424
Acceptance liability	-	16,894,636	6,707,307	-	263,788	23,865,731
Other liabilities	4,457,597	3,290,915	546,797	12,213	4,426	8,311,948
Provisions	3,701,702	1,983,871	356,885	-	-	6,042,458
Subordinated Bonds	-	62,397,734	-	-	-	62,397,734
Total Liabilities	316,160,275	1,459,134,631	255,383,484	30,457,381	24,915,327	2,086,051,098
Currencies to be delivered	-	(330,867,083)	(376,169,308)	(848,736)	(12,869,792)	(720,754,919)
Currencies to be received	-	321,424,716	310,105,130	363,744	86,701,147	718,594,737
	-	(9,442,367)	(66,064,178)	(484,992)	73,831,355	(2,160,182)
Net on-balance sheet financial position	52,723,018	104,728,430	(67,925,232)	(1,740,362)	71,417,433	159,203,287

	December 31, 2011					
ASSETS	**LBP** **LBP'000**	**USD C/V in LBP** **LBP'000**	**Euro C/V in LBP** **LBP'000**	**GBP C/V in LBP** **LBP'000**	**Other Currencies C/V in LBP** **LBP'000**	**Total** **LBP'000**
Cash and Central Banks	27,026,171	283,424,475	119,737,080	195,947	18,107	430,401,780
Deposits with banks and financial institutions	1,475,089	319,671,030	106,693,843	30,766,058	26,241,437	484,847,457
Trading assets at fair value through profit or loss	58,276,783	33,959,123	2,169,981	1,187,393	-	95,593,280
Loans to banks and financial institutions	-	8,506,235	-	-	-	8,506,235
Loans and advances to customers	19,135,588	694,060,038	62,830,701	719,341	47,048,964	823,794,632
Loans and advances to related parties	34	5,071,057	44,487	-	480	5,116,058
Financial assets at fair value through other comprehensive income	615,120	-	28,498	-	-	643,618
Investments at amortized cost	185,085,539	149,348,264	13,548,629	-	-	347,982,432
Customers' liability under acceptances	-	12,951,120	12,183,023	155,706	1,642,341	26,932,190
Investments in associates	-	42,218,248	-	-	-	42,218,248
Assets acquired in satisfaction of loans	-	2,831,019	-	-	-	2,831,019
Property and equipment	16,415,291	646,800	-	-	-	17,062,091
Intangible assets	897,105	24,918	-	-	-	922,023
Other assets	8,937,734	154,639,396	(80,942,366)	(150,075)	(64,034,839)	18,449,850
Total Assets	317,864,454	1,707,351,723	236,293,876	32,874,370	10,916,490	2,305,300,913
LIABILITIES						
Deposits and borrowings from banks	34,397,805	295,238,969	8,711,762	3,277,740	2,737,242	344,363,518
Customers' accounts at amortized cost	216,355,013	1,161,483,087	204,028,561	32,227,425	16,023,539	1,630,117,625
Related parties' accounts at amortized cost	3,716,174	54,011,289	215,278	593,090	-	58,535,831
Acceptance liability	-	12,951,120	12,183,023	155,706	1,642,341	26,932,190
Other liabilities	3,380,407	5,361,100	1,072,652	43,578	32,034	9,889,771
Provisions	3,225,401	2,323,059	312,195	-	-	5,860,655
Subordinated bonds	-	60,248,632	-	-	-	60,248,632
Total Liabilities	261,074,800	1,591,617,256	226,523,471	36,297,539	20,435,156	2,135,948,222
Currencies to be delivered	-	(176,732,967)	(41,872,131)	(2,673,600)	(10,249,961)	(231,528,659)
Currencies to be received	-	25,594,043	123,133,243	150,966	76,958,510	225,836,762
	-	(151,138,924)	81,261,112	(2,522,634)	66,708,549	(5,691,897)
Net on-balance sheet exchange position	56,789,654	(35,404,457)	91,031,514	(5,945,803)	57,189,883	163,660,794

3. Interest rate risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on the Group's net interest income, while a long term impact is on Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimizing the return on risk.

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Lebanese Pound** base accounts:

	December 31, 2012								
	Lebanese Pounds Base Accounts								
		Floating Interest Rate		Fixed Interest Rate					
	Non-Interest Bearing	Up to Three Months	Total	Over 3 Months less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS									
Cash and Central Banks	33,790,248	4,000,000	4,000,000	-	-	-	-	-	37,790,248
Deposits with banks and financial institutions	1,451,840	252,585	252,585	-	-	-	-	-	1,704,425
Trading assets designated at fair value through profit or loss	1,063,802	4,026,148	4,026,148	17,484,419	13,971,673	-	13,379,105	44,835,197	49,925,147
Loans and advances to customers	29,042	23,669,444	23,669,444	900	4,873	-	-	5,773	23,704,259
Financial assets designated at fair value through other comprehensive income	615,120	-	-	-	-	-	-	-	615,120
Financial assets at amortized cost	2,868,883	15,014,578	15,014,578	24,752,381	55,228,762	88,331,052	46,577,889	214,890,084	232,773,545
Property and equipment	14,871,491	-	-	-	-	-	-	-	14,871,491
Intangible assets	687,321	-	-	-	-	-	-	-	687,321
Other assets	6,811,737	-	-	-	-	-	-	-	6,811,737
Total Assets	62,189,484	46,962,755	46,962,755	42,237,700	69,205,308	88,331,052	59,956,994	259,731,054	368,883,293
LIABILITIES									
Deposits and borrowings from banks	812,018	6,233,645	6,233,645	18,200,000	-	-	-	18,200,000	25,245,663
Customers' accounts at amortized cost	3,527,143	239,238,951	239,238,951	31,109,397	4,853,700	-	-	35,963,097	278,729,191
Related parties' accounts at amortized cost	6,631	4,019,491	4,019,491	-	-	-	-	-	4,026,122
Other liabilities	4,457,597	-	-	-	-	-	-	-	4,457,597
Provisions	3,701,702	-	-	-	-	-	-	-	3,701,702
Total Liabilities	12,505,091	249,492,087	249,492,087	49,309,397	4,853,700	-	-	54,163,097	316,160,275
Interest rate gap position	49,684,393	(202,529,332)	(202,529,332)	(7,071,697)	64,351,608	88,331,052	59,956,994	205,567,957	52,723,018

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Foreign Currencies** base accounts:

	December 31, 2012												
		Floating Interest Rate						Fixed Interest Rate					
	Non-interest Bearing	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	Over 3 Months Less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS													
Cash and Central banks	7,835,138	30,076,288	20,251,305	148,362,430	55,130,635	-	253,820,658	-	-	-	-	-	261,655,796
Deposits with banks and financial institutions	31,284,907	365,642,731	-	-	-	-	365,642,731	15,069,316	-	-	-	15,069,316	411,996,954
Trading assets designated at fair value through profit or loss	5,972,172	-	-	-	2,249,039	549,334	2,798,373	-	-	-	5,680,225	5,680,225	14,450,770
Loans to banks and financial institutions	10,601,016	-	-	-	-	-	-	-	15,075,000	-	-	15,075,000	25,676,016
Loans and advances to customers	(758,078)	872,429,759	-	-	-	-	872,429,759	18,870,710	2,627,947	6,237	-	21,504,894	893,176,575
Loans and advances to related parties	19,562	1,008,305	-	-	-	-	1,008,305	2,721,755	99,148	-	-	2,820,903	3,848,770
Financial assets designated at fair value through other comprehensive income	29,071	-	-	-	-	-	-	-	-	-	-	-	29,071
Financial assets at amortized cost	3,996,457	42,083,380	-	-	-	-	42,083,380	13,097,142	102,183,248	32,259,719	10,160,477	157,700,586	203,780,423
Customers' liability under acceptances	23,865,731	-	-	-	-	-	-	-	-	-	-	-	23,865,731
Investments in associates	30,693,799	-	-	-	-	-	-	-	-	-	-	-	30,693,799
Assets acquired in satisfaction of loans	2,831,019	-	-	-	-	-	-	-	-	-	-	-	2,831,019
Property and equipment	620,695	-	-	-	-	-	-	-	-	-	-	-	620,695
Intangible assets	12,421	-	-	-	-	-	-	-	-	-	-	-	12,421
Other assets	3,733,052	-	-	-	-	-	-	-	-	-	-	-	3,733,052
Total Assets	120,736,962	1,311,240,463	20,251,305	148,362,430	57,379,674	549,334	1,537,783,206	49,758,923	119,985,343	32,265,956	15,840,702	217,850,924	1,876,371,092
LIABILITIES													
Deposits and borrowings from banks	1,450	63,689,435	-	-	-	-	63,689,435	4,997,722	-	-	-	4,997,722	68,688,607
Customers' accounts at amortized cost	3,048,825	1,460,781,426	-	-	-	-	1,460,781,426	92,218,615	2,753,476	-	-	94,972,091	1,558,802,342
Related parties' accounts at amortized cost	23,630	49,917,672	-	-	-	-	49,917,672	-	-	-	-	-	49,941,302
Acceptance liability	23,865,731	-	-	-	-	-	-	-	-	-	-	-	23,865,731
Other liabilities	3,854,351	-	-	-	-	-	-	-	-	-	-	-	3,854,351
Provisions	2,340,756	-	-	-	-	-	-	-	-	-	-	-	2,340,756
Subordinated bonds	-	-	-	-	-	-	-	-	62,397,734	-	-	62,397,734	62,397,734
Total Liabilities	33,134,743	1,574,388,533	-	-	-	-	1,574,388,533	97,216,337	65,151,210	-	-	162,367,547	1,769,890,823
Interest rate gap position	87,602,219	(263,148,070)	20,251,305	148,362,430	57,379,674	549,334	(36,605,327)	(47,457,414)	54,834,133	32,265,956	15,840,702	55,483,377	106,480,269

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Lebanese Pound** base accounts:

	December 31, 2011								
	Lebanese Pounds Base Accounts								
		Floating Interest Rate		Fixed Interest Rate					
	Non-Interest Bearing	Up to Three Months	Total	Over 3 Months less than 1 Year	1 to 3 Years	3 to 5 Years	5 to 10 Years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS									
Cash and Central Banks	27,026,171	-	-	-	-	-	-	-	27,026,171
Deposits with banks and financial institutions	1,161,036	314,053	314,053	-	-	-	-	-	1,475,089
Trading assets at fair value through profit or loss	1,695,390	-	-	3,149,866	39,584,750	11,058,389	2,788,388	56,581,393	58,276,783
Loans and advances to customers	432,572	18,677,516	18,677,516	25,500	-	-	-	25,500	19,135,588
Loans and advances to related parties	-	34	34	-	-	-	-	-	34
Financial assets at fair value through other comprehensive income	615,120	-	-	-	-	-	-	-	615,120
Financial assets at amortized cost	3,312,186	8,031,207	8,031,207	48,613,367	82,402,661	9,407,211	33,318,907	173,742,146	185,085,539
Property and equipment	16,415,291	-	-	-	-	-	-	-	16,415,291
Intangible assets	897,105	-	-	-	-	-	-	-	897,105
Other assets	8,937,734	-	-	-	-	-	-	-	8,937,734
Total Assets	60,492,605	27,022,810	27,022,810	51,788,733	121,987,411	20,465,600	36,107,295	230,349,039	317,864,454
LIABILITIES									
Deposits and borrowings from banks	575,852	12,637,377	12,637,377	21,184,576	-	-	-	21,184,576	34,397,805
Customers' accounts at amortized cost	1,361,914	187,114,801	187,114,801	25,850,037	2,028,261	-	-	27,878,298	216,355,013
Related parties' accounts at amortized cost	1,990	3,714,184	3,714,184	-	-	-	-	-	3,716,174
Other liabilities	3,380,407	-	-	-	-	-	-	-	3,380,407
Provisions	3,225,399	-	-	-	-	-	-	-	3,225,399
Total Liabilities	8,545,562	203,466,362	203,466,362	47,034,613	2,028,261	-	-	49,062,874	261,074,798
Interest rate gap position	51,947,043	(176,443,552)	(176,443,552)	4,754,120	119,959,150	20,465,600	36,107,295	181,286,165	56,789,656

Below is a summary of the Group's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Foreign Currencies** base accounts:

	December 31, 2011														
		Floating Interest Rate							Fixed Interest Rate						
	Non-interest bearing	Up to 3 months	3 months to 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Over 3 months less than 1 year	1 to 3 years	3 to 5 years	5 to 10 years	Over 10 years	Total	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
ASSETS															
Cash and Central Banks	7,889,330	52,021,619	137,950,425	122,216,445	83,297,790	-	-	395,486,279	-	-	-	-	-	-	403,375,609
Deposits with banks and financial institutions	53,322,996	399,136,417	25,893,947	-	-	-	-	425,030,364	5,019,008	-	-	-	-	5,019,008	483,372,368
Trading assets at fair value through profit or loss	7,104,816	6,783,750	1,162,549	1,826,125	-	-	548,303	10,320,727	540,893	11,441,914	1,023,215	6,743,604	141,328	19,890,954	37,316,497
Loans to banks and financial institutions	8,506,235	-	-	-	-	-	-	-	-	-	-	-	-	-	8,506,235
Loans and advances to customers	404,210	777,793,003	718,111	-	-	-	-	778,511,114	24,513,660	1,207,737	22,323	-	-	25,743,720	804,659,044
Loans and advances to related parties	17,001	2,307,735	-	-	169,873	-	-	2,477,608	2,621,415	-	-	-	-	2,621,415	5,116,024
Financial assets at fair value through other comprehensive income	28,498	-	-	-	-	-	-	-	-	-	-	-	-	-	28,498
Financial assets at amortized cost	3,118,556	1,733,217	-	-	-	-	-	1,733,217	25,145,498	102,797,484	20,878,756	8,120,562	1,102,820	158,045,120	162,896,893
Customers' liability under acceptances	26,932,190	-	-	-	-	-	-	-	-	-	-	-	-	-	26,932,190
Investments in associates	42,218,248	-	-	-	-	-	-	-	-	-	-	-	-	-	42,218,248
Assets acquired in satisfaction of loans	2,831,019	-	-	-	-	-	-	-	-	-	-	-	-	-	2,831,019
Property and equipment	646,800	-	-	-	-	-	-	-	-	-	-	-	-	-	646,800
Intangible assets	24,918	-	-	-	-	-	-	-	-	-	-	-	-	-	24,918
Other assets	3,820,216	-	-	-	-	-	-	-	-	-	-	-	-	-	3,820,216
Total Assets	156,865,033	1,239,775,741	165,725,032	124,042,570	83,467,663	-	548,303	1,613,559,309	57,840,474	115,447,135	21,924,294	14,864,166	1,244,148	211,320,217	1,981,744,559
LIABILITIES															
Deposits and borrowings from banks	857,181	308,516,084	-	-	-	-	-	308,516,084	592,448	-	-	-	-	592,448	309,965,713
customers' accounts at amortized cost	1,810,845	1,337,866,691	-	-	-	-	-	1,337,866,691	60,292,515	13,792,560	-	-	-	74,085,075	1,413,762,611
Related parties' accounts at amortized cost	677,944	54,141,713	-	-	-	-	-	54,141,713	-	-	-	-	-	-	54,819,657
Acceptance liability	26,932,190	-	-	-	-	-	-	-	-	-	-	-	-	-	26,932,190
Other liabilities	6,509,364	-	-	-	-	-	-	-	-	-	-	-	-	-	6,509,364
Provisions	2,635,254	-	-	-	-	-	-	-	-	-	-	-	-	-	2,635,254
Subordinated bonds	-	-	-	-	-	-	-	-	-	60,248,632	-	-	-	60,248,632	60,248,632
Total Liabilities	39,422,778	1,700,524,488	-	-	-	-	-	1,700,524,488	60,884,963	74,041,192	-	-	-	134,926,155	1,874,873,421
Interest rate gap position	117,442,255	(460,748,747)	165,725,032	124,042,570	83,467,663	-	548,303	(86,965,179)	(3,044,489)	41,405,943	21,924,294	14,864,166	1,244,148	76,394,062	106,871,138

The effect of a 200 basis point change in interest rates upwards or downwards on the earnings of the Group for the subsequent fiscal year is LBP3.35billion increase/decrease.

48. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The summary of the Group's classification of each class of financial assets and liabilities covered by IFRS 9, and their fair values as at December 31, 2012, are as follows:

	December 31, 2012				
	At Fair Value Through Profit or Loss	At Fair Value Through Other Comprehensive Income	Amortized Cost	Total Carrying Value	Total Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS					
Cash and Central banks	-	-	299,446,044	299,446,044	299,446,044
Deposits with banks and financial institutions	-	-	413,701,379	413,701,379	413,701,379
Trading assets at fair value through profit or loss	64,375,917	-	-	64,375,917	64,375,917
Loans to banks and financial institutions	-	-	25,676,016	25,676,016	25,676,016
Loans and advances to customers	-	-	916,880,834	916,880,834	916,880,834
Loans and advances to related parties	-	-	3,848,770	3,848,770	3,848,770
Financial assets at fair value through other comprehensive income	-	644,191	-	644,191	644,191
Financial assets at amortized cost	-	-	436,553,968	436,553,968	434,539,926
Customers' liability under acceptances	-	-	23,865,731	23,865,731	23,865,731
Other assets	-	-	6,673,770	6,673,770	6,673,770
Total	64,375,917	644,191	2,126,646,512	2,191,666,620	2,189,652,578
FINANCIAL LIABILITIES					
Deposits and borrowings from banks	-	-	93,934,270	93,934,270	93,934,270
Customers' accounts at amortized cost	-	-	1,837,531,533	1,837,531,533	1,837,531,533
Related parties' accounts at amortized cost	-	-	53,967,424	53,967,424	53,967,424
Acceptance liability	-	-	23,865,731	23,865,731	23,865,731
Other liabilities	-	-	8,184,859	8,184,859	8,184,859
Subordinated bonds	-	-	62,397,734	62,397,734	61,161,989
Total	-	-	2,079,881,551	2,079,881,551	2,078,645,806

	December 31, 2011				
	At Fair Value Through Profit or Loss	At Fair Value Through Other Comprehensive Income	Amortized Cost	Total Carrying Value	Total Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS					
Cash and Central Banks	-	-	430,401,780	430,401,780	430,401,780
Deposits with banks and financial institutions	-	-	484,847,457	484,847,457	484,847,457
Trading assets at fair value through profit or loss	95,593,280	-	-	95,593,280	95,593,280
Loans to banks and financial institutions	-	-	8,506,235	8,506,235	8,506,235
Loans and advances to customers	-	-	823,794,632	823,794,632	823,794,632
Loans and advances to related parties	-	-	5,116,058	5,116,058	5,116,058
Financial assets at fair value through other comprehensive income	-	643,618	-	643,618	643,618
Financial assets at amortized cost	-	-	347,982,432	347,982,432	346,891,945
Customers' liability under acceptances	-	-	26,932,190	26,932,190	26,932,190
Other assets	-	-	5,001,868	5,001,868	5,001,868
Total	95,593,280	643,618	2,132,582,652	2,228,819,550	2,227,729,063
FINANCIAL LIABILITIES					
Deposits and borrowings from banks	-	-	344,363,518	344,363,518	344,363,518
Customers' accounts at amortized cost	-	-	1,630,117,624	1,630,117,624	1,630,117,624
Related parties' accounts at amortized cost	-	-	58,535,831	58,535,831	58,535,831
Acceptance liability	-	-	26,932,190	26,932,190	26,932,190
Other liabilities	-	-	4,042,503	4,042,503	4,042,503
Subordinated bonds	-	-	60,248,632	60,248,632	61,738,989
Total	-	-	2,124,240,298	2,124,240,298	2,125,730,655

The basis for the determination of the estimated fair values with respect to financial instruments carried at amortized cost and for which quoted market prices are not available is summarized as follows:

(a) Deposits with Central Bank and financial institutions:

The fair value of current deposits (including non-interest earning compulsory deposits with Central Banks), and overnight deposits is their carrying amount. The estimated fair value of fixed interest earning deposits with maturities or interest reset dates beyond one year from the balance sheet date is based on the discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(b) Loans and advances to customers and to banks:

The estimated fair value of loans and advances to customers is based on the discounted amount of expected future cash flows determined at current market rates.

(c) Financial Assets at Amortized Cost:

The estimated fair value of held-to-maturity investment securities is based on current yield curve appropriate for the remaining period to maturity.

(d) Deposits and borrowings from banks and customers' deposits:

The fair value of deposits with current maturity or no stated maturity is their carrying amount. The estimated fair value on other deposits is based on the discounted cash flows using interest rates for new deposits with similar remaining maturity.

(e) Other borrowings and certificates of deposit:

The estimated fair value of other borrowings and certificates of deposits is the discounted cash flow based on a current yield curve appropriate for the remaining period to maturity.

(f) Fair value hierarchy:

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

	December 31, 2012			
	Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS				
Trading assets at fair value through profit or loss:				
Quoted equity securities	5,385,159	-	-	5,385,159
Lebanese treasury bills	-	21,892,877	-	21,892,877
Certificates of deposit issued by Central Bank of Lebanon	-	-	26,968,468	26,968,468
Certificates of deposit issued by banks	-	2,249,039	-	2,249,039
Corporate bonds	6,672,160	-	-	6,672,160
	12,057,319	24,141,916	26,968,468	63,167,703
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	-	-	644,191
	-	-	-	-
	12,057,319	24,141,916	26,968,468	63,811,894

	December 31, 2011			
	Level 1	Level 2	Level 3	Total
	LBP'000	LBP'000	LBP'000	LBP'000
FINANCIAL ASSETS				
Trading assets at fair value through profit or loss:				
Quoted equity securities	6,656,267	-	-	6,656,267
Lebanese treasury bills	-	18,887,850	-	18,887,850
Foreign treasury bills	464,823	-	-	464,823
Lebanese Government bonds	-	-	309,851	309,851
Certificates of deposit issued by Central Bank of Lebanon	-	-	48,630,455	48,630,455
Certificates of deposit issued by banks	-	10,663,308	-	10,663,308
Corporate bonds	7,836,787	-	-	7,836,787
	14,957,877	29,551,158	48,940,306	93,449,341
Financial assets at fair value through other comprehensive income:				
Unquoted equity securities	-	-	-	643,618
	-	-	-	643,618
	14,957,877	29,551,158	48,940,306	94,092,959

49. RESTATEMENT OF PRIOR YEAR FINANCIAL STATEMENTS

Comparable financial statements for the year ended December 31, 2011 were restated in respect of a currency translation adjustment related to investment in an associate incorporated in Syria where the carrying value of the investment was not adjusted for the effect of currency translation amounting to LBP5.35billion.

50. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements for the year ended December 31, 2012 were approved by the Board of Directors in its meeting held on April 26, 2013.

BANQUE BEMO S.A.L.

CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION AND REVIEW REPORT SIX-MONTH PERIOD ENDED JUNE 30, 2013

BANQUE BEMO S.A.L.
CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION AND REVIEW REPORT
SIX-MONTH PERIOD ENDED JUNE 30, 2013

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REVIEW REPORT

To the Chairman and Members of the Board
Banque Bemo S.A.L.
Beirut, Lebanon

Introduction

We have reviewed the accompanying interim consolidated statement of financial position of Banque Bemo S.A.L. and Subsidiaries (The "Group") as of June 30, 2013 and the related interim consolidated statements of profit or loss, profit or loss and other comprehensive income, changes in equity and cash flows for the six-month period then ended, and other explanatory information. Management is responsible for the preparation and fair presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures within the framework of local banking regulations. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim consolidated financial information is not prepared in all material respects, in accordance with International Accounting Standard 34.

Beirut, Lebanon
Septembre 30, 2013

Deloitte & Touche

DFK Fiduciaire du Moyen Orient

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

ASSETS	Notes	(Unaudited) June 30, 2013	December 31, 2012
		LBP'000	LBP'000
Cash and Central Banks		318,847,461	299,446,044
Deposits with banks and financial institutions		322,157,592	413,701,379
Financial assets at fair value through profit or loss	5	50,757,384	64,375,917
Loans to banks and financial institutions		23,762,413	25,676,016
Loans and advances to customers	6	876,442,111	916,880,834
Loans and advances to related parties	21	1,794,763	3,848,770
Investment securities	7	515,267,396	437,198,159
Customers' liability under acceptances		30,569,163	23,865,731
Investments in associates	8	20,345,907	30,693,799
Assets acquired in satisfaction of loans		2,831,019	2,831,019
Property and equipment		14,741,773	15,492,186
Intangible assets		578,898	699,742
Other assets		7,770,976	10,544,789
Total Assets		2,185,866,856	2,245,254,385
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK:	19		
Documentary and commercial letters of credit		42,549,145	38,274,650
Guarantees and standby letters of credit		96,180,860	67,580,258
Forward contracts		730,153,975	720,754,919
FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT	20	16,388,803	8,469,905

THE ACCOMPANYING NOTES 1 TO 24 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Continued)

LIABILITIES	**Notes**	**(Unaudited) June 30, 2013**	**December 31, 2012**
		LBP'000	**LBP'000**
Deposits and borrowings from banks		102,978,413	93,934,270
Customers' accounts at amortized cost	9	1,745,398,301	1,837,531,533
Related parties' accounts at amortized cost	21	80,118,590	53,967,424
Acceptance liability		30,569,163	23,865,731
Other liabilities		9,569,910	8,311,948
Provisions		6,235,737	6,042,458
		1,974,870,114	2,023,653,364
Subordinated bonds	10	60,280,516	62,397,734
Total liabilities		2,035,150,630	2,086,051,098
EQUITY			
Share capital	11	62,000,000	62,000,000
Treasury shares	11	(2,197,625)	(2,197,625)
Preferred shares	12	30,150,000	30,150,000
Shareholders' cash contribution to capital	11	29,104,984	29,104,984
Reserves		29,139,121	25,052,144
Retained earnings		20,014,719	22,503,411
Currency translation adjustment		(22,180,423)	(13,003,565)
Profit for the year		4,685,383	5,593,850
Equity attributable to the Group		150,716,159	159,203,199
Non-controlling interests		67	88
Total equity		150,716,226	159,203,287
Total Liabilities and Equity		2,185,866,856	2,245,254,385

THE ACCOMPANYING NOTES 1 TO 24 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	(Unaudited) Six-Month Period Ended June 30, 2013 LBP'000	2012 LBP'000
Interest income	14	44,167,516	41,988,527
Interest expense	15	(31,363,504)	(31,539,463)
Net interest income		12,804,012	10,449,064
Fee and commission income		3,941,822	3,469,773
Fee and commission expense		(756,743)	(264,997)
Net fee and commission income		3,185,079	3,204,776
Net interest and other gain/(loss) on financial assets at fair value through profit or loss	16	5,553,935	4,801,080
Gain on exchange		900,672	1,019,261
Other operating income/(loss)	17	317,281	(712,800)
Net financial revenues		22,760,979	18,761,381
Allowance for impairment of loans and advances and other receivables		(846,715)	(1,963,226)
Write-back of impairment loss on loans and advances		521,027	512,861
Net financial revenues after net impairment charge		22,435,291	17,311,016
Staff costs		(9,649,114)	(9,356,352)
Administrative expenses		(5,514,949)	(4,857,207)
Depreciation and amortization		(1,063,687)	(1,288,023)
Write back of provision for foreign currency fluctuation		(770)	-
Write-back of provision for contingencies		(43,968)	495,895
Other expenses		(16,272,488)	(15,005,687)
Profit before income tax		6,162,803	2,305,329
Income tax expense		(1,477,383)	(1,229,875)
Profit for the period		4,685,420	1,075,454
Attributable to:			
Equity holders of the group		4,685,383	1,075,423
Non-controlling interest		37	31
		4,685,420	1,075,454
Basic and diluted earnings/(loss) per share (LBP)	18	36/89	(21/69)

THE ACCOMPANYING NOTES 1 TO 24 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	(Unaudited) Six-Month Period Ended June 30,	
	2013	**2012**
	LBP'000	**LBP'000**
Profit for the period	4,685,420	1,075,454
Other comprehensive income:		
Loss arising from currency translation adjustment	(9,176,858)	(5,040,466)
	(9,176,858)	(5,040,466)
Total comprehensive income for the period - (loss)	(4,491,438)	(3,965,012)
Attributable to:		
Equity holders of the Group	(4,491,475)	(3,965,043)
Non-controlling interest	37	31
	(4,491,438)	3,965,012

THE ACCOMPANYING NOTES 1 TO 24 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to the Group														
	Capital	Treasury Shares	Preferred Shares	Shareholders' Cash Contribution to Capital	Legal Reserve	Reserve for General Banking Risk	Other Reserves	Cumulative Reserve for Assets Acquired in Satisfaction of Debts	Currency Translation Adjustment	Retained Earnings	Cumulative Change in fair Value of Investment Securities	Profit for the Year/Period	Group Total	Non-Controlling Interest	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balances at December 31, 2011	62,000,000	(1,614,350)	30,150,000	29,104,984	1,193,702	14,327,325	5,518,363	412,051	-	18,004,106	-	9,917,361	169,013,542	41	169,013,583
Prior years currency translation adjustment	-	-	-	-	-	-	-	-	(5,352,789)	-	-	-	(5,352,789)	-	(5,352,789)
Balances at December 31, 2011 (Restated)	62,000,000	(1,614,350)	30,150,000	29,104,984	1,193,702	14,327,325	5,518,363	412,051	(5,352,789)	18,004,106	-	9,917,361	163,660,752	41	163,660,794
Total comprehensive income for the period - Loss	-	-	-	-	-	-	-	-	(5,040,466)	-	-	1,075,423	(3,965,043)	31	(3,965,012)
Allocation of 2011 profit	-	-	-	-	601,429	2,857,723	-	141,551	-	6,316,658	-	(9,917,361)	-	-	-
Dividends declared	-	-	-	-	-	-	-	-	-	(2,412,000)	-	-	(2,412,000)	-	(2,412,000)
Acquisition of treasury shares	-	(14,170)	-	-	-	-	-	-	-	-	-	-	(14,170)	-	(14,170)
Transfer from retained earnings to reserves	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(11)	(11)
Other movement	-	-	-	-	-	-	-	-	-	12	-	-	12	-	12
Balance at June 30, 2012	62,000,000	(1,628,520)	30,150,000	29,104,984	1,795,131	17,185,048	5,518,363	553,602	(10,393,255)	21,908,776	-	1,075,423	157,269,552	61	157,269,613
Balances at December 31, 2012	62,000,000	(2,197,625)	30,150,000	29,104,984	1,795,131	17,185,048	5,518,363	553,602	(13,003,565)	22,503,411	-	5,593,850	159,203,199	88	159,203,287
Prior year adjustment	-	-	-	-	-	-	-	-	-	(19,589)	-	-	(19,589)	-	(19,589)
Total comprehensive income for the period-loss	-	-	-	-	-	-	-	-	(9,176,858)	-	-	4,685,383	(4,491,475)	37	(4,491,438)
Allocation of 2012 profit	-	-	-	-	943,536	3,001,890	-	141,551	-	1,506,873	-	(5,593,850)	-	-	-
Dividends paid (Note 13)	-	-	-	-	-	-	-	-	-	(3,962,000)	-	-	(3,962,000)	-	(3,962,000)
Non-controlling interest	-	-	-	-	-	-	-	-	-	-	-	-	-	(58)	(58)
Other movement	-	-	-	-	-	-	-	-	-	(13,976)	-	-	(13,976)	-	(13,976)
Balance at June 30, 2013	62,000,000	(2,197,625)	30,150,000	29,104,984	2,738,667	20,186,938	5,518,363	695,153	(22,180,423)	20,014,719	-	4,685,383	150,716,159	67	150,716,226

THE ACCOMPANYING NOTES 1 TO 24 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	(Unaudited) Six-Month Period Ended June 30, 2013 LBP'000	2012 LBP'000
Cash flows from operating activities:			
Profit before tax		6,162,803	2,305,329
Adjustments to reconcile profit to net cash provided by/(used in) operating activities:			
Depreciation and amortization		1,063,687	1,288,023
Provision for credit losses (net)		-	(240,003)
Provision for loss on foreign currency position		770	(33,920)
Allowance for impairment of loans and advances and other receivables		846,714	-
Non-controlling interest		(58)	(11)
Provision for end-of-service indemnities (net)		170,753	216,161
Provision/(write-back) of provision for contingencies		43,968	(495,895)
Unrealized loss on trading securities	16	(1,517,768)	716,606
Equity loss from investment in associates	17	1,151,445	1,468,759
Loss from sale of property and equipment		678,572	4,849
Settlement of end-of-service indemnity		(22,213)	(9,422)
Increase in deposits with banks and financial institutions		(54,336,854)	(7,773,367)
Financial assets at fair value through profit or loss		15,136,301	43,969,566
Decrease/(increase) in loans and advances		43,559,619	(24,887,836)
Net increase in other assets		(3,929,619)	(61,729)
(Decrease)/increase in customers' and related parties' deposits at amortized cost		(65,982,066)	84,348,615
Decrease/(increase) in non-interest earning compulsory reserve		5,284,843	(1,760,676)
Increase in due to banks and financial institutions		9,044,143	154,453,275
Net increase in other liabilities		7,961,395	4,721,609
Income tax paid		(1,477,383)	(1,229,875)
Others		(13,976)	(5)
Net cash (used in)/provided by operating activities		(36,174,924)	257,000,053
Cash flow from investing activities:			
Investment securities		(78,069,237)	(142,323,328)
Treasury shares		-	(14,170)
Property and equipment		(828,596)	(801,241)
Proceeds from sale of property and equipment		16,368	6,332
Intangible assets		(58,774)	(5,886)
Net cash used in investing activities		(78,940,239)	(143,138,293)
Cash flows from financing activities:			
Dividends paid	13	(3,962,000)	(2,412,000)
Subordinated bonds		(2,117,218)	10,628
Net cash (used in)/provided by financing activities		(6,079,218)	(2,401,372)
Net (decrease)/increase in cash and cash equivalents		(121,194,381)	111,460,388
Cash and cash equivalents - Beginning of period	22	345,541,763	100,901,585
Cash and cash equivalents - Ending of period	22	224,347,382	212,361,973

THE ACCOMPANYING NOTES 1 TO 24 FORM AN INTEGRAL PART OF THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION

BANQUE BEMO S.A.L.
NOTES TO THE CONDENSED INTERIM CONSOLIDATED FINANCIAL INFORMATION
SIX-MONTH PERIOD ENDED JUNE 30, 2013

1. GENERAL INFORMATION

Banque Bemo S.A.L. is a Lebanese joint-stock company listed on Beirut Stock Exchange and registered in the Commercial Register under Number 17837 and on the list of banks published by the Central Bank of Lebanon under Number 93. The Bank's headquarters are located in Beirut.

The Bank provides a full range of commercial, corporate and private banking activities through a network of 9 branches in Lebanon in addition to a branch in Limassol, Cyprus. The Bank is in the process of opening two branches in Iraq.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

2.1 Standards and Interpretations effective for the current period

The following new and revised standards and interpretations have been applied in the current year with no material impact on the disclosures and amounts reported for the current and prior years, but may affect the accounting for future transactions or arrangements:

IFRS 7 Financial Instruments: Disclosures

These amendments enhance disclosures about offsetting of financial assets and liabilities.

IFRS 10 Consolidated Financial Statements

This standard replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements, and SIC 12 Consolidation – Special Purpose Entities. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee and includes a new definition of control. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures have been amended for the issuance of IFRS 10.

IFRS 11 Joint Arrangements

This standard replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities – Non monetary Contributions by Venturers. IFRS 11 establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate. IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS 11.

IFRS 12 Disclosure of Interests in Other Entities

This standard is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

IFRS 13 Fair Value Measurement

This standard defines fair value, establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The scope of IFRS 13 is broad and applies to both financial and non-financial items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards.

IAS 1 – Presentation of Other Comprehensive Income

The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.

IAS 19 Employee Benefits

These amendments eliminate the "corridor approach" and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries jointly controlled entities and associates in separate financial statements.

IAS 28 Investment in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and 12, IAS 28 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.

IAS 32 Financial Instruments: Presentation

These amendments relate to application guidance on the offsetting of financial assets and financial liabilities.

IAS 34 Interim financial reporting and segment information for total assets and liabilities (Amendment)

The amendment clarifies the requirements in IAS 34 relating to segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in IFRS 8 Operating Segments. Total assets and liabilities for a reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change in the total amount disclosed in the entity's previous annual consolidated financial statements for that reportable segment. The adoption of this amendment did not have any impact on the financial position or performance of the Bank.

2.2 New and Revised Standards in issue but not yet effective

The Group has not applied the following new standards, amendments and interpretations that have been issued but not yet effective:

	Effective for Annual Periods Beginning on or After
Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)	January 1, 2014

Amends IAS 32 *Financial Instruments: Presentation* to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off'
- the application of simultaneous realization and settlement
- the offsetting of collateral amounts
- the unit of account for applying the offsetting requirements.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)	January 1, 2014

Amends IFRS 10 *Consolidated Financial Statements*, IFRS 12 *Disclosure of Interests in Other Entities* and IAS 27 *Separate Financial Statements* to:

- provide 'investment entities' (as defined) an exemption from the consolidation of particular subsidiaries and instead require that an investment entity measure the investment in each eligible subsidiary at fair value through profit or loss in accordance with IFRS 9 *Financial Instruments* or IAS 39 *Financial Instruments: Recognition and Measurement*
- require additional disclosure about why the entity is considered an investment entity, details of the entity's unconsolidated subsidiaries, and the nature of relationship and certain transactions between the investment entity and its subsidiaries
- require an investment entity to account for its investment in a relevant subsidiary in the same way in its consolidated and separate financial statements (or to only provide separate financial statements if all subsidiaries are unconsolidated).

	Effective for Annual Periods Beginning on or After
Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)	January 1, 2014
• Amends IAS 36 *Impairment of Assets* to reduce the circumstances in which the recoverable amount of assets or cash-generating units is required to be disclosed, clarify the disclosures required, and to introduce an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount (based on fair value less costs of disposal) is determined using a present value technique..	
Novation of Derivatives and Continuation of Hedge Accounting' (Amendments to IAS 39)	January 1, 2014
• Amends IAS 39 *Financial Instruments: Recognition and Measurement* make it clear that there is no need to discontinue hedge accounting if a hedging derivative is novated, provided certain criteria are met. A novation indicates an event where the original parties to a derivative agree that one or more clearing counterparties replace their original counterparty to become the new counterparty to each of the parties. In order to apply the amendments and continue hedge accounting, novation to a central counterparty (CCP) must happen as a consequence of laws or regulations or the introduction of laws or regulations.	

The directors anticipate that the adoption of the above Standards and Interpretation will have no material impact on the financial statements of the Group in the period of initial application.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Statement of Compliance:

The condensed interim consolidated financial information for the six-months period ended June 30, 2012 has been prepared in accordance with IAS 34 Interim Financial Reporting.

The condensed interim consolidated financial information do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended December 31, 2012.

The accounting policies adopted in the preparation of the condensed interim consolidated financial information are consistent with the accounting policies adopted in the preparation of the annual consolidated financial statements for the year ended December 31,2012, except for the adoption of new standards, and interpretations described in note 2, as applicable.

B. Basis of Preparation and Measurement

The condensed interim consolidated financial information has been prepared on the historical cost basis except for the following:

- Financial assets and liabilities at fair value through profit and loss which are measured at fair value.
- Equity securities at fair value through profit or loss are measured at fair value.
- Derivative financial instruments which are measured at fair value.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

C. Basis of Consolidation:

The condensed interim consolidated financial information of Banque Bemo S.A.L. Group incorporate the financial statements of the Banque Bemo S.A.L. (the "Bank") and enterprises controlled by the Bank (its subsidiaries). Control is achieved when, among other things, the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries consist of:

Company	Country of Incorporation	Date of Acquisition or Incorporation	Percentage of Ownership %	Business Activities
Bemo Securitisation S.A.L.	Lebanon	1998	96	Securitization & Structured Finance
Ferticed Limited Holding	Luxembourg	1995	100.00	Holding Company
Depository & Custody Company S.A.L.	Lebanon	2007	99.9	Depository and custody of securities

Where necessary, adjustments are made to the financial information of the subsidiaries and associates to bring their accounting policies into line with those used by other entities of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interest in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. Non-controlling interest consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Subsequent to acquisition, the carrying amount of non-controlling interest is the amount of those interests at initial recognition plus the non-controlling interest share of subsequent changes. Total comprehensive income is attributable to non-controlling interests even if this results in the non-controlling interests having a deficit balances.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The estimates and underlying assumptions made by the Group's management for the preparation of the condensed interim consolidated financial information were consistent with those used in the preparation of the consolidated financial statements as at and for the year ended December 31, 2012.

5. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss consist of the following:

	(Unaudited), June 30, 2013			December 31, 2012		
	LBP Base Account	Foreign Currency Base Account	Total	LBP Base Account	Foreign Currency Base Account	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Quoted equity securities	-	5,838,393	5,838,393	-	5,385,159	5,385,159
Lebanese treasury bills	6,359,605	581,895	6,941,500	21,892,877	-	21,892,877
Certificates of deposits issued by the Central Bank of Lebanon	4,982,389	10,552,500	15,534,889	26,968,468	-	26,968,468
Certificates of deposits issued by banks	-	1,574,327	1,574,327	-	2,249,039	2,249,039
Corporate bonds	-	20,033,798	20,033,798	-	6,672,160	6,672,160
Accrued interest receivable	196,988	637,489	834,477	1,063,802	144,412	1,208,214
	11,538,982	39,218,402	50,757,384	49,925,147	14,450,770	64,375,917

6. LOANS AND ADVANCES TO CUSTOMERS

	(Unaudited) June 30, 2013					December 31, 2012				
	Gross Amount	Unrealized Interest	Impairment Allowance	Carrying Amount	Fair Value	Gross Amount	Unrealized Interest	Impairment Allowance	Carrying Amount	Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular Retail customers:										
- Mortgage loans	45,836,967	-	-	45,836,967	45,836,967	47,480,397	-	-	47,480,397	47,480,397
- Personal loans	9,111,054	-	-	9,111,054	9,111,054	9,701,207	-	-	9,701,207	9,701,207
- Credit cards	-	-	-	-	-	-	-	-	-	-
- Overdrafts	17,786,554	-	-	17,786,554	17,786,554	15,919,257	-	-	15,919,257	15,919,257
- Other	13,507,050	-	-	13,507,050	13,507,050	28,650,346	-	-	28,650,346	28,650,346
Classified Retail Customers:										
Doubtful	-	-	-	-	-	46,323	3,920	37,687	4,716	4,716
Bad	295,288	136,848	158,345	95	95	244,289	115,717	128,572	-	-
Regular Corporate customers:										
Corporates	618,090,781	-	-	618,090,781	618,090,781	640,657,380	-	-	640,657,380	640,657,380
Small and medium enterprises	170,693,373	-	-	170,693,373	170,693,373	174,209,506	-	-	174,209,506	174,209,506
Classified Corporate Customers:										
Substandard	2,644,870	521,856	-	2,123,014	2,123,014	1,600,957	402,250	-	1,198,707	1,198,707
Doubtful	3,172,801	1,656,245	1,299,776	216,780	216,780	3,538,305	1,499,684	1,825,196	213,425	213,425
Bad	1,288,855	156,442	1,132,368	45	45	1,221,747	168,473	1,053,220	54	54
Collective provision for loan impairment	-	-	2,044,112	(2,044,112)	(2,044,112)	-	-	1,959,750	(1,959,750)	(1,959,750)
Accrued interest receivable	1,120,510	-	-	1,120,510	1,120,510	805,589	-	-	805,589	805,589
	883,548,103	2,471,391	4,634,601	876,442,111	876,442,111	924,075,303	2,190,044	5,004,425	916,880,834	916,880,834

Concentration of loans and advances by geographical area:

	Period Ended June 30, 2013 LBP'000	December 31, 2012 LBP'000
Lebanon	831,601,234	824,921,121
Syria	18,700,538	40,168,845
Middle East & Africa	15,262,071	38,693,274
Europe	10,569,766	11,780,925
North America	308,502	1,255,039
Other	-	61,630
	876,442,111	916,880,834

Loans and advances of Syria region are covered by pledged deposits, pledged portfolio and real estate mortgages in Lebanon. Furthermore, the net exposure in Syria region is covered by provisions for doubtful debts up to 32% as at June 30, 2013 compared to 25% as at December 31, 2012.

7. INVESTMENT SECURITIES

	(Unaudited) June 30, 2013			December 31, 2012		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBO'000	LBP'000
Financial assets at fair value through other comprehensive income (A)	615,120	28,774	643,894	615,120	29,071	644,191
	615,120	28,774	643,894	615,120	29,071	644,191
Financial assets at amortized cost (B)	276,528,585	229,805,972	506,334,557	229,904,661	199,783,966	429,688,627
Accrued interest receivable on financial assets at amortized cost	4,663,696	3,625,249	8,288,945	2,868,884	3,996,457	6,865,341
	281,192,281	233,431,221	514,623,502	232,773,545	203,780,423	436,553,968
	281,807,401	233,459,995	515,267,396	233,388,665	203,809,494	437,198,159

A. Financial assets at fair value through other comprehensive income:

Financial assets at fair value through other comprehensive income represent unquoted equity securities.

B. Financial assets at amortized cost:

	(Unaudited), June 30, 2013					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBO'000	LBP'000
Lebanese treasury bills	171,390,963	170,405,735	2,710,831	139,303,058	129,217,688	2,240,255
Certificates of deposits issued by the Central Bank of Lebanon	105,137,622	105,072,815	1,952,865	63,822,194	64,050,182	1,129,051
Certificates of deposits issued by banks	-	-	-	11,472,380	11,472,380	-
Corporate bonds	-	-	-	15,208,340	15,057,871	255,943
	276,528,585	275,478,550	4,663,696	229,805,972	219,798,121	3,625,249

	December 31, 2012					
	LBP Base Accounts			C/V of F/Cy Base Accounts		
	Amortized Cost	Fair Value	Accrued Interest Receivable	Amortized Cost	Fair Value	Accrued Interest Receivable
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Lebanese treasury bills	124,800,677	126,262,184	1,714,818	-	-	-
Lebanese Government bonds	-	-	-	83,436,597	80,684,653	1,627,456
Certificates of deposit issued by the Central Bank of Lebanon	105,103,984	105,301,222	1,154,066	86,161,733	85,175,939	1,973,723
Certificates of deposit issued by banks	-	-	-	15,075,000	15,075,000	10,138
Corporate bonds	-	-	-	15,110,636	15,175,586	385,140
	229,904,661	231,563,406	2,868,884	199,783,966	196,111,178	3,996,457

8. INVESTMENTS IN ASSOCIATES

Investments in associates, which are unlisted, are as follows:

	Country of Incorporation	Interest Held %	(Unaudited) June 30, 2013 Carrying Value LBP'000	December 31, 2012 Carrying Value LBP'000
Banque Bemo Saudi Fransi S.A.	Syria	22	19,919,195	30,272,529
BEMO Oddo Investment Firm Ltd.	UAE	25	426,712	421,270
			20,345,907	30,693,799

The movement of investments in associates is as follows:

	(Unaudited) Six-Month Period Ended June 30, 2013 LBP'000	Year Ended December 31, 2012 LBP'000
Balance, January 1	30,693,799	42,218,248
Share in net loss of associates (Note 16)	(1,145,586)	(3,899,204)
Other adjustments (Note 16)	(5,859)	-
Currency translation adjustment	(9,176,858)	(7,650,776)
Prior years adjustment	(19,589)	25,531
Balance - End of period/year	20,345,907	30,693,799

The investment in Banque Bemo Saudi Fransi represents a 22% equity stake in the Bank's capital, which was initially subscribed into in 2003.

The Group accounted for its share in the net loss of the associate bank for the six-month period ended June 30, 2013, in the amount of LBP1.15billion (USD763,534) recorded under "Other operating income/(loss)" in the accompanying interim consolidated statement of profit or loss (Note 16) (its share in the net income for the year ended December 31, 2012 amounted to LBP3.87billion (USD2.56million)).

During 2008, the Group acquired a 25% equity stake in BEMO Oddo Investment Firm Ltd., ("BEMO Oddo") a financial institution incorporated in the Dubai International Financial Centre (DIFC) in the United Arab Emirates whose capital amounted to USD2,000,000 for an amount of USD500,000.

The Group accounted for its share in the net gain of the associate financial institution for the six-month period ended June 30, 2013, in the amount of LBP5million (USD3.6thousand) recorded under "Other operating income" in the accompanying interim consolidated statement of profit or loss (Note 16) (its share in net loss for the year ended December 31, 2012 amounted to LBP34million (USD22thousand)).

9. CUSTOMERS' ACCOUNTS AT AMORTIZED COST

Time deposits at amortized cost as at June 30, 2013 include fiduciary deposits received from a non-resident related bank in the amount of LBP21.83billion (USD14,483,117) (LBP27.68billion as at December 31, 2012).

10. SUBORDINATED BONDS

The exceptional general assembly approved in its meeting held on March 10, 2009 the issuance of subordinated bonds in the amount of USD40,000,000 divided into 4,000 bonds of USD10,000 nominal value each. These bonds were issued on May 30, 2009 and mature on June 30, 2014. The bonds are subject to an annual interest of 7% payable on December 31 and June 30 of each year.

The Group maintains enough liquid funds within its liquidity to redeem these bonds at maturity.

In this connection, interest expense on bonds for the six-month period ended June 30, 2013 amounting to LBP2.10billion is recorded in the interim consolidated statement of profit or loss (LBP2.11billion for the six-month period ended June 30, 2012) (Note 14).

In accordance with banking laws and regulations, subordinated bonds are considered as Tier II capital for the purposes of computation of Risk Based Capital Ratio, to be decreased by 20% on a yearly basis.

11. SHARE CAPITAL

As at June 30, 2013 and December 31, 2012, the Bank's capital is composed of 62,000,000 issued shares of LBP1,000 per share, authorized and fully paid and divided as follows:

- Listed Shares : 51,400,000
- Unlisted Shares : 10,600,000

The movement of ordinary treasury shares during the six-month period ended June 30, 2013 and the year 2012 was as follows:

	(Unaudited) Six-Month Period Ended June 30, 2013		Year Ended December 31, 2012	
	# of Shares	Amount LBP'000	# of Shares	Amount LBP'000
Balance - Beginning of period/year	379,814	2,197,625	375,814	1,614,350
Acquisition/(disposal), net	-	-	4,000	14,171
Prior years adjustment	-	-	-	569,104
Balance - End of period/year	379,814	2,197,625	379,814	2,197,625

12. PREFERRED SHARES

On June 1, 2006, the Group issued preferred shares in the amount of USD20million (LBP30billion) on the basis of 200,000 shares at USD100.

The preferred shares are callable five years from the issuance date on June 1, 2011 and bear interest on a non-cumulative basis at an annual rate of 8%. The Group did not exercise the call option.

13. DIVIDENDS PAID

The following dividends were declared and paid by the Group:

	(Unaudited) Six-Month Period Ended June 30,	
	2013	2012
	LBP'000	LBP'000
USD8 per preferred share paid by the Bank	2,412,000	2,412,000
LBP25 per common share paid by the Bank	1,550,000	-
	3,962,000	2,412,000

14. INTEREST INCOME

	(Unaudited) Six-Month Period Ended June 30,	
	2013	2012
	LBP'000	LBP'000
Interest income from:		
Compulsory deposits with Central Banks	1,918,217	2,749,969
Deposits with banks and financial institutions	610,918	760,715
Deposits with related party banks and financial institutions	238,385	192,288
Financial assets at amortized cost	12,363,133	11,471,152
Loans and advances to customers	28,916,332	26,702,060
Loans and advances to related parties	59,126	98,850
Interest realized on impaired loans and advances to customers	61,405	13,493
	44,167,516	41,988,527

Interest income on financial assets at fair value through profit or loss is included under "Net interest and other gains/(losses) on financial assets at fair value through profit or loss" (Note 15).

15. INTEREST EXPENSE

	(Unaudited) Six-Month Period Ended June 30,	
	2013	2012
	LBP'000	LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	401,802	1,334,961
Deposits and borrowings from related party banks and financial institutions	289,217	354,914
Customers' accounts at amortized cost	28,065,484	27,440,272
Related parties' accounts at amortized cost	503,220	293,970
Subordinated bonds	2,103,781	2,115,346
	31,363,504	31,539,463

16. NET INTEREST AND OTHER GAINS / (LOSSES) ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	(Unaudited) Six-Month Period Ended June 30,	
	2013	2012
	LBP'000	LBP'000
Dividends received on equity securities	216,182	282,935
Interest received on fixed income securities	3,031,585	5,105,920
Change in fair value of financial assets at fair value through profit or loss/trading portfolio (net)	1,517,768	(716,606)
Gain on sale of financial assets through profit or loss	788,400	128,831
	5,553,935	4,801,080

17. OTHER OPERATING INCOME / (LOSS)

This caption consists of the following:

	(Unaudited) Six-Month Period Ended June 30	
	2013	2012
	LBP'000	LBP'000
Share in loss of associates - Note 8	(1,151,445)	(1,468,759)
Revenues from securitization operations	326,436	357,159
Gain on sale of financial assets at amortized cost	458,004	-
Other	684,286	398,800
	317,281	(712,800)

18. EARNINGS PER SHARE

The computation of the basic earnings per share is based on the Group's income before non-recurring income, net of dividends paid to preferred shares holders, and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

The weighted average number of shares to compute basic and diluted earnings per share is 61,620,186 shares for the six-month period ended June 30, 2013 (61,620,590 shares for 2012).

19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

20. FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT

	(Unaudited) June 30, 2013 Resident Customers LBP'000	December 31, 2012 Resident Customers LBP'000
Fiduciary deposits invested in certificates of deposit with the Central Bank of Lebanon	1,623,804	1,623,804
Fiduciary deposits from related parties invested in loans granted to related party companies	5,427,000	5,427,000
Shares in trust	9,337,999	1,419,101
	16,388,803	8,469,905

21. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties excluding accrued interest consist of the following:

	(Unaudited) June 30, 2013 LBP'000	December 31, 2012 LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
- Secured loans and advances	311,735	326,291
- Unsecured loans and advances	960,968	7,724
- Deposits	20,532,794	10,106,169
Associated companies:		
Direct facilities and credit balances:		
- Secured loans and advances	-	2,667,485
- Unsecured loans and advances	522,060	827,709
- Deposits	59,376,949	43,830,993
Indirect facilities:		
- Letters of guarantee	18,799	9,914

Interest rates charged on balances outstanding are the same as applicable rates that would be charged in an arm's length transaction. Secured loans and advances are covered by real estate mortgages to the extent of LBP311million (Real estate mortgages to the extend of LBP302million and by pledged deposits of the respective borrowers to the extent of LBP2.67billion as at December 31, 2012).

The remunerations of executive management amounted to LBP1.22billion during the six-months period ended June 30, 2013 (LBP1.46billion for the six-months period ended June 30, 2012) in addition to incentives linked to performance.

22. CASH AND CASH EQUIVALENTS

Cash and cash equivalents for the purpose of the statement of cash flow consist of the following:

	(Unaudited) June 30,	
	2013	2012
	LBP'000	LBP'000
Cash	11,434,901	8,997,396
Current accounts with Central Bank of Lebanon (excluding compulsory reserve)	722,412	7,534,968
Time deposits with central banks	-	-
Current accounts with banks and financial institutions	92,139,921	137,220,270
Time deposits with banks and financial institutions	120,050,148	58,609,339
	224,347,382	212,361,973

	December 31,	
	2012	2011
	LBP'000	LBP'000
Cash	10,615,168	10,349,533
Current accounts with Central Bank of Lebanon (excluding compulsory reserve)	5,362,076	17,522,965
Time deposits with Central Bank of Lebanon	6,783,750	-
Checks for collection and current accounts with banks and financial institutions	238,513,724	193,853,309
Time deposits with banks and financial institutions	84,267,045	192,202,713
	345,541,763	413,928,520

Time deposits with and from central banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

23. COLLATERAL GIVEN

The carrying values of financial assets given as collateral are as follows:

	(Unaudited) June 30, 2013		
	Pledged Amount	**Nature of Facility**	**Amount of Facility**
	LBP'000		**LBP'000**
Deposits with banks and financial institutions	67,115,108	Forward contracts	400,575,203
		Options and swaps transactions	37,487,393
		Acceptances less than one year	16,274,416
Pledged deposits with related parties	-	Letters of credit and letters of guarantee	NIL
	67,115,108		

	December 31, 2012		
	Pledged Amount	**Nature of Facility**	**Amount of Facility**
	LBP'000		**LBP'000**
Deposits with banks and financial institution	54,341,963	Forward contracts	392,518,377
		Options and swaps transactions	24,642,366
		Acceptances less than one year	11,416,158
Pledged deposits with related parties	8,274,994	Letters of credit and letters of guarantee	NIL
	62,616,957		

24. RESIDUAL CONTRACTUAL MATURITIES OF FINANCIAL ASSETS AND LIABILITIES

	(Unaudited), June 30, 2013						
	LBP Base Accounts			F/Cy Base Accounts			
	Assets	Liabilities	Maturity Gap	Assets	Liabilities	Maturity Gap	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Accounts with no maturity	61,730,348	40,035,983	21,694,365	700,392,512	440,903,848	259,488,664	281,183,029
Up to 3 months	20,340,934	212,866,411	(192,525,477)	767,316,412	1,121,264,169	(353,947,757)	(546,473,234)
3 months to 1 year	51,819,535	62,451,354	(10,631,819)	104,184,633	93,512,473	10,672,160	40,341
1 to 3 years	83,901,165	187,505	83,713,660	74,540,094	63,928,887	10,611,207	94,324,867
3 to 5 years	114,195,164	-	114,195,164	44,011,374	-	44,011,374	158,206,538
5 to 10 Years	38,712,842	-	38,712,842	107,699,555	-	107,699,555	146,412,397
Over 10 Years	-	-	-	17,022,288	-	17,022,288	17,022,288
	370,699,988	315,541,253	55,158,735	1,815,166,868	1,719,609,377	95,557,491	150,716,226

	December 31, 2012						
	LBP Base Accounts			F/Cy Base Accounts			
	Assets	Liabilities	Maturity Gap	Assets	Liabilities	Maturity Gap	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Accounts with no maturity	73,912,603	39,796,131	34,116,472	966,326,354	419,550,581	546,775,773	580,892,245
Up to 3 Months	35,239,637	222,201,047	(186,961,410)	468,213,525	1,190,895,545	(722,682,020)	(909,643,430)
3 Months to 1 year	42,237,700	49,309,397	(7,071,697)	67,447,773	94,293,487	(26,845,714)	(33,917,411)
1 to 3 years	69,205,308	4,853,700	64,351,608	268,347,773	65,151,210	203,196,563	267,548,171
3 to 5 years	88,331,051	-	88,331,051	89,645,630	-	89,645,630	177,976,681
5 to 10 years	59,956,994	-	59,956,994	15,840,702	-	15,840,702	75,797,696
Over 10 years	-	-	-	549,335	-	549,335	549,335
	368,883,293	316,160,275	52,723,018	1,876,371,092	1,769,890,823	106,480,269	159,203,287

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