

**PERFORMANCE REVIEW
OF BYBLOS BANK S.A.L.**



KEY FINANCIAL DATA

	2003	2004
Total Assets	6,021	6,968
Customers' deposits	4,922	5,476
Net advances to customers	1,181	1,341
Cash and due from banks (1)	3,146	3,452
Total equity	549	582
Net book value (2)	444	479
Net income	46.4	53.7
Number of domestic branches	70	72
Number of foreign branches and subsidiary (3)	5	5
Number of ATMs	62	79
Number of employees	1,399	1,397
Market Shares (4)		
Market share in assets	9.18%	9.04%
Market share in customers' loans	7.11%	7.22%
Market share in customers' deposits	9.55%	9.39%
Share Data		
Book value per share (5)	1.68	1.85
Earnings per common share in USD (5)	0.17	0.20
Earnings per priority share in USD (5)		
Net dividend per common share in USD (6)	0.10	0.10
Net dividend per priority share in USD (6) (7)		
Dividend payout ratio	72.31%	62.47%
Profitability		
Return on average assets	0.82%	0.83%
Return on average common equity	10.33%	11.49%
Leverage multiplier	13.56	14.53
Interest on earning assets	7.65%	6.26%
Funding cost	5.79%	5.00%
Spread	1.86%	1.25%
Net interest margin	2.22%	1.60%
Cost-to-income	53.18%	56.49%
Capital Adequacy		
Capital to assets	9.11%	8.36%
Capital adequacy (8)	26.83%	19.86%
Liquidity		
Net advances/assets	19.62%	19.24%
Net advances/customers' deposits	24.00%	24.48%
Customers' deposits/total resources	81.75%	78.58%
Liquid assets	76.77%	76.16%
Assets Quality		
Loan loss provisions (9)/customer loans	13.25%	11.86%
Non-performing loans/customer loans	13.29%	12.19%
Loan loss provision (9)/non-performing loans	92.12%	89.74%
1 USD =	LBP 1,507.5	LBP 1,507.5

(1) Includes CDs issued by the Central Bank.

(2) Excludes subordinated loans.

(3) Includes branches of Byblos Bank Europe, Byblos Africa, Byblos Syria, Byblos Armenia, Byblos Iraq and Byblos Cyprus.

(4) Market Share is based on all commercial and investment banks operating in Lebanon.

(5) Based on the number of shares outstanding at the end of the period.

Year Ended 31 December (USD Million, except for per share data)

2005	2006	2007	2008	2009	2010	2011	2012
7,526	8,190	9,486	11,230	13,576	15,288	16,602	17,015
5,646	6,276	7,262	8,363	10,286	11,927	12,820	13,384
1,488	1,750	2,233	2,790	3,197	3,771	4,008	4,120
3,194	3,234	3,884	4,708	6,179	7,802	9,001	8,917
794	752	984	1,270	1,494	1,831	1,852	1,926
690	718	762	1,071	1,294	1,627	1,646	1,650
69.4	78.7	99.2	122.0	145.6	177.7	179.7	167.3
73	73	73	76	75	77	78	77
6	9	16	17	19	23	24	25
84	85	109	114	133	149	165	168
1,520	1,766	2,101	2,362	2,433	2,719	2,716	2,572
9.17%	9.30%	9.67%	9.88%	9.80%	9.99%	10.26%	10.01%
7.18%	8.35%	8.78%	8.71%	8.51%	8.13%	8.06%	8.22%
9.32%	9.42%	9.55%	9.48%	9.41%	9.69%	9.88%	9.86%
1.44	1.50	1.61	1.82	2.16	2.21	2.24	2.25
0.25	0.14	0.18	0.21	0.26	0.27	0.25	0.23
0.29	0.17	0.22	0.24	0.29	0.30		
0.10	0.10	0.10	0.10	0.13	0.13	0.13	0.13
0.01	0.13	0.13	0.13	0.16	0.16		
50.63%	78.32%	62.17%	57.10%	58.71%	63.80%	59.63%	64.04%
0.96%	1.00%	1.12%	1.18%	1.17%	1.23%	1.13%	1.00%
12.03%	11.37%	13.84%	14.56%	15.00%	14.03%	12.29%	11.28%
10.91	11.41	12.45	10.48	10.49	9.40	10.09	10.31
6.32%	7.16%	7.29%	6.97%	6.38%	5.84%	5.52%	5.25%
5.02%	5.66%	5.64%	4.99%	4.65%	4.21%	4.00%	3.98%
1.30%	1.49%	1.65%	1.98%	1.73%	1.63%	1.51%	1.27%
1.70%	2.00%	2.10%	2.39%	2.17%	2.04%	1.90%	1.64%
49.56%	53.41%	51.81%	47.38%	46.28%	45.54%	43.39%	45.89%
10.55%	9.18%	10.37%	11.31%	11.01%	11.97%	11.16%	11.32%
25.04%	20.17%	11.23%	12.61%	12.62%	14.75%	13.61%	15.03%
19.77%	21.36%	23.54%	24.85%	23.55%	24.67%	24.14%	24.21%
26.36%	27.88%	30.75%	33.37%	31.08%	31.62%	31.26%	30.78%
75.02%	76.63%	76.56%	74.47%	75.77%	78.01%	77.22%	78.66%
76.20%	74.00%	71.63%	70.69%	72.42%	71.85%	72.48%	72.57%
10.24%	8.73%	5.40%	4.19%	3.64%	3.45%	4.04%	5.31%
10.47%	8.14%	4.66%	3.36%	2.63%	2.38%	3.02%	5.29%
91.30%	100.88%	107.51%	115.64%	134.10%	144.46%	132.77%	99.62%
LBP 1,507.5							

(6) Net of income tax (5%).

(7) Representing annual distribution for priority shares calculated at 4% of the nominal value in addition to dividend declared for common shares, noting that as of May 2011, priority shares were converted into common shares.

(8) Capital adequacy is calculated based on Basel II as of December 2007.

(9) Includes specific and collective provisions, as well as reserved interest.

MANAGEMENT DISCUSSION AND ANALYSIS



MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF THE BANK

Byblos Bank is one of the leading banks in Lebanon, providing a full range of banking services through its extensive branch network. Through its overseas banking and other subsidiaries, the Bank also conducts a wide range of commercial banking and financial activities in Europe and the Middle East and North Africa (MENA) region. As at 31 December 2012, the Bank had 2,572 employees, 77 branches in Lebanon, one branch in Cyprus, and three in Iraq (Erbil, Baghdad, and Basra). As at the same date, Byblos Bank Europe S.A., the Bank's 99.95% owned subsidiary, had its main branch in Brussels, one branch in London and another in Paris; Byblos Bank Africa, the Bank's 56.86% owned subsidiary, had one branch in Khartoum and one branch in Bahri; Byblos Bank Syria S.A., the Bank's 52.37% owned subsidiary, had four branches in Damascus (Abou Roummaneh, Mazzeh, Hosh Blass, and Abbassiyen), two branches in Aleppo and one branch in each of Homs, Lattakia, Tartous, Hama, and Swaidaa. Byblos Bank Armenia C.J.S.C., the Bank's 65% owned subsidiary, had three branches in Yerevan (Amiryan, Malatia and Komitas) and one branch in Vanadzor. Byblos Bank RDC, the bank's 66.67% owned subsidiary had one branch in Kinshasa-Gombe, Democratic Republic of the Congo. The Bank also has a representative office in Abu Dhabi, United Arab Emirates, and another in Lagos, Nigeria, both of which are aimed at better servicing of the Lebanese Diaspora abroad.

The Bank has developed a reputation as a pioneer in the development and marketing of new products designed principally to serve the rapidly growing consumer market in Lebanon. In recent years, the Bank has undertaken a number of steps to expand its business and improve its market share and profile by setting up subsidiaries in selected MENA countries, by striving to provide tailor-made banking services to its customers in terms of retail and commercial banking, and by launching new financial products.

Byblos Bank has been a major partner in the Lebanese Republic's financing strategy, including serving as co-Lead Manager for dual-tranche Eurobonds of USD 950 million and USD 2.6 billion, respectively, in March 2012 and November 2012.

In 2012, the Bank successfully issued a 10-year convertible bond of USD 300 million that carries a coupon rate of 6.5% to be paid quarterly, maturing in 2022. Subscribers have the right to convert their holdings, in whole or in part, into common shares or into Global Depository Receipts (GDRs) during each year of the bond's life. Investors exercising this option will have the right to exchange their notes for Byblos Bank shares at a price of USD 2.50 per share. Subscribers to the bond also have pre-emptive rights to subscribe to any future capital increase by Byblos Bank as well as to any new issue of convertible loans or convertible bonds by the Bank. The Bank used the funds to maintain high solvency ratios in accordance with Basel III requirements, to obtain long-term funding at acceptable rates, to replace notes that matured during the year, and to finance its growth in domestic and foreign markets. Following the issuance, the Bank's Tier 1 and Tier 2 capital (as per Basel II calculation) reached USD 1.696 billion, while the capital adequacy ratio stood at 15.03%.

The Union of Arab Banks' 2012 survey of the top 100 Arab banks ranked Byblos Bank as the 38th largest Arab bank in terms of assets. The survey ranked banks based on total assets at year-end 2011. Byblos Bank ranked ahead of Burgan Bank in Kuwait, Qatar Islamic Bank and Saudi Hollandi Bank in Saudi Arabia. Byblos Bank's assets stood at USD 16.6 billion at end-2011, constituting an increase of 8.6% from USD 15.3 billion at end-2010, and compared to growth of 7% for the top 100 Arab banks as a group. Byblos Bank's assets accounted for 12.7% of the aggregate assets of the 10 Lebanese banks in the survey and for 0.9% of the assets of the top 100 Arab banks.

The International Finance Corporation (IFC), the private sector arm of the World Bank, has extended a USD 10 million loan to Byblos Bank Armenia, which was partially disbursed in January 2013, to help it increase local access to housing finance and support the country's first energy-efficiency lending package. The partnership will help Byblos Bank Armenia to increase mortgage lending and provide loans to homeowners who want to make their residences more energy-efficient. This would help Armenians save power and reduce greenhouse gas emissions, and yield a significant impact on development, given that the country relies heavily on energy imports. Byblos Bank Armenia will design its energy-efficiency products with advisory support from the IFC's Armenia Sustainable Energy Finance Project. In addition, the European Fund for Southeast Europe (EFSE), a microfinance investment fund, has extended a USD 5.3 million loan to Byblos Bank Armenia. This loan is designed to support lending to low-income households and both small and micro-enterprises in Armenia. Established in 2005, the EFSE is supported by the European Commission and the German Federal Ministry for Economic Cooperation and Development.

Byblos Bank's financial results in 2012 were affected by the depreciation of the Syrian currency by 28.0% and the Sudanese currency by 51.8%, but also by the Bank's efforts to downsize its activities in Syria in order to preserve its capital base and asset quality amid the conditions currently prevailing in the country.

MANAGEMENT DISCUSSION AND ANALYSIS

GROWTH

ASSETS

Total assets of the Bank recorded an increase of 2.5% during the year 2012 to reach LBP 25,650 billion (USD 17,015 million) at the end of December 2012 compared to an increase of 8.6% during the year 2011, and compared to an increase of 8.4% in the Alpha Group of top Lebanese banks. Consequently, the Bank's market share in the Alpha Group by total assets stood at 10.8% at the end of 31 December 2012 compared to 11.4% at the end of 31 December 2011.

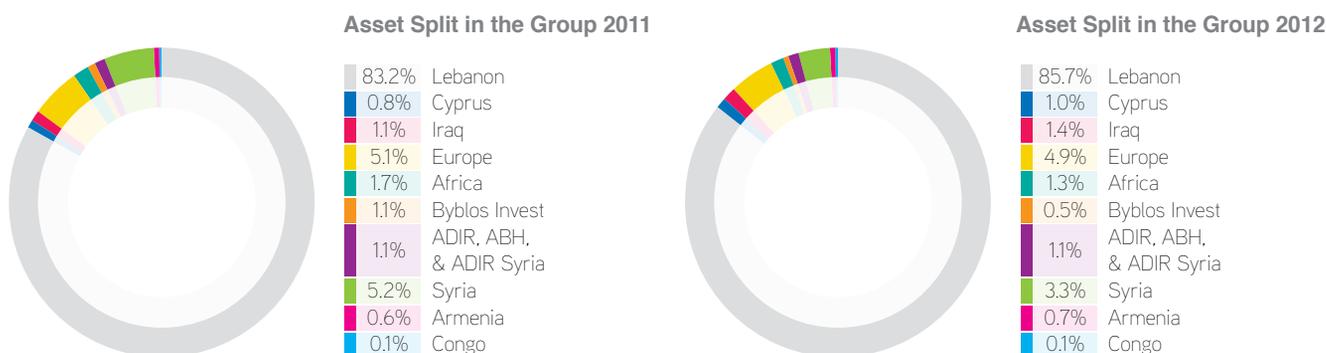
During the period between 31 December 2009 and 31 December 2012, total assets of the Bank grew at an average annual compounded rate of 7.8% compared to growth of 8.8% in the Alpha Group, and which was reflected in the Bank's market share by total assets, which slightly decreased from 11.1% at the end of December 2009 to 10.8% at the end of December 2012.

The graph below shows the evolution of total assets and market share during the last four years:



ASSET SPLIT IN THE GROUP

The following graphs show the breakdown of assets in the Byblos Bank Group as at 31 December 2011 and 31 December 2012:



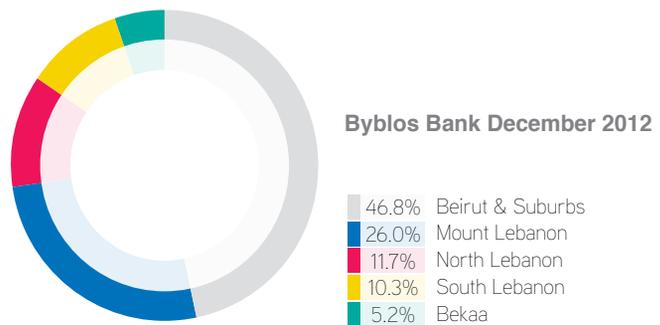
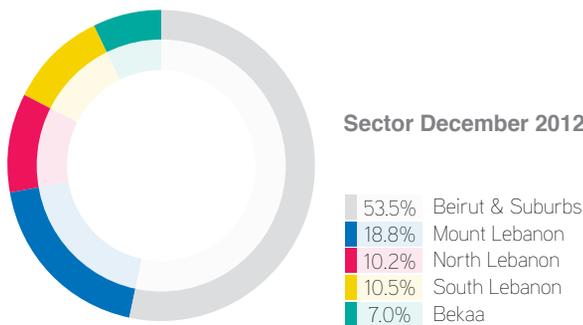
As illustrated above, total assets of international subsidiary banks and branches represented 12.7% of total assets as at 31 December 2012, down from 14.6% at the end of the previous year.

Geographical Distribution of Branches

Byblos Bank’s branch network reached 77 branches inside Lebanon at the end of 2012, representing 8.1% of total branches in the Lebanese banking sector. Byblos Bank’s branch presence is more concentrated in rural areas as compared to the distribution in the sector as a whole. Byblos Bank branches located in Mount Lebanon, numbering 20, represented 26.0% of total Byblos Bank branches at the end of December 2012 compared to just 18.8% in the Lebanese banking sector, and represented 11.2% of total branches in the Lebanese banking sector operating in Mount Lebanon. On the other hand, branches located in Beirut and its suburbs, 36 branches, represented 46.8% of total Byblos Bank branches at the end of December 2012 compared to 53.5% in the Lebanese banking sector, and represented 7.1% of total branches operating in Beirut and its suburbs.

The nine branches located in the North of Lebanon represented 11.7% of total Byblos Bank branches compared to 10.2% in the Lebanese banking sector, and represented 9.3% of total branches of the Lebanese banking sector operating in North Lebanon. In South Lebanon (eight branches) and the Bekaa Valley (four branches), Byblos Bank’s presence was almost identical to the Lebanese banking sector, with Byblos Bank branches located in the South and the Bekaa representing 10.3% and 5.2% of total Byblos Bank branches respectively compared to 10.5% and 7.0% respectively in the Lebanese banking sector.

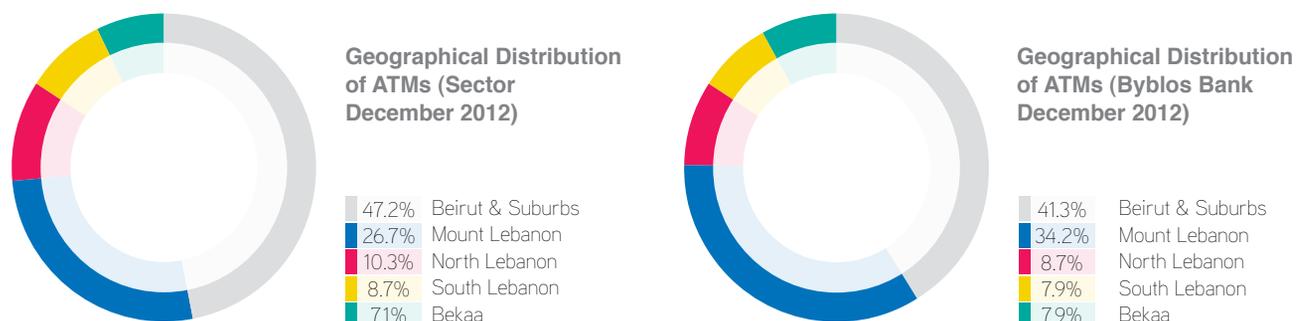
The graphs below show the geographical distribution of Byblos Bank branches in Lebanon as compared to the Lebanese banking sector as at 31 December 2012:



At the end of 2012, the Byblos Bank Group’s presence abroad consisted of Cyprus; Erbil, Baghdad and Basra in Iraq (branches of Byblos Bank S.A.L.); Brussels, London, and Paris through our subsidiary Byblos Bank Europe S.A.; Khartoum and Bahri through our subsidiary Byblos Bank Africa (Sudan); Abou Roummaneh, Aleppo (two branches), Homs, Lattakia, Mazzeh, Tartous, Hama, Abbassiyen, Hosh Blass and Swaidaa through our subsidiary Byblos Bank Syria S.A.; Vanadzor, Malatia, Amiryan and Komitas through our subsidiary Byblos Bank Armenia; Kinshasa-Gombe through our subsidiary Byblos Bank RDC; and our two representative offices in Abu Dhabi, UAE, and Lagos, Nigeria.

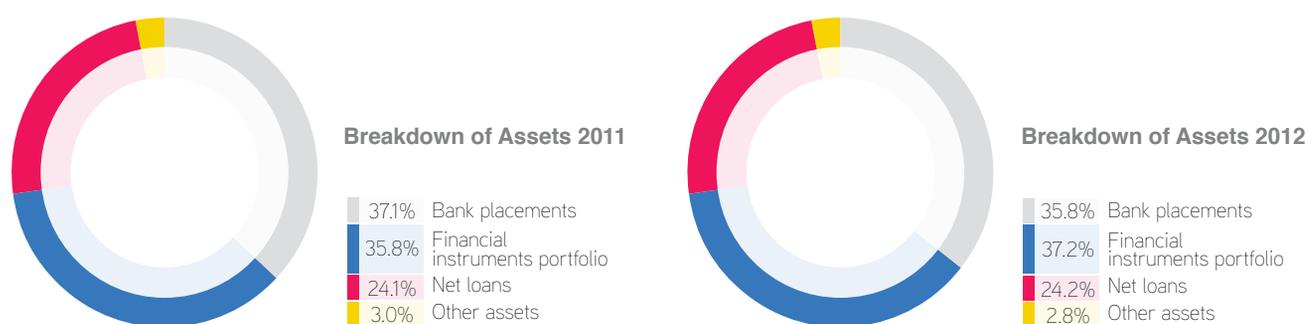
MANAGEMENT DISCUSSION AND ANALYSIS

Geographical Distribution of Automated Teller Machines (ATMs)



ASSET BREAKDOWN

The graphs below show the composition of the Bank's assets as at 31 December 2011 and 31 December 2012:



FINANCIAL INSTRUMENTS PORTFOLIO

The Bank's investment portfolio includes Lebanese Treasury Bills and other governmental bills, certificates of deposit issued by the Central Bank of Lebanon and commercial banks, bonds and financial instruments with fixed income, and marketable securities and financial instruments with variable income.

The following table sets forth the breakdown of the Bank's securities portfolio by type of instrument and currency as at 31 December 2010, 2011 and 2012:

As at 31 December	2010		2011		2012	
	LBP million	percent	LBP million	percent	LBP million	percent
Lebanese and other governmental treasury bills and bonds						
Lebanese Treasury Bills in LBP	2,668,930	28.6	1,963,162	21.9	2,182,705	22.9
Lebanese and other governmental bonds in foreign currency	1,588,567	16.9	1,690,243	18.9	2,031,047	21.3
Bonds and financial assets with fixed income						
Corporate bonds	557,490	5.9	705,314	7.9	797,650	8.4
Corporate certificates of deposit in foreign currency	22,669	0.2	240,084	2.7	143,134	1.5
Central Bank certificates of deposit in LBP and foreign currency	4,448,481	47.4	4,271,039	47.7	4,280,281	44.9
Shares, securities and financial assets with variable income in LBP and foreign currency						
	110,771	1.2	103,571	1.2	104,791	1.1
Collective Provisions						
	(16,680)	-0.2	(25,015)	-0.3	(5,487)	-0.1
Total	9,380,228	100	8,948,398	100	9,534,121	100

The Bank's portfolio of securities is classified as follows:

Investments by Classification

In compliance with Circular 265 of the Lebanese Banking Control Commission issued on 23 September 2010, the Group adopted, effective 1 January 2011, Phase I of IFRS 9, as issued in November 2009 and reissued in October 2010, and related consequential amendments to other International Financial Reporting Standards. The effective application date stipulated by the standard is annual periods beginning on or after 1 January 2015. The initial application date of this standard with respect to the Group is 1 January 2011, in accordance with the transitional provisions of the standard.

IFRS 9 introduced new classification and measurement requirements for financial assets and financial liabilities that are within the scope of IAS 39. It also cancelled all previous categories under IAS 39, namely financial assets held for trading, available-for-sale financial instruments, financial assets classified as loans and receivables, and financial instruments held to maturity.

The Group did not restate comparative information as permitted by the transitional provisions of IFRS 9 and has recognized the impact of early adoption of IFRS 9 as at 1 January 2011, in the opening retained earnings and other components of equity as of that date.

■ DEBT INSTRUMENTS AT AMORTIZED COST

Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

1. The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
2. The contractual terms of the instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

MANAGEMENT DISCUSSION AND ANALYSIS

■ DEBT INSTRUMENTS AND OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Included in this category are those debt instruments that do not meet the conditions in “Debt instruments at amortized cost” above, and debt instruments designated at fair value through profit or loss upon initial recognition.

■ EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

■ EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

The following tables set forth a breakdown of the Bank’s investment securities portfolio, by classification, as at 31 December 2010, 2011 and 2012:

As at 31 December 2010

LBP Million	Held for trading	Held to maturity	Available for sale	Loans and receivables	Accrued interest	Total
Central Bank certificates of deposit				4,366,501	81,981	4,448,482
Lebanese and other governmental treasury bills and bonds	142,007	385,789	1,433,865	2,203,391	92,444	4,257,496
Bonds and financial assets with fixed income	33,929	42,790	316,423	155,342	9,006	557,490
Shares, securities and financial instruments with variable income	26,447		84,324			110,771
Corporate certificates of deposit				22,613	56	22,669
Collective Provisions		(3,722)		(12,958)		(16,680)
Total by category	202,383	424,857	1,834,612	6,734,889	183,487	9,380,228

As at 31 December 2011

LBP Million	Equity Instrument at fair value through P or L	Debt Instrument at fair value through P or L	Debt Instrument at amortized cost	Equity Instrument at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		10,916	4,187,123		83,916	4,281,955
Lebanese and other governmental treasury bills and bonds		195,146	3,392,929		65,330	3,653,405
Bonds and financial assets with fixed income		19,637	675,105		10,572	705,314
Shares, securities and financial instruments with variable income	26,604			76,967		103,571
Corporate certificates of deposit			228,568		600	229,168
Collective Provisions			(25,015)			(25,015)
Total by category	26,604	225,699	8,458,710	76,967	160,418	8,948,398

As at 31 December 2012

LBP Million	Equity Instrument at fair value through P or L	Debt Instrument at fair value through P or L	Debt Instrument at amortized cost	Equity Instrument at fair value through OCI	Accrued interest	Total
Central Bank certificates of deposit		10,537	4,186,553		83,192	4,280,282
Lebanese and other governmental treasury bills and bonds		253,890	3,899,640		60,221	4,213,751
Bonds and financial assets with fixed income		7,655	779,037		10,958	797,650
Shares, securities and financial instruments with variable income	26,127			78,664		104,791
Corporate certificates of deposit			143,049		85	143,134
Collective Provisions			(5,487)			(5,487)
Total by category	26,127	272,082	9,002,792	78,664	154,456	9,534,121

As per the table here above, 96.0% of the financial instruments are classified under debt instruments at amortized cost, as at the end of December 2012.

Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currencies) increased, as a percentage of the Bank's total securities portfolio, to 44.2% as at 31 December 2012, higher than the 40.8% as at 31 December 2011 but slightly lower than 45.4% as at 31 December 2010. Investments in Central Bank certificates of deposit (in both LBP and foreign currencies) represented 44.9% of the Bank's portfolio as at 31 December 2012, as compared to 47.7% as at 31 December 2011 and 47.4% as at 31 December 2010.

Corporate bonds represented 8.4% of the total portfolio as at 31 December 2012 compared to 7.9% as at 31 December 2011 and 5.9% as at 31 December 2010.

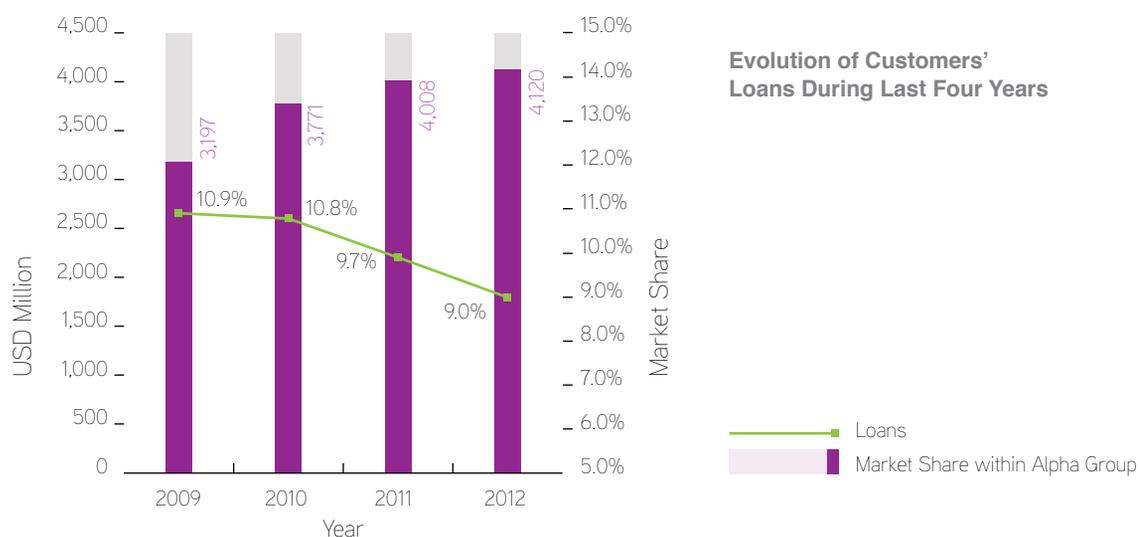
MANAGEMENT DISCUSSION AND ANALYSIS

CUSTOMERS' LOANS

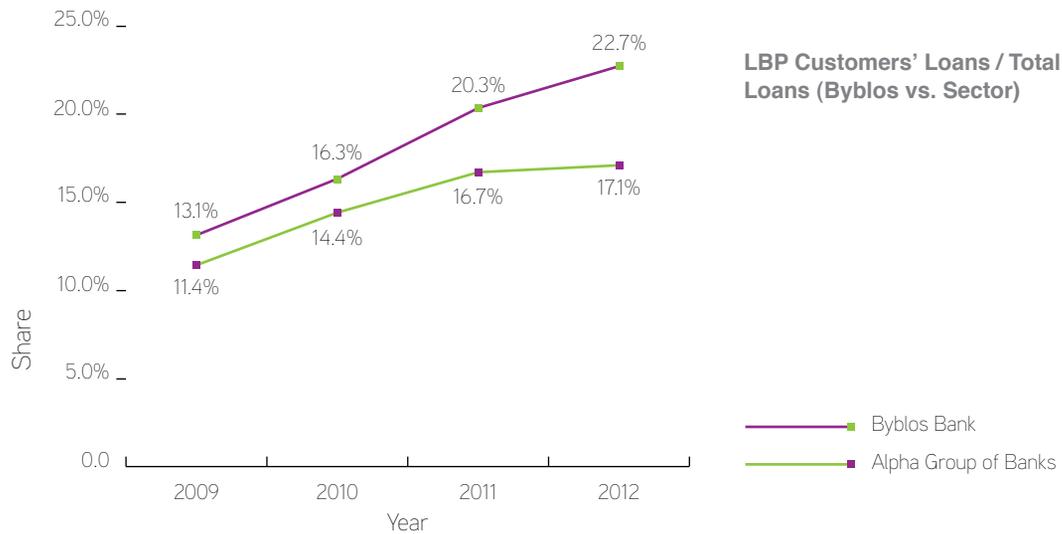
Customers' loans net of provisions (specific and collective) on doubtful loans and reserved interest on substandard and doubtful loans grew by 2.8% during the year 2012 to reach LBP 6,211 billion (USD 4,120 million) at the end of 31 December 2012 compared to growth of 6.3% in 2011, and compared to growth of 10.6% in the Alpha Group of top Lebanese banks. The lower growth in the Bank's net customers' loans in comparison with the Alpha Group banks led to a decrease in the Bank's market share of net customers' loans to 9.0% at the end of 31 December 2012, down from 9.7% at the end of 31 December 2011.

During the period between 31 December 2009 and 31 December 2012, net customers' loans increased at an average annual compounded rate of 8.8% compared to growth of 16.1% in the Alpha Group. Consequently, the Bank's market share of net customer advances dropped from 10.9% at the end of 31 December 2009 to reach 9.0% at the end of 31 December 2012, due mainly to the current situations in Syria and Africa.

The chart below shows the evolution of net customers' loans and their market shares over the last four years:



Customers' Loans Currency Structure

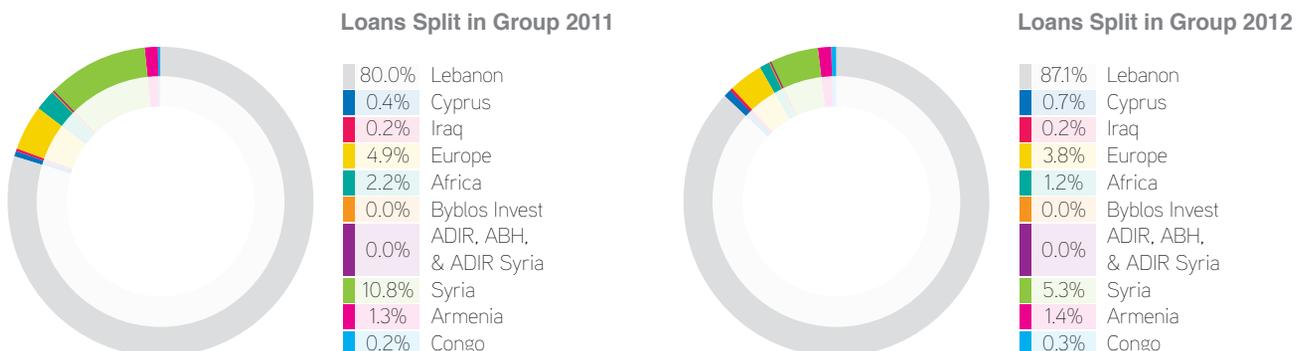


The increase in customers' loans denominated in LBP is the result of the increase in subsidized loans from the Central Bank of Lebanon in order to boost the economy.

Customers' Loans Geographical Distribution



Customers' Loans Split in Byblos Bank Group



MANAGEMENT DISCUSSION AND ANALYSIS

Loan Breakdown by Nature of Borrower

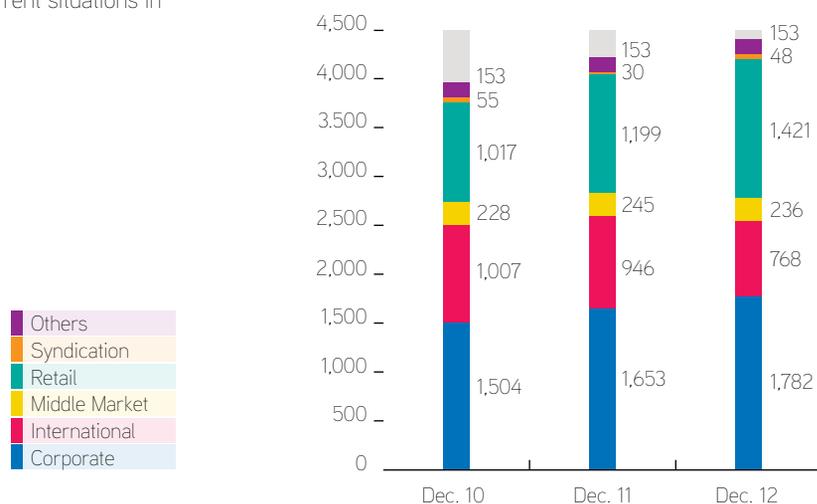
	December 2010			December 2011			December 2012		
	LBP million	USD 000's	% of total	LBP million	USD 000's	% of total	LBP million	USD 000's	% of total
Corporate	2,267,135	1,503,904	37.9%	2,491,253	1,652,573	39.1%	2,685,886	1,781,683	40.4%
International	1,517,830	1,006,853	25.4%	1,425,607	945,676	22.4%	1,157,165	767,605	17.4%
Middle market	344,109	228,265	5.8%	370,046	245,470	5.8%	356,078	236,204	5.4%
Retail	1,533,561	1,017,287	25.7%	1,806,978	1,198,659	28.4%	2,142,094	1,420,957	32.2%
Syndication	83,571	55,436	1.4%	45,560	30,223	0.7%	72,470	48,073	1.1%
Others	230,391	152,830	3.8%	230,020	152,583	3.6%	229,932	152,526	3.5%
Total	5,976,597	3,964,575	100.0%	6,369,464	4,225,184	100.0%	6,643,625	4,407,048	100.0%

During 2012, Byblos Bank's gross loan portfolio increased by 4.3% (+LBP 274 billion) to reach LBP 6,644 billion (USD 4,407 million) at the end of 31 December 2012 compared to an increase of 6.6% in 2011.

Commercial Loan Portfolio

- The corporate loan portfolio increased by 7.8% (+LBP 195 billion or USD 129 million) during the year 2012 to reach LBP 2,686 billion (USD 1,782 million) at the end of 31 December 2012 compared to an increase of 9.9% (+LBP 224 billion or USD 149 million) in 2011. Corporate loans represented 40.4% of the gross loan portfolio at the end of December 2012, compared to 39.1% at the end of 31 December 2011.
- The international loan portfolio decreased by 18.8% (-LBP 268 billion or USD 178 million) during the year 2012 to reach LBP 1,157 billion (USD 768 million) at the end of 31 December 2012, due mainly to the current situations in Syria and Africa compared to a decrease of 6.1% (-LBP 92 billion or USD 61 million) in 2011. International loans represented 17.4% of the gross loan portfolio compared to 22.4% at the end of December 2011, due mainly to the current situations in Syria and Africa.
- The middle market loan portfolio decreased by 3.8% (-LBP 14 billion or USD 9 million) during the year 2012 to reach LBP 356 billion (USD 236 million) at the end of 31 December 2012, representing 5.4% of the gross loan portfolio.
- Total exposure to syndicated loans at the end of 2012 amounted to LBP 72 billion (USD 48 million) compared to LBP 46 billion (USD 30 million) at the end of December 2011, representing 1.1% of the gross loan portfolio compared to 0.7% at the end of December 2011.

The chart below shows the breakdown of the loan portfolio by nature of borrower for the years 2010, 2011 and 2012:

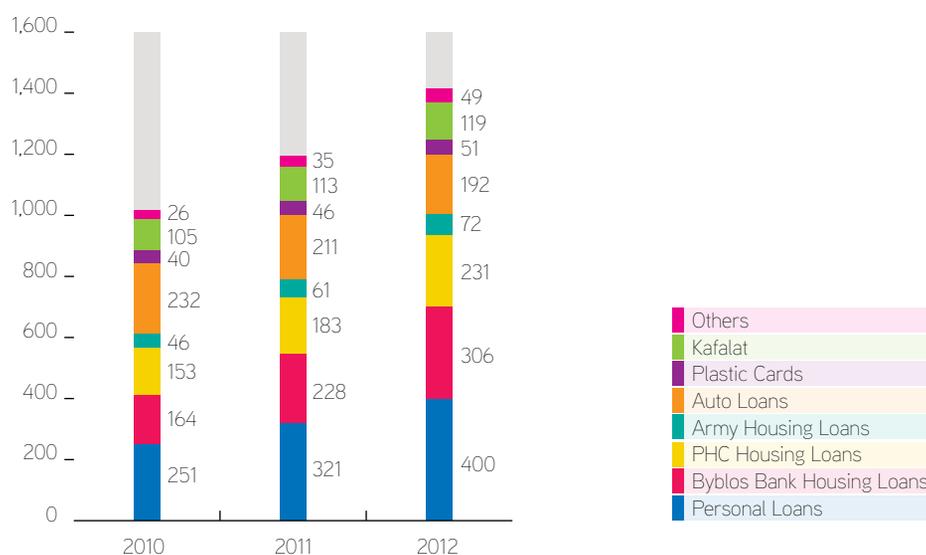


Retail Loan Portfolio

	December 2010			December 2011			December 2012		
	LBP million	USD 000's	% of total	LBP million	USD 000's	% of total	LBP million	USD 000's	% of total
Personal Loans	378,708	251,215	24.7%	483,695	320,859	26.9%	603,403	400,267	28.1%
Byblos Bank Housing Loans	246,729	163,668	16.1%	343,359	227,767	19.0%	461,588	306,194	21.5%
PHC Housing Loans	230,478	152,888	15.0%	275,982	183,073	15.3%	348,638	231,269	16.3%
Army Housing Loans	68,976	45,755	4.5%	92,675	61,476	5.1%	108,834	72,195	5.1%
Auto Loans	350,153	232,274	22.8%	318,495	211,273	17.6%	289,570	192,086	13.5%
Plastic Cards	60,257	39,971	3.9%	69,292	45,965	3.8%	76,826	50,963	3.6%
Kafalat	158,794	105,336	10.4%	170,282	112,957	9.4%	178,877	118,658	8.4%
Others	39,466	26,180	2.6%	53,199	35,289	2.9%	74,357	49,325	3.5%
Total Retail	1,533,561	1,017,287	100.0%	1,806,979	1,198,659	100.0%	2,142,093	1,420,957	100.0%

In line with the Bank's strategy to maintain Byblos Bank's leadership in retail, the retail loan portfolio increased from LBP 1,807 billion (USD 1,199 million) as of 31 December 2011 to LBP 2,142 billion (USD 1,421 million) as of 31 December 2012, recording a growth of 18.5%. The main increase in retail loans was the result of the increase in personal loans and housing loans, whose outstanding portfolios increased between 2011 and 2012 from USD 321 million to USD 400 million, an increase of 24.7% for personal loans, and from USD 472 million to USD 610 million, an increase of 29.1%, for housing loans.

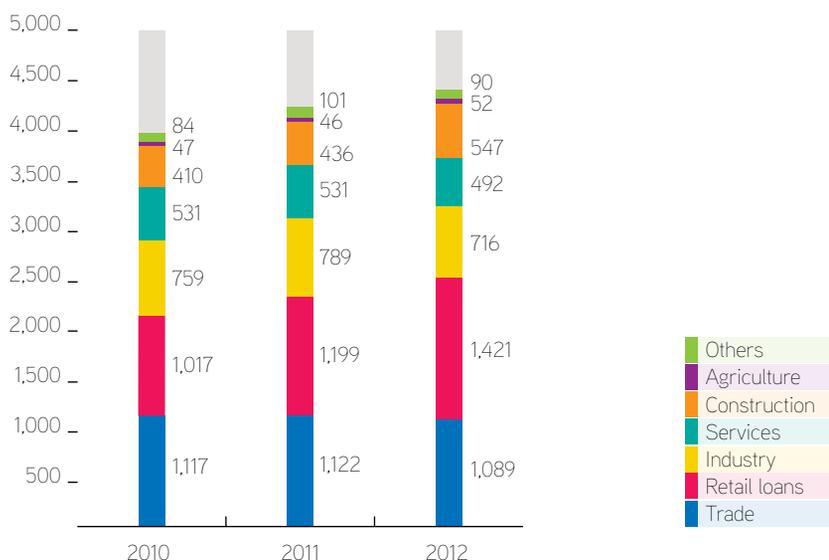
The chart below shows the evolution of retail loans throughout the last three years:



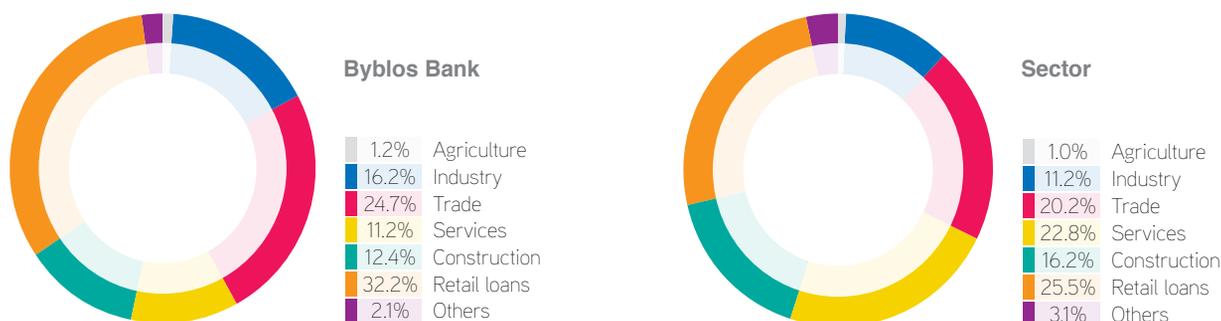
MANAGEMENT DISCUSSION AND ANALYSIS

Loan Portfolio by Economic Sector

In recent years, the Bank has focused its lending activities, to the extent possible, on sectors considered by management to be least affected by economic slowdowns. Loans to the trade sector (both wholesale and retail), which used to represent the major part of outstanding loans, decreased to the second position and constituted 24.7% of outstanding loans as at 31 December 2012, as compared to 26.6% as at 31 December 2011 and 28.2% as at 31 December 2010. Loans to the manufacturing sector decreased to 16.2% as at 31 December 2012, as compared to 18.7% as at 31 December 2011 and 19.1% as at 31 December 2010. Loans to the construction sector increased to 12.4% as at 31 December 2012, as compared to 10.3% as at 31 December 2011 and 2010. Retail loans increased to 32.2% at the end of December 2012, up from 28.4% and 25.7% as at 31 December 2011 and 2010 respectively, and therefore represented the highest share of the loan portfolio.



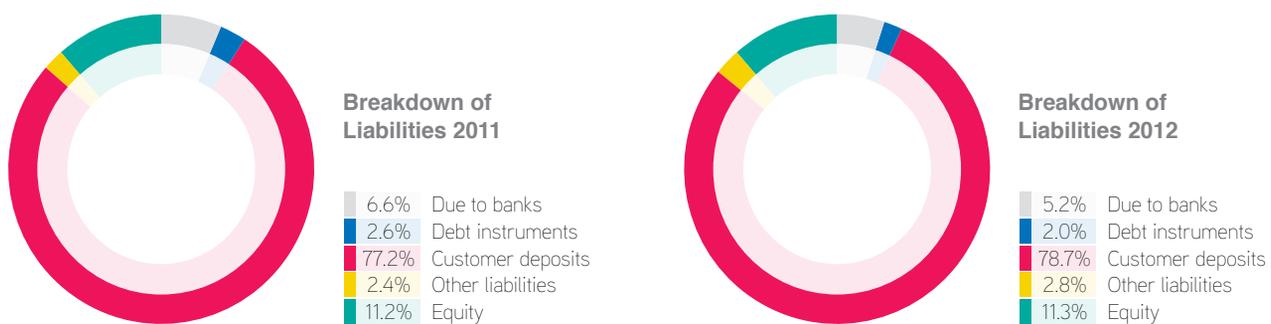
The pie charts below illustrate the breakdown of the loan portfolio by economic sector as at 31 December 2012 in comparison with the Lebanese banking sector:



LIABILITIES

LIABILITIES BREAKDOWN

Customers' deposits represent the major source of funds with a share of 78.7% at the end of 2012 compared to a share of 77.2% at the end of 2011:



CUSTOMERS' DEPOSITS

Customers' deposits recorded an increase of 4.4% during 2012 to reach LBP 20,176 billion (USD 13,384 million) at the end of 31 December 2012 compared to an increase of 7.5% during 2011, and compared to an increase of 8.3% in the Lebanese Alpha Group. Consequently, the Bank's market share of total customers' deposits in the Alpha Group of banks stood at 10.1% at the end of 31 December 2012, slightly lower than 10.5% at the end of the previous year.

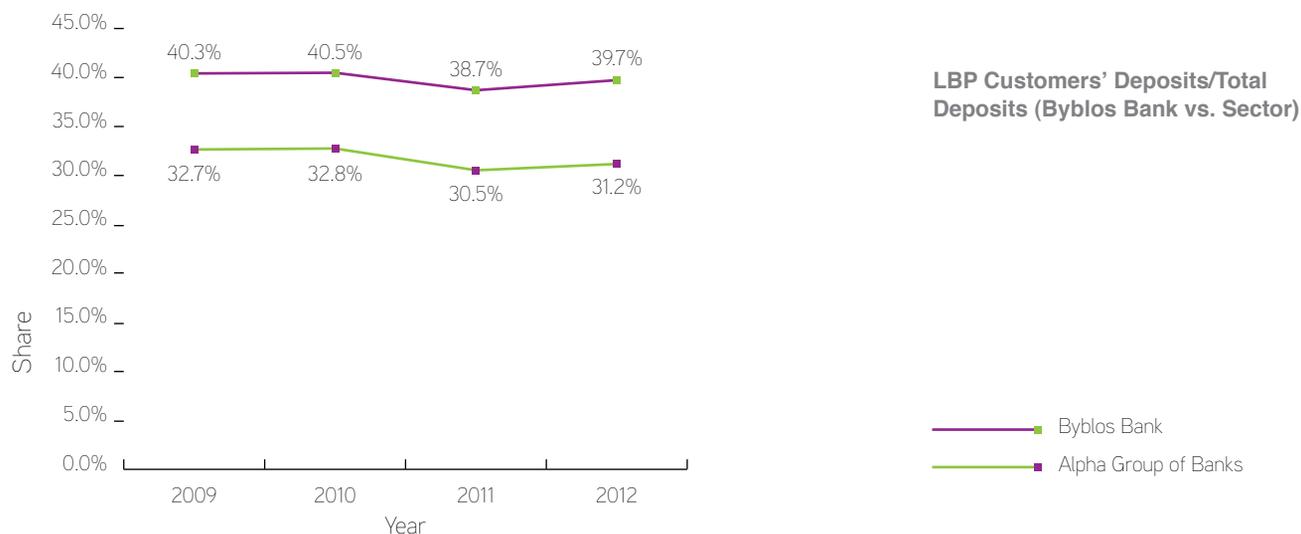
During the period between 31 December 2009 and 31 December 2012, the Bank's customers' deposits grew at an annual average compounded growth rate of 9.2% compared to growth of 9.1% for the Alpha Group. Consequently, the Bank's market share remained largely stable between 31 December 2009 and 31 December 2012 at 10.1%.

The graph below shows the evolution of customers' deposits over the last four years:



MANAGEMENT DISCUSSION AND ANALYSIS

CUSTOMERS' DEPOSITS CURRENCY STRUCTURE



The dollarization rate was not impacted by the economic and political tensions among different parties in Lebanon, the Arab uprisings and their consequences on the country, or the worldwide economic crisis. Therefore, customers' deposits denominated in LBP remained almost unchanged between 2009 and 2012, with a slight decrease from 40.3% in 2009 to 39.7% in 2012, and stayed in line with the trend in the sector. Compared to the Lebanese banking sector, Byblos Bank has a higher deposit base denominated in LBP as compared to 31.2% in the Alpha Group of Banks as at the end of December 2012.

Customers' Deposits by Type of Account

The following table shows the distribution of the Bank's customers' deposits by type of account as at 31 December 2010, 2011 and 2012:

As at 31 December	2010		2011		2012	
	LBP million	% of total	LBP million	% of total	LBP million	% of total
Current accounts	3,082,780	17.1	3,193,374	16.5	3,291,348	16.3
Term deposits	13,856,849	77.1	14,988,947	77.6	15,617,849	77.4
Blocked accounts	845,463	4.7	888,087	4.6	963,958	4.8
Related parties' accounts	111,595	0.6	167,102	0.9	208,040	1.0
Accrued interest	83,339	0.5	88,898	0.5	94,438	0.5
Total	17,980,026	100	19,326,408	100	20,175,633	100

The composition of customers' deposits stood almost stable throughout the last three years, during which time they were comprised mostly of term deposits, which consisted of 77.4% of total customers' deposits at the end of December 2012, as compared to 77.6% as at 31 December 2011, and to 77.1% as at 31 December 2010.

Maturity Profile of Customers' Deposits

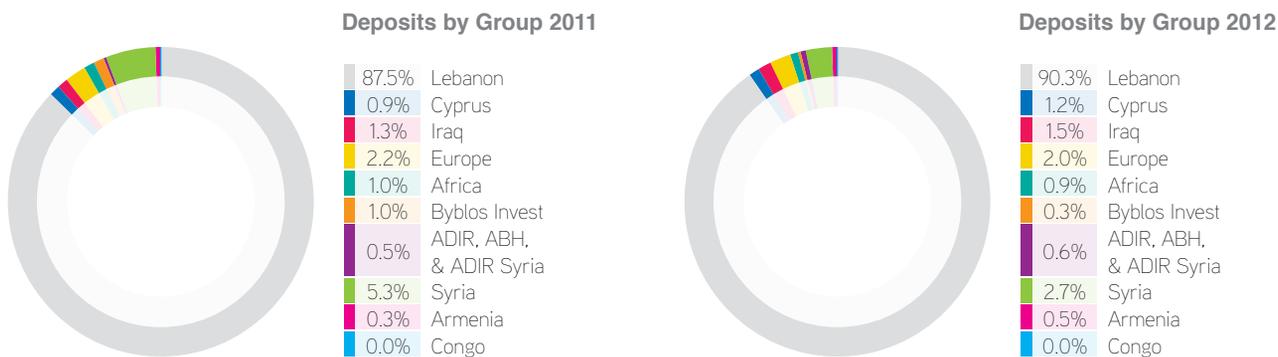
The following table shows the distribution of the Bank's customers' deposits by maturity profile as at 31 December 2010, 2011 and 2012:

As at 31 December	2010		2011		2012	
	LBP million	% of total	LBP million	% of total	LBP million	% of total
Less than 3 months	14,752,498	82.1	15,534,119	80.4	15,406,356	76.4
3 months to 1 year	2,642,482	14.7	2,984,527	15.4	3,725,139	18.5
1 year to 5 years	581,580	3.2	797,650	4.1	1,036,896	5.1
Over 5 years	3,466	0.0	10,111	0.1	7,242	0.0
Total	17,980,026	100	19,326,407	100	20,175,633	100

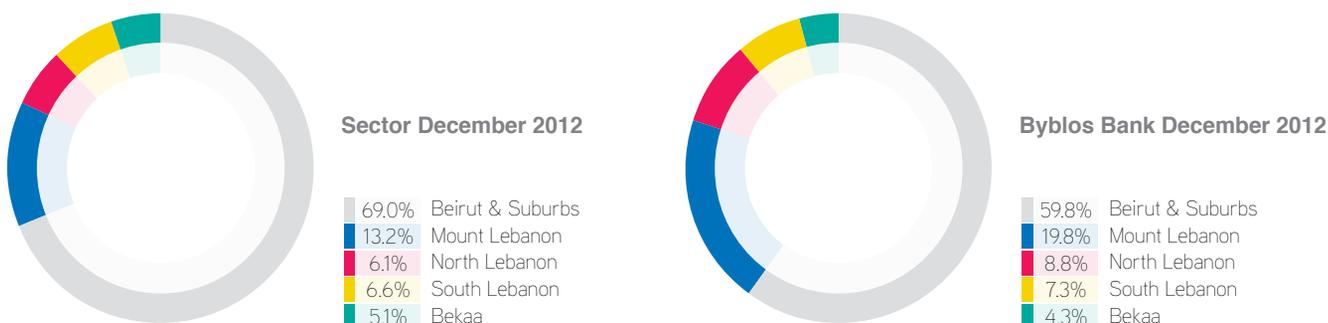
Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 94.8% and 95.8% of total customers' deposits as at 31 December 2012 and 31 December 2011, respectively.

Customers' Deposits Split in the Byblos Bank Group

The pie charts below show the split of customers' deposits in the Byblos Bank Group:



Geographical Distribution of Customers' Deposits in Lebanon



MANAGEMENT DISCUSSION AND ANALYSIS

Geographical distribution of the Bank's customers' deposits is in line with the geographical distribution of its branches, with customers' deposits in branches located in Beirut and its suburbs (46.8% of total branches) representing 59.8% of total customers' deposits in the Bank compared to 69.0% in the Lebanese banking sector. On the other hand, customers' deposits in branches located in Mount Lebanon (26.0% of total branches) represented 19.8% of the Bank's customers' deposits compared to 13.2% in the Lebanese banking sector; customers' deposits in branches located in North Lebanon (11.7% of total branches) represented 8.8% of the Bank's customers' deposits, higher than 6.1% in the Lebanese banking sector. In the South (10.4% of total branches), Byblos Bank's customer deposit concentration was 7.3% compared to 6.6% in the Lebanese banking sector. In the Bekaa Valley, the Bank's customers' deposits are less concentrated than in the Lebanese banking sector, with 4.3% of the Bank's total customer deposit located in the Bekaa (5.2% of total branches) compared to 5.1% in the Lebanese banking sector.

LONG-TERM SOURCES OF FUNDS

As a part of its strategy to match its longer-term loan portfolio with longer-term funding sources, the Bank has tapped into several types of long-term funding resources. The following table shows the breakdown of the Bank's long-term sources of funding as at 31 December 2010, 2011 and 2012, respectively:

In USD 000's	December 2010	December 2011	December 2012
Central Bank of Lebanon	5,847	5,847	5,847
Arab Trade Finance Program	9,101	23,491	15,841
Certificates of deposit	141,600	141,600	40,450
PROPARCO	7,198	4,941	3,347
OPEC Fund for International Development	10,000	14,000	12,167
European Investment Bank	168,961	155,674	126,055
Govco Incorporated NY	70,357	64,714	59,071
Agence Française de Développement	37,614	41,203	36,787
European Bank for Reconstruction and Development		5,000	3,571
European Fund for Southeast Europe			5,168
Citibank	8,667	6,833	5,000
9% Subordinated Participating Notes	31,169	31,169	
Convertible subordinated loans	173,000	173,000	300,000
Byblos Eurobond		300,000	300,000
Total Long-Term Sources of Funds	663,514	967,472	913,304

PROFITABILITY

LBP Million	2010	2011	2012	Growth (Vol.)	Growth (%)
Net interest income	427,263	436,244	402,641	(33,603)	-7.7%
Net allocation to provisions	(29,272)	(38,423)	(106,286)	(67,864)	176.6%
Net commission income	125,659	133,774	132,667	(1,107)	-0.8%
Net profits on financial operations	123,123	113,740	146,455	32,715	28.8%
Impairment losses on financial investments	(8,863)	(23,575)	19,489	43,065	-182.7%
Other Operating Income	8,117	24,212	27,484	3,273	13.5%
Total operating income (before provisions and impairment)	684,162	707,970	709,247	1,277	0.2%
Total operating income (after provisions and impairment)	646,027	645,972	622,450	(23,521)	-3.6%
Operating expenses	(280,412)	(277,424)	(294,215)	(16,792)	6.1%
Depreciation and amortization	(31,126)	(31,624)	(31,281)	343	-1.1%
Taxes	(66,670)	(65,987)	(44,691)	21,296	-32.3%
Net income	267,819	270,937	252,262	(18,675)	-6.9%
Bank's share	255,770	259,894	246,451		
Dividend on preferred shares (series 2008)	(24,032)	(24,160)	(24,160)		
Dividend on preferred shares (series 2009)	(24,032)	(24,160)	(24,160)		
Priority distribution of 4% on priority shares	(9,972)				
Net income related to common and priority shares	197,734	211,574	198,131		
Weighted average number of common shares during the period	288,838,287	561,806,168	561,749,874		
Weighted average number of priority shares during the period	205,982,021				
Earnings per common share	399.61	376.60	352.70		
Earnings per priority share	448.01				

Net income for the year 2012 amounted to LBP 252,262 million (USD 167 million), recording a decrease of 6.9% (-LBP 18,675 million or -USD 12.4 million) compared to LBP 270,937 million (USD 180 million) for the year 2011.

Return on average assets (ROA) stood at 1.00% at the end of December 2012 compared to 1.13% at the end of December 2011. In addition, return on average common equity (ROCE) stood at 11.3% compared to 12.3% at the end of December 2011.

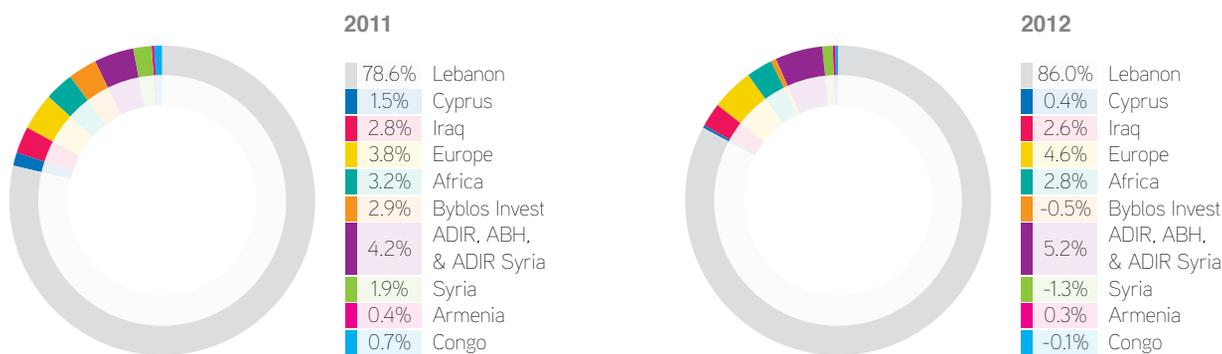
Earnings per common share based on the weighted average number of shares stood at LBP 352.7 (USD 0.234) in 2012 compared to LBP 376.6 (USD 0.250) in 2011.

MANAGEMENT DISCUSSION AND ANALYSIS

The drop in the Bank's profitability between the years 2012 and 2011 can be explained as follows:

- Net interest income decreased by 7.7% (-LBP 33,603 million or USD 22.3 million) in light of decreasing returns locally and internationally.
- Following the situation prevailing in Syria beginning in 2011, and in light of the Bank's conservative and cautious strategy, as well as its compliance with regulatory requirements, the Bank allocated a net sum of LBP 106,286 million (USD 70.5 million) in 2012, higher by LBP 67,864 million (USD 45 million) than LBP 38,423 million (USD 25.5 million) in 2011.
- Net profits on financial operations increased by 28.7% (+LBP 32,690 million or USD 21.7 million).
- Following the improvements in the prices of its investment portfolio, the Bank was able to recover LBP 19,490 million (USD 12.9 million) out of collective provisions against investments portfolio previously allocated while it allocated LBP 23,575 million (USD 15.6 million) in 2011.
- Despite the Bank's efforts to reduce its cost base, operating expenses increased by 6.1% (+LBP 16,792 million or USD 11.1 million) due mainly to the Lebanese government decree increasing wages, which had a significant effect on staff and other administrative expenses.

The pie charts below show the contribution of the Bank's subsidiaries to consolidated income between the years 2011 and 2012:



NET INTEREST INCOME

The net interest income before provisions for the year 2012 amounted to LBP 402,641 million (USD 267.1 million), recording a decrease of 7.7% (-LBP 33,578 million or USD 22.3 million) compared to LBP 436,219 million (USD 289.4 million) for the year 2011. Consequently, the net interest margin stood at 1.64% at the end of 2012 compared to 1.88% at the end of 2011.

	2011			2012		
	Average balance LBP million	Interest earned LBP million	Average rate %	Average balance LBP million	Interest earned LBP million	Average rate %
ASSETS						
Interest-bearing deposits in other banks	12,665,472	488,430	3.86%	13,505,892	536,783	3.97%
Securities	743,296	33,013	4.44%	945,453	35,712	3.78%
Loans	5,863,781	449,826	7.67%	6,126,620	469,010	7.66%
Treasury bills	3,942,752	305,348	7.74%	3,926,460	245,352	6.25%
Total interest-earning assets	23,215,301	1,276,617	5.50%	24,504,425	1,286,857	5.25%
Premises and equipment	328,456	0	0.00%	317,556	0	0.00%
Other non-interest- bearing assets	493,595	0	0.00%	516,780	0	0.00%
Total average assets	24,037,352	1,276,617	5.31%	25,338,761	1,286,857	5.08%
LIABILITIES						
Customers' deposits	18,653,216	743,086	3.98%	19,751,020	788,015	3.99%
Subordinated loans	305,294	27,942	9.15%	359,080	23,196	6.46%
Certificates of deposit	437,896	31,389	7.17%	585,501	38,968	6.66%
Interest-bearing deposits due to banks	1,591,714	37,956	2.38%	1,497,008	34,037	2.27%
Total interest-bearing liabilities	20,988,120	840,373	4.00%	22,192,609	884,216	3.98%
Other liabilities	578,634	0	0.00%	657,861	0	0.00%
Shareholders' equity	2,470,598	0	0.00%	2,488,291	0	0.00%
Total Average Liabilities and Equity	24,037,352	840,373	3.50%	25,338,761	884,216	3.49%
Spread (a)			1.49%			1.27%
Spread (b)			1.81%			1.59%
Interest-earning assets/ Interest-bearing liabilities			1.11			1.10

(a) Average return on interest-earning assets – average cost of interest-bearing liabilities

(b) Average return on assets – average cost of liabilities and equity

MANAGEMENT DISCUSSION AND ANALYSIS

PROVISIONS ALLOCATED

Net provisions (specific and collective) allocated for doubtful loans increased by 176.6% (+LBP 67,863 million), reaching LBP 106,286 million (USD 70.5 million) for the year 2012, as compared to LBP 38,423 million (USD 25.5 million) for the year 2011. This increase was mainly due to the rise in provisions (specific and collective) on doubtful debts by LBP 62.8 billion (USD 41.7 million) in 2012, noting that the bulk of provisions allocated were for Syrian exposures amid the current Syrian circumstances and in compliance with the regulatory requirements.

Coverage of non-performing loans by specific and collective provisions and reserved interest stood at 99.6% as at 31 December 2012, as compared to 132.8% as at 31 December 2011. Additional details on coverage of non-performing loans will be discussed in the section on asset quality.

LBP Million	2010	2011	2012
Specific and collective provisions set up during the year			
Doubtful debts	40,275	56,843	119,681
Doubtful banks and financial institutions accounts	5,682		
Write-offs	269	145	66
Total provisions allocated	46,226	56,988	119,747
Specific and collective provision written back during the year			
Loans recovered or upgraded	(16,954)	(7,625)	(9,497)
Unrealized interest on loans and advances to customers		(4,347)	(3,022)
Doubtful banks and financial institutions accounts		(6,593)	(942)
Total provisions recoveries	(16,954)	(18,565)	(13,461)
Net provisions allocated	29,272	38,423	106,286

NON-INTEREST INCOME

LBP Million	2010	2011	2012	Growth (Vol.)	Growth (%)
Commissions on documentary credits and acceptances	48,828	49,595	41,557	(8,039)	-16.21%
out of which in Lebanon*	22,402	20,707	15,820	(4,887)	-23.60%
out of which in Byblos Europe	16,055	20,701	19,164	(1,538)	-7.43%
out of which in Byblos Africa	7,797	3,601	5,143	1,541	42.80%
out of which in Byblos Syria	2,573	4,586	1,378	(3,207)	-69.95%
out of which in Byblos Congo	1	0	52	52	
Commissions on letters of guarantee	14,534	15,588	16,593	1,005	6.45%
out of which in Lebanon*	10,475	12,282	13,194	911	7.42%
out of which in Byblos Europe	1,025	641	829	189	29.46%
out of which in Byblos Africa	393	334	293	(42)	-12.48%
out of which in Byblos Syria	2,560	2,228	2,150	(77)	-3.46%
out of which in Byblos Armenia	70	63	4	(59)	-93.00%
out of which in Byblos Congo	11	40	123	83	208.66%
Securities income (realized and unrealized)	95,951	63,713	80,110	16,397	25.74%
Dividends received	4,987	5,214	5,042	(171)	-3.29%
Foreign exchange income	22,185	44,813	61,302	16,489	36.79%
Other commissions on banking services	62,297	68,591	74,517	(5,926)	8.64%
Total Non-Interest Income (Net)**	248,782	247,514	279,121	31,607	12.77%

* Lebanon includes Cyprus and Iraq.

** Net commissions, plus net trading income, plus net gain or loss on financial assets.

Non-interest income for the year 2012 amounted to LBP 279,121 million (USD 185.2 million), recording an increase of 12.77% (+LBP 31,607 million) as compared to LBP 247,514 million (USD 164.2 million) for the same period of last year.

- Commissions on documentary credits and acceptances for the year 2012 amounted to LBP 41,557 million (USD 27.6 million), recording a decrease of 16.2% as compared to LBP 49,595 million (USD 32.9 million) in 2011. Trade finance activities in 2012 represented 14.9% of total non-interest income, compared to 19.2% in 2011.
- Commissions on letters of guarantee for the year 2012 amounted to LBP 16,593 (USD 11.0 million), recording an increase of 6.5% as compared to LBP 15,588 million (USD 10.3 million) in 2011.
- Realized and unrealized gains on the securities portfolio for the year 2012 amounted to LBP 80,110 million (USD 53.1 million), recording an increase of 25.7% as compared to a gain of LBP 63,713 million (USD 42.3 million) in 2011.
- Gains on foreign exchange trading for the year 2012 amounted to LBP 61,302 million (USD 40.7 million), as compared to LBP 44,813 million (USD 29.7 million) in 2011.

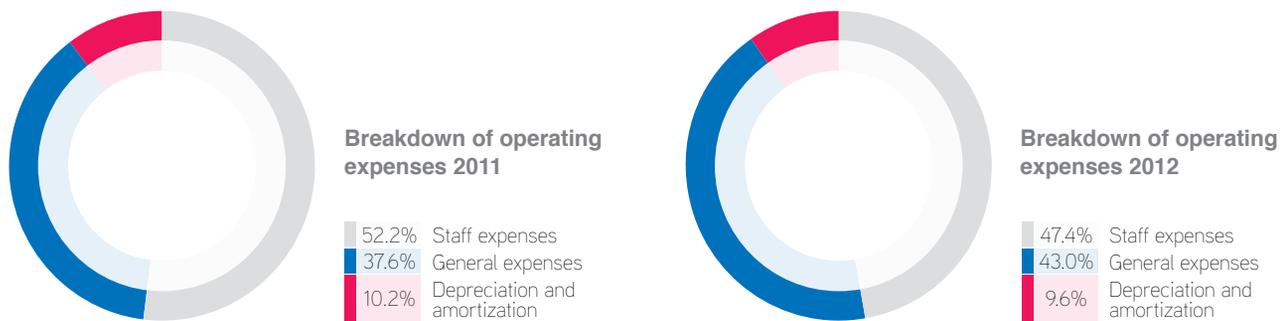
MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING EXPENSES

LBP Million	2010	2011	2012	Growth (Vol.)	Growth (%)
Staff expenses	145,552	161,287	154,321	(6,966)	-4.3%
General expenses	134,860	116,048	139,892	23,844	20.5%
Depreciation and amortization	31,126	31,624	31,281	(343)	-1.1%
Total operating expenses	311,538	308,959	325,494	16,535	5.4%

Operating expenses for the year 2012 amounted to LBP 325,494 million (USD 215.9 million), recording an increase of 5.4% (LBP 16,535 million) as compared to LBP 308,959 million (USD 204.9 million) in 2011. Consequently, the cost-to-income ratio increased to 45.9% in 2012 compared to 43.7% in 2011.

The graphs below show the breakdown of operating expenses for the last two years.



The graph below shows the evolution of operating expenses and the cost-to-income ratio over the last three years:



ASSET QUALITY

LOAN PORTFOLIO

Based on Circular 58 issued by Lebanon's Central Bank, the Banque du Liban (BDL), all banks and financial institutions operating in Lebanon have been required as of 2011 to classify loans according to six categories of risk: (i) regular accounts; (ii) follow-up accounts; (iii) follow-up and regularization accounts; (iv) substandard accounts; (v) doubtful accounts; and (vi) bad accounts.

Byblos Bank adopts the regulatory classification grading and also applies an internal rating system that incorporates and refines the requirements. The Bank believes that, as at 31 December 2012, it was in compliance with all related requirements. Reports to the Central Bank and the Banking Control Commission are made in accordance with the Central Bank classifications. The new classification was applied by the end of 2011 and therefore figures for 2010 are still reported under the former Decision No. 1759, in which we had five categories of risk ((i) good accounts; (ii) watch accounts; (iii) substandard accounts; (iv) doubtful accounts; and (v) bad accounts).

The frequency of the Bank's review of problem loans is quarterly or more frequently if warranted. The Bank assesses during each review whether an impairment loss should be recorded in the consolidated income statement.

The tables below show the breakdown of the Bank's loan portfolio (gross and net) over the last three years:

As at 31 December	2010		2011		2012	
	LBP million	% of total	LBP million	% of total	LBP million	% of total
GROSS BALANCES						
Regular (1)	5,629,691	94.4	5,117,552	80.5	5,303,374	80.0
Follow-up			689,921	10.9	616,041	9.3
Follow-up and regularization	190,380	3.2	346,205	5.4	344,463	5.2
Substandard loans	2,317	0.0	10,214	0.2	13,145	0.2
Doubtful loans	35,857	0.6	72,525	1.1	223,128	3.4
Bad loans	106,412	1.8	119,641	1.9	127,661	1.9
TOTAL	5,964,657	100.0	6,356,058	100.0	6,627,812	100.0

As at 31 December	2010		2011		2012	
	LBP million	% of total	LBP million	% of total	LBP million	% of total
NET BALANCES (2)						
Regular (1)	5,629,691	96.4	5,117,552	82.5	5,303,374	83.0
Follow-up			689,921	11.1	616,041	9.6
Follow-up and regularization	190,380	3.3	346,205	5.6	344,463	5.4
Substandard loans	1,640	0.0	8,814	0.1	10,754	0.2
Doubtful loans	16,260	0.3	40,761	0.7	114,054	1.8
Bad loans	0	0.0	0	0.0	0	0.0
TOTAL	5,837,971	100.0	6,203,253	100.0	6,388,686	100.0

(1) Regular loans for 2010 include regular and follow-up loans that used to be classified as good loans.

(2) Net of specific provisions and reserved interest.

MANAGEMENT DISCUSSION AND ANALYSIS

Provisioning and Coverage Ratios

LBP Million	December 2010	December 2011	December 2012
Substandard loans	2,317	10,214	13,145
Non-performing loans	142,268	192,165	350,790
Total classified loans	144,585	202,379	363,935
Specific provisions for loan losses	67,018	90,206	167,778
General provisions and collective provisions	79,516	103,728	112,732
<i>out of which general and collective provisions for retail</i>	21,925	28,155	31,540
Reserved interest (sub-standard loans)	677	1,400	2,391
Reserved interest (non-performing loans)	58,990	61,198	68,957
Total provisions and cash collateral	206,202	256,532	351,859
Substandard loans/total loans	0.04%	0.16%	0.20%
Non-performing loans/total loans	2.38%	3.02%	5.29%
Total classified/total loans	2.42%	3.18%	5.49%
Total provisions/total loans	3.45%	4.04%	5.31%
NPL provisions/non-performing loans*	144.46%	132.77%	99.62%
NPL provisions/non-performing loans**	129.05%	118.12%	90.63%
Total provisions/total classified loans*	142.62%	126.76%	96.68%
Specific provisions and reserved interest/NPL	88.57%	78.79%	67.49%

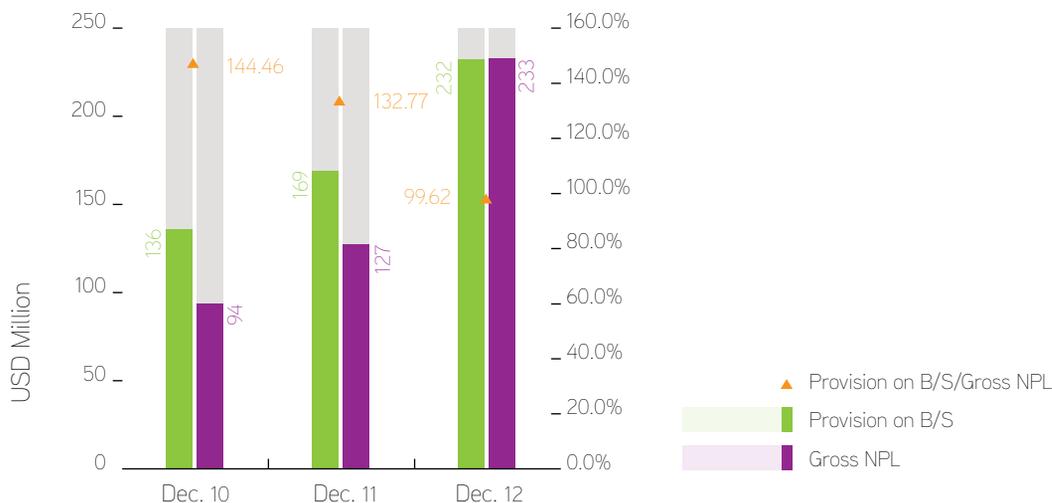
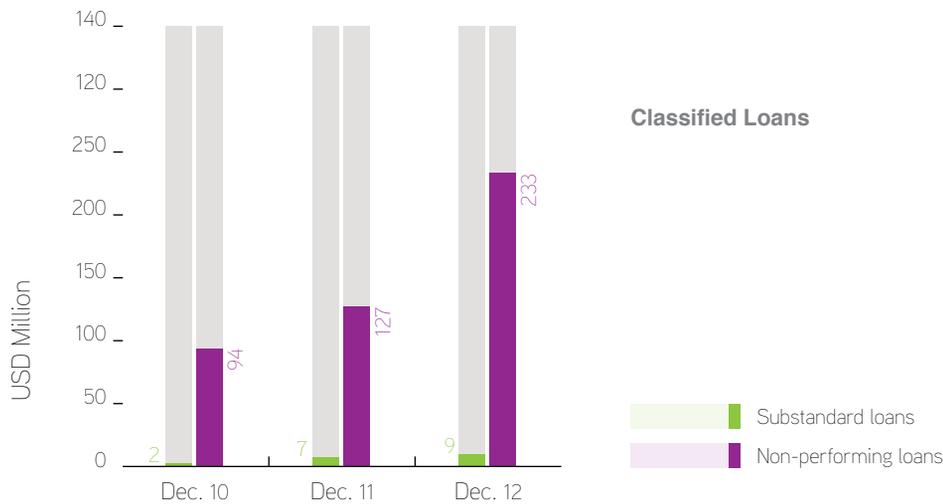
* Includes specific, general and collective provisions, reserved interest.

** Excluding general provisions for retail loans.



Total classified loans (substandard, doubtful, and bad) amounted to LBP 363,935 million (USD 241.4 million) at the end of 31 December 2012, representing 5.5% of the total loan portfolio compared to LBP 202,379 million (USD 134.2 million) at the end of December 2011, representing 3.2% of the total loan portfolio. The increase in classified loans is largely attributable to the situation in Syria, where classification rules are very strict, e.g. they start considering as classified loans those due and unpaid for 60 days and above. Total non-performing loans (doubtful and bad) amounted to LBP 350,790 million (USD 232.7 million) as at 31 December 2012, representing 5.3% of the total loan portfolio, up from 3.0% at the end of 31 December 2011. Specific, general and collective provisions (excluding general provisions for the retail loan portfolio), as well as reserved interest on non-performing loans, amounted to LBP 317,927 million (USD 210.9 million), covering up to 90.6% of total non-performing loans as at 31 December 2012 compared to 118.1% at the end of 31 December 2011.

Substandard loans amounted to LBP 13,145 million (USD 8.7 million) at the end of 31 December 2012, representing 0.20% of the total loan portfolio compared to LBP 10,214 million (USD 6.8 million) and 0.16% respectively at the end of 31 December 2011. Substandard loans are covered up to 18.2% by reserved interest at the end of 31 December 2012 compared to 13.7% as at 31 December 2011.



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY

Liquid Assets to Total Assets	December 2010	December 2011	December 2012
Cash and Central Bank	31.28%	34.25%	38.08%
<i>out of which certificates of deposit</i>	19.30%	17.07%	16.69%
Lebanese and other governmental securities	18.42%	14.54%	16.43%
Bonds and fixed-income securities	2.39%	3.73%	3.73%
Banks and financial institutions	19.75%	19.97%	14.33%
Total Liquidity	71.85%	72.49%	72.56%

Liquid Assets to Customers' Deposits	December 2010	December 2011	December 2012
Cash and Central Bank	40.10%	44.35%	48.41%
<i>out of which certificates of deposit</i>	24.74%	22.10%	21.22%
Lebanese and other governmental securities	23.62%	18.83%	20.89%
Bonds and fixed-income securities	3.07%	4.84%	4.74%
Banks and financial institutions	25.32%	25.86%	18.22%
Total Liquidity	92.10%	93.88%	92.25%

As shown above, the Bank maintained a high level of liquid assets to meet foreseeable liability maturity requirements. As at 31 December 2012, liquid assets (comprised of cash, reserves and placements with central banks, Lebanese Government securities, placements with banks, and other fixed-income securities) represented 72.6% of total assets and 92.3% of customers' deposits compared to 72.5% and 93.9% respectively as at 31 December 2011.

CAPITAL

As of 31 December 2012, the Bank's share capital is LBP 689,113 million, consisting of (i) a single class of 565,515,040 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up; (ii) 2,000,000 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on 15 August 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up; (iii) 2,000,000 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on 4 September 2009 at a price of USD 96.00 per share, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up.

On 19 February 2009, the Bank listed Global Depository Shares on the London Stock Exchange representing 26 per cent of the Bank's common shares. The Bank of New York Mellon acts as the depository bank of the issue. The Bank aimed through the listing to increase liquidity through the listing of Global Depository Shares and to promote further transparency for investors. According to the London Stock Exchange, Byblos Bank was also the first Lebanese company to list on the London Stock Exchange in the past 12 years and the first Bank to list on the LSE in 2009, showing resilience despite the ongoing global financial crisis.

CAPITAL ADEQUACY RATIO

Byblos Bank measures its capital adequacy ratio (CAR) based on the Standardized Approach rules of Basel II as set out in Banque du Liban (BDL) Circular 104 issued in April 2006. In December 2011, the BDL amended the rules relating to regulatory capital definition for CAR measurement in order to comply with Basel III requirements. In effect, the BDL has clarified the eligible capital items that would fall under Common Equity Tier 1 (CET 1), the Additional Tier 1 Capital, and Tier 2 Capital, and where Total Capital is formed of Tier 1 plus Tier 2. The BDL has also introduced new Basel III CAR minima that are higher than those imposed by the Basel Committee (BCBS) along a stricter timetable for compliance, with full implementation required to take place in December 2015 in Lebanon compared to January 2019 for the BCBS. The table below shows the BDL timetable for Basel III CAR ratios.

TIMETABLE TO COMPLY WITH BASEL III CAR RATIOS IN LEBANON COMPARED WITH BCBS' TARGET RATIOS AND DEADLINE

Basel III minimum CAR ratios/Deadline	Lebanon timetable				BCBS
	31 Dec. 2012	31 Dec. 2013	31 Dec. 2014	31 Dec. 2015*	1 Jan. 2019*
CET1 ratio	5%	6%	7%	8%	7%
Tier 1 ratio	8%	8.5%	9.5%	10%	8.5%
Total Capital ratio	10%	10.5%	11.5%	12%	10.5%

* Target ratios include a 2.5% capital conservation buffer but exclude any surcharge for systematically important financial institutions (SIFI) or other countercyclical buffer.

The Byblos Bank consolidated solvency ratios as of 31 December 2012 meet Basel III minimum ratios with adequate cushion, as shown in the table below.

BYBLOS BANK CONSOLIDATED CAR RATIOS AS OF 31 DECEMBER 2012 COMPARED WITH REGULATORY MINIMA

	31 Dec. 2012	Lebanese Basel III ratios	BCBS Basel III ratios
CET1 ratio	8.82%	8%	7%
Tier 1 ratio	12.41%	10%	8.5%
Total Capital ratio	15.03%	12%	10.5%

Note: CET 1, T1 and Total Capital ratios based on audited figures read respectively 8.69%, 12.26% and 14.98%.

In addition to measuring the capital requirements under Pillar 1, Byblos Bank has undertaken to estimate the supplementary capital charge that would be needed to cover the liquidity risk, the interest rate risk in the banking book, and the credit concentration risk falling under Pillar 2. To perform these measurements the Bank used stress test scenarios and other classical tools to estimate risk concentrations. Moreover, the Bank has conducted stress scenarios to assess the impact on capital

MANAGEMENT DISCUSSION AND ANALYSIS

and liquidity of higher sovereign risks, increased portfolio defaults, and funding outflows, and found the capital buffer and liquidity buffer at satisfactory levels. Byblos Bank is monitoring very closely the situation in Syria and has measured the impact of increased conflict aggravation on its Syrian operations as well as on the Group's part, to make sure risks are well understood and that the Bank is adequately providing against incurred and foreseen losses.

The table below shows how Byblos Bank's CAR has evolved over the past three years:

LBP Million except ratios	31 December		
	2010	2011	2012
Basel II total capital adequacy ratio (Pillar 1 risks)	14.75%	13.61%	15.03%
Common equity ratio	9.66%	9.64%	8.82%
Tier 1 capital ratio	14.07%	13.29%	12.41%
Tier 2 capital ratio	0.68%	0.32%	2.61%
Common equity	1,398,012	1,557,589	1,501,444
Tier 1 capital*	2,035,254	2,146,287	2,112,746
Tier 2 capital*	97,869	52,345	444,567
Total capital base*	2,133,123	2,198,632	2,557,313
Total risk-weighted assets (RWA)	14,464,964	16,151,534	17,019,679
<i>Credit risk RWA</i>	13,221,731	14,793,897	15,328,605
<i>Market risk RWA</i>	258,573	339,551	457,898
<i>Operational risk RWA</i>	984,660	1,018,086	1,233,176

(*) After deducting:

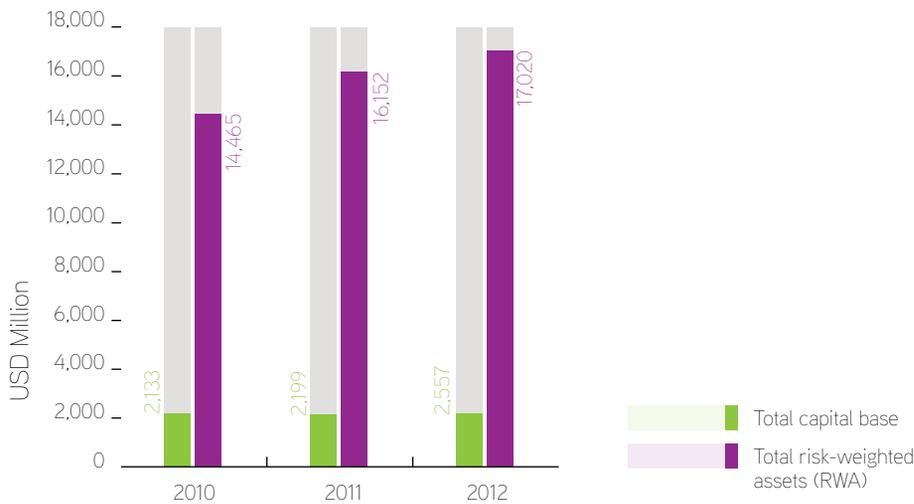
- Unrealized losses on available-for-sale portfolio;
- Investment in unconsolidated companies or banks where the Bank's share exceeds 10%;
- Investment in insurance companies.

Notes: (1) CET 1, T1 and total capital ratios based on audited figures for 2012 read respectively 8.69%, 12.26% and 14.98%.
(2) CET 1, T1 and total capital ratios based on audited figures for 2011 read respectively 9.01%, 12.82% and 13.30%.

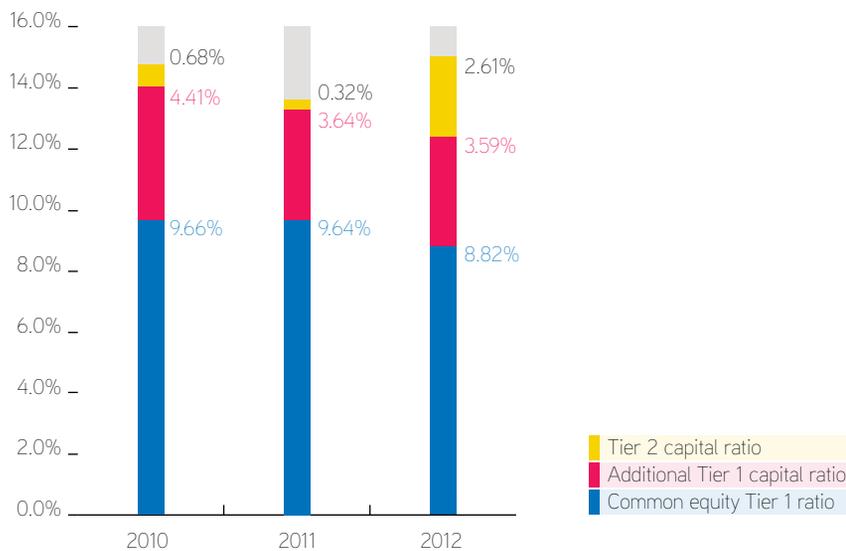
Next we look into how CAR evolved over the past two years from 31 December 2010 to 31 December 2012. The balance sheet has witnessed an increase by LBP 2,523 billion (USD 1.67 billion), the bulk of which (LBP 2,200 billion) was placed with the BDL (75% of which in foreign currency). The loans portfolio grew by LBP 544 billion thanks to an increase in SME and mortgage loans. Net NPLs (non-performing loans) increased by a factor of four during the period, from LBP 37 billion to LBP 157 billion, due mainly to Byblos Bank Syria's incurred losses.

The increase in assets has reflected an almost identical increase in RWA (above), which was accompanied by a capital boost of USD 300 million in the form of convertible debt issued in the second half 2012 reported in Tier 2 capital. The Group's total solvency ratio improved from 14.75% (2010) to 15.03% (2012) after having declined prior to the bond issue to 13.61% in 2011.

The chart below shows the evolution of total capital and risk-weighted assets under Basel II over the past three years:



The following chart shows the evolution of capital adequacy ratios under Basel II over the past three years:



MANAGEMENT DISCUSSION AND ANALYSIS

DIVIDEND DISTRIBUTION

The following table sets forth the high and low sale prices of Byblos Bank Common Shares, as reported on the Beirut Stock Exchange, and the cash dividends paid by the Bank on Common Shares with respect to the periods indicated.

Period	High	Low	Common share Dividend ¹	
	USD	USD	LBP	USD
2000	2.3750	1.6250	250.00	0.1658
2001	1.7500	1.0625	250.00	0.1658
2002	1.7813	1.0625	236.84	0.1571
2003	2.0625	1.2500	157.89	0.1047
2004	1.8100	1.4500	157.89	0.1047
2005	2.7800	1.4500	157.89	0.1047
2006	4.0000	1.4500	157.89	0.1047
2007	2.6000	1.6500	157.89	0.1047
2008	3.2300	1.5800	157.89	0.1047
2009	2.1900	1.5800	200.00	0.1327
2010	2.3000	1.7000	200.00	0.1327
2011	2.0100	1.5500	200.00	0.1327
2012	1.7400	1.4700	200.00	0.1327

(1) Before taxes at a rate of 5%.

At its Annual General Assembly held on 11 May 11 2012, the Bank's shareholders approved the distribution of dividends out of the Bank's net income for the year ended 31 December 2012 (before taxes of 5%) of LBP200 (USD 0.1327) per Common Share and USD 8 per Series 2008 and Series 2009 Preferred Share. Total dividends paid in respect of 2011 represented 64.0% of net income for that year.

CONSOLIDATED FINANCIAL STATEMENTS



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AUDITORS' REPORT



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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

We have audited the accompanying consolidated financial statements of Byblos Bank SAL (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated 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 financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

19 April 2013
Beirut, Lebanon

Semaan, Gholam & Co.

CONSOLIDATED INCOME STATEMENT

Year Ended 31 December 2012

LBP Million	ASSETS	Notes	2012	2011
	Interest and similar income	5	1,274,746	1,260,390
	Interest and similar expense	6	(884,216)	(840,373)
	NET INTEREST INCOME		390,530	420,017
	Fee and commission income	7	146,786	147,163
	Fee and commission expense	7	(14,120)	(13,389)
	NET FEE AND COMMISSION INCOME		132,666	133,774
	Net gain from financial instruments at fair value through profit or loss	8	88,078	61,601
	Net gain from sale of financial assets at amortized cost	9	65,995	64,165
	Revenue from financial assets at fair value through other comprehensive income	24	4,491	4,200
	Other operating income	10	27,484	24,212
	TOTAL OPERATING INCOME		709,244	707,969
	Net credit losses	11	(86,797)	(61,998)
	NET OPERATING INCOME		622,447	645,971
	Personnel expenses	12	(154,321)	(161,286)
	Depreciation of property and equipment	25	(31,123)	(31,466)
	Amortization of intangible assets	26	(159)	(159)
	Other operating expenses	13	(139,891)	(116,048)
	TOTAL OPERATING EXPENSES		(325,494)	(308,959)
	OPERATING PROFIT		296,953	337,012
	Net loss on disposal of fixed assets		-	(88)
	PROFIT BEFORE TAX		296,953	336,924
	Income tax expense	14	(44,691)	(65,987)
	PROFIT FOR THE YEAR		252,262	270,937
	Attributable to:			
	Equity holders of the parent		246,450	259,894
	Non-controlling interest		5,812	11,043
			252,262	270,937
	Earnings per share		LBP	LBP
	Equity shareholders of the parent:			
	Basic earnings per share	15	352.70	376.60
	Diluted earnings per share	15	337.32	356.91

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended 31 December 2012

	Notes	2012	2011	LBP Million
PROFIT FOR THE YEAR		252,262	270,937	
Other comprehensive loss:				
Net unrealized loss from financial assets at fair value through other comprehensive income	43	(3,605)	(3,863)	
Exchange differences on translation of foreign operations		(109,946)	(37,348)	
Income tax effect on components of other comprehensive loss	43	527	1,379	
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX		(113,024)	(39,832)	
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		139,238	231,105	
Attributable to:				
Equity holders of the parent		181,939	235,654	
Non-controlling interest		(42,701)	(4,549)	
		139,238	231,105	

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

LBP Million	Notes	2012	2011
ASSETS			
Cash and balances with central banks	16	5,507,572	4,282,468
Due from banks and financial institutions	17	3,216,533	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	18	458,707	667,488
Financial assets given as collateral	19	8,923	8,920
Derivative financial instruments	20	12,174	5,356
Financial assets at fair value through profit or loss	21	300,909	255,209
Net loans and advances to customers at amortized cost	22	6,195,104	6,025,682
Net loans and advances to related parties at amortized cost	45	15,815	16,638
Debtors by acceptances		316,232	331,821
Financial assets at amortized cost	23	9,145,626	8,607,301
Financial assets at fair value through other comprehensive income	24	78,663	76,967
Property and equipment	25	265,394	301,066
Intangible assets	26	970	1,129
Assets obtained in settlement of debt	27	33,202	35,452
Other assets	28	94,385	80,974
TOTAL ASSETS		25,650,209	25,027,313

As at 31 December 2012

	Notes	2012	2011
LBP Million			
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	29	17,918	15,670
Due to banks and financial institutions	30	1,327,047	1,635,480
Derivative financial instruments	20	8,613	7,347
Customers' deposits at amortized cost	31	19,967,531	19,157,233
Deposits from related parties at amortized cost	45	208,102	169,175
Debt issued and other borrowed funds	32	508,711	662,290
Engagements by acceptances		316,232	331,821
Other liabilities	33	262,888	126,267
Provisions for risks and charges	34	130,465	129,989
Subordinated debt	35	410,896	307,263
TOTAL LIABILITIES		23,158,403	22,542,535
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	36	684,273	684,273
Share capital – preferred shares	36	4,840	4,840
Share premium – common shares	36	229,014	229,014
Share premium – preferred shares	36	586,259	583,858
Non-distributable reserves	37	568,145	469,072
Distributable reserves	38	99,659	79,127
Other equity instruments	39	14,979	14,979
Treasury shares	40	(25,302)	(25,476)
Retained earnings	41	74,024	65,214
Revaluation reserve of real estate	42	5,689	5,689
Change in fair value of financial assets at fair value through other comprehensive income	43	(23,634)	(20,556)
Net results of the financial period – profit		246,450	259,894
Foreign currency translation reserve		(92,762)	(31,329)
		2,371,634	2,318,599
NON-CONTROLLING INTEREST		120,172	166,179
TOTAL EQUITY		2,491,806	2,484,778
TOTAL LIABILITIES AND EQUITY		25,650,209	25,027,313

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 19 April 2013.

Dr. Francois S. Bassil
Chairman and General Manager

Ziad El Zoghbi
Head of Group Finance and
Administration Division

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Attributable to equity holders of the parent

LBP Million	Common shares	Priority shares	Preferred shares	Share premium – common shares	Share premium – preferred shares	Non-distributable reserves	Distributable reserves
Balance at 1 January 2012	684,273	-	4,840	229,014	583,858	469,072	79,127
Profit for the year	-	-	-	-	-	-	-
Other comprehensive loss	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	85,518	2,492
Transfer to distributable reserves (note 37)	-	-	-	-	-	(18,040)	18,040
Equity component on convertible subordinated loan (note 35)	-	-	-	-	-	31,618	-
Dividends paid – subsidiaries	-	-	-	-	-	-	-
Translation difference	-	-	-	-	(11)	-	-
Equity dividends paid (note 52)	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	(23)	-
Balance at 31 December 2012	684,273	-	4,840	229,014	586,259	568,145	99,659
Balance at 1 January 2011 before early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127
Effect of IFRS 9 early adoption (note 53)	-	-	-	-	-	-	-
Balance at 1 January 2011 after early adoption of IFRS 9	434,984	249,289	4,840	229,014	581,456	396,526	79,127
Profit for the year	-	-	-	-	-	-	-
Other comprehensive loss	-	-	-	-	-	-	-
Total comprehensive income	-	-	-	-	-	-	-
Transfer of priority shares	249,289	(249,289)	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	72,266	-
Non-controlling interest share in a capital increase of a subsidiary	-	-	-	-	-	-	-
Acquisition of non-controlling interest (note 3)	-	-	-	-	-	-	-
Dividends paid – subsidiaries	-	-	-	-	-	-	-
Translation difference	-	-	-	-	(10)	-	-
Equity dividends paid (note 52)	-	-	-	-	-	-	-
Treasury shares	-	-	-	-	-	280	-
Balance at 31 December 2011	684,273	-	4,840	229,014	583,858	469,072	79,127

Year Ended 31 December 2012

Other equity instruments	Treasury shares	Retained earnings	Revaluation reserve of real estate	Change in fair value of financial assets at fair value through other comprehensive income	Net results of the financial period – profit	Foreign currency translation reserve	Total	Non-controlling interest	Total
14,979	(25,476)	65,214	5,689	(20,556)	259,894	(31,329)	2,318,599	166,179	2,484,778
-	-	-	-	-	246,450	-	246,450	5,812	252,262
-	-	-	-	(3,078)	-	(61,433)	(64,511)	(48,513)	(113,024)
-	-	-	-	(3,078)	246,450	(61,433)	181,939	(42,701)	139,238
-	-	259,894	-	-	(259,894)	-	-	-	-
-	-	(90,422)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	31,618	-	31,618
-	-	-	-	-	-	-	-	(3,306)	(3,306)
-	-	179	-	-	-	-	168	-	168
-	-	(160,841)	-	-	-	-	(160,841)	-	(160,841)
-	174	-	-	-	-	-	151	-	151
14,979	(25,302)	74,024	5,689	(23,634)	246,450	(92,762)	2,371,634	120,172	2,491,806
14,979	(16,189)	16,484	5,689	53,993	255,770	(9,573)	2,296,389	160,029	2,456,418
-	-	38,077	-	(72,065)	-	-	(33,988)	(307)	(34,295)
14,979	(16,189)	54,561	5,689	(18,072)	255,770	(9,573)	2,262,401	159,722	2,422,123
-	-	-	-	-	259,894	-	259,894	11,043	270,937
-	-	-	-	(2,484)	-	(21,756)	(24,240)	(15,592)	(39,832)
-	-	-	-	(2,484)	259,894	(21,756)	235,654	(4,549)	231,105
-	-	-	-	-	-	-	-	-	-
-	-	255,770	-	-	(255,770)	-	-	-	-
-	-	(74,678)	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	23,473	23,473
-	-	-	-	-	-	-	-	(8,584)	(8,584)
-	-	-	-	-	-	-	-	(3,883)	(3,883)
-	-	-	-	-	-	-	(10)	-	(10)
-	-	(170,439)	-	-	-	-	(170,439)	-	(170,439)
-	(9,287)	-	-	-	-	-	(9,007)	-	(9,007)
14,979	(25,476)	65,214	5,689	(20,556)	259,894	(31,329)	2,318,599	166,179	2,484,778

CONSOLIDATED STATEMENT OF CASH FLOWS

LBP Million	Notes	2012	2011
OPERATING ACTIVITIES			
Profit before tax		296,953	336,924
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortization	25 & 26	31,282	31,625
Provision for loans and advances and direct write-offs, net	11	107,229	45,016
Write-back of provision for other doubtful bank accounts, net	11	(942)	(6,593)
Provision for financial assets at amortized cost, net	11	(19,490)	23,575
Loss on disposal of fixed assets		-	88
Gain on disposal of assets obtained in settlement of debt	10	(4,613)	(3,877)
Provisions for risks and charges, net		2,468	14,300
Unrealized fair value (gains) losses on financial instruments at fair value through profit or loss		(4,361)	6,339
Realized gains from financial assets		(75,747)	(70,052)
Derivative financial instruments		(5,552)	(897)
Operating profit before working capital changes		327,227	376,448
CHANGES IN OPERATING ASSETS AND LIABILITIES			
Due from central banks		(1,957,792)	(499,978)
Due from banks and financial institutions		35,274	229,110
Financial assets given as collateral		(3)	(2)
Financial assets at fair value through profit or loss		(31,587)	(2,331)
Due to banks and financial institutions		(23,314)	(153,308)
Net loans and advances to customers and related parties		(275,828)	(402,096)
Assets obtained in settlement of debt	27	(286)	(829)
Proceeds from sale of assets obtained in settlement of debt		7,149	8,346
Other assets		(3,049)	9,633
Customers' and related parties' deposits		979,684	1,346,382
Other liabilities		1,433	(9,954)
Cash (used in) from operations		(941,092)	901,421
Provision for risks and charges paid		(1,445)	(4,216)
Taxation paid		(51,014)	(66,327)
Net cash (used in) from operating activities		(993,551)	830,878

Year Ended 31 December 2012

	Notes	2012	2011
LBP Million			
INVESTING ACTIVITIES			
Financial assets at amortized cost		(452,840)	427,407
Financial assets at fair value through other comprehensive income		(5,179)	(143)
Loans to banks and financial institutions and reserve purchase agreements		208,781	(37,491)
Purchase of property and equipment and intangible assets		(29,919)	(57,381)
Proceeds from sale of property and equipment		278	1,170
Acquisition of additional non-controlling interest	3	-	(8,584)
Net cash (used in) from investing activities		(278,879)	324,978
FINANCING ACTIVITIES			
Due to central banks		763	(1,265)
Debts issued and other borrowed funds		(153,579)	448,789
Subordinated debt		135,251	3,939
Treasury shares		151	(9,007)
Dividends paid to equity holders of the parent (net)		(160,841)	(170,439)
Dividends paid to non-controlling interest		(3,306)	(3,883)
Non-controlling interest share in a capital increase of a subsidiary		-	23,473
Net cash (used in) from financing activities		(181,561)	291,607
Net effect of foreign exchange		(75,040)	(32,713)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(1,529,031)	1,414,750
Cash and cash equivalents at 1 January		6,150,118	4,735,368
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	4,621,087	6,150,118
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS			
Interest paid		(881,733)	(834,902)
Interest received		1,269,069	1,249,141
Dividend received		5,043	5,214

Operating activities include a non-cash item consisting of a decrease in customers' deposits by LBP 130,459 million against an increase in other liabilities by the same amount (2011: nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

Byblos Bank S.A.L. (“the Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No. 14150 at the commercial registry of Beirut and under No. 39 on the list of banks published by the Central Bank of Lebanon. The Bank’s head office is located on Elias Sarkis Street in Ashrafieh, Beirut, Lebanon. The Bank’s shares are listed on the Beirut Stock Exchange and the London SEAQ.

The Bank, together with its affiliated banks and subsidiaries (collectively “the Group”), provides a wide range of banking and insurance services through its headquarters and branches in Lebanon and eleven locations abroad (Belgium, France, United Kingdom, Cyprus, Sudan, Armenia, Syria, Iraq, United Arab Emirates, Nigeria, and the Democratic Republic of Congo).

2. ACCOUNTING POLICIES

2.1 – BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of Law No. 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Pounds (LBP) and all values are rounded to the nearest LBP million except when otherwise indicated.

STATEMENT OF COMPLIANCE

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

PRESENTATION OF FINANCIAL STATEMENTS

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in the notes.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements; therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Year Ended 31 December 2012

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. All intra-Group balances, transactions, unrealized gains and losses resulting from intra-Group transactions and dividends are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Bank. Non-controlling interests are presented separately in the consolidated income statement, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, but separate from parent shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

The consolidated financial statements comprise the financial statements of Byblos Bank S.A.L. and the following subsidiaries:

Subsidiary	Percentage of ownership		Principal activity	Country of incorporation
	2012 %	2011 %		
Byblos Bank Europe S.A.	99.95	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. S.A.L. (ADIR)	64.00	64.00	Insurance	Lebanon
Adonis Brokerage House S.A.L.	100.00	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank S.A.L.	99.99	99.99	Investment banking	Lebanon
Byblos Bank Africa	56.86	56.86	Commercial banking	Sudan
Byblos Bank Syria S.A.	52.37	52.37	Commercial banking	Syria
Byblos Bank Armenia C.J.S.C.	65.00	65.00	Commercial banking	Armenia
Adonis Insurance and Reinsurance Syria (ADIR Syria)	76.00	76.00	Insurance	Syria
Byblos Bank RDC S.A.R.L. (formerly Solidaire Banque Internationale S.B.I. S.A.R.L.)	66.67	66.67	Banking activities	Democratic Republic of the Congo

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.2 – Changes in Accounting Policy and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2012:

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics, so there has been no effect on the presentation of its financial statements.

2.3 – Standards Issued but not yet Effective

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

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

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

IAS 19 Employee Benefits (Revised)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact that this standard will have on its financial position and performance, but based on the preliminary analysis, no material impact is expected. These amendments become effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as Revised in 2011)

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

IAS 32 Offsetting Financial Assets and Financial Liabilities – Amendments to IAS 32

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

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IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

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

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation – Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and, therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the impact that this standard will have on its financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Involvement with Other Entities

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. This standard will require the Group to review its fair value measurement policies across all asset and liabilities classes. The Group is currently assessing the impact that this standard will have on its financial position and performance, but based on preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.3 – Standards Issued But Not Yet Effective (continued)

ANNUAL IMPROVEMENTS MAY 2012

These improvements will not have an impact on the Group, but include:

IAS 1 *Presentation of Financial Statements*

This improvement clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative information is the previous period.

IAS 32 *Financial Instruments, Presentation*

This improvement clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes.

IAS 34 *Interim Financial Reporting*

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

These improvements are effective for annual periods beginning on or after 1 January 2013.

2.4 – Summary of Significant Accounting Policies

FOREIGN CURRENCY TRANSLATION

The consolidated financial statements are presented in Lebanese Pounds, which is the Bank's presentation currency. Each entity in the Group determines its own functional currency, and items included in the financial statements of each entity are measured using that functional currency.

(i) *Transactions and balances*

Transactions in foreign currencies are initially recorded by the Group's entities at the functional currency spot rate of exchange ruling at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of non-monetary items is treated in line with the recognition of gain or loss on change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss respectively).

(ii) *Group companies*

On consolidation, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the reporting date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

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Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

FINANCIAL INSTRUMENTS – CLASSIFICATION AND MEASUREMENT

(i) Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes “regular way trades”: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

(ii) Classification and measurement of financial instruments

a. Financial assets

The classification of financial assets depends on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial asset. Assets are initially measured at fair value plus, in the case of a financial asset not at fair value through profit or loss, particular transaction costs. Assets are subsequently measured at amortized cost or fair value.

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an “accounting mismatch”) that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

Financial assets at amortized cost

Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

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

These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in “Interest and similar income” in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in “Net credit losses”.

Although the objective of an entity’s business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity’s business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity’s business model for managing those financial assets changes, the entity is required to reclassify financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.4 – Summary of Significant Accounting Policies (continued)

Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under “Net gain (loss) from sale of financial assets at amortized cost” in the consolidated income statement.

Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties – at amortized cost

After initial measurement, “Balances with central banks”, “Due from banks and financial institutions”, “Loans to banks and financial institutions” and “Loans and advances to customers and related parties” are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in “Interest and similar income” in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in “Net credit losses”.

Financial assets at fair value through profit or loss

Included in this category are those debt instruments that do not meet the conditions in “at amortized cost” above, debt instruments designated at fair value through profit or loss upon initial recognition, and equity instruments at fair value through profit or loss.

(i) Debt instruments at fair value through profit or loss

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and interest income are recorded under “Net gain (loss) from financial instruments at fair value through profit or loss” in the consolidated income statement showing, separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

Gains and losses arising from the derecognition of debt instruments at fair value through profit or loss are also reflected under “Net gain (loss) from financial instruments at fair value through profit or loss” in the consolidated income statement showing, separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

(ii) Equity instruments at fair value through profit or loss

Investments in equity instruments are classified at fair value through profit or loss, unless the Group designates at initial recognition an investment that is not held for trading as at fair value through other comprehensive income.

These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under “Net gain (loss) from financial instruments at fair value through profit or loss” in the consolidated income statement.

Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “Net gain (loss) from financial instruments at fair value through profit or loss” in the consolidated income statement.

Financial assets at fair value through other comprehensive income

Investments in equity instruments designated at initial recognition as not held for trading are classified at fair value through other comprehensive income.

These financial assets are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

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Dividends on these investments are recognized under "Revenues from financial assets at fair value through other comprehensive income" in the consolidated income statement when the entity's right to receive payment of dividends is established in accordance with IAS 18: "Revenue", unless the dividends clearly represent a recovery of part of the cost of the investment.

b. Financial liabilities

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortized cost or fair value.

The Group classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for:

- Financial liabilities at fair value through profit or loss (including derivatives);
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- Financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

Fair value option

An entity may, at initial recognition, irrevocably designate a financial liability as measured at fair value through profit or loss when:

- Doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an "accounting mismatch") that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases; or
- A group of financial liabilities or financial assets and financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the entity's key management personnel.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the consolidated income statement. Changes in fair value attributable to changes in credit risk are not reclassified to the consolidated income statement.

Debt issued and other borrowed funds and subordinated debt

Financial instruments issued by the Group which are not designated at fair value through profit or loss are classified as liabilities under "Debt issued and other borrowed funds", where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.4 – Summary of Significant Accounting Policies (continued)

market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

Due to central banks, due to banks and financial institutions, customers' deposits and related parties' deposits

After initial measurement, due to central banks, due to banks and financial institutions, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

c. Derivatives recorded at fair value through profit or loss

The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if:

- (a) The hybrid contract contains a host that is not an asset within the scope of IFRS 9;
- (b) The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host;
- (c) A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and;
- (d) The hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

(iii) Day 1 profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets

The Group reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Group's senior management as a result of external or internal changes when significant to the Group's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized gains, losses or interest are not restated.

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If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

(i) Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired;
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and either:
 - The Group has transferred substantially all the risks and rewards of the asset, or
 - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

(ii) Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated income statement.

REPURCHASE AND REVERSE REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within “Due to banks and financial institutions”, reflecting the transaction’s economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to “Financial assets at fair value through profit or loss pledged as collateral” as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position within “Due from

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.4 – Summary of Significant Accounting Policies (continued)

banks and financial institutions and reverse repurchase agreements”, reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in “Net interest income” and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within “Financial liabilities at fair value through profit or loss” and measured at fair value with any gains or losses included in “Net gain (loss) from financial instruments at fair value through profit or loss” in the consolidated income statement.

DETERMINATION OF FAIR VALUE

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction cost.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group’s best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models, credit models and other relevant valuation models. Also, profit or loss calculated when such financial instruments are first recorded (“Day 1” profit or loss) is deferred and recognized only when the inputs become observable or on derecognition of the instrument.

IMPAIRMENT OF FINANCIAL ASSETS

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

(i) Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

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If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the consolidated income statement.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, which considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(ii) Renegotiated loans

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

(iii) Collateral repossessed

The Group occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realizable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the consolidated income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for capital increase" in the following financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.4 – Summary of Significant Accounting Policies (continued)

HEDGE ACCOUNTING

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge, and the method that will be used to assess the effectiveness of the hedging relationship.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item, both at inception and at each quarter-end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the consolidated statement of financial position and is also recognized in "Net gain (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate (EIR) method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the consolidated income statement.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

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When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(iii) Hedge of a net investment

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in other comprehensive income while any gains or losses relating to the ineffective portion are recognized in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in other comprehensive statement is transferred to the consolidated income statement.

Leasing

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payables are recognized as an expense in the period in which they are incurred.

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

(i) Interest and similar income and expense

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

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in the carrying amount is recorded as "Interest and similar income" for financial assets and "Interest and similar expense" for financial liabilities.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.4 – Summary of Significant Accounting Policies (continued)

(ii) Fee and commission income

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit-related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan will be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee income from providing transaction services

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Fee and commission income from providing insurance services

Insurance and investment contract policyholders are charged for policy administration services, investment management services, surrenders and other contract fees. These fees are recognized as revenue over the period in which the related services are performed. If the fees are for services provided in future periods, then they are deferred and recognized over those future periods.

(iii) Dividend income

Dividend income is recognized when the right to receive the payment is established.

(iv) Net gain (loss) from financial instruments at fair value through profit or loss

Results arising from financial instruments at fair value through profit or loss include all gains and losses from changes in fair value and related income or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions.

(vi) Insurance revenue

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the pro rata temporis method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

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Property and equipment

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the property and equipment if the recognition criteria are met. When significant parts of property and equipment are required to be replaced at intervals, the Group recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Office equipment and furniture	6.66-12.5 years
Computer equipment and software	3.33-5 years
General installations	5 years
Vehicles	4 years

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

The assets' residual lives and methods of depreciation are reviewed at each financial year-end and adjusted prospectively if applicable.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non-controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.4 – Summary of Significant Accounting Policies (continued)

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

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

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

Key money	10-15 years
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Impairment of non-financial assets

The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current

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market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries, or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated income statement.

Impairment losses relating to goodwill cannot be reversed in future periods.

Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement in "Net credit losses". The premium received is recognized in the consolidated income statement on a straight line basis over the life of the guarantee in "Net fee and commission income".

Provision for employees' end-of-service benefits

The Bank provides retirement benefit obligations to its employees under defined benefit plans. The cost of providing benefits under the defined benefit plan is determined separately using the projected unit credit actuarial valuation method.

Past service cost is recognized as an expense on a straight line basis over the average period until the benefits become vested. If the benefits vest immediately following the introduction of, or changes to, a pension plan, the past service cost is recognized immediately.

The defined benefit asset or liability comprises the present value of the defined benefit obligation less past service costs not yet recognized and less the fair value of plan assets out of which the obligations are to be settled directly. The value of any asset is restricted to the sum of any actuarial losses and past service cost not yet recognized and the present value of any economic benefits available in the form of refunds from the plan or reductions in the future contributions to the plan.

End of service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.4 – Summary of Significant Accounting Policies (continued)

Provisions for risks and charges

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

Taxes

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

(i) Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

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Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Treasury shares

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

Contracts on own shares that require physical settlement of a fixed number of own shares for a fixed consideration are classified as equity and added to or deducted from equity. Contracts on own shares that require net cash settlement or provide a choice of settlement are classified as trading instruments and changes in the fair value are reported in the consolidated income statement.

Assets held in custody and under administration

The Group provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration are not treated as assets of the Group and accordingly are recorded as off-financial position items.

Dividends on ordinary shares

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are approved by the Bank's shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Bank.

Dividends for the year that are approved after the reporting date are disclosed as an event after the reporting date.

Customers' acceptances

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

Segment reporting

The Group's segmental reporting is based on the following operating segments: consumer banking, corporate banking, and treasury and capital markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

2. ACCOUNTING POLICIES (continued)

2.5 – Significant Accounting Judgments and Estimates

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

GOING CONCERN

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

BUSINESS MODEL

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

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

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

CONTRACTUAL CASH FLOWS OF FINANCIAL ASSETS

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

IMPAIRMENT LOSSES ON LOANS AND ADVANCES

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and

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timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

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

DEFERRED TAX ASSETS

Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

PENSION OBLIGATIONS

The cost of the defined benefit pension plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

3. BUSINESS COMBINATIONS

ACQUISITION OF ADDITIONAL INTEREST IN BYBLOS BANK SYRIA S.A.

During the fourth quarter of 2011, the Group acquired an additional 10.87% interest in the voting shares of Byblos Bank Syria S.A., increasing its ownership interest to 52.37%. A cash consideration of LBP 8,584 million was paid to the non-controlling interest shareholders. The carrying value of the additional interest acquired was equal to the consideration paid.

4. SEGMENT INFORMATION

For management purposes, the Group is organized into three operating segments based on products and services as follows:

RETAIL BANKING provides a diversified range of products and services to meet the personal banking and consumer finance needs of individuals. The range includes deposits, housing loans, consumer loans, credit cards, fund transfers, foreign exchange and other branch-related services.

CORPORATE BANKING provides a comprehensive product and service offering to corporate and institutional customers, including loans and other credit facilities, deposits and current accounts, trade finance and foreign exchange operations.

TREASURY AND CAPITAL MARKETS is mostly responsible for the liquidity management and market risk of the Group, as well as managing the Group's own portfolio of stocks, bonds and other financial instruments. In addition, this segment provides treasury and investment products and services to investors and other institutional customers.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

4. SEGMENT INFORMATION (continued)

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss, which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are managed on a group basis and are not allocated to operating segments.

Interest income is reported net as management primarily relies on net interest revenue as a performance measure, not the gross income and expense amounts.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The following table presents net operating income, profit and total assets and liabilities information in respect of the Group's operating segments:

PROFIT FOR THE YEAR INFORMATION

2012					
LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other ¹	Total
Net interest income	226,134	143,873	17,466	3,057	390,530
Net fee and commission income	59,708	66,523	5,023	1,412	132,666
Net gain from financial instruments at fair value through profit or loss	-	-	88,078	-	88,078
Net gain from sale of financial assets at amortized cost	-	-	65,995	-	65,995
Revenue from financial assets at fair value through other comprehensive income	-	-	4,491	-	4,491
Other operating income	-	-	-	27,484	27,484
Net credit losses	(11,127)	(96,102)	20,432	-	(86,797)
Net operating income	274,715	114,294	201,485	31,953	622,447

2011					
LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other ¹	Total
Net interest income	252,451	131,588	35,347	631	420,017
Net fee and commission income	53,533	71,542	4,093	4,606	133,774
Net gain from financial instruments at fair value through profit or loss	-	-	61,601	-	61,601
Net gain from sale of financial assets at amortized cost	-	-	64,165	-	64,165
Revenue from financial assets at fair value through other comprehensive income	-	-	4,200	-	4,200
Other operating income	-	-	-	24,212	24,212
Net credit losses	(6,909)	(38,107)	(16,982)	-	(61,998)
Net operating income	299,075	165,023	152,424	29,449	645,971

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FINANCIAL POSITION INFORMATION

2012					
LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other ¹	Total
Total assets	1,991,822	4,535,330	18,730,617	392,440	25,650,209
Total liabilities	18,925,194	1,250,440	2,273,185	709,584	23,158,403

2011					
LBP Million	Retail banking	Corporate banking	Treasury and capital markets	Other ¹	Total
Total assets	1,680,172	4,693,970	18,252,393	400,778	25,027,313
Total liabilities	17,989,539	1,336,869	2,620,704	595,423	22,542,535

GEOGRAPHIC INFORMATION

The Group operates in three geographical segments – Lebanon, Europe and other countries – and, as such, is subject to different risks and returns. The following table shows the distribution of the Group's net operating income and non-current assets.

2012				
LBP Million	Lebanon	Europe	Other	Total
Total operating income	550,030	47,026	112,188	709,244
Net credit losses	(30,944)	2,155	(58,008)	(86,797)
Net operating income ²	519,086	49,181	54,180	622,447
Non-current assets ³	221,371	7,406	70,789	299,566

2011				
LBP Million	Lebanon	Europe	Other	Total
Total operating income	534,289	63,016	110,664	707,969
Net credit losses	(32,651)	(6,710)	(22,637)	(61,998)
Net operating income ²	501,638	56,306	88,027	645,971
Non-current assets ³	222,468	7,875	107,304	337,647

(1) Other includes certain activities related to assets obtained in settlement of debt, as well as unallocated activities.

(2) Net operating income is attributed to the geographical segment on the basis of the location of the branch/ subsidiary responsible for reporting the results or advancing the funds.

(3) Non-current assets consist of property and equipment, intangible assets, and certain other assets (other than financial instruments and deferred taxes) expected to be recovered more than 12 months after the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

5. INTEREST AND SIMILAR INCOME

5. INTEREST AND SIMILAR INCOME

LBP Million	2012	2011
Balances with central banks	136,179	42,518
Due from banks and financial institutions	26,562	39,289
Loans to banks and financial institutions	18,088	18,625
Financial assets given as collateral	600	583
Loans and advances to customers at amortized cost	468,374	449,406
Loans and advances to related parties at amortized cost	636	540
Financial assets at amortized cost	624,307	709,429
	1,274,746	1,260,390

6. INTEREST AND SIMILAR EXPENSE

LBP Million	2012	2011
Due to central banks	597	325
Due to banks and financial institutions	33,440	37,631
Customers' deposits at amortized cost	778,239	735,319
Deposits from related parties at amortized cost	9,776	7,768
Debt issued and other borrowed funds	38,219	30,639
Subordinated debt	23,195	27,941
Other equity instruments	750	750
	884,216	840,373

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7. NET FEE AND COMMISSION INCOME

	2012	2011	LBP Million
Fee and commission income			
Loans and advances	22,275	21,652	
Letters of guarantee	16,593	15,588	
Acceptances	9,809	7,134	
Letters of credit	31,748	41,052	
Credit cards	10,765	7,484	
Domiciled bills	1,816	1,851	
Checks for collection	2,934	2,783	
Maintenance of accounts	10,939	8,964	
Transfers	10,723	9,198	
Safe rental	842	578	
Portfolio commission	3,315	3,578	
Trust and fiduciary activities	162	160	
Commission on insurance-related activities	5,412	7,342	
Refund of banking services	12,964	13,344	
Other commissions	6,489	6,455	
	146,786	147,163	
Fee and commission expense			
Commissions paid on financial instruments	(1,581)	(3,465)	
Other fees	(12,539)	(9,924)	
	(14,120)	(13,389)	
Net fee and commission income	132,666	133,774	

8. NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011	LBP Million
Interest and similar income from debt instruments			
Lebanese government bonds	10,470	13,576	
Certificates of deposit issued by the Central Bank of Lebanon	1,039	1,876	
Other foreign government bonds	140	66	
Other debt securities	462	709	
	12,111	16,227	
Gain from sale of debt instruments			
Lebanese government bonds	8,112	2,566	
Certificates of deposit issued by the Central Bank of Lebanon	24	2,510	
Other foreign government bonds	519	119	
Other debt securities	1,424	1,093	
	10,079	6,288	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

8. NET GAIN FROM FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

LBP Million	2012	2011
Unrealized gain (loss) from revaluation of debt instruments		
Lebanese government bonds	20	178
Certificates of deposit issued by the Central Bank of Lebanon	(379)	(177)
Other debt securities	1,556	(1,548)
	1,197	(1,547)
Net gain from debt instruments	23,387	20,968
Equity instruments		
Loss from sale	(327)	(401)
Unrealized gain (loss) from revaluation	3,164	(4,792)
Dividend income	552	1,014
Net gain (loss) from equity instruments	3,389	(4,179)
Unrealized gain from revaluation of structural position of a subsidiary	28,983	18,743
Foreign exchange	32,319	26,069
	88,078	61,601

Foreign exchange income includes gains and losses from spot and forward contracts, other currency derivatives and the revaluation of the daily open trading position.

9. NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

Sales of financial assets at amortized cost were mainly made during the year due to liquidity gap and yield management.

The schedule below details the gains and losses arising from the derecognition of these financial assets:

LBP Million	2012	Gains	Losses	Net
Lebanese government bonds		27,123	-	27,123
Certificates of deposit issued by the Central Bank of Lebanon		49,751	-	49,751
Other foreign government bonds		27	(9,379)	(9,352)
Other debt securities		400	(1,927)	(1,527)
		77,301	(11,306)	65,995

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2011	Gains	Losses	Net	LBP Million
Lebanese government bonds	31,218	(6)	31,212	
Certificates of deposit issued by the Central Bank of Lebanon	33,130	(488)	32,642	
Other foreign government bonds	110	(68)	42	
Other debt securities	1,715	(1,446)	269	
	66,173	(2,008)	64,165	

10. OTHER OPERATING INCOME

	2012	2011	LBP Million
Net gain from sale of assets obtained in settlement of debt	4,613	3,877	
Rental income from assets obtained in settlement of debt	998	1,028	
Write-back of provisions for risks and charges (note 34)	6,700	2,124	
Other operating income from insurance-related activities	12,559	11,021	
Others	2,614	6,162	
	27,484	24,212	

11. NET CREDIT LOSSES

	2012	2011	LBP Million
Charge for the year			
Loans and advances to customers at amortized cost (note 22)	119,682	56,843	
Financial assets at amortized cost (note 23)	2,250	23,575	
Bad debts written off	66	145	
	121,998	80,563	
Recoveries during the year			
Loans and advances to customers (note 22)	(9,497)	(7,625)	
Unrealized interest on loans and advances to customers (note 22)	(3,022)	(4,347)	
Financial assets at amortized cost (note 23)	(21,740)	-	
Doubtful banks (note 17)	(942)	(6,593)	
	(35,201)	(18,565)	
	86,797	61,998	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

12. PERSONNEL EXPENSES

LBP Million	2012	2011
Salaries and related charges	134,464	136,694
Social security contributions	16,713	17,015
Provision for end-of-service benefits (note 34)	3,144	7,577
	154,321	161,286

13. OTHER OPERATING EXPENSES

LBP Million	2012	2011
Taxes on interest	3,438	3,143
Taxes and duties	6,795	9,421
Contribution to deposit guarantee fund	9,618	8,531
Rent and related charges	8,106	7,722
Professional fees	7,491	6,611
Telecommunications and postage expenses	8,928	9,154
Board of Directors' attendance fees	970	983
Maintenance and repairs	12,683	11,746
Electricity and fuel	6,488	6,694
Travel and entertainment	3,928	4,256
Publicity and advertising	11,055	9,998
Subscriptions	4,127	3,159
Bonuses	20,572	6,260
Legal expenses	6,308	4,307
Insurance	1,699	1,632
Guarding fees	2,301	2,089
Printing and stationery	4,309	4,976
Provisions for risks and charges	3,504	6,187
Donations	8,017	2,522
Others	9,554	6,657
	139,891	116,048

14. INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2012 and 2011 are as follows:

LBP Million	2012	2011
Current income tax expense	49,119	59,665
Deferred tax related to origination of temporary differences	(10,666)	-
Other taxes	6,238	6,322
	44,691	65,987

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The tax rates applicable to the parent and subsidiaries vary from 0% to 40% in accordance with the income tax laws of the countries where the Group operates. For the purpose of determining the taxable results of the subsidiaries for the year, the accounting results have been adjusted for tax purposes. Such adjustments include items relating to both income and expense and are based on the current understanding of the existing tax laws and regulations and tax practices.

The relationship between taxable profit and accounting profit is as follows:

	2012		2011		
	Balance	Tax	Balance	Tax	LBP Million
Accounting profit before tax	296,953	44,543	336,924	50,539	
Add					
Non-deductible expenses	12,422	1,863	11,926	1,789	
Non-deductible provisions	-	-	28,119	4,218	
Carried forward taxable losses of a subsidiary	39,203	5,880	-	-	
	51,625	7,743	40,045	6,007	
Less					
Revenues previously subject to tax	3,661	549	2,122	318	
Provision recoveries previously subject to tax	9,804	1,471	10,156	1,523	
Unrealized gain from revaluation of structural position of a subsidiary	28,983	4,347	18,743	2,811	
	42,448	6,367	31,021	4,652	
Income subject to tax	306,130	45,919	345,948	51,894	
Impact of differently taxed profits		3,200		7,771	
Tax due		49,119		59,665	
Effective income tax rate		16.54%		17.71%	

The movement of current tax liabilities during the year is as follows:

	2012	2011	
Balance at 1 January	32,176	32,516	LBP Million
Charge for the year	55,357	65,987	
	87,533	98,503	
Less taxes paid			
Current year tax liability*	(25,338)	(35,230)	
Prior years tax liabilities	(25,676)	(31,097)	
	(51,014)	(66,327)	
Balance at 31 December (note 33)	36,519	32,176	

(*) Represents taxes paid on interest received from treasury bills and central banks' certificates of deposit.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

14. INCOME TAX EXPENSE (continued)

Deferred taxes recorded in the consolidated statement of financial position result from the following items:

2012		Deferred tax assets	Deferred tax liabilities
LBP Million			
	Fair value of financial instruments	1,822	2,615
	Carried forward taxable losses of a subsidiary	9,601	-
		11,423	2,615

2011		Deferred tax assets	Deferred tax liabilities
LBP Million			
	Fair value of financial instruments	1,061	2,229

15. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary equity holders of the Group (after adjusting for interest on the convertible instruments net of tax) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential shares into ordinary shares.

The following table shows the income and share data used in the basic earnings per share calculation:

	2012	2011
Weighted average number of common shares outstanding during the year (*)	561,749,874	561,806,168

LBP Million	2012	2011
Net profit attributable to equity holders of the parent	246,450	259,894
(Less): Proposed dividends to preferred shares	(48,320)	(48,320)
Net profit attributable to equity holders of the parent	198,130	211,574
Basic earnings per share in LBP	352.70	376.60

(*) The weighted average number of ordinary shares adopted for the computation of basic earnings per share takes into account the weighted average number of treasury shares, excluding treasury shares held against other equity instruments (note 40).

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DILUTED EARNINGS PER SHARE

The following table shows the income and share data used in the diluted earnings per share calculation:

	2012	2011
Weighted average number of ordinary shares for basic earnings per share	561,749,874	561,806,168
Effect of dilution		
Convertible subordinated debt	75,209,503	80,652,681
Weighted average number of ordinary shares adjusted for the effect of dilution	636,959,377	642,458,849

	2012	2011	LBP Million
Net profit attributable to equity holders of the parent	198,130	211,574	
Interest on convertible debt	19,683	20,852	
Less: income tax	(2,952)	(3,128)	
Net profit attributable to equity holders of the parent adjusted for the effect of convertible debt	214,861	229,298	
Diluted earnings per share in LBP	337.32	356.91	

There were no transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these consolidated financial statements which would require the restatement of earnings per share.

16. CASH AND BALANCES WITH CENTRAL BANKS

	2012	2011	LBP Million
Cash on hand	233,884	211,526	
Balances with the Central Bank of Lebanon			
Current accounts	602,297	742,586	
Time deposits	3,871,157	2,866,983	
	4,473,454	3,609,569	
Balances with central banks in other countries			
Current accounts	718,971	423,362	
Time deposits	31,273	12,110	
	750,244	435,472	
Accrued interest receivable	49,990	25,901	
	5,507,572	4,282,468	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

16. CASH AND BALANCES WITH CENTRAL BANKS (continued)

Obligatory reserves

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Pounds. This is not applicable for investment banks, which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Pounds. Additionally, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve requirements for banks operating in Lebanon and the related covering time deposits and current accounts amounted to LBP 2,141,301 million and LBP 2,248,890 million respectively as at 31 December 2012 (2011: LBP 2,141,893 million and LBP 2,256,625 million respectively).
- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2012, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LBP 124,929 million (2011: LBP 134,708 million).

17. DUE FROM BANKS AND FINANCIAL INSTITUTIONS

LBP Million

	2012	2011
Banks		
Current accounts	789,837	849,338
Time deposits	2,396,982	3,467,481
Accrued interest receivable	2,787	2,860
Doubtful bank accounts	3,193	4,097
Provision for doubtful bank accounts	(3,193)	(4,097)
	3,189,606	4,319,679
Financial institutions		
Current accounts	9,364	5,908
Cash margins	15,600	-
	24,964	5,908
Registered exchange companies		
Current accounts	444	3,254
Doubtful exchange companies accounts	2,259	2,259
Provision for doubtful exchange companies accounts	(2,259)	(2,259)
	444	3,254
Brokerage companies		
Current accounts	1,519	2,001
	3,216,533	4,330,842

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Doubtful banks and registered exchange companies

Following is the movement in the provisions for doubtful banks and registered exchange companies during the year:

LBP Million	2012			2011		
	Banks	Registered exchange companies	Total	Banks	Registered exchange companies	Total
Balance at 1 January	4,097	2,259	6,356	10,727	2,259	12,986
Write-back (note 11)	(942)	-	(942)	(6,593)	-	(6,593)
Exchange difference	38	-	38	(37)	-	(37)
Balance at 31 December	3,193	2,259	5,452	4,097	2,259	6,356

18. LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2012	2011	LBP Million
Loans to banks and financial institutions	377,535	496,528	
Accrued interest receivable	1,709	2,825	
	379,244	499,353	
Discounted acceptances	80,838	169,558	
Interest received in advance	(1,375)	(1,423)	
	79,463	168,135	
	458,707	667,488	

19. FINANCIAL ASSETS GIVEN AS COLLATERAL

	2012	2011	LBP Million
Treasury bills mortgaged in favor of the Central Bank of Lebanon, at amortized cost	8,814	8,814	
Accrued interest receivable	109	106	
	8,923	8,920	

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon during 2010 (note 29).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

20. DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the values of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year-end and are neither indicative of the market risk nor the credit risk.

LBP Million	2012			2011		
	Assets	Liabilities	Notional amount	Assets	Liabilities	Notional amount
Held for trading						
Currency swaps	11,069	7,541	391,883	891	2,201	190,831
Forward foreign exchange contracts	1,105	1,072	143,954	4,465	5,146	313,357
	12,174	8,613	535,837	5,356	7,347	504,188

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

FORWARDS

Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

SWAPS

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

DERIVATIVE FINANCIAL INSTRUMENTS HELD OR ISSUED FOR TRADING PURPOSES

Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. Also included under this classification are any derivatives entered into for risk management purposes that do not meet the IAS 39 hedge accounting criteria.

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21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012	2011	LBP Million
Lebanese government bonds	256,373	197,584	
Certificates of deposit issued by the Central Bank of Lebanon	10,704	11,078	
Other debt securities	7,704	19,944	
Quoted equity instruments	26,128	26,603	
	300,909	255,209	

22. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2012	2011	LBP Million
Commercial loans	4,491,803	4,555,085	
Consumer loans	2,055,160	1,727,130	
	6,546,963	6,282,215	
Less			
Individual impairment allowances	(167,778)	(90,206)	
Collective impairment allowances	(112,733)	(103,728)	
Unrealized interest	(71,348)	(62,599)	
	6,195,104	6,025,682	

In accordance with Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off-financial position accounts. The gross balance of these loans amounted to LBP 76,514 million as of 31 December 2012 (2011: LBP 91,644 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of unrealized interest on substandard, doubtful, and bad loans during the year was as follows:

LBP Million	2012	Commercial loans	Consumer loans	Total
	Balance at 1 January	62,207	392	62,599
	Add (less)			
	Unrealized interest for the year	19,972	113	20,085
	Amounts transferred to off-financial position	(3,035)	-	(3,035)
	Recoveries (note 11)	(3,022)	-	(3,022)
	Amounts written off	(3,679)	-	(3,679)
	Difference of exchange	(1,480)	(120)	(1,600)
	Balance at 31 December	70,963	385	71,348

LBP Million	2011	Commercial loans	Consumer loans	Total
	Balance at 1 January	59,329	338	59,667
	Add (less)			
	Unrealized interest for the year	9,206	118	9,324
	Amounts transferred from off-financial position	1,523	-	1,523
	Recoveries (note 11)	(4,336)	(11)	(4,347)
	Amounts written off	(3,386)	-	(3,386)
	Difference of exchange	(129)	(53)	(182)
	Balance at 31 December	62,207	392	62,599

31 December 2012

Movement of the individual impairment allowances during the year was as follows:

2012	Commercial loans	Consumer loans	Total	LBP Million
Balance at 1 January	68,542	21,664	90,206	
Add (less)				
Charge for the year (note 11)	78,218	13,751	91,969	
Amounts written off	(1,964)	(207)	(2,171)	
Recoveries (note 11)	(6,484)	(3,013)	(9,497)	
Transfer (to) from off-financial position	(1,058)	384	(674)	
Transfer from/to collective impairment allowances	4,795	700	5,495	
Difference of exchange	(5,685)	(1,865)	(7,550)	
Balance at 31 December	136,364	31,414	167,778	
Gross amount of loans individually determined to be impaired	326,891	37,044	363,935	

2011	Commercial loans	Consumer loans	Total	LBP Million
Balance at 1 January	51,922	15,096	67,018	
Add (less)				
Charge for the year (note 11)	23,082	8,571	31,653	
Amounts written off	(990)	(295)	(1,285)	
Recoveries (note 11)	(5,517)	(2,108)	(7,625)	
Transfer from off-financial position	637	812	1,449	
Transfer from/to collective impairment allowances	(459)	(344)	(803)	
Difference of exchange	(133)	(68)	(201)	
Balance at 31 December	68,542	21,664	90,206	
Gross amount of loans individually determined to be impaired	174,568	27,812	202,380	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

22. NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST (continued)

Movement of the collective impairment allowances during the year was as follows:

LBP Million	2012	Commercial loans	Consumer loans	Total
	Balance at 1 January	75,573	28,155	103,728
	Add (less)			
	Charge for the year (note 11)	25,520	2,193	27,713
	Transfer from commercial to consumer	(2,038)	2,038	-
	Transfer from/to individual impairment allowances	(4,795)	(700)	(5,495)
	Difference of exchange	(13,069)	(144)	(13,213)
	Balance at 31 December	81,191	31,542	112,733

LBP Million	2011	Commercial loans	Consumer loans	Total
	Balance at 1 January	57,591	21,925	79,516
	Add (less)			
	Charge for the year (note 11)	24,744	446	25,190
	Transfer from commercial to consumer	(5,547)	5,547	-
	Transfer from/to individual impairment allowances	459	344	803
	Difference of exchange	(1,674)	(107)	(1,781)
	Balance at 31 December	75,573	28,155	103,728

31 December 2012

23. FINANCIAL ASSETS AT AMORTIZED COST

	2012	2011	LBP Million
Lebanese government bonds	3,821,495	3,262,542	
Certificates of deposit issued by the Central Bank of Lebanon	4,248,589	4,259,961	
Other foreign government bonds	126,960	201,380	
Other debt securities	954,069	925,454	
	9,151,113	8,649,337	
Less			
collective impairment allowances	(5,487)	(25,015)	
individual impairment allowances	-	(17,021)	
	9,145,626	8,607,301	

The movement in the collective impairment allowances during the year was as follows:

2012	Other foreign government bonds	Other debt securities	Total	LBP Million
Balance at 1 January	14,236	10,779	25,015	
Write-back during the year (note 11)	(14,236)	(7,504)	(21,740)	
Charge for the year (note 11)	-	2,250	2,250	
Exchange difference	-	(38)	(38)	
Balance at 31 December	-	5,487	5,487	

2011	Other foreign government bonds	Other debt securities	Total	LBP Million
Balance at 1 January	-	-	-	
Provision transferred upon early adoption of IFRS 9	10,977	5,704	16,681	
Provision transferred to individual impairment allowances	(7,177)	-	(7,177)	
Charge for the year (note 11)	11,132	5,409	16,541	
Exchange difference	(696)	(334)	(1,030)	
Balance at 31 December	14,236	10,779	25,015	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

23. FINANCIAL ASSETS AT AMORTIZED COST (continued)

The movement in the individual impairment allowances during the year was as follows:

LBP Million	2012 Other foreign government bonds	2011 Other foreign government bonds
Balance at 1 January	17,021	-
Provision transferred upon early adoption of IFRS 9	-	3,013
Provision transferred from collective impairment allowances	-	7,177
Charge for the year (note 11)	-	7,034
Exchange difference	104	(203)
Provision written off against Hellenic Republic Bonds disposed of	(17,125)	-
Balance at 31 December	-	17,021
Gross amount of other foreign government bonds individually determined to be impaired	-	23,861

**24. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER
COMPREHENSIVE INCOME**

LBP Million	2012	2011
Quoted shares	41,669	39,927
Unquoted shares	36,994	37,040
	78,663	76,967

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The table below details the financial assets at fair value through other comprehensive income as at 31 December:

LBP Million	2012			2011		
	Carrying amount	Cumulative fair value changes	Dividend income	Carrying amount	Cumulative fair value changes	Dividend income
Unquoted shares						
Banque de l'Habitat S.A.L.	20,641	15,452	454	18,979	13,790	454
Intra Investment Company S.A.L.	13,030	6	583	14,979	1,954	1,166
Interbank Payment Network (IPN) S.A.L.	1,289	287	106	1,206	203	104
Arab Trade Financing Program	1,492	-	-	1,492	-	-
Others	542	103	44	384	-	44
Quoted shares						
Jordan Ahli Bank	41,669	(38,745)	3,304	39,927	(35,361)	2,432
	78,663	(22,897)	4,491	76,967	(19,414)	4,200

Dividend income amounted to 4,491 million for the year ended 31 December 2012 (2011: LBP 4,200 million) and resulted from equity instruments held at year-end (2011: the same).

25. PROPERTY AND EQUIPMENT

LBP Million	2012					
	Buildings	Motor vehicles	Furniture and equipment	Deposits	Advance payments	Total
COST						
At 1 January 2012	252,516	3,591	198,442	668	27,123	482,340
Additions during the year	11,990	494	17,355	15	65	29,919
Transfers	8,262	-	11,618	-	(19,880)	-
Disposal of fixed assets	-	(293)	(2,258)	-	-	(2,551)
Foreign exchange difference	(26,385)	(280)	(15,490)	3	(3,773)	(45,925)
At 31 December 2012	246,383	3,512	209,667	686	3,535	463,783
DEPRECIATION						
At 1 January 2012	42,410	2,697	136,167	-	-	181,274
Depreciation during the year	5,619	451	25,053	-	-	31,123
Related to disposals of fixed assets	-	(293)	(1,980)	-	-	(2,273)
Foreign exchange difference	(2,300)	(172)	(9,263)	-	-	(11,735)
At 31 December 2012	45,729	2,683	149,977	-	-	198,389
NET CARRYING VALUE						
At 31 December 2012	200,654	829	59,690	686	3,535	265,394

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

25. PROPERTY AND EQUIPMENT (continued)

2011						
LBP Million	Buildings	Motor vehicles	Furniture and equipment	Deposits	Advance payments	Total
COST						
At 1 January 2011	239,196	3,809	173,227	1,545	24,581	442,358
Additions during the year	17,868	388	21,917	58	16,901	57,132
Transfers	(2,074)	-	16,153	-	(14,079)	-
Disposal of fixed assets	(39)	(524)	(8,871)	(932)	(236)	(10,602)
Foreign exchange difference	(2,435)	(82)	(3,984)	(3)	(44)	(6,548)
At 31 December 2011	252,516	3,591	198,442	668	27,123	482,340
DEPRECIATION						
At 1 January 2011	40,517	2,469	118,069	-	-	161,055
Depreciation during the year	5,536	681	25,249	-	-	31,466
Transfers	(3,863)	-	3,863	-	-	-
Related to disposals of fixed assets	-	(402)	(8,942)	-	-	(9,344)
Foreign exchange difference	220	(51)	(2,072)	-	-	(1,903)
At 31 December 2011	42,410	2,697	136,167	-	-	181,274
NET CARRYING VALUE						
At 31 December 2011	210,106	894	62,275	668	27,123	301,066

The costs of buildings at 31 December 2012 and 2011 include the revaluation differences of properties valued during prior years in accordance with Law No. 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LBP 5,689 million as at 31 December 2012 (2011: the same) (note 42).

26. INTANGIBLE ASSETS

LBP Million	2012	2011
COST		
At 1 January	2,303	2,054
Additions for the year	-	249
At 31 December	2,303	2,303
ACCUMULATED AMORTIZATION		
At 1 January	1,174	1,015
Amortization expense for the year	159	159
At 31 December	1,333	1,174
NET BOOK VALUE		
At 31 December	970	1,129

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27. ASSETS OBTAINED IN SETTLEMENT OF DEBT

	2012	2011	LBP Million
COST			
At 1 January	40,611	44,251	
Additions during the year	286	829	
Disposal	(2,536)	(4,469)	
At 31 December	38,361	40,611	
IMPAIRMENT			
At 1 January	(5,159)	(5,159)	
At 31 December	(5,159)	(5,159)	
NET CARRYING VALUE			
At 31 December	33,202	35,452	

Advance payments received in connection with future sale transactions for the above assets amounted to LBP 1,357 million as of 31 December 2012 (2011: LBP 1,428 million) (note 33).

28. OTHER ASSETS

	2012	2011	LBP Million
Obligatory deposits (a)	18,610	20,091	
Other assets (b)	64,352	59,822	
Deferred tax assets	11,423	1,061	
Doubtful debtor accounts	37	37	
	94,422	81,011	
Less: Allowance for credit losses	(37)	(37)	
	94,385	80,974	

(a) Obligatory deposits consist of deposits at a percentage of the share capital of subsidiary banks that were blocked at incorporation as a guarantee with the authorities. These deposits shall be returned to the subsidiary banks without any interest upon liquidation of their activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

28. OTHER ASSETS (continued)

(b) Other assets consist of the following:

LBP Million	2012	2011
Prepaid rent	4,012	3,768
Printing and stationery	3,820	3,213
Credit card balances due from customers	11,216	11,248
Insurance premiums receivable	3,094	2,945
Reinsurers' share of technical reserve of subsidiary insurance companies	23,917	19,974
Receivables from NSSF	4,611	2,991
Advance payment on participating in capital increase of equity instruments at fair value through other comprehensive income	-	5,187
Other debit balances	13,682	10,496
	64,352	59,822

29. DUE TO CENTRAL BANKS

LBP Million	2012	2011
Current accounts	613	5,925
Time deposit	6,711	-
Loan due to the Central Bank of Lebanon	8,814	8,814
Loan due to the Central Bank of Armenia	1,692	887
Accrued interest payable	88	44
	17,918	15,670

During the year ended 31 December 2010, the Group obtained three loans from the Central Bank of Lebanon to finance customers affected by the July 2006 war as follows:

LBP Million	Amount	Interest rate	Maturity
First loan	1,899	2.425%	2 May 2013
Second loan	5,528	2.9%	23 April 2015
Third loan	1,387	2.9%	21 April 2016
	8,814		

The above loans are secured by the pledge of Lebanese treasury bills amounting to LBP 8,814 million included under financial assets given as collateral as of 31 December 2012 (2011: the same) (note 19).

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30. DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2012	2011	LBP Million
Banks			
Current accounts	150,503	312,650	
Time deposits	541,930	574,196	
Term loans	204,934	246,291	
Cash margins	192,880	232,659	
Accrued interest payable	6,874	7,186	
	1,097,121	1,372,982	
Financial institutions			
Current accounts	3,189	1,999	
Term loans	189,439	221,245	
Time deposits	33,877	29,019	
Accrued interest payable	2,424	2,669	
	228,929	254,932	
Registered exchange companies			
Current accounts	186	160	
Time deposits	288	2,223	
	474	2,383	
Brokerage institutions			
Current accounts	523	3,875	
Time deposits	-	1,308	
	523	5,183	
	1,327,047	1,635,480	

31. CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2012	2011	LBP Million
Current accounts	3,291,348	3,193,374	
Term deposits	15,617,849	14,988,947	
Cash margins	963,958	888,087	
Accrued interest payable	94,376	86,825	
	19,967,531	19,157,233	

Customers' deposits include coded deposit accounts amounting to LBP 40,905 million as of 31 December 2012 (2011: LBP 52,216 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

32. DEBT ISSUED AND OTHER BORROWED FUNDS

	Nominal value USD (000)	Maturity	Interest rate %	2012 LBP Million	2011 LBP Million
Certificates of deposit					
Issue 2009 – First Series	101,150	31/03/2012	6.50	-	152,484
Issue 2009 – Second Series	40,450	31/03/2014	7.25	60,978	60,978
Accrued interest payable				12	39
				60,990	213,501
Bonds (*)					
Issue 2011	297,310	24/06/2021	7.00	447,106	448,174
Accrued interest payable				615	615
				447,721	448,789
				508,711	662,290
Interest and similar expense					
- Certificates of deposit				6,876	14,332
- Bonds				31,343	16,307
				38,219	30,639

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or the Democratic Republic of the Congo.

The Bank shall pay interest on the bonds without deduction or withholding for taxes.

The bonds are redeemable, in whole or in part, at the option of the Bank at any time after the first anniversary of the issue date, in the event of changes in the Lebanese tax law that will result in taxes on interest on the bonds in excess of the current applicable tax rate.

33. OTHER LIABILITIES

LBP Million	2012	2011
Accrued expenses	35,449	28,823
Fixed asset suppliers	6,089	10,211
Unearned commission and interest	1,257	2,010
Cash margins related to companies under establishment	3,876	10,104
Insurance premiums received in advance	2,445	2,178
Partial payments received from customers	4,518	4,512
Payables to the National Social Security Fund	1,668	1,692
Advance payments linked to assets obtained in settlement of debt (note 27)	1,357	1,428
Current tax liability (a)	49,207	47,669
Deferred tax liability (b)	2,615	2,229
Bankers' checks	130,459	-
Other creditors	23,948	15,411
	262,888	126,267

31 December 2012

(a) Current tax liability

	2012	2011	LBP Million
Income tax due (note 14)	36,519	32,176	
Withholding tax on salaries	1,987	2,237	
Withholding tax on interest earned by customers	6,446	7,322	
Value added tax	200	87	
Other taxes	4,055	5,847	
	49,207	47,669	

(b) Deferred tax liability

	2012	2011	LBP Million
At 1 January	2,229	11,445	
Effect of IFRS 9 early adoption (note 53)	-	(8,878)	
Deferred tax on financial instruments at fair value through other comprehensive income	386	(318)	
Translation differences	-	(20)	
At 31 December	2,615	2,229	

34. PROVISIONS FOR RISKS AND CHARGES

	2012	2011	LBP Million
Technical reserves of insurance subsidiaries	81,841	78,693	
Provision for employees' end-of-service benefits (a)	38,286	37,133	
Other provisions (b)	10,338	14,163	
	130,465	129,989	

(a) Movement in the provision for employees' end-of-service benefits during the year was as follows:

	2012	2011	LBP Million
Balance at 1 January	37,133	30,922	
Provision constituted during the year (note 12)	3,144	7,577	
End-of-service benefits paid during the year	(1,445)	(1,366)	
Foreign exchange	(546)	-	
Balance at 31 December	38,286	37,133	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

34. PROVISIONS FOR RISKS AND CHARGES (continued)

(b) Movement in other provisions during the year was as follows:

LBP Million	2012	2011
At 1 January	14,163	13,730
Charge for the year	3,504	6,187
Write-back during the year (note 10)	(6,700)	(2,124)
Payments during the year	-	(2,850)
Foreign exchange	(629)	(780)
At 31 December	10,338	14,163

35. SUBORDINATED DEBT

LBP Million	2012	2011
Convertible subordinated notes (maturity 30 November 2012)	-	258,875
Subordinated notes (maturity 30 June 2012)	-	48,388
Convertible subordinated loan (maturity 21 December 2022)	410,896	-
	410,896	307,263

During 2012, convertible subordinated notes (maturity 30 November 2012) and subordinated notes (maturity 30 June 2012) matured. As a result, an equity component amounting to LBP 18,040 million was transferred from non-distributable reserves (note 37) to distributable reserves (note 38).

On 21 December 2012, the Bank signed a USD 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of USD 300 million subordinated notes convertible into Byblos Bank S.A.L. shares or GDRs according to the following terms:

Number of notes:	30,000
Note's issue price:	USD 10,000
Note's nominal value:	USD 10,000
Date of issue:	21 December 2012
Maturity:	21 December 2022, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank S.A.L. shares or GDRs at a price of USD 2.5 per share or USD 125 per GDR
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or a portion of the subordinated notes into Byblos Bank S.A.L. shares or GDRs at a conversion price of USD 2.5 per share or USD 125 per GDR.

The convertible subordinated notes (net of subordinated notes held by a consolidated subsidiary) were recorded at 31 December 2012 as follows:

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	2012	2011	LBP Million
Nominal value of convertible bonds	441,697	294,000	
Equity component	(31,618)	(20,974)	
Liability component	410,079	273,026	
Accrued interest payable	817	542	
	410,896	273,568	

The equity component of the convertible subordinated loan is recorded in equity under "non-distributable reserves" (note 37).

36. SHARE CAPITAL

LBP Million	2012			2011		
	No. of shares	Share capital	Share premium	No. of shares	Share capital	Share premium
Common shares	565,515,040	684,273	229,014	565,515,040	684,273	229,014
	565,515,040	684,273	229,014	565,515,040	684,273	229,014
Preferred shares						
- Series 2008	2,000,000	2,420	295,154	2,000,000	2,420	295,154
- Series 2009	2,000,000	2,420	291,105	2,000,000	2,420	288,704
	4,000,000	4,840	586,259	4,000,000	4,840	583,858

The capital of the Bank is divided into 569,515,040 shares of LBP 1,210 each fully paid (2011: the same).

PREFERRED SHARES

i) Series 2008 Preferred Shares

On 15 August 2008, and based on the decision of the Extraordinary General Assembly held on 18 July 2008, the Bank issued Series 2008 Preferred Shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	USD 100
Share's nominal value:	LBP 1,200
Issue premium:	USD (000) 195,790 (equivalent to LBP 295,154 million) calculated in USD as the difference between the total issue of USD (000) 200,000 and the total par value of the issue amounting to LBP 2,400 million and after deducting issuance commission for the issue amounting to USD (000) 2,618.
Benefits:	Non-cumulative annual dividends of USD 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the General Assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of Series 2008 Preferred Shares was increased from LBP 1,200 to LBP 1,210.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

36. SHARE CAPITAL (continued)

Preferred shares (continued)

ii) Series 2009 Preferred Shares

On 4 September 2009, and based on the decision of the Extraordinary General Assembly held on 1 August 2009, the Bank issued Series 2009 Preferred Shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	USD 96
Share's nominal value:	LBP 1,210
Issue premium:	USD (000) 188,313 (equivalent to LBP 283,881 million) calculated in USD as the difference between the total issue of USD (000) 192,000 and the total par value of the issue amounting to LBP 2,420 million and after deducting issuance commissions of USD (000) 2,082.
Benefits:	Non-cumulative annual dividends of USD 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the General Assembly) at the Bank's option at USD 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

During 2012, the Bank transferred LBP 2,412 million from retained earnings to the share premium on Series 2009 Preferred Shares (2011: LBP 2,412 million) for the difference between the redemption price and the issue price.

LISTING OF SHARES

As of 31 December the Bank's shares were listed as follows:

LBP Million	Stock exchange	2012 No. of shares	2011 No. of shares
	Beirut	501,164,240	500,804,990
	London SEAQ and Beirut	1,287,016	1,294,201
	Beirut	4,000,000	4,000,000

(*) Global Depository Receipts (GDRs) can be issued at a ratio of 50 common shares per one GDR.

31 December 2012

37. NON-DISTRIBUTABLE RESERVES

LBP Million	Legal reserve	Reserves for capital increase	Equity component of convertible subordinated debt	Reserve for general banking risks	Other reserves	Total
Balance at 1 January 2012	172,250	45,716	18,040	138,609	94,457	469,072
Appropriation from retained earnings	28,570	3,952	-	41,385	11,611	85,518
Transfer to distributable reserves (note 38)	-	-	(18,040)	-	-	(18,040)
Equity component on subordinated loan (note 35)	-	-	31,618	-	-	31,618
Net loss on sale of treasury shares	-	(23)	-	-	-	(23)
Balance at 31 December 2012	200,820	49,645	31,618	179,994	106,068	568,145
Balance at 1 January 2011	143,741	40,135	18,040	113,209	81,401	396,526
Appropriation from retained earnings	28,509	5,301	-	25,400	13,056	72,266
Net gain on sale of treasury shares	-	280	-	-	-	280
Balance at 31 December 2011	172,250	45,716	18,040	138,609	94,457	469,072

LEGAL RESERVE

According to the Lebanese Code of Commerce and to the Code of Money and Credit, the Bank is required to transfer 10% of its annual net profit to a legal reserve. In addition, subsidiaries and branches are also subject to legal reserve requirements based on the rules and regulations of the countries in which they operate. This reserve cannot be distributed as dividends.

During 2012, the Group appropriated LBP 28,570 million from 2011 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolutions (2011: LBP 28,509 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

37. NON-DISTRIBUTABLE RESERVES (continued)

Legal Reserve (continued)

RESERVES FOR CAPITAL INCREASE

This represents regulatory reserves constituted in accordance with circulars issued by the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

LBP Million	2012	2011
Reserve equivalent to realized profit on sale of assets acquired in settlement of debt, in accordance with BCC Circular No. 173	20,228	17,508
Reserve equivalent to provisions recovered, in accordance with BCC Circular No. 167	9,737	9,737
Reserve against assets obtained in settlement of debt in accordance with Central Bank of Lebanon Circular 78 and BCC Circular No. 267	9,577	8,346
Reserve against realized gain from liquidation of fixed position in accordance with BCC Circular No. 197	8,870	8,870
Others	1,233	1,255
	49,645	45,716

RESERVE FOR GENERAL BANKING RISKS

According to Central Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk-weighted assets and off statement of financial position items based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of year 10 (2017) and 2% at the end of year 20 (2027). This reserve cannot be distributed as dividends.

The appropriation in 2012 from the profits of the year 2011 amounted to LBP 41,385 million (2011: LBP 25,400 million).

OTHER RESERVES

Other reserves consist of non-distributable reserves of subsidiaries appropriated from retained earnings as required by the laws applicable in the countries in which they operate. During 2012, the Group transferred an amount of LBP 11,611 million from retained earnings to other reserves (2011: LBP 13,056 million).

As of 31 December 2012, "Other reserves" include reserves of LBP 67,247 million maintained by the subsidiary Byblos Bank Europe to meet several legal limits and requirements (31 December 2011: LBP 61,443 million).

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38. DISTRIBUTABLE RESERVES

	2012	2011	LBP Million
General reserves	94,237	73,705	
Other capital reserves	5,422	5,422	
	99,659	79,127	

GENERAL RESERVES

The Group appropriates general reserves from its retained earnings to strengthen its equity. The movement in general reserves during the year was as follows:

	2012	2011	LBP Million
At 1 January	73,705	73,705	
Appropriation from retained earnings	2,492	-	
Transfer from non-distributable reserves (note 37)	18,040	-	
At 31 December	94,237	73,705	

OTHER CAPITAL RESERVES

	2012	2011	LBP Million
Premium on capital increase of Byblos Bank Armenia C.J.S.C.	1,026	1,026	
Premium on capital increase of Byblos Bank Africa	4,396	4,396	
	5,422	5,422	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

39. OTHER EQUITY INSTRUMENTS

On 12 July 2010, Byblos Bank S.A.L. issued three-year notes ("3 Years Byblos Bank Note") for a total amount of USD 9,936,000 (equivalent to LBP 14,979 million) according to the following terms:

Number of notes:	46
Principal of one note:	USD 216,000
Issuing price:	100%
Total issue:	USD 9,936,000 (equivalent to LBP 14,979 million).
Annual return :	3% per year payable on a monthly basis plus any dividend paid on Byblos Bank common shares during the period preceding the payments of the notes on the basis of 120,000 shares per note.
Maturity:	12 July 2013
Prepayment:	The Bank has the right to redeem the notes before maturity on an annual basis, but only within 30 days following the Annual Ordinary General Meeting of Shareholders. In such case, the Bank shall pay in addition to the principal amount of the Note and the return, a bonus of 6% on the principal of the notes.
Settlement:	At maturity, and at its discretion, the Bank shall either settle 120,000 Byblos Bank common shares per note (calculated on the basis of a strike price of USD 1.8 per share) or the principal amount of the note in addition to a bonus of 6%.

During 2012, the Group accounted for LBP 450 million representing the 3% annual return on the notes (2011: the same). In addition, the Group accounted for a liability relating to a 6% bonus on the principal of the notes in the amount of LBP 300 million for the year ended 31 December 2012 (2011: the same). Dividends paid to the holders of the notes amounted to LBP 1,049 million during 2012 (2011: the same).

40. TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2012 and 2011 was as follows:

Year ended 31 December 2012	Common shares		Global Depository Receipts	
	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)
At 1 January 2012	8,707,829	15,813	12,541	1,086
Acquisitions of treasury shares	5,845	10	866	65
Sales of treasury shares	(104,453)	(190)	-	-
At 31 December 2012	8,609,221	15,633	13,407	1,151
Total treasury shares in LBP million				25,302

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Year ended 31 December 2011	Common shares		Priority shares		Global Depository Receipts	
	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)	No. of shares	Amount USD (000)
At 1 January 2011	5,662,635	10,279	113,401	200	2,903	260
Acquisitions of treasury shares	2,452,376	4,400	9,186,412	16,916	11,138	960
Sales of treasury shares	(753,124)	(1,343)	(7,953,871)	(14,639)	(1,500)	(134)
Conversion of priority shares into common shares	1,345,942	2,477	(1,345,942)	(2,477)	-	-
At 31 December 2011	8,707,829	15,813	-	-	12,541	1,086
Total treasury shares in LBP million						25,476

As of 31 December 2012, treasury shares include 5,520,000 (2011: 5,520,000) common shares held against other equity instruments (note 39).

41. RETAINED EARNINGS

As of 31 December, retained earnings include the following non-distributable amounts:

	2012	2011	LBP Million
Group's share of accumulated unrealized gain on revaluation of structural position of subsidiary bank	7,764	-	
Other	442	-	
	8,206	-	

In accordance with Decision 362 of the Council of Money and Credit of Syria, unrealized accumulated foreign exchange profits from the revaluation of the structural position in foreign currency maintained by the subsidiary bank in Syria are non-distributable. These are classified as non-distributable amounts in retained earnings after the closing of each financial year ending 31 December, upon transfer of the profit for the period to retained earnings.

Profit for the year attributable to equity holders of the parent include non-distributable amounts of LBP 15,291 million (2011: LBP 8,206 million).

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42. REVALUATION RESERVE OF REAL ESTATE

LBP Million	2012	2011
Revaluation reserve accepted in Tier II capital	1,978	1,978
Revaluation reserve not accepted in Tier II capital	3,711	3,711
	5,689	5,689

43. CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value of financial assets at fair value through other comprehensive income during the year was as follows:

LBP Million	2012	2011
At 1 January	(20,556)	53,993
Effect of IFRS 9 early adoption (note 53)	-	(72,065)
Net changes in fair values during the year	(3,483)	(3,718)
Net changes in deferred taxes	527	1,379
Difference on exchange	(122)	(145)
Balance at 31 December	(23,634)	(20,556)

44. CASH AND CASH EQUIVALENTS

LBP Million	2012	2011
Cash and balances with central banks	2,333,218	3,065,906
Due from banks and financial institutions	3,153,470	4,233,447
	5,486,688	7,299,353
Less: Due to banks and financial institutions	(858,186)	(1,143,305)
Less: Due to central banks	(7,415)	(5,930)
Cash and cash equivalents at 31 December	4,621,087	6,150,118

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45. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operation decisions, or one other party controls both. The definition includes subsidiaries, key management personnel and their close family members, as well as entities controlled or jointly controlled by them.

A list of the Group's principal subsidiaries is shown in note 2. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's financial statements.

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Directors of the Bank and the Officers of the Group.

Loans to related parties, (a) were made in the ordinary course of business, (b) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others and (c) did not involve more than a normal risk of collectability or present other unfavorable features.

Related party balances included in the Group's statement of financial position are as follows as of 31 December:

	2012	2011	LBP Million
Loans and advances	15,815	16,638	
<i>of which: granted to key management personnel</i>	<i>13,017</i>	<i>14,028</i>	
Deposits	208,102	169,175	
Debt issued and other borrowed funds	1,984	3,513	
Subordinated debt	18,241	24,860	
Guarantees received	11,965	9,745	
Guarantees given	9	9	
Commitments (including acceptances)	12,989	4,957	

Related party transactions included in the Group's income statement are as follows for the year ended 31 December:

	2012	2011	LBP Million
Interest income on loans	636	540	
Interest expense on deposits	9,776	7,768	
Interest expense on debt issued and other borrowed funds	138	394	
Interest expense on subordinated debt	1,851	2,043	
Rent expense	561	58	

In addition to the above, during 2012, the Group acquired real estate properties from a related party at a cost of LBP 1,187 million (2011: nil).

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45. RELATED PARTY TRANSACTIONS (continued)

COMPENSATION OF THE KEY MANAGEMENT PERSONNEL OF THE GROUP

LBP Million	2012	2011
Short-term benefits ¹	15,376	13,313

(1) Short-term benefits consist of salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to key management personnel.

46. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

To meet the financial needs of customers, the Group enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

LBP Million	2012	Banks	Customers	Total
Guarantees and contingent liabilities				
Financial guarantees	-	-	186,703	186,703
Other guarantees	418,220	-	972,462	1,390,682
	418,220		1,159,165	1,577,385
Commitments				
Documentary credits	378,108	-	480,514	858,622
Undrawn credit lines	-	-	2,248,925	2,248,925
	378,108		2,729,439	3,107,547

LBP Million	2011	Banks	Customers	Total
Guarantees and contingent liabilities				
Financial guarantees	-	-	199,815	199,815
Other guarantees	340,408	-	987,363	1,327,771
	340,408		1,187,178	1,527,586
Commitments				
Documentary credits	401,404	-	523,392	924,796
Undrawn credit lines	-	-	2,394,784	2,394,784
	401,404		2,918,176	3,319,580

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Guarantees

Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:

- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees provided include mainly performance guarantees, advance payment guarantees and tender guarantees.

Documentary credits

Documentary credits commit the Group to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Undrawn credit lines

Undrawn credit lines and other commitments to lend are agreements to lend to a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

LEGAL CLAIMS

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year-end, the Group had several unresolved legal claims. Based on advice from legal counsel, management believes that these legal claims will not result in any financial loss to the Group.

LEASE ARRANGEMENTS**Operating leases – Group as lessee**

The Group has entered into commercial leases on premises. These leases have an average life of between 5 and 10 years.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2012	2011	LBP Million
Within one year	3,647	3,773	
After one year but not more than five years	11,264	11,394	
More than five years	12,594	18,929	
	27,505	34,096	

OTHER CONTINGENCIES

The Bank's books and records have been reviewed by the Department of Income Tax for the years 2006 and 2007. On 20 February 2012, the Department of Income Tax issued its review report, whereby it charged the Bank with additional taxes and penalties amounting to LBP 1,200 million, which were fully paid during 2012. In addition, the Bank's books and records have not been reviewed by the Department of Income Tax and the National Social Security Fund for the years 2008 to 2012 and for the year 2012 respectively. The subsidiaries' books and records are also subject to review by the tax and social security authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

46. CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

CONTINGENT LIABILITIES

During 2011 and 2012, Syria, one of the significant credit markets of the Group, witnessed a period of political and civil unrest together with adverse events which can affect the economic environment of future periods. As part of its collective provisioning process, management performed a stress test on the loan portfolio exposed to the Syrian market risks and, as a result, the necessary provisions were booked. The Group's management continues to monitor its loan portfolio and evaluate the impact of these events during 2013.

47. ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

LBP Million	2012	2011
Assets held in custody and under administration	3,188,752	3,325,291

ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

Custody is the safekeeping and servicing of securities and other financial assets on behalf of clients. Administration includes the provision of various support functions activities, including the valuation of portfolios of securities and other financial assets on behalf of clients, which complements the custody business.

48. FAIR VALUE OF FINANCIAL INSTRUMENTS

FINANCIAL INSTRUMENTS RECORDED AT FAIR VALUE

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

Derivatives

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps and forward foreign exchange contracts. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs, including the credit quality of counterparties, foreign exchange spot and forward rates, and interest rate curves.

Financial assets at fair value through other comprehensive income

These assets are valued using models that use both observable and unobservable data. The unobservable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

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Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss that are valued using a valuation technique consist of certain debt securities. The Group values the securities using discounted cash flow valuation models which incorporate observable and unobservable data. Observable inputs include assumptions regarding current rates of interest and broker statements. Unobservable inputs include assumptions regarding expected future default rates, prepayment rates and market liquidity discounts.

DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

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

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

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

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

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

	Level 1	Level 2	Total	2012 LBP Million
FINANCIAL ASSETS				
Derivative financial instruments:				
Currency swaps	-	11,069	11,069	
Forward foreign exchange contracts	-	1,105	1,105	
	-	12,174	12,174	
Financial assets at fair value through profit or loss				
Lebanese government bonds	237,141	19,232	256,373	
Certificates of deposit issued by the Central Bank of Lebanon	-	10,704	10,704	
Other debt securities	7,704	-	7,704	
Quoted equity instruments	26,128	-	26,128	
Financial assets at fair value through other comprehensive income				
	41,669	36,994	78,663	
	312,642	66,930	379,572	
	312,642	79,104	391,746	

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48. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

2012

LBP Million

	Level 1	Level 2	Total
FINANCIAL LIABILITIES			
Derivative financial instruments			
Currency swaps	-	7,541	7,541
Forward foreign exchange contracts	-	1,072	1,072
	-	8,613	8,613

2011

LBP Million

	Level 1	Level 2	Total
FINANCIAL ASSETS			
Derivative financial instruments			
Currency swaps	-	891	891
Forward foreign exchange contracts	-	4,465	4,465
	-	5,356	5,356
Financial assets at fair value through profit or loss			
Lebanese government bonds	141,874	55,710	197,584
Certificates of deposit issued by the Central Bank of Lebanon	-	11,078	11,078
Other debt securities	19,944	-	19,944
Quoted equity instruments	26,603	-	26,603
Financial assets at fair value through other comprehensive income	39,927	37,040	76,967
	228,348	103,828	332,176
	228,348	109,184	337,532
FINANCIAL LIABILITIES			
Derivative financial instruments			
Currency swaps	-	2,201	2,201
Forward foreign exchange contracts	-	5,146	5,146
	-	7,347	7,347

There were no transfers between levels during 2012 (2011: the same).

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

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LBP Million	2012		2011	
	Fair value	Carrying value	Fair value	Carrying value
FINANCIAL ASSETS				
Cash and balances with central banks	5,507,572	5,507,572	4,282,468	4,282,468
Due from banks and financial institutions	3,216,533	3,216,533	4,332,255	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	458,804	458,707	667,496	667,488
Financial assets given as collateral	9,016	8,923	9,100	8,920
Net loans and advances to customers at amortized cost	6,190,994	6,195,104	6,019,028	6,025,682
Net loans and advances to related parties at amortized cost	15,815	15,815	16,638	16,638
Debtors by acceptances	316,232	316,232	331,821	331,821
<i>Financial assets at amortized cost</i>				
Lebanese government bonds	3,907,795	3,821,495	3,408,096	3,262,542
Certificates of deposit issued by the Central Bank of Lebanon	4,347,402	4,248,589	4,522,782	4,259,961
Other foreign government bonds	133,215	126,960	154,443	170,123
Other debt securities	983,144	948,582	896,364	914,675
FINANCIAL LIABILITIES				
Due to central banks	17,918	17,918	15,670	15,670
Due to banks and financial institutions	1,327,985	1,327,047	1,636,083	1,635,480
Customers' deposits at amortized cost	20,012,886	19,967,531	19,223,387	19,157,233
Deposits from related parties at amortized cost	208,102	208,102	169,175	169,175
Debt issued and other borrowed funds	514,956	508,711	665,879	662,290
Engagements by acceptance	316,232	316,232	331,821	331,821
Subordinated debt	410,896	410,896	313,940	307,263

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES NOT CARRIED AT FAIR VALUE

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair values in the financial statements:

Assets and liabilities for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair values. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

Fixed-rate financial instruments

The fair value of fixed-rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed-interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued, the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable-rate instruments, an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT

49.1 – INTRODUCTION

Risk is inherent in the Group's activities, but is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability, and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities. The Group is exposed to credit risk, liquidity risk and market risk. It is also subject to various operating risks.

The Group's risk management process involves identifying, measuring, monitoring and controlling risks to ensure that:

- The individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors ("the Board");
- Risk-taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk-taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Group's policy is to monitor those business risks through the Bank's strategic planning process.

GROUP RISK MANAGEMENT STRUCTURE

The Board of Directors is primarily responsible for establishing/approving the Group's strategic direction and approving the nature and levels of risk the Group is willing to take. The Board has established two committees to assist in carrying out its responsibilities:

Risk, Anti-Money Laundering and Compliance Committee (BRC): provides oversight of senior management's activities in managing capital adequacy, credit, market, liquidity, operational, Anti-Money Laundering, compliance, reputational and other risks of the Group. The BRC also oversees ICAAP and approves risk policies.

Audit Committee: monitors the Group's accounting practices and external reporting, reviews the audit reports covering the Group's operations, and takes appropriate actions/decisions.

The above Board Committees are composed of mostly independent/non-executive members satisfying the applicable best practice requirements.

In addition, the Board delegates its day-to-day risk management activities to senior management, through the following diverse committees that have been established:

Executive Committee: acts under the supervision of the Chairman to ensure execution of all strategic directives stipulated by the Board and to propose new strategic projects and plans to the Board. Membership is assigned to the Chairman and Vice-Chairman, the Head of International Banking and Investment, the Head of the Group Consumer Banking Division, the Head of the Group Financial Markets Division and the Head of the Commercial Banking Division.

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Central Credit Committee (CCC): is the highest credit authority in the Group after the Board. Its mission is to review and approve high-value amount credit proposals. The internal lending limit is set at 10% of equity, which requires the joint approval of the Chairman and the CCC. Credit proposal amounts exceeding the internal lending limit are referred to the Board (or any delegated committee) for approval. The CCC delegates approval authority for lower-amount credit proposals to various sub-committees (Middle Market Committee, Loan Recovery Committee, etc.)

Assets and Liabilities Committee (ALCO): whose mission is to manage the statement of financial position in compliance with the main objectives of the Group, in terms of growth, liquidity and interest income. Its role encompasses the review and approval of policies and procedures to control and limit the risks regarding liquidity and interest rates, foreign exchange and trading activities through decisions on size and duration of mismatched positions and pricing.

Risk Committee: whose task is to formulate and enforce guidelines and standards with regard to risk policies. It also reviews reports and findings identified by Group Risk Management and issues related to the implementation of Basel II projects. The Committee acts as a forum for discussion and approval of risk policies and oversees the risk reports prepared on a quarterly basis before submission to the Board. Sub-committees have been established to discuss and approve specific risk-related topics:

- Operational Risk Committee and Information Security Committee;
- Compliance and Anti-Money Laundering Committee.

Internal Audit Committee: whose mission is to review the audit and credit-review reports issued by the Group Internal Audit Division, to ratify recommended action plans and to ensure that all recommendations have been implemented by audited parties.

Group Internal Audit Division

The Group Internal Audit Division (GIA) is responsible for providing an independent, objective assurance and consulting activity designed to add value and improve the Group's operations. It helps the Group accomplish its objectives by bringing a systematic, disciplined and risk-based approach to evaluating and improving the effectiveness of risk management, control, and governance processes. Its role within the Group is to ensure that adequate internal controls are maintained and where weaknesses are identified, they are reported to senior management and the Audit Committee along with recommendations for improvement. The GIA assesses all new products and procedures and changes in systems and reports its recommendations accordingly

The GIA also ensures that the Group is in compliance with the rules and regulations in different jurisdictions where the Group is operating, with Central Bank and Banking Control Commission requirements, Board of Directors and management directives, and implemented policies and procedures.

RISK MANAGEMENT – BASEL PERSPECTIVE

The Group risk management is broadly following the guidelines of the Basel texts to measure and assess the risks identified under Pillars 1 and 2, i.e., the credit, operational, and market risks, as well as the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take a more sophisticated approach to credit risk and make use of internal ratings-based methodology – or “IRB Approach” – to calculate its capital requirement for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for. Through addressing these three risks – credit, market, and operational – the Group addresses Pillar 1 risks.

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49. RISK MANAGEMENT (continued)

49.1 – Introduction (continued)

As for addressing the capital management issue in the context of Basel II, in 2011 the Group developed a comprehensive Internal Capital Adequacy Assessment Process (ICAAP), disclosing the risk appetite statement and covering all risks to which the Group is or may be exposed, as well as risk factors from the environment in which it operates. The considered key aspects of the ICAAP are qualitative (Board oversight, policies, identification of material risk, etc.) and quantitative (Capital Adequacy Ratio, Stress Testing, Economic Capital, etc.).

RISK GOVERNANCE

The overall responsibility for the monitoring and the analytical management of risk is effectively assigned to the Group Risk Management (GRM) Division, established in 2004. The GRM reports to the Chairman through the head of the GRM Division. Risk issues and reports are submitted to the Board regularly through the Board Risk, Anti-Money Laundering and Compliance Committee, which provides oversight of senior management's activities in managing capital adequacy, credit, market, liquidity, operational, Anti-Money Laundering, compliance, reputational and other risks of the Group, oversees ICAAP, approves risk policies.

The GRM is currently made up of 32 people, allocated to various departments/units:

Portfolio Management and Credit Risk Analytics (PMCRA): has the responsibility to develop and update the Group's credit policies and procedures and include frameworks for credit risk measurement and management. The department also designs, implements and validates credit ratings and scoring models and reports on capital composition and credit exposure in terms of size, concentrations and quality. It is also responsible for the implementation of Basel II credit programs, including CAR (capital adequacy ratio) calculation.

Operational Risk Management (ORM): sets the framework necessary for identification, measurement and management of operational risk across the Group, including clear definition of risks, developing ORM policies, developing ORM programs and tools, interacting internally with business lines and assisting them in the implementation of ORM programs.

Market Risk Unit (MRU): sets the framework necessary for identification, measurement and management of market risk across the Group, including developing market risk policies and procedures, developing risk measurement methodologies, reviewing limits on the Bank's liquidity, interest rate risk and equity risk positions, stress testing and reporting on excesses to senior management.

Risk Modeling Unit (RMU): is responsible for providing quantitative analytic support to the respective risk-related departments and coordinating with them in the development of respective credit and market portfolio models for Group Risk Management and models for stress testing and scenario analysis.

Information Security Department: provides the policies to initiate and control the implementation of information security within the Group, monitors security-related events, provides support to the Business on all incoming security requests, and develops and maintains the Business Continuity Plan for the Group.

The main role of the *Group Risk Support Department* at the Bank is to provide technical and business support to Group Risk Management to ensure the implementation of major Group risk projects, perform project management for Basel II compliance-related solutions, data gap analysis, requirements definition, etc. and maintain databases and reports required to support the Group Risk Management.

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RISK MANAGEMENT FRAMEWORK

The Risk Management Framework is based on a set of principles adopted by the Board through the Risk Charter. These principles are reviewed annually in order to be aligned with the changes related to the internal and external environment of the Group. The set of basic principles that governs the Risk Management Framework of the Group are developed based on the following:

Business Line Accountability: business lines are accountable for managing the risks associated with their activities and establishing tolerances for risk taking. The accountability exists notwithstanding the presence of any support functions dedicated to risk management activities.

Strategic Level Risk Management: encompasses the risk management functions performed by senior management and the Board. It includes defining the Group's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that the Group's aggregate risk profile is within acceptable tolerance levels.

Analytical Level Risk Management: encompasses the risk management functions, within the authority delegated by the Strategic Level, to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

Tactical Level Risk Management: involves risk management activities performed by individuals who take risk on the Group's behalf, such as the front office and loan origination functions.

The Risk Charter is complemented by risk-specific policies and procedures enabling the unification of risk culture and practice. Risk management is applied through the implementation of these risk policies/limits, which are approved by the Board and put in place by the risk management functions in cooperation with the business lines. Monitoring of individual risks is handled upon the initiation and renewal of the risk through a clear decision-making process documented in written procedure.

RISK MANAGEMENT IN OVERSEAS BRANCHES AND SUBSIDIARIES

The management of the risks in the Group's overseas entities is done through GRM, which oversees risk governance, policies, write-ups, risk measurement, awareness and reporting, and Basel II CAR calculation. Each entity has a Country Risk Manager/Coordinator, appointed in consultation with the Head of GRM, with primary responsibility to measure and report the risks of that entity. The policies and procedures defined by GRM also apply to these entities in terms of basic rules and standards, while local modifications usually are made in order to comply with national discretions/requirements. Each Country Risk Manager reports to the entity's general manager and also carries out functional reporting to Group Risk Management.

RISK MEASUREMENT AND REPORTING SYSTEMS

The Group's risks are measured using a method that reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group also runs worst-case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group's policy is to measure and monitor the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.1 – Introduction (continued)

Information compiled from all the business lines is examined and processed in order to analyze, control and identify risks on a timely basis. This information is presented and explained to the Board and senior management.

For all levels throughout the Group, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information.

A briefing is given to the Board and all other relevant members of the Group on the utilization of market limits, proprietary investments and liquidity, plus any other risk developments.

EXCESSIVE RISK CONCENTRATION

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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 indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

In order to avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. Selective hedging is used within the Group to manage risk concentrations at both the relationship and industry levels.

49.2 – CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

CREDIT INITIATION

Target markets and customers and products' strategy are identified in the yearly business plan deriving from the medium-term plan. These plans are submitted to and discussed with management and the Board by different business lines. The process of initiating and approving credit proposals is governed by the Group's Credit Policies and Procedures Manual (CPPM). The CPPM consolidates the principles for the credit origination and follow-up process based on Risk Acceptance Criteria (RACs) and equity warning signals, and includes the credit committee charters and related approval authorities, the roles and responsibilities of credit personnel, the credit administration function, and the credit application forms.

Commercial lending is handled by the Commercial Banking Division, which oversees the business origination related to corporate customers, middle market and international lending. The assessment of a credit request requires an evaluation of the borrower's creditworthiness through an in-depth analysis of a series of financial, management, business and market criteria translated into an overall credit risk rating. This assessment process is applicable to both new and existing clients.

The Financial Institution department is a separate business line that sets the strategy for the Bank's limits and manages relationships with banks. The function is determined by liquidity targets and by profit generation through a dynamic yet diversified trade finance business.

The Consumer Banking division is responsible for designing and implementing the strategy and documenting the program for consumer loans, housing loans, revolving credit cards, small business loans and Kafalat guaranteed loans.

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CREDIT APPROVAL

The review of credit proposals is assigned to the Credit Risk Division (CRD), a function independent of the origination units. Every non-retail lending transaction is subject to a thorough risk assessment by the CRD prior to being submitted to the appropriate approving authority.

The credit risk analysis team is organized into four departments, each servicing a different business segment (corporate, international, middle market and financial institutions). In the case of retail lending, risk assessment occurs first at the level of the product design and is followed on with a post-approval review on a sampling basis. The latter is aimed at identifying and reporting weaknesses in credit assessment and deviation from pre-set criteria.

The primary function of the risk analysis team is to ensure that the extension of credit is consistent with the Bank's risk acceptance criteria and the CPPM.

Evaluation of a credit proposal includes an assessment of the borrower's:

- a) Business model
- b) Sector/Industry/Sovereign risk
- c) Management capabilities and organizational structure
- d) Financial standing
- e) Past credit history
- f) Legal aspect
- g) Facility risk
- h) Collateral and guarantees

LOAN FOLLOW-UP AND MONITORING

Each business line manager who originated the loan remains vested with the responsibility of monitoring the exposure and reviewing the file on an annual basis, or more frequently if needed. Annual reviews consist of a full update of the credit package and follow the same process as the initiation of the loan.

Outstanding loans also are subject to constant monitoring by the Credit Risk Division based on a series of reports. The aim of such monitoring is to ensure problem recognition, and to follow up on the prompt remedial of identified deteriorations in borrowers' financial positions, the value of their collateral, and the status of the related sector/industry. Early warning signals are derived from a set of system-generated reports.

IMPAIRMENT ASSESSMENT

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

- Significant financial difficulty for the customer;
- A breach of contract such as a default of payment;
- Where the Group grants the customer a concession due to the customer's experiencing financial difficulty;
- It becomes probable that the customer will enter bankruptcy or other financial reorganization;
- Observable data suggesting a decrease in the estimated future cash flows related to the loan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.2 – CREDIT RISK (continued)

In measuring credit risk at a counterparty level, the Group reflects three components – the “probability of default” (PD) by the client or counterparty on its contractual obligations; the Group’s current exposure to the counterparty and its likely future development, from which the Group derives its “exposure at default” (EAD); and the likely recovery ratio on the defaulted obligations to give the “loss given default” (LGD). These components are also important parameters in determining portfolio risk, not only for internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which the Group intends to adopt.

INDIVIDUALLY ASSESSED ALLOWANCES

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interest, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty’s business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

COLLECTIVELY ASSESSED ALLOWANCES

Allowances are assessed collectively for losses on loans and advances and for debt instruments at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances and debt instruments at amortized cost that have been assessed individually and found not to be impaired.

The Group generally bases its analyses on historical experience. However, when there are significant market developments on the regional and/or global levels, the Group includes macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loan assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period, which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group’s overall policy.

Credit-related commitments and financial guarantees are assessed and provisions are made in a similar manner as for loans.

Derivative financial instruments

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position.

With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation but the counterparty fails to deliver the counter-value.

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Credit-related commitments and financial guarantee risks

The Group makes available to its customers guarantees which may require the Group to make payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs. Such commitments expose the Group to risks similar to those attaching to loans and are mitigated by the same control processes and policies.

ANALYSIS OF MAXIMUM EXPOSURE TO CREDIT RISK AND COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

2012						
LBP Million	Maximum exposure	Cash	Securities	Letters of credit/ guarantees	Real estate	Net credit exposure
Balances with central banks	5,273,688	-	-	-	-	5,273,688
Due from banks and financial institutions	3,216,533	55,782	-	-	-	3,160,751
Loans to banks and financial institutions and reverse repurchase agreements	458,707	16,321	-	-	-	442,386
Financial assets given as collateral	8,923	-	-	-	-	8,923
Derivative financial instruments	12,174	-	-	-	-	12,174
Financial assets at fair value through profit or loss	274,781	-	-	-	-	274,781
Net loans and advances to customers at amortized cost:						
Commercial loans	4,203,285	324,832	277,831	24,055	697,391	2,879,176
Consumer loans	1,991,819	185,786	1,155	-	369,271	1,435,607
	6,195,104	510,618	278,986	24,055	1,066,662	4,314,783
Net loans and advances to related parties at amortized cost	15,815	8,537	-	-	1,357	5,921
Financial assets at amortized cost	9,145,626	-	-	-	-	9,145,626
	24,601,351	591,258	278,986	24,055	1,068,019	22,639,033
Financial guarantees	186,703	19,859	-	-	-	166,844
Documentary credits (including acceptances)	1,174,854	117,825	-	-	-	1,057,029
	25,962,908	728,942	278,986	24,055	1,068,019	23,862,906
Utilized collateral		728,942	278,986	24,055	1,068,019	
Surplus of collateral before undrawn credit lines		143,984	102,346	80,516	2,097,836	
Guarantees received from banks, financial institutions and customers		872,926	381,332	104,571	3,165,855	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,248,925 million as at 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.2 – CREDIT RISK (continued)

2011						
LBP Million	Maximum exposure	Cash	Securities	Letters of credit/ guarantees	Real estate	Net credit exposure
Balances with central banks	4,070,942	-	-	-	-	4,070,942
Due from banks and financial institutions	4,330,842	84,867	-	-	-	4,245,975
Loans to banks and financial institutions and reverse repurchase agreements	667,488	30,237	-	-	-	637,251
Financial assets given as collateral	8,920	-	-	-	-	8,920
Derivative financial instruments	5,356	-	-	-	-	5,356
Financial assets at fair value through profit or loss	228,606	-	-	-	-	228,606
Net loans and advances to customers at amortized cost:						
Commercial loans	4,348,763	389,862	339,941	24,805	667,147	2,927,008
Consumer loans	1,676,919	27,943	115	-	96,541	1,552,320
	6,025,682	417,805	340,056	24,805	763,688	4,479,328
Net loans and advances to related parties at amortized cost	16,638	7,975	-	-	166	8,497
Financial assets at amortized cost	8,607,301	-	-	-	-	8,607,301
	23,961,775	540,884	340,056	24,805	763,854	22,292,176
Financial guarantees	199,815	28,166	-	-	-	171,649
Documentary credits (including acceptances)	1,256,617	104,038	-	-	-	1,152,579
	25,418,207	673,088	340,056	24,805	763,854	23,616,404
Utilized collateral		673,088	340,056	24,805	763,854	
Surplus of collateral before undrawn credit lines		344,999	68,417	48,528	1,718,936	
Guarantees received from banks, financial institutions and customers		1,018,087	408,473	73,333	2,482,790	

The surplus of collateral mentioned above is presented before offsetting additional credit commitments given to customers amounting to LBP 2,394,784 million as at 31 December 2011.

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COLLATERAL AND OTHER CREDIT ENHANCEMENTS

The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are in place regarding the acceptability of types of collateral and valuation parameters.

Management requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

The main types of collateral obtained are as follows:

Securities

The balances shown above represent the fair value of the securities.

Letters of credit/guarantees

The Group holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Group.

Real estate (commercial and residential)

The Group holds in some cases a first-degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount.

Other

In addition to the foregoing, the Group also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals, and assignments of insurance proceeds and revenues, which are not reflected in the above table.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.2 – CREDIT RISK (continued)

CREDIT QUALITY PER CLASS OF FINANCIAL ASSET

The credit quality of financial assets is managed by the Group using internal and external credit ratings. The credit quality of loans and advances is managed using internal credit ratings as well as Supervisory ratings in accordance with Central Bank of Lebanon Main Circular No. 58.

The table below shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

2012 LBP Million	Neither past due nor impaired				Total
	High grade	Standard grade	Past due but not impaired	Individually impaired	
Balances with central banks	4,663,254	610,434	-	-	5,273,688
Due from banks and financial institutions	2,428,245	788,288	-	5,452	3,221,985
Loans to banks and financial institutions and reverse repurchase agreements	65,179	393,528	-	-	458,707
Financial assets given as collateral	8,923	-	-	-	8,923
Derivative financial instruments	12,174	-	-	-	12,174
Financial assets at fair value through profit or loss:					
Lebanese government bonds	256,373	-	-	-	256,373
Certificates of deposit issued by the Central Bank of Lebanon	10,704	-	-	-	10,704
Other debt securities	7,704	-	-	-	7,704
Net loans and advances to customers at amortized cost:					
Commercial loans	3,833,539	248,012	83,361	326,891	4,491,803
Consumer loans	1,837,020	28,410	152,686	37,044	2,055,160
Net loans and advances to related parties at amortized cost	15,815	-	-	-	15,815
Debtors by acceptances	285,766	30,466	-	-	316,232
Financial assets at amortized cost:					
Lebanese government bonds	3,821,495	-	-	-	3,821,495
Certificates of deposit issued by the Central Bank of Lebanon	4,248,589	-	-	-	4,248,589
Other foreign government bonds	76,980	49,980	-	-	126,960
Other debt securities	726,573	227,496	-	-	954,069
	22,298,333	2,376,614	236,047	369,387	25,280,381

31 December 2012

2011 LBP Million	Neither past due nor impaired				Total
	High grade	Standard grade	Past due but not impaired	Individually impaired	
Balances with central banks	3,686,752	384,190	-	-	4,070,942
Due from banks and financial institutions	3,813,373	517,469	-	6,356	4,337,198
Loans to banks and financial institutions and reverse repurchase agreements	69,721	597,767	-	-	667,488
Financial assets given as collateral	8,920	-	-	-	8,920
Derivative financial instruments	5,356	-	-	-	5,356
<i>Financial assets at fair value through profit or loss:</i>					
Lebanese government bonds	197,584	-	-	-	197,584
Certificates of deposit issued by the Central Bank of Lebanon	11,078	-	-	-	11,078
Other debt securities	9,138	10,806	-	-	19,944
<i>Net loans and advances to customers at amortized cost:</i>					
Commercial loans	4,016,595	263,824	100,098	174,568	4,555,085
Consumer loans	1,549,828	20,236	129,254	27,812	1,727,130
Net loans and advances to related parties at amortized cost	16,638	-	-	-	16,638
Debtors by acceptances	325,715	6,106	-	-	331,821
<i>Financial assets at amortized cost:</i>					
Lebanese government bonds	3,262,542	-	-	-	3,262,542
Certificates of deposit issued by the Central Bank of Lebanon	4,259,961	-	-	-	4,259,961
Other foreign government bonds	121,774	55,745	-	23,861	201,380
Other debt securities	824,408	101,046	-	-	925,454
	22,179,383	1,957,189	229,352	232,597	24,598,521

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.2 – CREDIT RISK (continued)

Aging analysis of past due but not impaired loans per class of financial assets:

2012		Less than 90 days	91 to 180 days	More than 181 days	Total
LBP Million					
	Loans and advances to customers at amortized cost				
	Commercial loans	37,270	30,038	16,053	83,361
	Consumer loans	136,077	6,407	10,202	152,686
		173,347	36,445	26,255	236,047

2011		Less than 90 days	91 to 180 days	More than 181 days	Total
LBP Million					
	Loans and advances to customers at amortized cost				
	Commercial loans	72,782	21,450	5,866	100,098
	Consumer loans	113,973	4,096	11,185	129,254
		186,755	25,546	17,051	229,352

MAPPING TO EXTERNAL CREDIT RATING

	Financial assets	Loans and advances to customers	
	External credit rating	Supervisory rating	Characteristics
High grade	Lebanese Sovereign AAA to A-	Regular	Regular and timely payment of dues. Adequacy of cash flows. Timely financial statements. Sufficient collateral/guarantee (if required).
		Follow-up	Lack of documentation related to borrower's activity.
Standard grade	BBB+ and below unrated	Follow-up and regularization	Creditworthy borrower showing weaknesses; insufficient/inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; conflict between partners or other lawsuits; loan rescheduling since initiation; excess utilization above limit by more than 10%.
Individually impaired	Impaired	Substandard	Signs of incapacity to repay from identified cash flows; full repayment supposes the liquidation of assets/collateral; recurrent late payments; late interests; losses incurred for over three years.
		Doubtful	Full repayment is questioned even after asset liquidation; account stagnation and inability to repay restructured loans.
		Bad	No or little expected inflows from business or assets; borrower is unreachable; insolvency status.

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The classification of loans and advances to customers and related parties at amortized cost, as in accordance with the ratings of Central Bank of Lebanon Main Circular No. 58, are as follows:

	Gross balance	Unrealized interest	Impairment allowances	Net balance	2012 LBP Million
Regular	5,218,167	-	-	5,218,167	
Follow-up	622,093	-	-	622,093	
Follow-up and regularization	342,768	-	-	342,768	
Substandard	13,146	(2,392)	-	10,754	
Doubtful	223,128	(11,807)	(97,266)	114,055	
Bad	127,661	(57,149)	(70,512)	-	
	6,546,963	(71,348)	(167,778)	6,307,837	
Collective impairment	(112,733)	-	-	(112,733)	
	6,434,230	(71,348)	(167,778)	6,195,104	

	Gross balance	Unrealized interest	Impairment allowances	Net balance	2011 LBP Million
Regular	5,038,465	-	-	5,038,465	
Follow-up	696,856	-	-	696,856	
Follow-up and regularization	344,514	-	-	344,514	
Substandard	10,214	(1,400)	-	8,814	
Doubtful	72,525	(2,169)	(29,595)	40,761	
Bad	119,641	(59,030)	(60,611)	-	
	6,282,215	(62,599)	(90,206)	6,129,410	
Collective impairment	(103,728)	-	-	(103,728)	
	6,178,487	(62,599)	(90,206)	6,025,682	

RENEGOTIATED LOANS

Restructuring activities aim to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites, and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

	2012	2011	LBP Million
Commercial loans	23,609	2,495	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.2 – CREDIT RISK (continued)

ANALYSIS OF RISK CONCENTRATION

The Group's concentrations of risk are managed by client/counterparty, by geographical region, and by industry or sector. The maximum credit exposure to any client or counterparty as of 31 December 2012 was LBP 146,936 million (2011: LBP 197,603 million) before taking account of collateral or other credit enhancements and nil (2011: LBP 10,624 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty before the effect of mitigation through the use of netting and collateral agreements.

Geographic analysis

2012				
LBP Million	Lebanon	Europe	Others	Total
Balances with central banks	4,523,437	124,496	625,755	5,273,688
Due from banks and financial institutions	187,831	1,926,865	1,101,837	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	20,599	264,197	173,911	458,707
Financial assets given as collateral	8,923	-	-	8,923
Derivative financial instruments	4,811	4,292	3,071	12,174
<i>Financial assets at fair value through profit or loss:</i>				
Lebanese government bonds	256,373	-	-	256,373
Certificates of deposit issued by the Central Bank of Lebanon	10,704	-	-	10,704
Other debt securities	-	1,746	5,958	7,704
<i>Net loans and advances to customers at amortized cost:</i>				
Commercial loans	3,159,531	236,369	807,385	4,203,285
Consumer loans	1,863,092	33,045	95,682	1,991,819
Net loans and advances to related parties at amortized cost	14,006	-	1,809	15,815
Debtors by acceptances	187,450	14,512	114,270	316,232
<i>Financial assets at amortized cost:</i>				
Lebanese government bonds	3,821,495	-	-	3,821,495
Certificates of deposit issued by the Central Bank of Lebanon	4,248,589	-	-	4,248,589
Other foreign government bonds	-	61,265	65,695	126,960
Other debt securities	146,737	383,682	418,163	948,582
	18,453,578	3,050,469	3,413,536	24,917,583

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2011				
LBP Million	Lebanon	Europe	Others	Total
Balances with central banks	3,624,587	33,242	413,113	4,070,942
Due from banks and financial institutions	242,047	2,546,428	1,542,367	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	82,523	370,348	214,617	667,488
Financial assets given as collateral	8,920	-	-	8,920
Derivative financial instruments	2,521	2,336	499	5,356
<i>Financial assets at fair value through profit or loss:</i>				
Lebanese government bonds	197,584	-	-	197,584
Certificates of deposit issued by the Central Bank of Lebanon	11,078	-	-	11,078
Other debt securities	153	2,072	17,719	19,944
<i>Net loans and advances to customers at amortized cost:</i>				
Commercial loans	2,877,966	213,964	1,256,833	4,348,763
Consumer loans	1,535,550	25,689	115,680	1,676,919
Net loans and advances to related parties at amortized cost	13,185	-	3,453	16,638
Debtors by acceptances	179,815	29,904	122,102	331,821
<i>Financial assets at amortized cost:</i>				
Lebanese government bonds	3,262,542	-	-	3,262,542
Certificates of deposit issued by the Central Bank of Lebanon	4,259,961	-	-	4,259,961
Other foreign government bonds	-	57,969	112,154	170,123
Other debt securities	125,882	427,070	361,723	914,675
	16,424,314	3,709,022	4,160,260	24,293,596

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.3 – LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high-grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains statutory deposits with central banks. As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest-bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration.

REGULATORY RATIOS AND LIMITS

In accordance with Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. Net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities, and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customers' deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposit and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

Apart from the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio, the core funding ratio and the liquidity tolerance level of the Group, also referred to as the Liquidity Coverage Ratio.

	2012	2011
Loans to deposits		
Year-end	30.78%	31.26%
Maximum	30.97%	31.26%
Minimum	30.75%	30.84%
Average	30.84%	31.10%

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ANALYSIS OF FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2012 and 2011 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

2012	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
LBP Million						
FINANCIAL ASSETS						
Cash and balances with central banks	1,603,352	792,069	75,451	2,690,996	1,285,236	6,447,104
Due from banks and financial institutions	2,384,987	772,104	62,820	1,036	-	3,220,947
Loans to banks and financial institutions and reverse repurchase agreements	45,795	196,531	209,261	8,593	995	461,175
Financial assets given as collateral	-	-	2,218	7,718	-	9,936
Derivative financial instruments	11,459	625	90	-	-	12,174
Financial assets at fair value through profit or loss	18	2,321	39,200	91,808	352,083	485,430
Net loans and advances to customers at amortized cost	2,461,526	419,319	755,223	1,898,151	1,183,872	6,718,091
Net loans and advances to related parties at amortized cost	13,017	-	-	2,798	-	15,815
Debtors by acceptances	165,909	77,378	72,890	55	-	316,232
Financial assets at amortized cost	500,089	264,116	1,732,688	6,458,732	2,185,143	11,140,768
Financial assets at fair value through other comprehensive income	-	-	-	-	78,663	78,663
Total undiscounted financial assets	7,186,152	2,524,463	2,949,841	11,159,887	5,085,992	28,906,335
FINANCIAL LIABILITIES						
Due to central banks	7,391	24	2,418	8,648	1	18,482
Due to banks and financial institutions	737,969	144,292	95,659	140,917	266,706	1,385,543
Derivative financial instruments	8,121	352	140	-	-	8,613
Customers' deposits at amortized cost	12,492,539	2,860,961	3,797,211	1,094,591	12,519	20,257,821
Deposits from related parties at amortized cost	159,779	18,846	27,096	8,425	-	214,146
Debt issued and other borrowed funds	-	1,090	34,988	188,711	558,522	783,311
Engagements by acceptances	165,909	77,378	72,890	55	-	316,232
Subordinated debt	-	8,084	22,047	110,236	564,492	704,859
Total undiscounted financial liabilities	13,571,708	3,111,027	4,052,449	1,551,583	1,402,240	23,689,007
Net undiscounted financial assets/(liabilities)	(6,385,556)	(586,564)	(1,102,608)	9,608,304	3,683,752	5,217,328

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.3 – LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

2011 LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Total
FINANCIAL ASSETS						
Cash and balances with central banks	2,387,747	726,117	33,671	971,161	645,638	4,764,334
Due from banks and financial institutions	4,182,441	55,452	81,724	17,866	203	4,337,686
Loans to banks and financial institutions and reverse repurchase agreements	165,088	238,320	264,046	6,868	833	675,155
Financial assets given as collateral	-	-	704	9,766	-	10,470
Derivative financial instruments	2,758	2,158	440	-	-	5,356
Financial assets at fair value through profit or loss	14	3,755	33,342	119,909	191,139	348,159
Net loans and advances to customers at amortized cost	2,299,032	548,778	1,021,977	1,731,471	653,113	6,254,371
Net loans and advances to related parties at amortized cost	14,028	-	-	-	2,610	16,638
Debtors by acceptances	170,370	106,615	54,836	-	-	331,821
Financial assets at amortized cost	489,782	531,041	1,386,646	5,887,306	2,182,437	10,477,212
Financial assets at fair value through other comprehensive income	-	-	-	-	76,967	76,967
Total undiscounted financial assets	9,711,260	2,212,236	2,877,386	8,744,347	3,752,940	27,298,169
FINANCIAL LIABILITIES						
Due to central banks	5,943	1	669	9,881	-	16,494
Due to banks and financial institutions	1,042,837	106,718	128,955	293,621	145,595	1,717,726
Derivative financial instruments	4,333	2,624	390	-	-	7,347
Customers' deposits at amortized cost	13,201,532	2,213,127	3,103,278	856,822	17,295	19,392,054
Deposits from related parties at amortized cost	159,800	5,960	426	2,989	-	169,175
Debt issued and other borrowed funds	616	156,075	34,988	193,119	594,709	979,507
Engagements by acceptances	170,370	106,615	54,836	-	-	331,821
Subordinated debt	1,410	1,069	323,839	-	-	326,318
Total undiscounted financial liabilities	14,586,841	2,592,189	3,647,381	1,356,432	757,599	22,940,442
Net undiscounted financial assets/(liabilities)	(4,875,581)	(379,953)	(769,995)	7,387,915	2,995,341	4,357,727

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The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

2012						
LBP Million	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial guarantees	2,257	4,621	106,086	72,630	1,109	186,703
Documentary credits	31,221	397,653	405,346	24,402	-	858,622
Undrawn credit lines	2,248,925	-	-	-	-	2,248,925
	2,282,403	402,274	511,432	97,032	1,109	3,294,250

2011						
LBP Million	Less than 1 month	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Financial guarantees	2,297	3,765	132,121	61,632	-	199,815
Documentary credits	58,278	405,942	455,972	4,604	-	924,796
Undrawn credit lines	2,394,784	-	-	-	-	2,394,784
	2,455,359	409,707	588,093	66,236	-	3,519,395

The Group expects that not all of the contingent liabilities or commitments will be demanded before maturity.

49.4 – MARKET RISK

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices.

The Bank's market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the Assets and Liabilities Committee (ALCO) and the Market Risk Unit.

It is the responsibility of the ALCO to manage the Group's investment portfolio under the terms of the Security Investment Policy. While striving to maximize portfolio performance, the ALCO keeps the management of the portfolio within the bounds of good banking practices, satisfies the Group's liquidity needs, and ensures compliance with both regulatory and internally set limits and requirements.

The Market Risk Unit sets the framework necessary for identification, measurement and management of market risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.4 – MARKET RISK (continued)

INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-financial position items that mature or are repriced in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

Interest rate sensitivity

The following table shows the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income statement.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate financial assets and financial liabilities and to the reinvestment or refunding of fixed-rate financial assets and liabilities at the assumed rates, including the effect of hedging instruments.

LBP Million		2012	2011
Currency	Increase in basis points	Effect on net interest income	Effect on net interest income
LBP	50 basis point	(15,929)	(13,865)
USD	50 basis point	560	3,171
EUR	50 basis point	(236)	1,237

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The Group's interest sensitivity position based on the contractual repricing date at 31 December was as follows:

2012	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest- bearing items	Total
LBP Million							
ASSETS							
Cash and balances with central banks	416,248	738,675	-	2,144,856	980,000	1,227,793	5,507,572
Due from banks and financial institutions	2,382,244	770,261	61,746	1,036	-	1,246	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	105,036	171,314	179,742	1,282	995	338	458,707
Financial assets given as collateral	-	-	1,899	6,915	-	109	8,923
Derivative financial instruments	-	-	-	-	-	12,174	12,174
Financial assets at fair value through profit or loss	-	611	1,255	26,651	243,564	28,828	300,909
Net loans and advances to customers at amortized cost	3,262,724	311,658	483,713	1,280,917	801,933	54,159	6,195,104
Net loans and advances to related parties at amortized cost	13,017	-	-	2,260	-	538	15,815
Debtors by acceptances	-	-	-	-	-	316,232	316,232
Financial assets at amortized cost	396,992	121,880	1,266,292	5,356,235	1,855,538	148,689	9,145,626
Financial assets at fair value through other comprehensive income	-	-	-	-	-	78,663	78,663
Total	6,576,261	2,114,399	1,994,647	8,820,152	3,882,030	1,868,769	25,256,258

2012	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest- bearing items	Total
LBP Million							
LIABILITIES							
Due to central banks	506	24	2,267	8,307	1	6,813	17,918
Due to banks and financial institutions	766,913	144,989	99,882	215,895	90,064	9,304	1,327,047
Derivative financial instruments	-	-	-	-	-	8,613	8,613
Customers' deposits at amortized cost	12,322,430	2,825,013	3,689,762	1,028,718	7,242	94,366	19,967,531
Deposits from related parties at amortized cost	157,634	17,674	23,621	6,587	1,507	1,079	208,102
Debt issued and other borrowed funds	-	-	-	60,990	447,721	-	508,711
Engagements by acceptances	-	-	-	-	-	316,232	316,232
Subordinated debt	-	-	-	-	410,079	817	410,896
Total	13,247,483	2,987,700	3,815,532	1,320,497	956,614	437,224	22,765,050
Total interest sensitivity gap	(6,671,222)	(873,301)	(1,820,885)	7,499,655	2,925,416	1,431,545	2,491,208

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.4 – MARKET RISK (continued)

2011							
LBP Million	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non- interest- bearing items	Total
ASSETS							
Cash and balances with central banks	1,509,291	670,838	-	716,063	500,499	885,777	4,282,468
Due from banks and financial institutions	4,175,623	61,760	73,070	17,326	203	2,860	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	298,964	189,577	170,745	6,000	800	1,402	667,488
Financial assets given as collateral	-	-	-	8,814	-	106	8,920
Derivative financial instruments	-	-	-	-	-	5,356	5,356
Financial assets at fair value through profit or loss	-	-	19,713	76,496	129,490	29,510	255,209
Net loans and advances to customers at amortized cost	2,939,480	1,150,399	1,484,140	473,899	51,597	(73,833)	6,025,682
Net loans and advances to related parties at amortized cost	14,027	-	-	-	2,262	349	16,638
Debtors by acceptances	-	-	-	-	-	331,821	331,821
Financial assets at amortized cost	378,243	441,459	864,625	4,828,296	1,968,778	125,900	8,607,301
Financial assets at fair value through other comprehensive income	-	-	-	-	-	76,967	76,967
Total	9,315,628	2,514,033	2,612,293	6,126,894	2,653,629	1,386,215	24,608,692
LIABILITIES							
Due to central banks	5,333	-	379	9,318	-	640	15,670
Due to banks and financial institutions	964,870	263,387	169,429	175,133	53,157	9,504	1,635,480
Derivative financial instruments	1,953	2,624	390	-	-	2,380	7,347
Customers' deposits at amortized cost	13,063,596	2,173,890	3,029,187	793,671	10,044	86,845	19,157,233
Deposits from related parties at amortized cost	157,690	4,386	1,111	2,921	-	3,067	169,175
Debt issued and other borrowed funds	-	152,484	-	60,978	448,194	634	662,290
Engagements by acceptances	-	-	-	-	-	331,821	331,821
Subordinated debt	-	-	303,911	-	-	3,352	307,263
Total	14,193,442	2,596,771	3,504,407	1,042,021	511,395	438,243	22,286,279
Total interest sensitivity gap	(4,877,814)	(82,738)	(892,114)	5,084,873	2,142,234	947,972	2,322,413

Currency risk

Foreign exchange (or currency) risk is the risk that the value of a portfolio will fall as a result of changes in foreign exchange rates. The major sources of this type of market risk are imperfect correlations in the movements of currency prices and fluctuations in interest rates. Therefore, exchange rates and relevant interest rates are acknowledged as distinct risk factors.

The Central Bank of Lebanon allows the Bank to maintain a net trading position, debit or credit, that does not exceed at any time 1% of net Tier 1 equity on condition that the global position does not exceed 40% of net Tier 1 equity. This is subject to the Bank's commitment to comply in a timely and consistent manner with the required capital adequacy ratio.

In addition to regulatory limits, the Board has set limits on positions by currency. These positions are monitored constantly to ensure they are maintained within established limits.

Following is the consolidated statement of financial position as of 31 December 2012 detailed in Lebanese Pounds and foreign currencies, translated into LBP.

31 December 2012

2012	Local currency	Foreign currencies	Total
LBP Million			
ASSETS			
Cash and balances with central banks	1,615,769	3,891,803	5,507,572
Due from banks and financial institutions	19,436	3,197,097	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	6,887	451,820	458,707
Financial assets given as collateral	8,923	-	8,923
Derivative financial instruments	4,958	7,216	12,174
Financial assets at fair value through profit or loss	29,936	270,973	300,909
Net loans and advances to customers at amortized cost	1,411,296	4,783,808	6,195,104
Net loans and advances to related parties at amortized cost	1,398	14,417	15,815
Debtors by acceptances	-	316,232	316,232
Financial assets at amortized cost	5,751,149	3,394,477	9,145,626
Financial assets at fair value through other comprehensive income	22,163	56,500	78,663
Property and equipment	187,199	78,195	265,394
Intangible assets	970	-	970
Assets obtained in settlement of debt	(8,474)	41,676	33,202
Other assets	29,748	64,637	94,385
OTHER ASSETS	9,081,358	16,568,851	25,650,209
LIABILITIES AND EQUITY			
Due to central banks	8,859	9,059	17,918
Due to banks and financial institutions	12,561	1,314,486	1,327,047
Derivative financial instruments	4,039	4,574	8,613
Customers' deposits at amortized cost	7,909,778	12,057,753	19,967,531
Deposits from related parties at amortized cost	105,289	102,813	208,102
Debt issued and other borrowed funds	-	508,711	508,711
Engagement by acceptances	-	316,232	316,232
Other liabilities	81,273	181,615	262,888
Provisions for risks and charges	111,926	18,539	130,465
Subordinated debt	-	410,896	410,896
TOTAL LIABILITIES	8,233,725	14,924,678	23,158,403
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	586,259	586,259
Non-distributable reserves	402,933	165,212	568,145
Distributable reserves	71,907	27,752	99,659
Other equity instruments	-	14,979	14,979
Treasury shares	-	(25,302)	(25,302)
Retained earnings	45,625	28,399	74,024
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	13,183	(36,817)	(23,634)
Net results of the financial period – profit	219,672	26,778	246,450
Foreign currency translation reserves	-	(92,762)	(92,762)
NON-CONTROLLING INTEREST	15,735	104,437	120,172
TOTAL EQUITY	1,463,857	1,027,949	2,491,806
TOTAL LIABILITIES AND EQUITY	9,697,582	15,952,627	25,650,209

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.4 – MARKET RISK (continued)

Following is the consolidated statement of financial position as of 31 December 2011 detailed in Lebanese Pounds and foreign currencies, translated into LBP.

2011 LBP Million	Local currency	Foreign currencies	Total
ASSETS			
Cash and balances with central banks	1,449,868	2,832,600	4,282,468
Due from banks and financial institutions	15,383	4,315,459	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	8,406	659,082	667,488
Financial assets given as collateral	8,920	-	8,920
Derivative financial instruments	3,549	1,807	5,356
Debt instruments and other financial assets at fair value through profit or loss	66,789	188,420	255,209
Net loans and advances to customers at amortized cost	1,226,086	4,799,596	6,025,682
Net loans and advances to related parties at amortized cost	1,946	14,692	16,638
Debtors by acceptances	-	331,821	331,821
Financial assets at amortized cost	5,514,183	3,093,118	8,607,301
Financial assets at fair value through other comprehensive income	20,417	56,550	76,967
Property and equipment	185,886	115,180	301,066
Intangible assets	1,129	-	1,129
Assets obtained in settlement of debt	(9,287)	44,739	35,452
Other assets	35,925	45,049	80,974
OTHER ASSETS	8,529,200	16,498,113	25,027,313
LIABILITIES AND EQUITY			
Due to central banks	8,857	6,813	15,670
Due to banks and financial institutions	14,429	1,621,051	1,635,480
Derivative financial instruments	4,967	2,380	7,347
Customers' deposits at amortized cost	7,372,419	11,784,814	19,157,233
Deposits from related parties at amortized cost	97,946	71,229	169,175
Debt issued and other borrowed funds	-	662,290	662,290
Engagement by acceptances	-	331,821	331,821
Other liabilities	64,112	62,155	126,267
Provisions for risks and charges	113,679	16,310	129,989
Subordinated debt	(20)	307,283	307,263
TOTAL LIABILITIES	7,676,389	14,866,146	22,542,535
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	583,858	583,858
Non-distributable reserves	325,391	143,681	469,072
Distributable reserves	73,705	5,422	79,127
Other equity instruments	-	14,979	14,979
Treasury shares	-	(25,476)	(25,476)
Retained earnings	10,758	54,456	65,214
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	11,810	(32,366)	(20,556)
Net results of the financial period – profit	220,657	39,237	259,894
Foreign currency translation reserves	-	(31,329)	(31,329)
NON-CONTROLLING INTEREST	13,475	152,704	166,179
TOTAL EQUITY	1,350,598	1,134,180	2,484,778
TOTAL LIABILITIES AND EQUITY	9,026,987	16,000,326	25,027,313

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Group's sensitivity to currency exchange rates

The table below shows the currencies to which the Group had significant exposure at 31 December on its monetary assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Pound, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities) and equity (due to the impact of currency translation gains/losses of consolidated subsidiaries). A negative amount reflects a potential net reduction in income, while a positive amount reflects a net potential increase.

LBP Million Currency	Change in currency rate %	2012		2011	
		Effect on profit before tax	Effect on equity	Effect on profit before tax	Effect on equity
USD	+1	(182)	-	102	-
EUR	+1	9	1,231	5	1,091
SYP	+1	-	1,515	-	2,142

EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as a result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 5 per cent increase in the value of the Group's equities at 31 December 2012 would have increased other comprehensive income by LBP 3,933 million and net income by LBP 1,306 million (2011: LBP 3,849 million and LBP 1,330 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

Market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.5 – OPERATIONAL RISK (continued)

49.5 – OPERATIONAL RISK

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events (including legal risks). When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

To raise the quality of Operational Risk Management (ORM) and reduce operational risk, the Bank has implemented policies, tools and communication means, and has standardized them for its subsidiaries.

The Group's operational risk policy was designed to ensure that operational risk has proper governance, and that it is maintained at an acceptable level. The operational risk publications and guidelines were placed on the Bank's intranet site for quick access and referrals. Critical operational risk issues were handled by a separate Operational Risk Committee, meetings of which are attended by business lines senior managers including the Chief Risk Officer and the General Manager.

The Group is undertaking a proactive approach to minimize operational risk loss. This is reflected in its operational risk approval for new products/activities/systems, protective information security and Business Continuity Planning, granular risk analysis for its operating/existing activities, and continuous awareness sessions.

The Group has built up a decentralized operational risk framework whereby each business line/support function is assigned a "Risk Champion" with a dotted line reporting to the Group ORM department (Core ORM Function) for managing and mitigating operational risks each in their areas of responsibility. This structure is set to confirm the effective implementation of the operational risk framework in the business lines and to ensure transparent assessment and reporting of operational risks. As to the Core ORM function, its main task is to develop ORM tools and programs and facilitate their implementation across business lines (through training), and continuously promote the ORM culture across the Group.

50. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

31 December 2012

2012 LBP Million	Less than 12 months				Over 12 months			TOTAL
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	
ASSETS								
Cash and balances with central banks	1,594,058	739,160	-	2,333,218	2,165,518	1,008,836	3,174,354	5,507,572
Due from banks and financial institutions	2,382,508	770,963	62,026	3,215,497	1,036	-	1,036	3,216,533
Loans to banks and financial institutions and reverse repurchase agreements	45,723	195,978	207,842	449,543	8,169	995	9,164	458,707
Financial assets given as collateral	-	-	1,919	1,919	7,004	-	7,004	8,923
Derivative financial instruments	11,459	625	90	12,174	-	-	-	12,174
Financial assets at fair value through profit or loss	9	1,210	3,315	4,534	26,651	269,724	296,375	300,909
Net loans and advances to customers at amortized cost	2,445,450	389,669	653,187	3,488,306	1,657,085	1,049,713	2,706,798	6,195,104
Net loans and advances to related parties at amortized cost	13,017	-	-	13,017	2,798	-	2,798	15,815
Debtors by acceptances	165,909	77,378	72,890	316,177	55	-	55	316,232
Financial assets at amortized cost	432,623	169,418	1,301,329	1,903,370	5,379,596	1,862,660	7,242,256	9,145,626
Financial assets at fair value through other comprehensive income	-	-	-	-	-	78,663	78,663	78,663
Property and equipment	-	-	-	-	-	265,394	265,394	265,394
Intangible assets	-	-	-	-	-	970	970	970
Assets obtained in settlement of debt	-	-	-	-	-	33,202	33,202	33,202
Other assets	1,143	568	25,185	26,896	-	67,489	67,489	94,385
TOTAL ASSETS	7,091,899	2,344,969	2,327,783	11,764,651	9,247,912	4,637,646	13,885,558	25,650,209
LIABILITIES								
Due to central banks	7,391	24	2,194	9,609	8,308	1	8,309	17,918
Due to banks and financial institutions	733,566	143,004	84,003	960,573	107,614	258,860	366,474	1,327,047
Derivative financial instruments	8,121	352	140	8,613	-	-	-	8,613
Customers' deposits at amortized cost	12,402,089	2,826,706	3,701,955	18,930,750	1,029,539	7,242	1,036,781	19,967,531
Deposits from related parties at amortized cost	159,452	18,110	23,184	200,746	7,356	-	7,356	208,102
Debt issued and other borrowed funds	-	-	-	-	60,990	447,721	508,711	508,711
Engagements by acceptances	165,909	77,378	72,890	316,177	55	-	55	316,232
Other liabilities	214,887	3,876	41,003	259,766	-	3,122	3,122	262,888
Provisions for risks and charges	-	-	-	-	-	130,465	130,465	130,465
Subordinated debt	-	-	-	-	-	410,896	410,896	410,896
TOTAL LIABILITIES	13,691,415	3,069,450	3,925,369	20,686,234	1,213,862	1,258,307	2,472,169	23,158,403
Net liquidity gap	(6,599,516)	(724,481)	(1,597,586)	(8,921,583)	8,034,050	3,379,339	11,413,389	2,491,806

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

49. RISK MANAGEMENT (continued)

49.5 – OPERATIONAL RISK (continued)

2011 LBP Million	Less than 12 months				Over 12 months			TOTAL
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	
ASSETS								
Cash and balances with central banks	2,370,988	694,918	-	3,065,906	716,063	500,499	1,216,562	4,282,468
Due from banks and financial institutions	4,178,748	54,699	79,866	4,313,313	17,326	203	17,529	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	164,017	236,180	260,385	660,582	6,106	800	6,906	667,488
Financial assets given as collateral	-	-	106	106	8,814	-	8,814	8,920
Derivative financial instruments	2,758	2,158	440	5,356	-	-	-	5,356
Financial assets at fair value through profit or loss	6	1,508	21,050	22,564	76,496	156,149	232,645	255,209
Net loans and advances to customers at amortized cost	2,302,095	527,596	956,255	3,785,946	1,605,688	634,048	2,239,736	6,025,682
Net loans and advances to related parties at amortized cost	14,028	-	-	14,028	-	2,610	2,610	16,638
Debtors by acceptances	170,370	106,615	54,836	331,821	-	-	-	331,821
Financial assets at amortized cost	425,109	452,617	937,451	1,815,177	4,832,423	1,959,701	6,792,124	8,607,301
Financial assets at fair value through other comprehensive income	-	-	-	-	-	76,967	76,967	76,967
Property and equipment	-	-	-	-	-	301,066	301,066	301,066
Intangible assets	-	-	-	-	-	1,129	1,129	1,129
Assets obtained in settlement of debt	-	-	-	-	-	35,452	35,452	35,452
Other assets	6,084	95	22,207	28,386	-	52,588	52,588	80,974
TOTAL ASSETS	9,634,203	2,076,386	2,332,596	14,043,185	7,262,916	3,721,212	10,984,128	25,027,313
LIABILITIES								
Due to central banks	5,929	-	423	6,352	9,318	-	9,318	15,670
Due to banks and financial institutions	1,038,122	105,183	115,392	1,258,697	247,661	129,122	376,783	1,635,480
Derivative financial instruments	4,333	2,624	390	7,347	-	-	-	7,347
Customers' deposits at amortized cost	13,176,377	2,190,847	2,984,520	18,351,744	795,378	10,111	805,489	19,157,233
Deposits from related parties at amortized cost	160,934	5,960	8	166,902	2,273	-	2,273	169,175
Debt issued and other borrowed funds	616	152,502	-	153,118	60,978	448,194	509,172	662,290
Engagements by acceptances	170,370	106,615	54,836	331,821	-	-	-	331,821
Other liabilities	47,093	10,104	66,752	123,949	-	2,318	2,318	126,267
Provisions for risks and charges	-	-	-	-	-	129,989	129,989	129,989
Subordinated debt	1,410	11	305,842	307,263	-	-	-	307,263
TOTAL LIABILITIES	14,605,184	2,573,846	3,528,163	20,707,193	1,115,608	719,734	1,835,342	22,542,535
Net liquidity gap	(4,970,981)	(497,460)	(1,195,567)	(6,664,008)	6,147,308	3,001,478	9,148,786	2,484,778

31 December 2012

51. CAPITAL

The Group maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Lebanon and the Banking Control Commission.

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

In accordance with Central Bank of Lebanon Main Circular No. 44, the Group should maintain the minimum required capital adequacy ratio for the years ending 31 December 2012 and thereafter are as follows:

	Tier 1 capital ratio	Total capital ratio	%
Year ended 31 December 2012	8.0	10.0	
Year ended 31 December 2013	8.5	10.5	
Year ended 31 December 2014	9.5	11.5	
Year ended 31 December 2015	10.0	12.0	

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made to the objectives, policies and processes from previous years; however, they are under the constant scrutiny of the Board.

REGULATORY CAPITAL

At 31 December 2012 and 2011, the capital consisted of the following:

	2012	2011	LBP Million
Tier 1 capital	2,112,746	2,146,287	
Tier 2 capital	444,567	52,345	
Total capital	2,557,313	2,198,632	
Risk-weighted assets	17,019,679	16,151,534	

The capital adequacy ratio as of 31 December (including profit for the year less proposed dividends) was as follows:

	2012	2011	%
Tier 1 capital ratio	12.41	13.29	
Total capital ratio	15.03	13.61	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

51. CAPITAL (continued)

Tier 1 capital consists of share capital, share premium, reserves, and retained earnings including current-year profit less proposed dividends, foreign currency translation losses, gross unrealized losses from financial instruments at fair value through other comprehensive income and corresponding amounts of non-controlling interest. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordinated loans, preferred shares, a percentage of foreign currency translation gains, a percentage of gross unrealized gains from financial instruments at fair value through other comprehensive income and corresponding amounts of non-controlling interest. Certain adjustments are made to IFRS-based results, reserves, retained earnings, preferred shares, subordinated loans and non-controlling interests as prescribed by the Central Bank of Lebanon and the Banking Control Commission.

52. DIVIDENDS PAID AND PROPOSED

LBP Million	2012	2011
Dividends paid or recognized as a liability as at 31 December		
Equity dividends on ordinary and priority shares LBP 200 per share	113,103	113,103
Distributions to preferred shares – 2008 series: USD 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: USD 8.00 per share	24,224	24,224
Distributions to priority shares calculated at 4% of the share's nominal value	-	9,518
	161,551	171,069
Less: dividends on treasury shares	(710)	(630)
	160,841	170,439

LBP Million	2012	2011
Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)		
Equity dividends on ordinary and priority shares: LBP 200 per share	113,103	113,103
Distributions to preferred shares – 2008 series: USD 8.00 per share	24,224	24,224
Distributions to preferred shares – 2009 series: USD 8.00 per share	24,224	24,224
	161,551	161,551

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53. EARLY ADOPTION OF IFRS 9

In compliance with Circular No. 265 of the Lebanese Banking Control Commission issued on 23 September 2010, the Group adopted, effective 1 January 2011, Phase I of IFRS 9 as issued in November 2009 and reissued in October 2010 and related consequential amendments to other International Financial Reporting Standards. The effective application date stipulated by the standard is annual periods beginning on or after 1 January 2015. The initial application date of this standard with respect to the Group is 1 January 2011 in accordance with the transitional provisions of the standard.

The Group did not restate comparative information as permitted by the transitional provisions of IFRS 9 and has recognized impact of early adoption of IFRS 9 as at 1 January 2011, in the opening retained earnings and other components of equity as of that date.

The schedule below summarizes the new classification and amendments to the Group financial instruments as at 1 January 2011 following the early adoption of IFRS 9, which resulted in adjustment to the opening retained earnings and cumulative changes in fair value of financial instruments designated at fair value through other comprehensive income as at 1 January 2011.

2012					
LBP Million	Financial assets held for trading	Available-for-sale financial instruments	Other financial assets classified as loans and receivables	Held-to-maturity financial instruments	Total
Carrying value as at 31 December 2010 according to IAS 39	205,940	1,875,811	7,490,856	428,698	10,001,305
Reclassification following early adoption of IFRS 9					
<i>Financial instruments reclassified to fair value through profit or loss:</i>					
Debt instruments	150,639	-	72,608	-	223,247
Equity instruments	26,447	3,636	-	-	30,083
<i>Debt instruments reclassified at amortized cost:</i>					
Loans to banks and financial institutions	-	-	629,997	-	629,997
Debt instruments	28,270	1,728,447	6,808,703	428,698	8,994,118
<i>Equity instruments reclassified to fair value through other comprehensive income</i>					
	-	80,687	-	-	80,687
Carrying value as at 1 January 2011 after early adoption of IFRS 9	205,356	1,812,770	7,511,308	428,698	9,958,132
Effect on opening balance of change in fair value of financial instruments through other comprehensive income	-	(100,168)	18,918	-	(81,250)
<i>out of which: effect of previous amendments to IAS 39</i>	-	-	18,918	-	18,918
Less: deferred taxes	-	8,878	-	-	8,878
Effect on opening balance of change in fair value of financial instruments through other comprehensive income, net	-	(91,290)	18,918	-	(72,372)
Attributable to equity holders of the parent	-	(91,046)	18,981	-	(72,065)
Non-controlling interest	-	(244)	(63)	-	(307)
	-	(91,290)	18,918	-	(72,372)
Effect on opening balance of retained earnings	(584)	37,127	1,534	-	38,077
Attributable to equity holders of the parent	(584)	37,127	1,534	-	38,077
Non-controlling interest	-	-	-	-	-
	(584)	37,127	1,534	-	38,077

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31 December 2012

54. COMPARATIVE INFORMATION

- Loans and advances to senior management have been reclassified from “Net loans and advances to customers at amortized cost” to “Net loans and advances to related parties at amortized cost” in the consolidated statement of financial position. Comparative amounts totaling LBP 3,232 million have been reclassified accordingly.
- Certain deposits by senior management have been reclassified from “Customers’ deposits at amortized cost” to “Deposits from related parties at amortized cost” in the consolidated statement of financial position. Comparative amounts totaling LBP 17,184 million have been reclassified accordingly.
- “Impairment losses on other financial assets” have been reclassified to “Net credit losses” in the consolidated income statement. Comparative amounts totaling LBP 23,575 million have been reclassified accordingly.
- Other operating income from insurance-related activities has been reclassified from “Fee and commission income” to “Other operating income” in the consolidated income statement. Comparative amounts totaling LBP 11,021 million have been reclassified accordingly.
- Recoveries of unrealized interest on loans and advances to customers have been reclassified from “Interest and similar income” to “Net credit losses” in the consolidated income statement. Comparative amounts totaling LBP 4,347 million have been reclassified accordingly.

RESOLUTIONS OF THE ANNUAL ORDINARY GENERAL ASSEMBLY Held on 11 May 2013

FIRST RESOLUTION

The General Assembly approves the reports of the Board of Directors and the Statutory Auditors and approves all the elements of the consolidated and stand-alone balance sheet and profit and loss account of the fiscal year 2012.

SECOND RESOLUTION

The General Assembly decides to allocate the non-consolidated profits (in LBP million) of the fiscal year 2012 as follows:

2012 Non-Consolidated Net Income	230,582
Legal Reserves	(23,307)
Reserves for General Banking Risk 2012	(30,754)
Reserves for Capital Increase	(3,743)
Reconstitution of Discounts for Series 2009 Preferred Shares	(2,412)
Net Reserves for Foreclosed Properties	(1,546)
Unrealized Gains on Portfolio Held at Fair Value through P&L	(112)
Profits Carried Forward from Previous Years	37,892
Net Income Available for Appropriation	206,600
Dividends – Series 2008 Preferred Shares	24,224
Dividends – Series 2009 Preferred Shares	24,224
Dividends – Common Shares	113,103
Special Reserves Covering the Interest on Subordinated Loan Issued on 21 Dec. 2012 for the Year 2013	31,077
Profit Carried Forward for the Year 2013	13,972

THIRD RESOLUTION

The General Assembly decides to grant discharge to the Chairman and Board members for their duties during the fiscal year 2012.

FOURTH RESOLUTION

The General Assembly decides on the following points, after reviewing the special reports of each of the Board of Directors and the Statutory Auditors:

- To approve the credits effectively used during the year 2012 by some Board members and/or main shareholders and/or senior officers at Byblos Bank S.A.L. and/or companies they belong to, as detailed in the reports of the Board of Directors and the Statutory Auditors.
- The Assembly also confirms the agreement between the Bank and the companies in which some members of the Board of Directors belong to as shown in the special reports of the Board of Directors and the Statutory Auditors.
- To grant the special authorization referred to in Article /152/ of the Code of Money and Credit and in Article /158/ of the Code of Commerce for the fiscal year 2013 to each Board member and/or main shareholders and/or senior officers at Byblos Bank S.A.L. and/or companies they belong to as shown in the Special Report of the Board of Directors considered as an integral part of these minutes.
- To grant the special authorization referred to in Article /159/ of the Code of Commerce to allow members of the Board of Directors to serve as chairmen or members of the Boards of other companies having similar business.

FIFTH RESOLUTION

The General Assembly approves to set annual lump-sum emoluments for the Members of the Board of Directors at 480 million Lebanese Pounds for the year 2013, to be distributed equally among the Members, each one of them being entitled to 10 million Lebanese Pounds as attendance fees for each meeting with a maximum of 40 million Lebanese Pounds per year.

SIXTH RESOLUTION

The General Assembly approves the determination of emoluments of each of the Chairman and General Manager Dr. François S. Bassil, the Vice-Chairman and General Manager Mr. Semaan F. Bassil and the Board Member and General Manager Mr. Sami F. Haddad, on such conditions as described in the Special Report and grants them the special authorization referred to in Article /152/ of the Code of Money and Credit and in Article /158/ of the Code of Commerce to continue assuming their duties in 2013 with the same terms specified in the Board of Directors Special Report.

The General Assembly approves the salaries and other benefits paid to the Senior Officers of the Bank for the year 2012 as mentioned in the Board of Directors Special Report and approves as well of paying them the amounts mentioned in the same report for 2013.

The General Assembly approves the fees paid to the Members and Chairmen of the Board Audit and Risk committees for 2012 and approves that said Members and Chairmen receive fees for the fiscal year 2013 as mentioned in the Board of Directors Special Report.

SEVENTH RESOLUTION

The General Assembly decides to approve the setting of the fees of the External Auditors, Messrs. Semaan Gholam & Co. and Messrs. Ernst & Young, as External Auditors at 1,250 million Lebanese Pounds for the fiscal year 2013 for auditing and reviewing the stand-alone and consolidated financial statements.