BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2011

ERNST & YOUNG

Ernst & Young p.c.c.
P.O.Box: 11-1639, Riad Solh
Beirut - 1107 2090
Commerce & Finance Bldg., 1st fl.
Kantari, Beirut - Lebanon
Tel : (01) 760800 Fax: (01) 760822/3
beirut@lb.ey.com
C.R. 61

SG SEMAAN, GHOLAM & CO.

Semaan, Gholam & Co.
P.O.Box: 11-0558, Riad Solh
Beirut - 1107 2050
Gholam Building - Sioufi Street
Beirut - Lebanon
Tel: (01) 323676 Fax: (01) 204142
siman@inco.com.lb
C.R. 90

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 (the Group), which comprise the consolidated statement of financial position as at 31 December 2011 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 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 auditor considers 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 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

16 March 2012
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

	Notes	2011 LL million	2010 LL million
Interest and similar income	5	**1,264,737**	1,224,014
Interest and similar expense	6	**(840,373)**	(796,751)
NET INTEREST INCOME		**424,364**	427,263
Fee and commission income	7	**158,184**	140,221
Fee and commission expense	7	**(13,389)**	(14,563)
NET FEE AND COMMISSION INCOME		**144,795**	125,658
Net gain from financial instruments at fair value through profit or loss	8	**61,601**	-
Net trading income	9	**-**	22,158
Net gain on financial assets	10	**4,200**	100,965
Net gain from sale of financial assets at amortized cost	11	**64,165**	-
Other operating income	12	**13,191**	8,118
TOTAL OPERATING INCOME		**712,316**	684,162
Credit loss expense	13	**(42,770)**	(29,272)
Impairment losses on other financial assets	14	**(23,575)**	(8,863)
NET OPERATING INCOME		**645,971**	646,027
Personnel expenses	15	**(161,286)**	(145,552)
Depreciation and impairment of property and equipment	34	**(31,466)**	(31,014)
Amortisation of intangibles assets	35	**(159)**	(112)
Administrative and other operating expenses	16	**(116,136)**	(134,860)
TOTAL OPERATING EXPENSES		**(309,047)**	(311,538)
PROFIT BEFORE TAX		**336,924**	334,489
Income tax expense	17	**(65,987)**	(66,670)
PROFIT FOR THE YEAR		**270,937**	267,819
Attributable to:			
Equity holders of the parent		**259,894**	255,770
Non controlling interest		**11,043**	12,049
		270,937	267,819
Earnings per share		***LL***	*LL*
Equity shareholders of the parent for the year:			
Basic earnings per share – common shares	18	**376.60**	399.61
Basic earnings per share – priority shares	18	**-**	448.01
Diluted earnings per share – common shares	18	**356.91**	374.78
Diluted earnings per share – priority shares	18	**-**	423.18

The attached notes 1 to 59 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	2011 *LL million*	*2010* *LL million*
Profit for the year	**270,937**	267,819
Elements of other comprehensive income (loss):		
Net unrealized loss from financial instruments at fair value through other comprehensive income	**(3,863)**	-
Net loss on available-for-sale financial assets	**-**	(15,968)
Exchanges differences on translation of foreign operations	**(37,348)**	(36,090)
Income tax effect on components of other comprehensive income	**1,379**	4,225
Other comprehensive loss for the year, net of tax	**(39,832)**	(47,833)
Total comprehensive income for the year, net of tax	**231,105**	219,986
Attributable to:		
Equity holders of the parent	**235,654**	220,770
Non controlling interest	**(4,549)**	(784)
	231,105	219,986

The attached notes 1 to 59 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	Notes	2011 LL million	2010 LL million
ASSETS			
Cash and balances with central banks	19	**4,282,468**	2,748,642
Due from banks and financial institutions	20	**4,330,842**	3,899,011
Loans to banks and financial institutions and reverse repurchase agreements	21	**667,488**	-
Financial assets given as collateral	22	**8,920**	8,918
Derivative financial instruments	23	**5,356**	1,462
Financial assets held for trading	24	**-**	205,940
Equity instruments at fair value through profit or loss	25	**26,603**	-
Debt instruments and other financial assets at fair value through profit or loss	26	**228,606**	-
Net loans and advances to customers at amortized cost	27	**6,028,914**	5,673,300
Net loans and advances to related parties at amortized cost	53	**13,406**	11,940
Debtors by acceptances	28	**331,821**	291,834
Debt instruments at amortized cost	29	**8,607,301**	-
Equity instruments at fair value through other comprehensive income	30	**76,967**	-
Available-for-sale financial instruments	31	**-**	1,875,811
Other financial assets classified as loans and receivables	32	**-**	7,490,856
Held to maturity financial instruments	33	**-**	428,698
Property and equipment	34	**301,066**	281,303
Intangible assets	35	**1,129**	1,039
Assets taken in settlement of debt	36	**35,452**	39,092
Other assets	37	**80,974**	89,546
TOTAL ASSETS		**25,027,313**	23,047,392
LIABILITIES AND EQUITY			
Due to central banks	38	**15,670**	19,492
Due to banks and financial institutions	39	**1,635,480**	1,512,785
Derivative financial instruments	23	**7,347**	4,350
Customers' deposits at amortized cost	40	**19,174,417**	17,867,630
Related parties' deposits at amortized cost	53	**151,991**	112,396
Debt issued and other borrowed funds	41	**662,290**	213,501
Engagements by acceptances	28	**331,821**	291,834
Other liabilities	42	**126,267**	145,757
Provisions for risks and charges	43	**129,989**	119,905
Subordinated notes	44	**307,263**	303,324
TOTAL LIABILITIES		**22,542,535**	20,590,974
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	45	**684,273**	434,984
Share capital – priority shares	45	**-**	249,289
Share capital – preferred shares	45	**4,840**	4,840
Share premium – common shares	45	**229,014**	229,014
Share premium – preferred shares	45	**583,858**	581,456
Non distributable reserves (legal and obligatory)	46	**469,072**	396,526
Distributable free reserves	47	**79,127**	79,127
Other equity instruments	48	**14,979**	14,979
Treasury shares	49	**(25,476)**	(16,189)
Retained earnings		**65,214**	16,484
Revaluation reserve of real estate	50	**5,689**	5,689
Change in fair value of financial instruments at fair value through other comprehensive income	51	**(20,556)**	53,993
Net results of the financial period – profit		**259,894**	255,770
Foreign currency translation reserve		**(31,329)**	(9,573)
		2,318,599	2,296,389
NON-CONTROLLING INTEREST		**166,179**	160,029
TOTAL EQUITY		**2,484,778**	2,456,418
TOTAL LIABILITIES AND EQUITY		**25,027,313**	23,047,392

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 16 March 2012.

Dr Francois Bassil
Chairman/ General Manager

Mr Ziad El-Zoghbi
Financial and Administrative Manager

The attached notes 1 to 59 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2011

	Notes	*2011* *LL million*	*2010* *LL million*
OFF FINANCIAL POSITION ITEMS			
Commitments			
Commitments to banks and financial institutions	56	**552,339**	933,859
Commitments to customers	56	**523,392**	581,876
Undrawn commitments to lend	56	**1,434,194**	1,514,547
Guarantees			
Guarantees given to banks and financial institution	56	**423,451**	401,244
Guarantees received from banks and financial institutions		**47,220**	81,765
Guarantees given to customers	56	**1,036,243**	1,001,197
Guarantees received from customers		**24,458,189**	20,151,969
Foreign currencies forwards	23		
Foreign currencies to receive		**504,188**	282,530
Foreign currencies to deliver		**505,851**	285,418
Claims from legal cases		**41,174**	34,907
Fiduciary assets		**127,866**	127,661
Assets under management		**3,197,425**	3,243,277
Bad debts fully provided for	27	**91,644**	98,700

The attached notes 1 to 59 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to equity holders of the parent														Non-controlling interest	Total
	Common shares LL million	Priority shares LL million	Preferred shares LL million	Share premium - common shares LL million	Share premium - preferred shares LL million	Non-distributable reserves (legal and obligatory) LL million	Distributable free reserves LL million	Other equity instruments LL million	Treasury shares LL million	Retained earnings LL million	Revaluation reserve of real estate LL million	Change in fair value of financial instruments at fair value through other comprehensive income LL million	Net results of the financial period - profit LL million	Foreign currency translation reserve LL million	Total LL million	LL million	LL million
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	14,979	(16,189)	16,484	5,689	53,993	255,770	(9,573)	2,296,389	160,029	2,456,418
Effect of IFRS 9 early adoption (note 2)	-	-	-	-	-	-	-	-	-	38,077	-	(72,065)	-	-	(33,988)	(307)	(34,295)
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	14,979	(16,189)	54,561	5,689	(18,072)	255,770	(9,573)	2,262,401	159,722	2,422,123
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	259,894	-	259,894	11,043	270,937
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(2,484)	-	(21,756)	(24,240)	(15,592)	(39,832)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(2,484)	259,894	(21,756)	235,654	(4,549)	231,105
Transfer of priority shares (note 45)	249,289	(249,289)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	255,770	-	-	(255,770)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	72,266	-	-	-	(74,678)	-	-	-	-	-	-	-
Non-controlling interest share in a capital increase of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	23,473	23,473
Acquisition of non-controlling interest (note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(8,584)	(8,584)
Dividends paid – subsidiaries (note 58)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,883)	(3,883)
Translation difference	-	-	-	-	(10)	-	-	-	-	-	-	-	-	-	(10)	-	(10)
Equity dividends paid (note 58)	-	-	-	-	-	-	-	-	-	(170,439)	-	-	-	-	(170,439)	-	(170,439)
Treasury shares	-	-	-	-	-	280	-	-	(9,287)	-	-	-	-	-	(9,007)	-	(9,007)
Balance at 31 December 2011	**684,273**	**-**	**4,840**	**229,014**	**583,858**	**469,072**	**79,127**	**14,979**	**(25,476)**	**65,214**	**5,689**	**(20,556)**	**259,894**	**(31,329)**	**2,318,599**	**166,179**	**2,484,778**
Balance at 1 January 2010	262,706	249,289	4,840	26,425	579,035	311,946	79,127	-	(176)	24,954	5,689	66,026	206,628	13,394	1,829,883	123,049	1,952,932
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	255,770	-	255,770	12,049	267,819
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(12,033)	-	(22,967)	(35,000)	(12,833)	(47,833)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(12,033)	255,770	(22,967)	220,770	(784)	219,986
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	206,628	-	-	(206,628)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,421	84,124	-	-	-	(86,545)	-	-	-	-	-	-	-
Non-controlling interest in a liquidated subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,812)	(1,812)
Non-controlling interest share in capital increase of a subsidiary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	38,037	38,037
Non-controlling interest in an acquired subsidiary (note 3)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,505	7,505
Dividends paid – subsidiaries (note 58)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,966)	(5,966)
Increase in capital	172,278	-	-	202,589	-	-	-	-	-	-	-	-	-	-	374,867	-	374,867
Equity dividends paid (note 58)	-	-	-	-	-	-	-	-	-	(128,553)	-	-	-	-	(128,553)	-	(128,553)
Treasury shares	-	-	-	-	-	456	-	-	(16,013)	-	-	-	-	-	(15,557)	-	(15,557)
Other equity instruments issued	-	-	-	-	-	-	-	14,979	-	-	-	-	-	-	14,979	-	14,979
Balance at 31 December 2010	434,984	249,289	4,840	229,014	581,456	396,526	79,127	14,979	(16,189)	16,484	5,689	53,993	255,770	(9,573)	2,296,389	160,029	2,456,418

The attached notes 1 to 59 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 LL million	2010 LL million
OPERATING ACTIVITIES			
Profit before tax		**336,924**	334,489
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	34 & 35	**31,625**	30,115
Provision for loans and advances and direct write offs, net	13	**49,363**	24,543
(Write-back) provision for other doubtful bank accounts, net	13	**(6,593)**	4,729
Impairment losses on other financial assets, net	14	**23,575**	8,863
Loss (gain) on disposal of property and equipment		**88**	(900)
Gain on disposal of assets taken in settlement of debt	12	**(3,877)**	(3,914)
Provisions for risks and charges, net		**14,300**	26,485
Unrealized fair value losses (gains) on financial instruments		**6,339**	(14,482)
Realized gains from financial instruments		**(70,052)**	(102,297)
Derivative financial instruments		**(897)**	13,322
Impairment provision on property and equipment	34	**-**	1,011
Operating profit before working capital changes		**380,795**	321,964
Changes in operating assets and liabilities			
Due from central banks		**(499,978)**	(8,284)
Due from banks and financial institutions		**229,110**	(7,189)
Financial assets given as collateral		**(2)**	(7,725)
Equity instruments at fair value through profit or loss		**(1,713)**	-
Debt instruments and other financial assets at fair value through profit or loss		**(618)**	-
Due to banks and financial institutions		**(153,308)**	(1,971)
Cash collateral on securities lent and repurchase agreements		**-**	(1,193)
Financial assets held for trading		**-**	19,389
Net loans and advances to customers and related parties		**(406,443)**	(887,365)
Other assets		**9,633**	(6,382)
Customers' and related parties' deposits		**1,346,382**	2,444,386
Other liabilities		**(13,437)**	7,674
Cash from operations		**890,421**	1,873,304
Provision for risks and charges paid		**(4,216)**	(1,810)
Taxation paid		**(62,844)**	(73,066)
Net cash from operating activities		**823,361**	1,798,428
INVESTING ACTIVITIES			
Available for sale financial instruments		**-**	(73,091)
Financial assets classified as loans and receivables		**-**	(747,574)
Held to maturity financial instruments		**-**	136,092
Debt instruments at amortized cost		**427,407**	-
Equity instruments at fair value through other comprehensive income		**(143)**	-
Loans to banks and financial institutions and reserve purchase agreements		**(37,491)**	-
Purchase of property and equipment and intangible assets		**(57,381)**	(59,992)
Proceeds from sale of property and equipment		**1,170**	2,552
Assets taken in settlement of debt	36	**(829)**	(5,389)
Proceeds from sale of assets taken in settlement of debt		**8,346**	8,778
Acquisition of subsidiary, net of cash acquired		**-**	(12,557)
Acquisition of additional non-controlling interest	3	**(8,584)**	-
Net cash from (used in) investing activities		**332,495**	(751,181)
FINANCING ACTIVITIES			
Issuance of ordinary common shares		**-**	374,867
Issuance of other equity instruments		**-**	14,979
Due to central banks		**(1,265)**	9,865
Debts issued and other borrowed funds		**448,789**	(77,462)
Subordinated notes		**3,939**	3,690
Treasury shares		**(9,007)**	(15,557)
Dividends paid to equity holders of the parent (net)		**(170,439)**	(128,553)
Dividends paid to non-controlling interest		**(3,883)**	(5,966)
Non-controlling interest share in a capital increase of a subsidiary		**23,473**	38,037
Non-controlling interest in a liquidated subsidiary		**-**	(1,812)
Net cash from financing activities		**291,607**	212,088
Effect of exchange rates:			
Effect of exchange rates on property and equipment		**4,645**	13,591
Foreign currency translation differences		**(37,348)**	(36,090)
Effect of exchange rates on reserves and premiums		**(10)**	-
Net effect of foreign exchange rates		**(32,713)**	(22,499)
INCREASE IN CASH AND CASH EQUIVALENTS		**1,414,750**	1,236,836
Cash and cash equivalents at 1 January		**4,735,368**	3,498,532
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	52	**6,150,118**	4,735,368
Operational cash flows from interest and dividends			
Interest paid		**(834,902)**	(787,332)
Interest received		**1,249,141**	1,207,341
Dividend received		**5,214**	4,987

1 CORPORATE INFORMATION

Byblos Bank SAL (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 banks' list published by the Central Bank of Lebanon. The Bank's head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon.

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia), (collectively the "Group").

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 the following:

- derivative financial instruments,
- equity instruments at fair value through profit or loss,
- debt instruments and other financial assets at fair value through profit or loss,
- equity instruments at fair value through other comprehensive income,
- financial assets held for trading (applicable prior to 1 January 2011), and
- available-for-sale financial instruments (applicable prior to 1 January 2011).

The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised 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 Lira (LL) and all values are rounded to the nearest LL 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 risk management note.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. 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.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2011.

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. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. 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:

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

Basis of consolidation (continued)

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

Subsidiary	*Percentage of ownership* 2011 %	2010 %	*Principal Activity*	*Country of incorporation*
Byblos Bank Europe SA	**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. (ADIR) SAL	**64.00**	64.00	Insurance	Lebanon
Adonis Brokerage House SAL	**100.00**	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	**99.99**	99.99	Investment banking	Lebanon
Byblos Bank Africa	**56.86**	56.86	Commercial Banking	Sudan
Byblos Bank Syria S.A. *	**52.37**	41.50	Commercial Banking	Syria
Byblos Bank Armenia CJSC	**65.00**	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	**76.00**	76.00	Insurance	Syria
Byblos Bank RDC s.a.r.l. ** (formerly Solidaire Banque International S.B.I. SARL)	**66.67**	66.67	Banking activities	Democratic Republic of Congo

* The Group has control by virtue of agreement with other investors over Byblos Bank Syria S.A. and consequently, the financial statements of Byblos Bank Syria S.A. have been consolidated with those of the Group.

** The above subsidiary was acquired on 31 March 2010 (please refer to note 3).

2.2 Changes in accounting policy and disclosures

Early adoption of IFRS 9

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.

Phase I of IFRS 9 addresses the classification and measurement of financial assets and financial liabilities. IAS 39 is still being followed for impairment of financial assets and hedge accounting, as these will be covered through phase 2 and phase 3 of IFRS 9, respectively, which have not yet been completed by the International Accounting Standards Board (IASB). As IASB completes these phases, it will delete the relevant portions of IAS 39 and create chapters in IFRS 9 that would replace the requirements in IAS 39.

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 (see Note 2.4, Financial Instruments – Classification and Measurement after 1 January 2011).

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.

Management revised the Group's financial assets and liabilities as at 1 January 2011 for reclassification and measurement purposes according to the requirements of IFRS 9 and its transitional provisions. The schedule below presents all financial assets and liabilities which did not have an impact on the Group's retained earnings or other components of equity upon reclassification as at 1 January 2011:

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Early adoption of IFRS 9 (continued)

Financial assets	*Initial classification under IAS 39*	*New classification under IFRS 9*
Cash and balances with central banks	Loans and receivables	Amortized cost
Due from banks and financial institutions	Loans and receivables	Amortized cost
Financial assets given as collateral	Loans and receivables	Amortized cost
Derivative financial instruments	Trading	Fair value through profit or loss
Loans and advances to customers	Loans and receivables	Amortized cost
Loans and advances to related parties	Loans and receivables	Amortized cost
Financial liabilities		
Due to central banks	Loans and receivables	Amortized cost
Due to banks and financial institutions	Loans and receivables	Amortized cost
Derivative financial instruments	Trading	Fair value through profit or loss
Customers' deposits	Loans and receivables	Amortized cost
Related parties' deposits	Loans and receivables	Amortized cost
Debt issued and other borrowed funds	Loans and receivables	Amortized cost
Subordinated notes	Loans and receivables	Amortized cost

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.

	Financial assets held for trading LL million	*Available-for-sale financial instruments LL million*	*Other financial assets classified as loans and receivables LL million*	*Held-to-maturity financial instruments LL million*	*Total LL million*
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:					
Financial instruments reclassified to fair value through profit or loss:					
Debt instruments	150,639	-	72,608	-	223,247
Equity instruments	26,447	3,636	-	-	30,083
Debt instruments reclassified at amortized cost					
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
Equity instruments reclassified to fair value through other comprehensive income	-	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)
out of which: effect of previous amendments to IAS 39 (*)	-	-	*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**

(*) The impact on the opening balance of the change in fair value of financial instruments through other comprehensive income resulted from unrealized losses relating to financial assets that were reclassified during 2008 from "available-for-sale" to "loans and receivables" in accordance with the amendments that occurred at the time on IAS 39 and IFRS 7.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Other new and amended standards and interpretations
In addition to the above, the accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRCI interpretations effective as of 1 January 2011:

- IAS 24 *Related Party Disclosures (amendment)* effective 1 January 2011;
- IAS 32 *Financial Instruments: Presentation* (amendment) effective 1 February 2010;
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (amendment) effective 1 January 2011;
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* effective 1 July 2010; and
- Improvements to IFRSs (May 2010) effective either 1 July 2010 or 1 January 2011.

The adoption of the standards or interpretations is described below:

IAS 24 *Related Party Transactions* (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect the related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group.

IAS 32 *Financial Instruments: Presentation* (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given *pro rata* to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension asset. The amendment has had no effect on the financial position or performance of the Group.

IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*
In November 2009, the IASB issued IFRIC 19 *Extinguishing Financial Liabilities with Equity*. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation has had no effect on the financial statements of the Group.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies and to the presentation and disclosures but did not impact the financial position or performance of the Group.

IFRS 7 *Financial Instruments – Disclosures*:
The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

2 ACCOUNTING POLICIES (continued)

2.2 Changes in accounting policy and disclosures (continued)

Other new and amended standards and interpretations (continued)

Improvements to IFRSs (continued)

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IAS 1 Presentation of Financial Statements (Presentation of an analysis of each component of other comprehensive income)
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 *Business Combinations* (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 *Consolidated and Separate Financial Statements*
- IAS 34 *Interim Financial Statement*
- IFRIC 13 *Customer Loyalty Programmes* (determining the fair value of award credits)

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, upon derecognition or settlement) would be presented separately from items that will never be reclassified. 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* (Amendment)
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 amendment becomes effective for annual periods beginning on or after 1 January 2013.

IAS 27 *Separate Financial Statements* (as revised in 2011)
As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes 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 and IFRS 12. IAS 28 has been renamed IAS 28 *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

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 judgement 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. 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. This standard 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. 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. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes 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 Lira which is the Group'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 at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the date of the statement of financial position. All differences are taken to "net gain from financial assets at fair value through profit or loss" in the income statement (or "net trading income" applicable prior to 1 January 2011).

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). 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

(ii) Group companies
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position 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 recognised in equity relating to that particular foreign operation is recognised in the income statement in 'Other operating expenses' or 'Other operating income'.

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. Classification and measurement of financial instruments from 1 January 2011

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 amortised 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 recognising 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.

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:

- 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, less allowance for impairment. Amortized cost is calculated by taking into account any discount of 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 income statement. The losses arising from impairment are recognised in the income statement in "Impairment losses on other financial assets".

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

A. Classification and measurement of financial instruments from 1 January 2011 (continued)
a. Financial assets (continued)

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.

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 and other financial assets 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.

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.

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.

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.

Dividends on these investments are recognized under "net gain on financial assets" in the consolidated income statement when the entity's right to receive payment of dividend is established in accordance with IAS 18: "Revenue", unless the dividends clearly represent a recovery of part of the cost of the investment.

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, amounts "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 amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Credit loss expense"

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

A. Classification and measurement of financial instruments from 1 January 2011 (continued)

b. Financial liabilities

The Group classifies all financial liabilities as subsequently measured at amortised 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 recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

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 recognising 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 consolidated income statement. Under IAS 39, the entire amount of the change in fair value of the financial liability designated at fair value through profit or loss was recognised in the income statement.

As at 31 December 2011, there are no financial liabilities designated at fair value through profit or loss by the Group. Financial liabilities consist of due to banks and financial institutions, customers' and related parties' deposits, debt issued and other borrowed funds and subordinated notes.

Debt issued and other borrowed funds and subordinated notes

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" and "Subordinated notes", 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 and subordinated notes are subsequently measured at amortised cost using the effective interest rate method. Amortised 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

A. Classification and measurement of financial instruments from 1 January 2011 (continued)

b. Financial liabilities (continued)

Debt issued and other borrowed funds and subordinated notes (continued)
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 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 banks and financial institutions, customers' deposits and related parties deposits
After initial measurement, due to banks and financial institutions, customers' and related parties' deposits measured at amortised cost less amounts repaid using the effective interest rate method. Amortised 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 recognised in "net gain 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 recognised in profit or loss

B. Classification and measurement of financial instruments – Before 1 January 2011
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs except, in the case of financial instruments classified at fair value through profit or loss.

a. Financial assets
Financial assets held for trading
Financial assets held for trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividends are recognised in "Net trading income". Interest income is recorded in "Interest and similar income" according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities and equities which have been acquired principally for the purpose of selling or repurchasing in the near term.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

B. Classification and measurement of financial instruments – Before 1 January 2011 (continued)

a. Financial assets (continued)

Other financial assets classified as loans and receivables
These include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount of 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 income statement. The losses arising from impairment are recognised in the income statement in "Impairment losses on other financial assets". Gains or losses are recognised under "net gain on financial assets" in the income statement when the investments are derecognised or impaired.

Available-for-sale financial instruments
Available-for-sale instruments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial instruments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in shareholders' equity (other comprehensive income) in the "changes in fair value of financial instruments at fair value through profit or loss" reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial instruments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial instruments are recognised in the consolidated income statement as when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated income statement in "Impairment loss on financial instruments" and removed from the "changes in fair value of financial instruments at fair value through profit or loss" reserve.

Held to maturity financial instruments
Held to maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment of such investments are recognized in the consolidated income statement as "Impairment loss on other financial assets".

Due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties
After initial measurement, amounts "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 amortised cost using the EIR, less allowance for impairment. Amortised 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 amortisation is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Credit loss expense"

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(ii) Classification and measurement of financial instruments (continued)

B. Classification and measurement of financial instruments – Before 1 January 2011 (continued)

b. Financial liabilities
There were no changes in the classification and measurement of financial liabilities upon adoption of IFRS 9. IAS 39 requirements in respect of financial liabilities have been carried forward into IFRS 9 except for the fact that under IAS 39, the entire amount of the change in fair value of the financial liability designated at fair value through profit or loss was recognised in the income statement.

c. Derivatives
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 recognised in "net trading income".

An embedded derivative shall be separated from the host and accounted for as a derivative if, and only if:
(a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
(b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(c) the hybrid contract is not measured at fair value with changes in fair value recognised 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
From 1 January 2011
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 recognised gains, losses or interest are not restated.

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 recognised in profit or loss. If a financial asset is reclassified so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

(iv) Reclassification of financial assets (continued)

Before 1 January 2011
Effective from 1 July 2008, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category and into the "Available for sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available for sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the "Available for sale" category, any previous gain or loss on that asset that has been recognized in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the consolidated income statement.

The Group may reclassify a non-derivative trading asset out of the "Held-for-trading" category and into the "Loans and receivables" category if it meets the definition of loans and receivables and it has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

(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 derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Cash collateral on securities lent and repurchase agreements", reflecting the transaction's economic substances 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" (or to "available for sale financial instruments pledged as collateral" applicable perior to 1 January 2011, as appropriate).

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Cash collateral on securities borrowed and reverse purchase 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 from financial instruments at fair value through profit or loss" in the consolidated income statement (or "net trading income" applicable prior to 1 January 2011).

Determination of fair value
The fair value for financial instruments traded in active markets at the statement of financial position 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.

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)
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 amortised cost
For financial assets carried at amortised cost (such due from banks and financial institutions, loans to banks and financial institutions, debt instruments at amortized cost, loans and advances to customers, (in addition to other financial assets classified as loans and receivables and held to maturity investments, applicable prior to 1 January 2011), 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, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the 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 realised 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 recognised; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense" 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.

Prior to 1 January 2011, if the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(ii) Available for sale financial investments – Before 1 January 2011
For available for sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

(iii) 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. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

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.

Also at the inception of the hedge relationship, 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. 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%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Hedge accounting (continued)

(i) Fair value hedges
For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the consolidated income statement. Meanwhile, the 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 and is also recognised in "Net gain from financial instruments at fair value through profit or loss" in the consolidated income statement (or "net trading income" applicable prior to 1 January 2011).

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 terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised 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 recognised directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised 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 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 equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity 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 recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity statement is transferred to the consolidated income statement.

Leasing
The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment 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 recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expenses
Revenue is recognised 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 recognised.

(i) Interest and similar income and expense
For all financial instruments measured at amortized cost, (and interest bearing financial assets classified as available for sale: applicable prior to 1 January 2011), 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. Before 1 January 2011, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

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 continue to be recognized using the rate of interest used to discount the future cash flows of the purpose of measuring the impairment loss.

(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 be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee income from providing transaction services
Fee 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.

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

Net gain on financial instruments at fair value through profit or loss – From 1 January 2011
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

Net trading income – Before 1 January 2011
Results arising from trading activities include all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading. This includes any ineffectiveness recorded in hedging transactions.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(ii) Fee and commission income (continued)

Net gain on financial assets – From 1 January 2011
Net gain on financial assets includes gains and losses from sale of financial instruments classified other than fair value through profit or loss and other than at amortized cost, and dividend income on these financial instruments.

Net gain on financial assets – Before 1 January 2011
Net gain on financial assets includes gains and losses from sale of financial instruments classified other than fair value through profit or loss, and dividend income on these financial instruments.

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 prorate temporise 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 the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

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. When significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised 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 derecognised 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 "other operating income" in the year the asset is derecognized.

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

Non current assets held for sale
Non-current assets held for sale include assets taken in settlement of debt. These are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Gains and losses on disposal are recognized in the consolidated income statement.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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 acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised 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 recognised in accordance with IAS 39 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 recognised 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 difference is recognised 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 amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation 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 amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Amortisation 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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of non-financial assets
The Group 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 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised 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 recognised. 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 recognised 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.

Provisions for risks ad charges
Provisions are recognised 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.

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

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.

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 statement of financial position date.

(ii) Deferred tax
Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Taxes (continued)

(ii) Deferred tax (continued)
Deferred tax liabilities are recognised 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 recognised 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 utilised 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 recognised 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 utilised.

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 utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognised 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 realised 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.

Current tax and deferred tax relating to items recognized directly in equity are also recognised 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Assets under management
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or in a fiduciary capacity, are not treated as assets of the Group and accordingly are recorded as off balance sheet items.

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 recognised 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. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

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.

Equity reserves
The reserves recorded in equity (other comprehensive income) on the Group statement of financial position include:

'Change in fair value of financial instruments at fair value through other comprehensive income" reserve which comprises changes in fair value of equity instruments at fair value through other comprehensive income (Before 1 January 2011: available-for-sale financial instruments).

'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

'Capital reserves' which include transfers from retained earnings in accordance with regulatory requirements and the portions of compound financial liabilities that qualify for treatment as equity (Note 48).

Segment reporting
The Group's segmental reporting is based on the following operating segments: Consumer banking, Corporate banking, treasury and capital markets, insurance and Group functions.

2.5 Significant accounting judgements 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 recognised 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 financial statements continue to be prepared on the going concern basis.

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.

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

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 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 date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

Impairment of available-for-sale investments – Before 1 January 2011
The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

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 determined 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.

Business model – Applicable from 1 January 2011
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 – Applicable from 1 January 2011
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 amortised 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.

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 LL 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.

Acquisitions in 2010

On 31 March 2010, the Group completed the acquisition of 66.67% of the share capital of Solidaire Banque International S.B.I. SARL, unlisted entity specializing in banking activities in Democratic Republic of Congo, for a total consideration of LL 15,075 million (equivalent to US$ (000) 10,000).

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Solidaire Banque International S.B.I. SARL as of 31 March 2010 were as follows:

	Fair value recognized on acquisition LL million	***Carrying value LL million***
Assets		
Cash and balances with central bank	**2,518**	**2,518**
Amounts due from Head office	**18,553**	**18,553**
Loans and advances to customers	**7,998**	**7,998**
Deposits with banks and financial institutions	**1,982**	**1,982**
Tangible fixed assets	**1,250**	**1,250**
Other assets	**153**	**153**
Total assets	**32,454**	**32,454**
Liabilities		
Customers' deposits	**8,927**	**8,927**
Other liabilities	**916**	**916**
Total liabilities	**9,843**	**9,843**
Total identifiable net assets at fair value	**22,611**	**22,611**
Non-controlling interest measured at fair value	**(7,505)**	
Excess of Group's interest in the net fair value of identifiable assets and liabilities over cost	**(31)**	
Purchase consideration transferred	**15,075**	

Cash outflow on acquisition was as follows:

	LL million
Cash paid	**15,075**
Net cash acquired with subsidiary	**(2,518)**
Net cash outflow arising on acquisition of the subsidiary	**12,557**

From the date of acquisition, the subsidiary contributed to a loss of LL 5,001 million to the results of the Group.

If the combination had taken place at the beginning of the year, the total net operating income for the year would have been less by LL 83 million.

The excess of the Group's interest in the fair value of net assets over cost was recognized in the consolidated income statement.

4 SEGMENTAL INFORMATION

The business segments are distinctive components of the Group that have different risks and rates of returns and which offer different products and services. The Group segments its business into Retail Banking, Corporate Banking, Treasury and Capital Markets, and Insurance. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

Retail Banking
Retail Banking provides a diversified range of products and services to individuals. The range includes housing loans, consumer loans, credit cards, deposits, foreign exchange and other branch related services.

Corporate Banking
Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance and foreign exchange operations.

Treasury and capital markets
Treasury and capital markets include treasury, investments and other defined Group activities. It also includes investment products and services to institutional investors and intermediaries. Treasury is also responsible for the liquidity management and market risk.

Insurance
The Group provides insurance services through subsidiaries operating in Lebanon and Syria.

Unallocated
This includes long term investments and other operating income and expenses not allocated to any of the above segments in addition to other miscellaneous activities.

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 not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts. Transfer prices between operating segments are on an arms' length basis in a manner similar to transactions with third parties.

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

	2011					
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Insurance LL million*	*Unallocated LL million*	*Total LL million*
Net interest income	**252,451**	**135,935**	**35,347**	**631**	**-**	**424,364**
Net fee and commission income	**53,533**	**71,542**	**4,093**	**13,510**	**2,117**	**144,795**
Net gain from financial instruments at fair value through profit or loss	**-**	**-**	**61,264**	**337**	**-**	**61,601**
Net gain on financial assets	**-**	**-**	**4,200**	**-**	**-**	**4,200**
Net gain from sale of financial assets at amortized cost	**-**	**-**	**64,165**	**-**	**-**	**64,165**
Other operating income	**-**	**-**	**-**	**87**	**13,104**	**13,191**
Credit loss expense	**(6,909)**	**(42,454)**	**6,593**	**-**	**-**	**(42,770)**
Impairment losses on other financial assets	**-**	**-**	**(22,825)**	**(750)**	**-**	**(23,575)**
Net operating income	**299,075**	**165,023**	**152,837**	**13,815**	**15,221**	**645,971**
Total assets	**1,680,172**	**4,693,970**	**18,252,393**	**110,807**	**289,971**	**25,027,313**
Total liabilities	**17,989,539**	**1,336,869**	**2,620,704**	**192,796**	**402,627**	**22,542,535**

4 SEGMENTAL INFORMATION (continued)

	2010					
	Retail banking LL million	*Corporate banking LL million*	*Treasury and capital markets LL million*	*Insurance LL million*	*Unallocated LL million*	*Total LL million*
Net interest income	219,668	106,218	100,691	686	-	427,263
Net fee and commission income	41,204	61,637	(2,454)	12,288	12,983	125,658
Net trading income	-	-	19,474	(16)	2,700	22,158
Net gain on financial assets	-	-	98,320	-	2,645	100,965
Other operating income	-	-	-	87	8,031	8,118
Credit loss expense	(12,450)	(12,093)	(4,729)	-	-	(29,272)
Impairment losses on other financial assets	-	-	(8,863)	-	-	(8,863)
Net operating income	248,422	155,762	202,439	13,045	26,359	646,027
Total assets	1,409,368	4,567,705	16,671,807	89,784	308,728	23,047,392
Total liabilities	16,752,227	1,175,452	1,982,013	167,429	513,853	20,590,974

Geographic information

The Group operates in two geographic markets; local and international. The local market represents the Lebanese market and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income, total assets and capital expenditure by geographical segment.

	Domestic		*International*		*Total*	
	2011 LL million	*2010 LL million*	***2011 LL million***	*2010 LL million*	***2011 LL million***	*2010 LL million*
Net interest income	**331,537**	349,536	**92,827**	77,727	**424,364**	427,263
Net fee and commission income	**76,175**	58,118	**68,620**	67,540	**144,795**	125,658
Net gain from financial instruments at fair value through profit or loss	**30,159**	-	**31,442**	-	**61,601**	-
Net trading income	-	13,623	-	8,535	-	22,158
Net gain on financial assets	**1,768**	95,897	**2,432**	5,068	**4,200**	100,965
Net gain from sale of financial assets at amortized cost	**65,568**	-	**(1,403)**	-	**64,165**	-
Other operating income	**12,232**	7,794	**959**	324	**13,191**	8,118
Credit loss expense	**(19,562)**	(16,727)	**(23,208)**	(12,545)	**(42,770)**	(29,272)
Impairment losses on other financial assets	-	(3,800)	**(23,575)**	(5,063)	**(23,575)**	(8,863)
Net operating income	**497,877**	504,441	**148,094**	141,586	**645,971**	646,027
Total assets	**16,809,490**	14,987,694	**8,217,823**	8,059,698	**25,027,313**	23,047,392
Total liabilities	**17,397,732**	16,055,300	**5,144,803**	4,535,674	**22,542,535**	20,590,974

5 INTEREST AND SIMILAR INCOME

	2011 LL million	2010 LL million
Balances with central banks	**42,518**	15,116
Due from banks and financial institutions	**41,491**	32,491
Loans to banks and financial institutions and reserve repurchase agreements	**16,423**	-
Financial assets given as collateral	**583**	403
Financial assets – held for trading	**-**	10,809
Financial assets – available-for-sale	**-**	137,341
Financial assets – held-to-maturity	**-**	47,166
Financial assets – loans & receivables	**-**	576,494
Loans and advances to customers at amortized cost	**453,711**	403,624
Loans and advances to related parties at amortized cost	**582**	570
Debt instruments at amortized cost	**709,429**	-
	1,264,737	1,224,014

6 INTEREST AND SIMILAR EXPENSE

	2011 LL million	2010 LL million
Due to central banks	**325**	253
Due to banks and financial institutions	**37,631**	33,515
Customers' deposits	**736,501**	709,785
Related parties' deposits	**6,586**	8,386
Debt issued and other borrowed funds	**30,639**	16,812
Subordinated notes	**27,941**	27,662
Other equity instruments	**750**	338
	840,373	796,751

7 NET FEE AND COMMISSION INCOME

	2011 LL million	2010 LL million
Fee and commission income		
Loans and advances	**21,652**	19,535
Letters of guarantee	**15,588**	14,535
Acceptances	**7,134**	6,037
Letters of credit	**41,052**	42,791
Credit cards	**7,484**	5,414
Domiciled bills	**1,851**	1,738
Checks for collection	**2,783**	2,451
Maintenance of accounts	**8,964**	6,474
Transfers	**9,198**	7,462
Safe rental	**578**	472
Portfolio commission	**3,578**	2,334
Trust and fiduciary activities	**160**	139
Insurance premiums' commission and commission on reinsurance ceded	**18,363**	16,250
Refund of banking services	**13,344**	10,650
Other commissions	**6,455**	3,939
	158,184	140,221

7 NET FEE AND COMMISSION INCOME (continued)

	2011 LL million	2010 LL million
Fee and commission expense		
Commissions paid on financial instruments	**(3,465)**	(4,826)
Other fees	**(9,924)**	(9,737)
	(13,389)	(14,563)
Net fee and commission income	**144,795**	125,658

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

	2011 LL million	2010 LL million
Interest and similar income from debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**13,642**	-
- Bonds and financial assets with fixed income	**709**	-
- Certificates of deposit	**1,876**	-
	16,227	-
Gain from sale of debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**2,685**	-
- Bonds and financial assets with fixed income	**1,093**	-
- Certificates of deposit	**2,510**	-
	6,288	-
Unrealized gain (loss) from revaluation of debt instruments and other financial assets at fair value through profit or loss:		
- Lebanese treasury bills and other governmental bills	**178**	-
- Bonds and financial assets with fixed income	**(1,548)**	-
- Certificates of deposit	**(177)**	-
	(1,547)	-
Net gain from debt instruments and other financial assets at fair value through profit or loss	**20,968**	-
Net loss from equity instruments at fair value through profit or loss:		
- Loss from sale	**(401)**	-
- Unrealized loss from revaluation	**(4,792)**	-
- Dividend income	**1,014**	-
	(4,179)	-
Foreign exchange	**44,812**	-
	61,601	-

9 NET TRADING INCOME

	2011	*2010*
	LL million	*LL million*
Treasury bills and other governmental bills	-	(551)
Bonds and financial assets with fixed income	-	1,110
Shares, securities and financial assets with variable income	-	(185)
Dividend income	-	957
Foreign exchange	-	20,827
	-	22,158

"Treasury bills, other governmental bills, bonds and financial assets with fixed income" net income (loss) includes the results of buying and selling and changes in the fair values of debt securities.

"Shares, securities and financial assets with variable income" net income (loss) includes the results of buying and selling and changes in the fair values of equity securities.

"Foreign exchange" net income (loss) includes gains and losses from spot and forward contracts, foreign exchange operations, and other currency derivatives.

10 NET GAIN ON FINANCIAL ASSETS

	2011	*2010*
	LL million	*LL million*
Equity instruments at fair value through other comprehensive income:		
- Dividend income from equity instruments held at year end	**4,200**	-
Financial assets – loans and receivable:		
- Sale of certificates of deposit	-	2,183
- Sale of Lebanese treasury bills and other governmental bills	-	67,892
- Sale of bonds and financial assets with fixed income	-	427
Financial assets – available for sale:		
- Sale of Lebanese treasury bills and other governmental bills	-	25,076
- Dividend income from shares, securities and financial assets with variable income	-	4,030
- Gain on foreign exchange	-	1,357
	4,200	100,965

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

Sales of financial assets at amortized cost were made during 2011 due to the following reasons:

- Deterioration of the credit rating below the ceiling allowed in the Group's investment policy
- Liquidity gap and yield management
- Swap of certificates of deposit by BDL
- Currency risk management as a result of change in the currency base of deposits.

11 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST (continued)

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

	2011		
	Gains	***Losses***	***Net***
	LL million	***LL million***	***LL million***
Lebanese sovereign and Central Bank of Lebanon:			
- Certificates of deposit	**33,130**	**(488)**	**32,642**
- Treasury bills and bonds	**31,248**	**-**	**31,248**
	64,378	**(488)**	**63,890**
Other sovereign:			
- Treasury bills and bonds	**-**	**(1,440)**	**(1,440)**
	-	**(1,440)**	**(1,440)**
Private sector:			
- Other debt instruments – Corporate institutions	**1,715**	**-**	**1,715**
	1,715	**-**	**1,715**
	66,093	**(1,928)**	**64,165**

12 OTHER OPERATING INCOME

	2011	*2010*
	LL million	*LL million*
Net gain from sale of assets taken in settlement of debt	**3,877**	3,914
Rental income from assets taken in settlement of debt	**1,028**	1,046
Net gain from sale or disposal of property and equipment	**-**	900
Write back of provisions for risks and charges (note 43)	**2,124**	-
Others	**6,162**	2,258
	13,191	8,118

13 CREDIT LOSS EXPENSE

	2011	*2010*
	LL million	*LL million*
Provisions for commercial loans (note 27)	**47,826**	26,192
Provisions for consumer loans (note 27)	**9,017**	14,083
Provisions for doubtful banks (note 20)	**-**	5,682
Bad debts written off	**145**	269
	56,988	46,226
Write back of provisions:		
Commercial loans (note 27)	**(5,517)**	(14,368)
Consumer loans (note 27)	**(2,108)**	(1,633)
Doubtful banks (note 20)	**(6,593)**	(953)
	(14,218)	(16,954)
Net credit loss expense	**42,770**	29,272

14 IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

	2011 *LL million*	*2010* *LL million*
Debt instruments at amortized cost (note 29):		
- Other governmental bills	**18,166**	-
- Bonds and financial assets with fixed income	**5,409**	-
Financial investments – available-for-sale:		
- Other governmental bills	-	940
Financial investments – loans and receivables (note 32):		
- Bonds and financial assets with fixed income	-	2,212
- Other governmental bills	-	6,898
Write back of provisions:		
Financial instruments – held to maturity (note 33):		
-Bonds and financial assets with fixed income	-	(1,187)
	23,575	8,863

15 PERSONNEL EXPENSES

	2011 *LL million*	*2010* *LL million*
Salaries and related charges	**136,694**	125,622
Social security contributions	**17,015**	15,474
Provision for end of service benefits (note 43)	**7,577**	4,456
	161,286	145,552

16 ADMINISTRATIVE AND OTHER OPERATING EXPENSES

	2011 *LL million*	*2010* *LL million*
Taxes on interest	**3,143**	2,405
Taxes and duties	**9,421**	10,848
Contribution to deposits guarantee fund	**8,531**	7,520
Rent and related charges	**7,722**	7,662
Professional fees	**6,611**	8,008
Telecommunications and postage expenses	**9,154**	9,585
Board of Directors' attendance fees	**983**	1,182
Maintenance and repairs	**11,746**	12,498
Electricity and fuel	**6,694**	5,148
Travel and entertainment	**4,256**	5,451
Publicity and advertising	**9,998**	9,727
Subscriptions	**3,159**	3,526
Bonuses	**6,260**	23,731
Legal expenses	**4,307**	3,658
Insurance	**1,632**	3,137
Guarding fees	**2,089**	2,118
Printing and stationery	**4,976**	5,043
Provisions for risks and charges	**4,523**	4,974
Other operating expenses	**10,931**	8,639
	116,136	134,860

17 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2011 and 2010 are as follows:

	2011 ***LL million***	*2010* *LL million*
Current income tax expense reported in the consolidated income statement	**65,987**	66,670

The reconciliation of the Group's income tax for the years ended 31 December 2011 and 2010 is as follows:

	2011 ***LL million***	*2010* *LL million*
Net profit before income tax	**336,924**	327,205
Non-deductible expenses	**82,330**	69,178
Non-taxable revenue	**(53,403)**	(24,490)
Taxable income	**365,851**	371,893
Effective income tax rate	**18%**	18%
Income tax reported in the consolidated income statement	**65,987**	66,670
Less: taxes on interest	**(29,284)**	(28,786)
Less: tax advances	**(5,946)**	(4,068)
Net taxes due	**30,757**	33,816
Current tax liability (note 42)	**32,176**	32,516

18 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 shares (common and priority) outstanding during the year.

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

The following table shows the calculations of the basic earnings per share:

	2011	*2010*
Weighted average number of shares outstanding during the period:		
- Common shares (*)	**561,806,168**	288,838,287
- Priority shares	-	205,982,021

18 EARNINGS PER SHARE (continued)

	2011 *LL million*	*2010* *LL million*
Net profit for the year attributable to equity holders of the parent	**259,894**	255,770
(Less): Proposed dividends to preferred shares	**(48,320)**	(48,064)
Net profit attributable to common and priority shareholders	**211,574**	207,706
(Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year: 0 share (2010: 205,982,021 shares)	**-**	(9,970)
Net profits attributable to common and priority shareholders	**211,574**	197,736
Of which:		
Net profits attributable to priority shares: 0 share (2010: 205,982,021 shares)	**-**	82,313
Net profits attributable to common shares: 561,806,168 shares (2010: 288,838,287 shares)	**211,574**	115,423
	211,574	197,736
Basic earnings per share in LL:		
- Common shares	**376.60**	399.61
- Priority shares	**-**	448.01

(*) 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 49).

Diluted earnings per share
The following table shows the calculations of the diluted earnings per share for the years ended 31 December 2011 and 2010 for common and priority shares:

	2011	*2010*
Weighted average number of common shares for basic earnings per share	**556,286,168**	288,838,287
Effect of dilution:		
Convertible subordinated notes	**80,652,681**	80,652,681
Other equity instruments (note 48)	**5,520,000**	2,601,205
Weighted average number of common shares adjusted for the effect of dilution	**642,458,849**	372,092,173

18 EARNINGS PER SHARE (continued)

	2011 *LL million*	*2010* *LL million*
Net profit attributable to ordinary shares (common and priority) of the parent	**211,574**	207,706
Interest on convertible notes	**20,852**	22,251
Less: income tax	**(3,128)**	(3,338)
Net profit attributable to ordinary shares (common and priority) of the parent adjusted for the effect of convertible instruments	**229,298**	226,619
(Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year: 0 shares (2010: 205,982,021 shares)	**-**	(9,970)
Net profits attributable to shares (common and priority) after the interest paid to priority shares	**229,298**	216,649
Of which:		
Net profits attributable to priority shares: 0 shares (2010: 205,982,021 shares)	**-**	77,198
Net profits attributable to common shares: 642,458,849 shares (2010: 372,092,173 shares)	**229,298**	139,451
Diluted earnings per common share in LL:		
- Common shares	**356.91**	374.78
- Priority shares	**-**	423.18

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these financial statements.

19 CASH AND BALANCES WITH CENTRAL BANKS

	2011 *LL million*	*2010* *LL million*
Cash on hand	**211,526**	151,145
Balances with the Central Bank of Lebanon:		
- Current accounts	**742,586**	739,580
- Time deposits	**2,866,983**	1,389,915
	3,609,569	2,129,495
Balances with Central Banks in other countries:		
- Current accounts	**423,362**	445,593
- Time deposits	**12,110**	20,774
	435,472	466,367
Accrued interest receivable	**25,901**	1,635
	4,282,468	2,748,642

19 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 Lira. This is not applicable for investment banks which are exempt from obligatory reserve requirements on commitments denominated in Lebanese Lira. 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 LL 2,141,893 million and LL 2,256,625 million respectively as at 31 December 2011 (2010: LL 1,901,934 million and LL 2,109,788 million respectively).

- Subsidiary banks 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 2011, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 134,708 million (2010: LL 175,551 million).

20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2011	*2010*
	LL million	*LL million*
Commercial banks:		
- Current accounts	**849,338**	273,324
- Time deposits	**3,467,481**	3,583,500
- Interest receivable	**2,860**	6,343
- Doubtful bank accounts	**4,097**	10,727
- Provision for doubtful bank accounts	**(4,097)**	(10,727)
	4,319,679	3,863,167
Financial institutions:		
- Current accounts	**5,908**	30,958
Registered exchange companies:		
- Current accounts	**3,254**	3,481
- Doubtful exchange companies accounts	**2,259**	2,259
- Provision for doubtful exchange companies accounts	**(2,259)**	(2,259)
	3,254	3,481
Brokerage companies:		
- Current accounts	**2,001**	1,405
	4,330,842	3,899,011

20 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

Doubtful banks and registered exchange companies

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

	2011			2010		
	Banks LL million	***Registered exchange companies LL million***	***Total LL million***	*Banks LL million*	*Registered exchange companies LL million*	*Total LL million*
Balance at 1 January	**10,727**	**2,259**	**12,986**	6,183	2,259	8,442
Charge for the year (note 13)	**-**	**-**	**-**	5,682	-	5,682
Write-back (note 13)	**(6,593)**	**-**	**(6,593)**	(953)	-	(953)
Exchange difference	**(37)**	**-**	**(37)**	(185)	-	(185)
Balance at 31 December	**4,097**	**2,259**	**6,356**	10,727	2,259	12,986

21 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

	2011 LL million	*2010 LL million*
Loans to banks and financial institutions	**488,714**	-
Accrued interest receivable	**2,820**	-
	491,534	-
Discounted acceptances	**174,231**	-
Interest received in advance	**(1,423)**	-
	172,808	-
Reverse repurchase agreements	**3,141**	-
Accrued interest receivable	**5**	-
	3,146	-
	667,488	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified loans to banks and financial institutions and discounted acceptances amounting to LL 629,997 million from the category "loans and receivables" (note 32) to the category "at amortized cost".

22 FINANCIAL ASSETS GIVEN AS COLLATERAL

	2011 LL million	2010 LL million
Treasury bills mortgaged in favor of the Central Bank of Lebanon, at amortized cost	**8,814**	8,814
Accrued interest receivable	**106**	104
	8,920	8,918

The balance represents treasury bills pledged as collateral for loans obtained from the Central Bank of Lebanon during 2010 (note 38).

23 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 value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favourable to the Group.

	2011			2010		
	Assets LL million	Liabilities LL million	Notional amount LL million	Assets LL million	Liabilities LL million	Notional amount LL million
Currency swaps	**891**	**2,201**	**190,831**	129	2,441	117,520
Forward foreign exchange contracts	**4,465**	**5,146**	**313,357**	1,333	1,909	165,010
	5,356	**7,347**	**504,188**	1,462	4,350	282,530

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 customised 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.

24 FINANCIAL ASSETS HELD FOR TRADING

	2011 *LL million*	*2010* *LL million*
Lebanese treasury bills and other governmental bills	-	142,007
Bonds and financial assets with fixed income	-	33,929
Shares, securities and financial assets with variable income	-	26,447
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	-	3,278
- Bonds and financial assets with fixed income	-	279
	-	205,940

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets held for trading as follows:

	At fair value through profit or loss *LL million*	*At amortized cost* *LL million*	*Impact on the opening balance of retained earnings* *LL million*
Lebanese treasury bills and other governmental bills	**127,743**	**17,399**	**(143)**
Shares, securities and financial assets with variable income	**26,447**	**-**	**-**
Bonds and financial assets with fixed income	**22,896**	**10,871**	**(441)**
	177,086	**28,270**	**(584)**

25 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2011 *LL million*	*2010* *LL million*
Quoted shares	**26,383**	-
Unquoted shares	**220**	-
	26,603	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified shares and other equity instruments held for trading and shares and other equity instruments available-for-sale amounting to LL 26,447 million (note 24) and LL 3,636 million (note 31) respectively to the category “at fair value through profit or loss”.

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

	2011	*2010*
	LL million	*LL million*
Lebanese treasury bills and other governmental bills	**195,146**	-
Bonds and financial assets with fixed income	**19,637**	-
Certificates of deposit	**10,916**	-
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	**2,438**	-
- Bonds and financial assets with fixed income	**307**	-
- Certificates of deposit	**162**	-
	228,606	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified debt instruments and other financial assets classified held for trading and classified loans and receivables amounting to LL 150,639 million (note 24) and LL 72,608 million (note 32) respectively to the category "at fair value through profit or loss".

27 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2011	*2010*
	LL million	*LL million*
Commercial loans	**4,555,085**	4,432,715
Consumer loans	**1,730,362**	1,446,786
	6,285,447	5,879,501
Less:		
- Impairment allowances	**(193,934)**	(146,534)
- Unrealized interest	**(62,599)**	(59,667)
	6,028,914	5,673,300

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

The loans and advances to customers are classified in accordance with the Central Bank of Lebanon main circular No. 58 as follows:

	2011				*2010*			
	Gross balance LL million	***Unrealized interest LL million***	***Provisions LL million***	***Net balance LL million***	*Gross balance LL million*	*Unrealized interest LL million*	*Provisions LL million*	*Net balance LL million*
- Good loans	**5,807,473**	**-**	**-**	**5,807,473**	5,629,692	-	-	5,629,692
- Watch loans	**346,205**	**-**	**-**	**346,205**	190,380	-	-	190,380
	6,153,678	**-**	**-**	**6,153,678**	5,820,072	-	-	5,820,072
- Substandard loans	**10,214**	**(1,400)**	**-**	**8,814**	2,317	(677)	-	1,640
- Doubtful loans	**72,525**	**(2,169)**	**(29,595)**	**40,761**	35,856	(8,296)	(11,300)	16,260
- Bad loans	**119,641**	**(59,030)**	**(60,611)**	**-**	106,412	(50,694)	(55,718)	-
	6,356,058	**(62,599)**	**(90,206)**	**6,203,253**	5,964,657	(59,667)	(67,018)	5,837,972
Less:								
- Collective provisions	**-**	**-**	**(103,728)**	**(103,728)**	-	-	(79,516)	(79,516)
Accrued interest receivable	**22,234**	**-**	**-**	**22,234**	21,710	-	-	21,710
Less: Interest received in advance	**(92,845)**	**-**	**-**	**(92,845)**	(106,866)	-	-	(106,866)
	6,285,447	**(62,599)**	**(193,934)**	**6,028,914**	5,879,501	(59,667)	(146,534)	5,673,300

In accordance with the 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 LL 91,644 million as of 31 December 2011 (2010: LL 98,700 million).

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

Movement of unrealized interest on substandard, doubtful, and bad loans during the years ended 31 December was as follows:

	2011		
	Commercial loans LL million	***Consumer loans LL million***	***Total LL million***
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	**(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**

	2010		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	63,598	242	63,840
Add (less):			
- Unrealized interest for the year	10,475	103	10,578
- Amounts transferred from off financial position	3,128	-	3,128
- Recoveries	(10,177)	-	(10,177)
- Amounts written off	(7,657)	-	(7,657)
- Difference of exchange	(38)	(7)	(45)
Balance at 31 December	59,329	338	59,667

Movement of the impairment allowances during the years ended 31 December was as follows:

	2011		
	Commercial loans LL million	***Consumer loans LL million***	***Total LL million***
Balance at 1 January	**109,513**	**37,021**	**146,534**
Add (less):			
- Charge for the year (note 13)	**47,826**	**9,017**	**56,843**
- Amounts written off	**(990)**	**(295)**	**(1,285)**
- Recoveries (note 13)	**(5,517)**	**(2,108)**	**(7,625)**
- Transfer from off financial position	**637**	**812**	**1,449**
- Transfer from commercial to consumer	**(5,547)**	**5,547**	**-**
- Difference of exchange	**(1,807)**	**(175)**	**(1,982)**
Balance at 31 December	**144,115**	**49,819**	**193,934**
Individual impairment	**68,542**	**21,664**	**90,206**
Collective impairment	**75,573**	**28,155**	**103,728**
	144,115	**49,819**	**193,934**
Gross amount of loans individually determined to be impaired	**174,568**	**27,812**	**202,380**

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

	2010		
	Commercial loans LL million	*Consumer loans LL million*	*Total LL million*
Balance at 1 January	97,262	24,855	122,117
Add (less):			
- Charge for the year (note 13)	26,192	14,083	40,275
- Amounts written off	(447)	(728)	(1,175)
- Recoveries (note 13)	(14,368)	(1,633)	(16,001)
- Transfer from off financial position	6,607	-	6,607
- Difference of exchange	(5,733)	444	(5,289)
Balance at 31 December	109,513	37,021	146,534
Individual impairment	51,922	15,096	67,018
Collective impairment	57,591	21,925	79,516
	109,513	37,021	146,534
Gross amount of loans individually determined to be impaired	124,255	20,330	144,585

Collateral repossessed
During the year 2011, the Group took possession of collateral amounting to LL 829 million (2010: LL 5,389 million).

28 BANK ACCEPTANCES

	2011 LL million	*2010 LL million*
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances confirmed by the Group without recourse to the beneficiary	**2,983**	7,959
- Other acceptances	**328,838**	283,875
	331,821	291,834

Customers' acceptances represent 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.

29 DEBT INSTRUMENTS AT AMORTIZED COST

	2011 *LL million*	*2010* *LL million*
Lebanese treasury bills and other governmental bills	**3,401,137**	-
Bonds and financial assets with fixed income	**675,105**	-
Certificates of deposit	**4,415,691**	-
Accrued interest receivable on:		
- Lebanese treasury bills and other governmental bills	**62,786**	-
- Bonds and financial assets with fixed income	**10,265**	-
- Certificates of deposit	**84,353**	-
	8,649,337	-
Less: collective provision for impairment losses	**(25,015)**	-
specific provision for impairment losses	**(17,021)**	-
	8,607,301	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified the following debt instruments to the category "debt instruments at amortized cost":

	Gross amount ***LL million***	***Provision*** ***LL million***	***Net amount*** ***LL million***
Financial assets held for trading (note 24)	**31,283**	**(3,013)**	**28,270**
Available-for-sale financial instruments (note 31)	**1,728,447**	**-**	**1,728,447**
Other financial assets classified as loans and receivables (note 32)	**6,821,662**	**(12,959)**	**6,808,703**
Held to maturity financial instruments (note 33)	**432,420**	**(3,722)**	**428,698**
	9,013,812	**(19,694)**	**8,994,118**

The movement in the collective provision for impairment losses during the period was as follows:

	2011		
	Other governmental bills ***LL million***	***Bonds and financial assets with fixed income*** ***LL million***	***Total*** ***LL million***
Balance at 1 January	**-**	**-**	**-**
Provision transferred upon early adoption of IFRS 9:			
From other financial assets classified as loans and receivables	**10,747**	**2,212**	**12,959**
From held to maturity financial instruments	**230**	**3,492**	**3,722**
Provision transferred to specific provision for impairment losses	**(7,177)**	**-**	**(7,177)**
Charge for the year (note 14)	**11,132**	**5,409**	**16,541**
Exchange difference	**(696)**	**(334)**	**(1,030)**
Balance at 31 December	**14,236**	**10,779**	**25,015**

29 DEBT INSTRUMENTS AT AMORTIZED COST (continued)

The movement in the specific provision for impairment losses during the period was as follows:

	2011 Other governmental bills LL million
Balance at 1 January	-
Provision transferred upon early adoption of IFRS 9:	
From financial assets held for trading	3,013
Provision transferred from collective provision for impairment losses	7,177
Charge for the year (note 14)	7,034
Exchange difference	(203)
Balance at 31 December	17,021
Gross amount of other governmental bills individually determined to be impaired	23,861

30 EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2011 LL million	*2010 LL million*
Quoted shares	39,927	-
Unquoted shares	37,040	-
	76,967	-

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified equity instruments classified as available-for-sale amounting to LL 80,687 million (note 31) to the category "at fair value through other comprehensive income".

The table below details the equity instruments at fair value through other comprehensive income as at 31 December 2011:

	Carrying amount LL million	*Cumulative fair value changes LL million*	*Dividend income LL million*
Unquoted shares:			
Banque de l'Habitat SAL	18,979	13,790	454
Intra Investment Company SAL	14,979	1,954	1,166
Interbank Payment Network (IPN) SAL	1,206	203	104
Arab Trade Financing Program	1,492	-	-
Others	384	-	44
Quoted shares:			
Jordan Ahli Bank	39,927	(35,361)	2,432
	76,967	(19,414)	4,200

31 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

	2011 LL million	2010 LL million
Lebanese treasury bills and other governmental bills	-	1,433,865
Bonds and financial assets with fixed income	-	316,422
Shares, securities and financial assets with variable income	-	84,324
Accrued interest receivable	-	41,200
	-	1,875,811

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets available-for-sale as follows:

	At fair value through other comprehensive income LL million	At amortized cost LL million	At fair value through profit or loss LL million	Impact on the opening balance of change in fair value of financial instruments through other comprehensive income LL million	Impact on the opening balance of deferred taxes LL million	Impact on the opening balance of retained earnings LL million
Lebanese treasury bills and other governmental bills	-	1,414,471	-	(56,491)	8,075	-
Shares, securities and financial assets with variable income	80,687	-	3,636	(37,127)	(192)	37,127
Bonds and financial assets with fixed income	-	313,976	-	(6,550)	995	-
	80,687	1,728,447	3,636	(100,168)	8,878	37,127

32 OTHER FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

	2011 LL million	2010 LL million
Certificates of deposit	-	4,389,114
Lebanese treasury bills and other governmental bills	-	2,203,391
Bonds and financial assets with fixed income	-	155,342
Loans to banks and financial institutions	-	369,694
Discounted acceptances	-	262,466
Interest received in advance	-	(3,614)
Accrued interest receivable	-	127,422
	-	7,503,815
Less: allowance for impairment losses	-	(12,959)
	-	7,490,856

32 OTHER FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES (continued)

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets classified as loans and receivables as follows:

	At fair value through profit or loss LL million	*At amortized cost LL million*	*Impact on the opening balance of change in fair value of financial instruments through other comprehensive income LL million*	*Impact on the opening balance of retained earnings LL million*
Loans to banks and financial institutions	-	**371,144**	-	-
Discounted acceptances	-	**258,853**	-	-
Lebanese treasury bills and other governmental bills	**72,608**	**2,191,542**	**19,025**	**1,534**
Certificates of deposit	-	**4,471,044**	**(107)**	-
Bonds and financial assets with fixed income	-	**159,076**	-	-
Collective provision	-	**(12,959)**	-	-
	72,608	**7,438,700**	**18,918**	**1,534**

The impact on the opening balance of the change in fair value of financial instruments through other comprehensive income resulted from unrealized losses relating to financial assets that were reclassified during 2008 from "available-for-sale" to "loans and receivables" in accordance with the amendments that occurred at the time on IAS 39 and IFRS 7.

The movement in the allowance for impairment losses during the year ended 31 December 2010 was as follows:

	2010		
	Other governmental bills LL million	*Bonds and financial assets with fixed income LL million*	*Total LL million*
Balance at 1 January	3,849	-	3,849
Charge for the year (note 14)	6,898	2,212	9,110
Balance at 31 December	10,747	2,212	12,959

33 HELD TO MATURITY FINANCIAL INSTRUMENTS

	2011 LL million	2010 LL million
Lebanese treasury bills and other governmental bills	-	376,975
Bonds and financial assets with fixed income	-	42,790
Accrued interest receivable	-	12,655
	-	432,420
Less: allowance for impairment losses	-	(3,722)
	-	428,698

As a result of the early adoption of IFRS 9 on 1 January 2011, the Group reclassified financial assets classified as held to maturity to the category "at amortized cost" (note 29). This reclassification did not have any impact on the Group's financial position as at 1 January 2011.

The movement of the allowance for impairment losses during the year ended 31 December 2010 was as follows:

	2010		
	Other governmental bills LL million	Bonds and financial assets with fixed income LL million	Total LL million
Balance at 1 January	230	4,679	4,909
Written back during the year (note 14)	-	(1,187)	(1,187)
Balance at 31 December	230	3,492	3,722

34 PROPERTY AND EQUIPMENT

	Buildings LL million	Motor vehicles LL million	Furniture and equipment LL million	Deposits LL million	Advance payments LL million	Total LL million
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

34 PROPERTY AND EQUIPMENT (continued)

	Buildings *LL million*	*Motor vehicles* *LL million*	*Furniture and equipment* *LL million*	*Deposits* *LL million*	*Advance payments* *LL million*	*Total* *LL million*
Cost:						
At 1 January 2010	232,009	3,465	150,338	1,453	12,781	400,046
Additions during the year	20,250	535	22,857	106	17,494	61,242
Addition through acquisition of a bank	-	73	1,177	-	-	1,250
Transfers	1,720	-	1,916	-	(3,636)	-
Disposal of fixed assets	(3,272)	(83)	(1,719)	-	(43)	(5,117)
Foreign exchange difference	(11,511)	(181)	(1,342)	(14)	(2,015)	(15,063)
At 31 December 2010	239,196	3,809	173,227	1,545	24,581	442,358
Depreciation:						
At 1 January 2010	34,425	1,905	96,978	-	-	133,308
Depreciation during the year	6,460	694	22,849	-	-	30,003
Impairment of fixed assets	1,011	-	-	-	-	1,011
Related to disposals of fixed assets	(166)	(51)	(1,578)	-	-	(1,795)
Foreign exchange difference	(1,213)	(79)	(180)	-	-	(1,472)
At 31 December 2010	40,517	2,469	118,069	-	-	161,055
Net carrying value:						
At 31 December 2010	198,679	1,340	55,158	1,545	24,581	281,303

The cost of buildings at 31 December 2011 and 2010 include the revaluation differences of properties valued during prior years in accordance with law 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 LL 5,689 million as at 31 December 2011 (2010: the same) (note 50).

35 INTANGIBLE ASSETS

	2011 ***LL million***	*2010* *LL million*
Cost:		
At 1 January	**2,054**	1,637
Additions for the year	**249**	417
At 31 December	**2,303**	2,054
Accumulated amortization:		
At 1 January	**1,015**	903
Amortization expense for the year	**159**	112
At 31 December	**1,174**	1,015
Net book value:		
At 31 December	**1,129**	1,039

36 ASSETS TAKEN IN SETTEMENT OF DEBT

	2011	*2010*
	LL million	*LL million*
Cost		
At 1 January	**44,251**	43,726
Additions during the year	**829**	5,389
Disposal	**(4,469)**	(4,864)
At 31 December	**40,611**	44,251
Impairment		
At 1 January	**(5,159)**	(5,159)
At 31 December	**(5,159)**	(5,159)
Net carrying value		
At 31 December	**35,452**	39,092

Advance payments received in connection with future sale transactions for the above assets amounted to LL 1,428 million as of 31 December 2011 (2010: LL 1,312 million) (note 42).

Rental income from foreclosed properties for the year amounted to LL 1,028 million (2010: LL 1,046 million).

37 OTHER ASSETS

		2011	*2010*
		LL million	*LL million*
Obligatory financial assets	a	**20,091**	14,718
Other assets	b	**59,822**	74,793
Deferred tax assets		**1,061**	-
Doubtful debtor accounts		**37**	72
		81,011	89,583
Less: Allowance for credit losses	c	**(37)**	(37)
		80,974	89,546

a) Obligatory financial assets consist of deposits at a percentage of the share capital of subsidiary banks that was 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.

b) Other assets comprise of the following:

	2011	*2010*
	LL million	*LL million*
Prepaid rent	**3,768**	5,664
Printings and stationery	**3,213**	2,990
Credit card balances due from customers	**11,248**	9,501
Insurance premiums receivable	**2,945**	5,248
Reinsurers' share of technical reserve of subsidiary insurance companies	**19,974**	16,624
ATM balances	**397**	23,209
Advance payment on participating in capital increase of equity instruments at fair value through other comprehensive income	**5,187**	-
Other debit balances	**13,090**	11,557
	59,822	74,793

38 DUE TO CENTRAL BANKS

	2011 *LL million*	*2010* *LL million*
Current accounts	**5,925**	9,570
Loan due to the Central Bank of Lebanon	**8,814**	8,814
Loan due to the Central Bank of Armenia	**887**	1,061
Accrued interest payable	**44**	47
	9,745	9,922
	15,670	19,492

During the year ended 31 December 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war as follows:

	Amount ***LL million***	***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%	23 April 2016
	8,814		

The above loans are secured by the pledge of Lebanese treasury bills amounting to LL 8,814 million included under financial assets given as collateral as of 31 December 2011 (2010: the same) (note 22).

39 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2011 ***LL million***	*2010* *LL million*
Commercial banks:		
- Current accounts	**312,650**	212,149
- Time deposits	**574,196**	708,139
- Term loans	**246,291**	266,930
- Cash margins	**232,659**	101,355
- Accrued interest payable	**7,186**	8,415
	1,372,982	1,296,988
Financial institutions:		
- Current accounts	**1,999**	2,640
- Term loans	**221,245**	201,238
- Time deposits	**29,019**	6,560
- Accrued interest payable	**2,669**	2,122
	254,932	212,560
Registered exchange companies:		
- Current accounts	**160**	813
- Time deposits	**2,223**	2,424
	2,383	3,237
Brokerage institutions:		
- Current accounts	**3,875**	-
- Time deposits	**1,308**	
	5,183	-
Total	**1,635,480**	1,512,785

40 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2011 *LL million*	*2010* *LL million*
Current accounts	**3,196,618**	3,082,780
Term deposits	**15,002,062**	13,856,849
Cash margins	**888,878**	845,463
Accrued interest payable	**86,859**	82,538
	19,174,417	17,867,630

Customers' deposits include coded deposit accounts amounting to LL 52,216 million as of 31 December 2011 (2010: LL 42,496 million).

41 DEBT ISSUED AND OTHER BORROWED FUNDS

	Nominal value US$ (000)	*Maturity*	*Interest rate %*	*2011 LL million*	*2010 LL million*
Certificates of deposit					
Issue 2009 – First Series	**101,150**	**31/03/2012**	**6.50**	**152,484**	152,484
Issue 2009 – Second Series	**40,450**	**31/03/2014**	**7.25**	**60,978**	60,978
Accrued interest payable				**39**	39
				213,501	213,501
Bonds (*)					
Issue 2011	**297,310**	**24/06/2021**	**7.00**	**448,174**	-
Accrued interest payable				**615**	-
				448,789	-
				662,290	213,501
Interest and similar expense:					
- Certificates of deposit				**14,332**	14,329
- Equity linked notes				-	2,483
- Bonds				**16,307**	-
				30,639	16,812

(*) The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or Democratic Republic of 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 of 10%.

42 OTHER LIABILITIES

	2011 LL million	2010 LL million
Accrued expenses	**28,823**	41,961
Fixed assets suppliers	**10,211**	10,032
Unearned commission and interest	**2,010**	2,847
Cash margins related to companies under establishment	**10,104**	2,709
Insurance premiums received in advance	**2,178**	2,170
Partial payments received from customers	**4,512**	5,395
Payables to the National Social Security Fund	**1,692**	1,636
Advance payments linked to assets taken in settlement of debt (note 36)	**1,428**	1,312
Current tax liability (a)	**47,669**	44,526
Deferred tax liability (b)	**2,229**	11,445
Other creditors	**15,411**	21,724
	126,267	145,757

(a) Current tax liability

	2011 LL million	2010 LL million
Income tax due (note 17)	**32,176**	32,516
Withholding tax on salaries	**2,237**	2,632
Withholding tax on interest earned by customers	**7,322**	5,274
Value added tax	**87**	145
Withholding tax on dividends	**2,207**	6
Other taxes	**3,640**	3,953
	47,669	44,526

(b) Deferred tax liability

	2011 LL million	2010 LL million
At 1 January	**11,445**	15,485
Effect of IFRS 9 early adoption	**(8,878)**	-
Deferred tax on financial instruments at fair value through other comprehensive income	**(318)**	(4,225)
Translation differences	**(20)**	185
At 31 December	**2,229**	11,445

43 PROVISIONS FOR RISKS AND CHARGES

	2011 LL million	2010 LL million
Technical reserves of insurance company	**78,693**	75,253
Provision for employees' end of service benefits (a)	**37,133**	30,922
Other provisions (b)	**14,163**	13,730
	129,989	119,905

43 PROVISIONS FOR RISKS AND CHARGES (continued)

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

	2011 LL million	2010 LL million
Balance at 1 January	**30,922**	28,276
Provision constituted during the year (note 15)	**7,577**	4,456
End of service benefits paid during the year	**(1,366)**	(1,810)
Balance at 31 December	**37,133**	30,922

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

	2011 LL million	2010 LL million
At 1 January	**13,730**	6,383
Charge for the year	**6,187**	7,864
Write back during the year (note 12)	**(2,124)**	-
Payments during the year	**(2,850)**	-
Foreign exchange	**(780)**	(517)
At 31 December	**14,163**	13,730

44 SUBORDINATED NOTES

		2011 LL million	2010 LL million
Convertible subordinated notes	a	**258,875**	254,976
Subordinated notes	b	**48,388**	48,348
		307,263	303,324

a) Convertible subordinated notes

On 20 November 2007, the Bank signed a US$ 200 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US$ 200 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	200
Note's issue price:	US$ 1,000,000
Note's nominal value:	US$ 1,000,000
Date of issue:	20 November 2007
Maturity:	30 November 2012, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US$ 2.25 per share.
Interest rate:	Contractual interest rate of 6.5% payable semi-annually.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's on any quarterly conversion date falling on 31 March, 30 June, 30 September or 31 December in any year during the term of the subordinated loan or on the loan maturity date at a conversion price of US$ 2.25 per share. The conversion price was reduced to US$ 2.145 in accordance with the terms of the subordinated loan agreement and following the capital increase of the Bank in 2009 and 2010.

44 SUBORDINATED NOTES (continued)

The convertible subordinated notes have been recorded at initial recognition on 20 November 2007 as follows:

	LL million	*US$ (000)*
Nominal value of convertible bonds	301,500	200,000
Equity component	(20,809)	(13,804)
Liability component	280,691	186,196

During 2008, convertible notes with a nominal value of US$ (000) 27,000 were converted to Byblos Bank SAL ordinary shares at a price of USD 2.25 per share and as such the nominal value of outstanding convertible notes amounts to US$ (000) 173,000 as of 31 December 2011 (2010: US$ (000) 173,000).

At 31 December, convertible subordinated notes were recorded as follows:

	2011		*2010*	
	LL million	***US$ (000)***	*LL million*	*US$ (000)*
Nominal value of the convertible notes	**260,798**	**173,000**	260,798	173,000
Equity component	**(18,040)**	**(11,967)**	(18,040)	(11,967)
Liability component	**242,758**	**161,033**	242,758	161,033
Add:				
- Accrued interest payable	**1,931**	**1,281**	1,931	1,281
- Amortization of discount	**14,186**	**9,411**	10,287	6,824
Amortized cost at 31 December	**258,875**	**171,725**	254,976	169,138

The equity component of the convertible subordinated notes is recorded in equity under "non-distributable reserves (legal and obligatory)" (note 46).

b) Subordinated notes

	2011		*2010*	
	LL million	***US$ (000)***	*LL million*	*US$ (000)*
31,169 notes at US$ 1,000 each maturing on 30 June 2012	**46,988**	**31,169**	46,988	31,169
Less: Issuing cost of US$ (000) 836 to be amortized till maturity	**(20)**	**(13)**	(60)	(40)
Amortized cost	**46,968**	**31,156**	46,928	31,129
Add: yield payable	**1,420**	**942**	1,420	942
	48,388	**32,098**	48,348	32,071

The notes pay an annual yield, not to exceed 15% of the annual amount, detailed as follows:

- an annual yield of 9% compounded and paid quarterly.
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and after deducting taxes.

The subordinated notes' original issue on 1 July 2002 was 100,000 notes at US$ 1,000 each. In accordance with the decision of the ordinary general assembly held on 20 April 2006, the Bank redeemed 68,831 subordinated notes on 7 June 2006 for a consideration of US Dollars 1,060 per note, i.e. with a premium of US Dollars 60 per note constituting 6% of the nominal value. The subordinated notes were listed on the Luxembourg Stock Exchange.

45 SHARE CAPITAL

	2011			2010		
	No of shares	*Share capital LL million*	*Share premium LL million*	*No of shares*	*Share capital LL million*	*Share premium LL million*
Ordinary shares						
- Common shares	**565,515,040**	**684,273**	**229,014**	359,491,317	434,984	229,014
- Priority shares	**-**	**-**	**-**	206,023,723	249,289	-
	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**	**288,704**	2,000,000	2,420	286,302
	4,000,000	**4,840**	**583,858**	4,000,000	4,840	581,456

The capital of the Bank is divided into 569,515,040 shares of LL 1,210 each fully paid (2010: 569,515,040 shares of LL 1,210 each).

Capital increase in 2010

The extraordinary general assembly convened on 19 February 2010 approved the increase in capital of LL 172,278 million from LL 516,835 million to LL 689,113 million by issuing 142,378,760 common shares with a par value of LL 1,210 each. The issue price was US$ 1.75 per share (LL 2,638.125) and accordingly total share premium amounted to US$ (000) 134,387 (equivalent to LL million 202,589).

Priority shares

On 10 December 2005, the Bank issued 206,023,723 priority shares which have the same rights and obligations as common shares, and benefit from an additional yearly distribution of 4% of the priority share's nominal value representing non-cumulative distribution of the non-consolidated net profits. Such right is established after dividends distribution to the preferred shares. The right of payment from profits is established over a period of 5 years starting from the year 2005, inclusive of the period from 10 December 2005 till 31 December 2005. At the end of the 5th year, priority shares are converted into common shares without any further resolution by the general assembly. Accordingly, the conversion of the priority shares into common shares became effective on the same date of the Annual General Assembly meeting of Shareholders held on 5 May 2011 to approve the accounts of the Bank for the financial year ended 31 December 2010.

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:	US$ 100
Share's nominal value:	LL 1,200
Issue premium :	US$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US$ as the difference between the total issue of US$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US$ (000) 2,618.
Benefits:	Non-cumulative annual dividends of US$ 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 LL 1,200 to LL 1,210

45 SHARE CAPITAL (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:	US$ 96
Share's nominal value:	LL 1,210
Issue premium :	US$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US$ as the difference between the total issue of US$(000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US$ (000) 2,082.
Benefits:	Non-cumulative annual dividends of US$ 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 US$ 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 2011, the Bank transferred LL 2,412 million from retained earnings to the share premium on Series-2009 preferred shares (2010: LL 2,421 million) for the difference between the redemption price and the issue price.

Listing of shares

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

	Stock exchange	*2011* No of shares	*2010* No of shares
Ordinary shares	Beirut	**500,804,990**	500,707,990
Global depository receipts(*)	London SEAQ and Beirut	**1,294,201**	1,296,141
Preferred shares	Beirut	**4,000,000**	4,000,000

(*) Global Depository Receipts (GDR's) can be issued at a ratio of 50 Common Shares per one GDR.

46 NON DISTRIBUTABLE RESERVES (LEGAL AND OBLIGATORY)

	Legal reserve LL million	*Reserves for capital increase LL million*	*Equity component of convertible subordinated notes LL million*	*Reserve for general banking risks LL million*	*Other reserves LL million*	*Total LL million*
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 (note 49)	-	**280**	-	-	-	**280**
Balance at 31 December 2011	**172,250**	**45,716**	**18,040**	**138,609**	**94,457**	**469,072**
Balance at 1 January 2010	120,358	29,634	18,040	80,429	63,485	311,946
Appropriation from retained earnings	23,383	10,045	-	32,780	17,916	84,124
Net gain on sale of treasury shares (note 49)	-	456	-	-	-	456
Balance at 31 December 2010	143,741	40,135	18,040	113,209	81,401	396,526

46 NON DISTRIBUTABLE RESERVES (LEGAL AND OBLIGATORY) (continued)

Legal reserve
According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. This reserve cannot be distributed as dividends.

During 2011, the Group appropriated LL 28,509 million from 2010 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolutions (2010: LL 23,383 million).

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:

	2011 *LL million*	*2010* *LL million*
Reserve equivalent to realized profit on sale of assets acquired in settlement of debt, in accordance with BCC circular No 173	**17,508**	13,595
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	**9,737**	9,737
Reserve against assets acquired in settlement of debt in accordance with BDL Circular No 78 and BCC memo 10/2008	**8,346**	6,958
Others	**10,125**	9,845
	45,716	40,135

Reserve for general banking risks
According to the 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 ten (2007) and 2% at the end of year twenty (2017).

The appropriation in 2011 from the profits of the year 2010 amounted to LL 25,400 million (2010: LL 32,780 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 2011, the Group transferred an amount of LL 13,056 million from retained earnings to other reserves (2010: LL 17,916 million).

47 DISTRIBUTABLE FREE RESERVES

As of 31 December, distributable free reserves consist of the following:

	2011 *LL million*	*2010* *LL million*
General reserves	**73,705**	73,705
Other capital reserves	**5,422**	5,422
	79,127	79,127

General reserves
The Group appropriates general reserves from its retained earnings to strengthen its equity.

47 DISTRIBUTABLE FREE RESERVES (continued)

Other capital reserves

	2011 *LL million*	*2010* *LL million*
Premium on capital increase of Byblos Bank Armenia CJSC	**1,263**	1,263
Premium on capital increase of Byblos Bank Africa	**4,765**	4,765
	6,028	6,028
Less: translation difference	**(606)**	(606)
	5,422	5,422

48 OTHER EQUITY INSTRUMENTS

On 12 July 2010, Byblos Bank SAL issued 3- year notes ("3 Years Byblos Bank Note") for a total amount of US$ 9,936,000 (equivalent to LL 14,979 million) according to the following terms:

Number of notes:	46
Principal of one note:	US$ 216,000
Issuing price:	100%
Total issue:	US$ 9,936,000 (equivalent to LL 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 US$ 1.8 per share) or the principal amount of the note in addition to a bonus of 6%.

During 2011, the Group accounted for LL 450 million representing the 3% annual return on the notes (2010: LL 213 million). In addition, the Group accounted for a liability relating to 6% bonus on the principal of the notes in the amount of LL 300 million for the year ended 31 December 2011 (2010: LL 125 million). Dividends paid to the holders of the notes amounted to LL 1,049 million during 2011 (2010: nil).

49 TREASURY SHARES

Movement of treasury shares recognized in the statement of financial position for the years 2011 and 2010 was as follows:

Year ended 31 December 2011

	Common shares		*Priority shares*	
	No. of shares	*Amount LL million*	*No. of shares*	*Amount LL million*
At 1 January 2011	5,807,785	15,887	113,401	302
Acquisitions of treasury shares	3,009,276	8,080	9,186,412	25,501
Sales of treasury shares	(828,124)	(2,225)	(7,953,871)	(22,069)
Conversion of priority shares into common shares	1,345,942	3,734	(1,345,942)	(3,734)
At 31 December 2011	9,334,879	25,476	-	-
Total treasury shares in LL million				25,476

49 TREASURY SHARES (continued)

Year ended 31 December 2010

	Common shares		Priority shares	
	No. of shares	*Amount LL million*	*No. of shares*	*Amount LL million*
At 1 January 2010	141,846	271	60,072	(95)
Acquisitions of treasury shares	10,890,935	29,804	164,942	445
Sales of treasury shares	(5,224,996)	(14,330)	(111,613)	(309)
Adjustments	-	142	-	261
At 31 December 2010	5,807,785	15,887	113,401	302
Total treasury shares (common and priority) in LL million				16,189

As of 31 December 2011, treasury shares include an amount of 5,520,000 common shares (2010: the same) held against other equity instruments (note 48).

During 2011, the Group transferred dividends paid on treasury shares amounting to LL 630 million to retained earnings (2010: LL 141 million). In addition, the Group realised a net gain on disposal of treasury shares amounting to LL 280 million (2010: LL 456 million).

As of 31 December treasury shares include outstanding common shares as follows:

	2011 **No of shares**	*2010* No of shares
Ordinary shares	**8,707,829**	5,662,635
Global depository receipts	**12,541**	2,903

50 REVALUATION RESERVE OF REAL ESTATE

	2011 ***LL million***	*2010* *LL million*
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

51 CHANGE IN FAIR VALUE OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Movement of the change in fair value was as follows:

	2011 ***LL million***	*2010* *LL million*
At 1 January	**53,993**	66,026
Effect of IFRS 9 early adoption	**(72,065)**	-
Balance at 1 January after early adoption of IFRS 9	**(18,072)**	66,026
Realized during the year	-	(25,077)
Net changes in fair values during the year	**(3,718)**	2,998
Amortization of unrealized losses related to securities transferred to the loans and receivables portfolio	-	6,006
Net changes in deferred taxes	**1,379**	4,225
Difference on exchange	**(145)**	(185)
Balance at 31 December	**(20,556)**	53,993

52 CASH AND CASH EQUIVALENTS

	2011 LL million	2010 LL million
Cash and balances with central banks	**3,065,906**	2,032,058
Due from banks and financial institutions	**4,233,447**	3,579,099
	7,299,353	5,611,157
Less: Due to banks and financial institutions	**(1,143,305)**	(867,302)
Less: Due to central banks	**(5,930)**	(8,487)
Cash and cash equivalents at 31 December	**6,150,118**	4,735,368

53 RELATED PARTY TRANSACTIONS

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

	2011			2010		
	Major shareholders LL million	Other related parties LL million	Total LL million	Major shareholders LL million	Other related parties LL million	Total LL million
Net loans and advances	**10,796**	**2,610**	**13,406**	10,957	983	11,940
Deposits	**151,991**	**-**	**151,991**	112,396	-	112,396
Other credit balances	**215**	**-**	**215**	764	-	764
Interest income on loans and advances	**462**	**120**	**582**	488	82	570
Interest expense on deposits	**6,586**	**-**	**6,586**	8,386	-	8,386

Related parties are granted indirect facilities with an outstanding balance amounting to LL 1,358 million at year end (2010: LL 1,995 million).

Undrawn commitments to lend related parties amounted to LL 7,218 million at year end (2010: LL 7,057 million).

The above related party advances are guaranteed by cash collaterals amounting to LL million 8,687 at year end (2010: LL million 8,344).

Net loans and advances granted to senior management amounted to LL 3,197 million as of 31 December 2011 (2010: LL 2,027 million). The related interest income amounted to LL 143 million for the year ended 31 December 2011 (2010: LL 84 million). These advances are secured by cash collaterals amounting to LL 819 million at 31 December 2011 (2010: LL 991 million).

Compensation of the key management personnel of the Group

	2011			2010		
	Chairman & board members LL million	Senior management LL million	Total LL million	Chairman & board members LL million	Senior management LL million	Total LL million
Salaries and allowances	**3,480**	**6,959**	**10,439**	3,026	6,697	9,723
Bonuses	**8,042**	**2,949**	**10,991**	6,391	3,286	9,677
Attendance fees	**829**	**-**	**829**	787	-	787

54 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

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. Management believes that legal claims will not result in any financial loss to the Group based on information presently available.

Lease arrangements

Operating leases – Group as lessee
The Group has entered into commercial leases on premises. These leases have an average life of between five and ten 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:

	2011 ***LL million***	*2010* *LL million*
Within one year	**3,773**	3,009
After one year but not more than five years	**11,394**	11,922
More than five years	**18,929**	16,091
	34,096	31,022

Other contingencies
The Bank's books and records have been reviewed by 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 LL 1.2 billion, which were fully paid during 2012. In addition, the Bank's books and records for the years 2008 to 2011 inclusive have not been reviewed by the Department of Income Tax. The ultimate outcome of any potential review that may take place cannot be presently determined.

The subsidiaries' books and records are subject to review by the tax and social security authorities. The ultimate outcome of any review that might take place cannot be presently determined.

Contingent liabilities
During 2011, 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 2012.

55 FAIR VALUE OF FINANCIAL INSTRUMENTS

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:

	2011		
	Level 1 LL million	*Level 2 LL million*	*Total LL million*
FINANCIAL ASSETS			
Derivative financial instruments:			
Currency swaps	-	**891**	**891**
Forward foreign exchange contracts	-	**4,465**	**4,465**
	-	**5,356**	**5,356**
Equity instruments at fair value through profit or loss	**26,603**	-	**26,603**
Debt instruments and other financial assets at fair value through profit or loss:			
Lebanese treasury bills and other governmental bills	**141,874**	**55,710**	**197,584**
Certificates of deposit	-	**11,078**	**11,078**
Bonds and financial assets with fixed income	**19,944**	-	**19,944**
Equity instruments 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**

55 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

	2010			
	Level 1 *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
FINANCIAL ASSETS				
Derivative financial instruments:				
Currency swaps	-	129	-	129
Forward foreign exchange contracts	-	1,333	-	1,333
	-	1,462	-	1,462
Financial assets held for trading:				
Lebanese treasury bills and other governmental bills	137,274	8,011	-	145,285
Bonds and financial assets with fixed income	26,313	-	7,895	34,208
Shares, securities and financial assets with variable income	26,447	-	-	26,447
	190,034	8,011	7,895	205,940
Available for sale financial instruments:				
Lebanese treasury bills and other governmental bills	484,008	986,954	-	1,470,962
Bonds and financial assets with fixed income	250,721	69,804	-	320,525
Shares, securities and financial assets with variable income	50,371	33,953	-	84,324
	785,100	1,090,711	-	1,875,811
	975,134	1,100,184	7,895	2,083,213
FINANCIAL LIABILITIES				
Derivative financial instruments:				
Currency swaps	-	2,441	-	2,441
Forward foreign exchange contracts	-	1,909	-	1,909
	-	4,350	-	4,350

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 investments – at fair value through other comprehensive income

These assets are valued using models that use both observable and un–observable data. The non–observable 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.

55 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Financial instruments at fair value through profit or loss

Financial instruments at fair value through profit or loss valued using a valuation technique consists of certain debt securities and asset-backed securities. The Group values the securities using discounted cash flow valuation models which incorporate observable and un-observable 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.

Movement of level 3 financial instruments measured at fair value:

	Bonds and financial assets with fixed income	
	2011	*2010*
	LL million	*LL million*
Balance at 1 January	**7,895**	7,188
Gains and losses recorded in the consolidated income statement	**(395)**	707
Sales	**(7,500)**	-
Balance at 31 December	**-**	7,895

There were no transfers between levels during 2011 (2010: 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.

	2011		2010	
	Fair value	*Carrying value*	*Fair value*	*Carrying value*
	LL million	*LL million*	*LL million*	*LL million*
FINANCIAL ASSETS				
Cash and balances with central banks	**4,282,468**	**4,282,468**	2,748,642	2,748,642
Due from banks and financial institutions	**4,332,255**	**4,330,842**	3,902,884	3,899,011
Loans to banks and financial institutions and reverse repurchase agreement	**667,496**	**667,488**	-	-
Financial assets given as collateral	**9,100**	**8,920**	9,075	8,918
Net loans and advances to customers and related parties at amortized cost	**6,037,994**	**6,042,320**	5,720,953	5,685,240
Debt instruments at amortized cost	**8,981,685**	**8,607,301**	-	-
Other financial assets classified as loans and receivables	**-**	**-**	7,951,106	7,490,856
Held to maturity financial instruments	**-**	**-**	447,820	428,698
FINANCIAL LIABILITIES				
Due to central banks	**15,670**	**15,670**	19,492	19,492
Due to banks and financial institutions	**1,636,083**	**1,635,480**	1,513,981	1,512,785
Customers' and related parties' deposits at amortized cost	**19,392,562**	**19,326,408**	18,021,648	17,980,026
Debt issued and other borrowed funds	**665,879**	**662,290**	213,501	213,501
Subordinated notes	**313,940**	**307,263**	320,436	303,324

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 value 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 to their fair value. 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 amortised cost are estimated by comparing market interest rates when they were first recognised 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 recognised.

56 RISK MANAGEMENT

The Group Risk Management (GRM) Division was established as a function handling the measurement and management of the risks.
The Group's risk management process involves identification, measurement, 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;
- 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.

Risk Management- Basel Perspective
The Group risk management is broadly following the guidelines of the Basel II text to measure and assess the risks identified under the pillars I and II, 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 II 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 risks – the Group addresses 'Pillar I' risks.

As for addressing the capital management issue in the context of Basel II, the Group has developed in 2011 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.).

Group risk management structure
Risk management lies at the core of the Group's organization structure. It interfaces with all the different businesses within the Group, as well as all supporting functions. The Risk Management is structured in three layers:

Strategic or Supervisory level, which consists of an oversight by the Board of Directors through a Board Risk and Compliance Committee, and committees of the senior management. It includes defining the institution's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that aggregate risk remain within acceptable level and the rewards compensate for the risk taken.

Analytical level, which consists of the GRM Division, with the over-arching responsibility to translate the directions of the various risk committees into policies and procedures of the Group and 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, which consists of the management of the risk at the source of origination of the risks, in the businesses, in treasury and banking operations divisions. It is the responsibility of these units to decide on which risks to take and which risks to mitigate within the policies and procedures set by the GRM Division.

The GRM Division has a direct reporting line to the Chairman/ Board of Directors and is independent from the business units that generate risks. The Board of Directors carries the ultimate responsibility for being aware of and understanding the risks run by the Group's business activities, ensuring that they are properly managed, approving the risk principles and determining the risk appetite. The Board plays a pivotal role in ensuring a culture and an environment of sound risk management. In this respect, it is assisted by the "Board Risk, Anti – Money Laundering and Compliance" Committee, which is responsible for implementing the risk principles, including approval of core credit policies and for managing the risk profile of the Group.

56 RISK MANAGEMENT (continued)

Group risk management structure (continued)

Risk Governance
The Group has currently four senior management committees dealing with risk related issues - Risk Management Committee (RMC), Assets & Liabilities Management Committee (ALCO), Operational Risk and Information Security Committee (ORISC), and the Anti-Money Laundering Committee (AML). These committees are comprised of the heads of different divisions and one executive member of the Board of Directors.

The RMC is entrusted with the responsibility of managing the credit and reputational risks. It has to frame policies and procedures relating to management of such risks and ensure that these are being complied with. The ALCO has the responsibility of managing the balance sheet (assets and liabilities) in terms of the liquidity and interest rates, ensure compliance with regulatory ratios, manage market risk and manage capital efficiently. The ORISC is entrusted with the responsibility of managing the operational risks of the Group and alignment of the security program with organizational objectives. The AML ensures that the Group is in compliance with anti-money laundering laws, internal and regulatory requirements.

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.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating, subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "1" and "2" and special mention – watch list: risk rating "3"), one grade relates to substandard loans (risk rating "4") and two grades relate to doubtful and bad loans (respective risk ratings "5" and "6").

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains the necessary securities when appropriate.

The Group uses Moody's Risk Analyst (RA™) to classify its commercial loan portfolio according to credit risks. RA™ is used to classify borrowers whether corporate or small and medium enterprises in Lebanon and abroad. Corporate portfolio includes companies with a yearly turnover exceeding US$ 5 million operating in different industries.

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 the "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.

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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 honours its obligation but the counterparty fails to deliver the counter–value.

Credit–related commitments risks
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The Group's concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2011 was LL 197,603 million (2010: LL 197,975 million) before taking account of collateral or other credit enhancements and LL 8,722 million (2010: nil) net of such protection.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Geographic analysis

	2011		
	Lebanon ***LL million***	***Other countries*** ***LL million***	***Total*** ***LL million***
Balances with central banks	**3,635,462**	**435,480**	**4,070,942**
Due from banks and financial institutions	**242,047**	**4,088,795**	**4,330,842**
Loans to banks and financial institutions and reverse repurchase agreements	**82,523**	**584,965**	**667,488**
Financial assets given as collateral	**8,920**	**-**	**8,920**
Derivative financial instruments	**2,521**	**2,835**	**5,356**
Debt instruments and other financial assets at fair value through profit or loss:			
Lebanese treasury bills and other governmental bills	**197,584**	**-**	**197,584**
Certificates of deposit	**11,078**	**-**	**11,078**
Bonds and financial assets with fixed income	**153**	**19,791**	**19,944**
Net loans and advances to customers and related parties at amortized cost	**4,430,156**	**1,612,164**	**6,042,320**
Debtors by acceptances	**179,815**	**152,006**	**331,821**
Debt instruments at amortized cost:			
Lebanese treasury bills and other governmental bills	**3,262,691**	**169,975**	**3,432,666**
Certificates of deposit	**4,267,294**	**232,750**	**4,500,044**
Bonds and financial assets with fixed income	**118,551**	**556,040**	**674,591**
	16,438,795	**7,854,801**	**24,293,596**

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Geographic analysis (continued)

	2010		
	Lebanon *LL million*	*Other countries* *LL million*	*Total* *LL million*
Balances with central banks	2,130,818	466,679	2,597,497
Due from banks and financial institutions	60,507	3,838,504	3,899,011
Financial assets given as collateral	8,918	-	8,918
Derivative financial instruments	1,056	406	1,462
Financial assets held for trading:			
Lebanese treasury bills and other governmental bills	127,743	17,542	145,285
Bonds and financial assets with fixed income	2,532	31,676	34,208
Net loans and advances to customers and related parties at amortized cost	3,848,263	1,836,977	5,685,240
Debtors by acceptances	156,072	135,762	291,834
Available-for-sale financial instruments:			
Lebanese treasury bills and other governmental bills	1,362,277	108,685	1,470,962
Bonds and financial assets with fixed income	8,317	312,208	320,525
Other financial assets classified as loans and receivables:			
Lebanese treasury bills and other governmental bills	2,232,844	-	2,232,844
Certificates of deposit	4,448,481	22,670	4,471,151
Bonds and financial assets with fixed income	118,269	38,596	156,865
Loans to banks and financial institutions	9,952	361,192	371,144
Discounted acceptances	17,492	241,360	258,852
Held to maturity financial instruments:			
Lebanese treasury bills and other governmental bills	309,938	78,571	388,509
Bonds and financial assets with fixed income	469	39,720	40,189
	14,843,948	7,530,548	22,374,496

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

An industry sector analysis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

	2011									
	Commercial LL million	*Industrial LL million*	*Agriculture LL million*	*Services LL million*	*Banks and other financial institutions LL million*	*Construction LL million*	*Retail LL million*	*Government LL million*	*Other LL million*	*Total LL million*
Balances with central banks	-	-	-	-	-	-	-	4,070,942	-	4,070,942
Due from banks and financial institutions	-	-	-	-	4,330,842	-	-	-	-	4,330,842
Loans to banks and financial institutions and reverse repurchase Agreements	-	-	-	-	612,960	-	-	54,528	-	667,488
Financial assets given as collateral	-	-	-	-	-	-	-	8,920	-	8,920
Derivative financial instruments	-	-	-	-	5,356	-	-	-	-	5,356
Debt instruments and other financial assets at fair value through profit or loss:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	197,584	-	197,584
Certificates of deposit	-	-	-	-	-	-	-	11,078	-	11,078
Bonds and financial assets with fixed income	-	-	-	-	19,944	-	-	-	-	19,944
Net loans and advances to customers and related parties at amortized cost:	1,494,426	1,145,027	97,413	887,240	-	624,890	1,674,918	-	118,406	6,042,320
Debtors by acceptances	331,821	-	-	-	-	-	-	-	-	331,821
Debt instruments at amortized cost:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	3,432,666	-	3,432,666
Certificates of deposit	-	-	-	-	240,084	-	-	4,259,960	-	4,500,044
Bonds and financial assets with fixed income	-	-	-	-	674,591	-	-	-	-	674,591
	1,826,247	1,145,027	97,413	887,240	5,883,777	624,890	1,674,918	12,035,678	118,406	24,293,596

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

	2010									
	Commercial LL million	*Industrial LL million*	*Agriculture LL million*	*Services LL million*	*Banks and other financial institutions LL million*	*Construction LL million*	*Retail LL million*	*Government LL million*	*Other LL million*	*Total LL million*
Balances with central banks	-	-	-	-	-	-	-	2,597,497	-	2,597,497
Due from banks and financial institutions	-	-	-	-	3,899,011	-	-	-	-	3,899,011
Financial assets given as collateral	-	-	-	-	-	-	-	8,918	-	8,918
Derivative financial instruments	-	-	-	-	1,462	-	-	-	-	1,462
Financial assets held for trading:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	145,285	-	145,285
Bonds and financial assets with fixed income	-	-	-	-	34,208	-	-	-	-	34,208
Net loans and advances to customers and related parties at amortized cost:	1,622,004	1,101,532	70,039	791,379	-	577,582	1,408,749	-	113,955	5,685,240
Debtors by acceptances	291,834	-	-	-	-	-	-	-	-	291,834
Available-for-sale financial instruments:									-	
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	1,470,962	-	1,470,962
Bonds and financial assets with fixed income	-	-	-	-	320,525	-	-	-	-	320,525
Other financial assets classified as loans and receivables:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	2,232,844	-	2,232,844
Certificates of deposit	-	-	-	-	22,669	-	-	4,448,482	-	4,471,151
Bonds and financial assets with fixed income	-	-	-	-	156,865	-	-	-	-	156,865
Loans to banks and financial institutions	-	-	-	-	371,144	-	-	-	-	371,144
Discounted acceptances	-	-	-	-	258,852	-	-	-	-	258,852
Held to maturity financial instruments:										
Lebanese treasury bills and other governmental bills	-	-	-	-	-	-	-	388,509	-	388,509
Bonds and financial assets with fixed income	-	-	-	-	40,189	-	-	-	-	40,189
	1,913,838	1,101,532	70,039	791,379	5,104,925	577,582	1,408,749	11,292,497	113,955	22,374,496

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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 implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

The Group also obtains guarantees from parent companies for loans to their subsidiaries and personal guarantees for loans to companies owned by individuals.

Management monitors the market value of collateral, 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.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using internal credit ratings. 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 amount presented are gross of impairment allowances.

	2011				
	Neither past due nor impaired				
	High-grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Past due and impaired LL million*	*Total LL million*
Balances with central banks	4,070,748	194	-	-	4,070,942
Due from banks and financial institutions	3,715,619	615,223	-	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
Debt instruments and other financial assets at fair value through profit or loss:					
Lebanese treasury bills and other governmental bills	197,584	-	-	-	197,584
Certificates of deposit	11,078	-	-	-	11,078
Bonds and financial assets with fixed income	9,138	10,806	-	-	19,944
Net loans and advances to customers at amortized cost:					
Commercial loans	3,321,783	958,636	100,098	174,568	4,555,085
Consumer loans	1,551,015	22,281	129,254	27,812	1,730,362
Net loans and advances to related parties at amortized cost	13,406	-	-	-	13,406
Debtors by acceptances	331,821	-	-	-	331,821
Debt instruments at amortized cost:					
Lebanese treasury bills and other governmental bills	3,384,317	55,745	-	23,861	3,463,923
Certificates of deposit	4,487,572	12,472	-	-	4,500,044
Bonds and financial assets with fixed income	596,797	88,573	-	-	685,370
	21,774,875	2,361,697	229,352	232,597	24,598,521

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

	2010				
	Neither past due nor impaired				
	High-grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Past due and impaired LL million*	*Total LL million*
Balances with central banks	2,545,441	52,056	-	-	2,597,497
Due from banks and financial institutions	3,508,376	390,635	-	12,986	3,911,997
Financial assets given as collateral	8,918	-	-	-	8,918
Derivative financial instruments	1,462	-	-	-	1,462
Financial assets held for trading:					
Lebanese treasury bills and other governmental bills	129,322	3,145	-	12,818	145,285
Bonds and financial assets with fixed income	24,706	9,502	-	-	34,208
Net loans and advances to customers at amortized cost:					
Commercial loans	4,086,119	164,107	58,234	124,255	4,432,715
Consumer loans	1,306,200	6,063	114,193	20,330	1,446,786
Net loans and advances to related parties at amortized cost	11,940	-	-	-	11,940
Debtors by acceptances	291,834	-	-	-	291,834
Available-for-sale financial instruments:					
Lebanese treasury bills and other governmental bills	1,414,593	56,369	-	-	1,470,962
Bonds and financial assets with fixed income	280,831	39,694	-	-	320,525
Other financial assets classified as loans and receivables:					
Lebanese treasury bills and other governmental bills	2,243,591	-	-	-	2,243,591
Certificates of deposit	4,471,151	-	-	-	4,471,151
Bonds and financial assets with fixed income	121,778	37,299	-	-	159,077
Loans to banks and financial institutions	10,740	360,404	-	-	371,144
Discounted acceptances	9,636	249,216	-	-	258,852
Held to maturity financial instruments:					
Lebanese treasury bills and other governmental bills	388,739	-	-	-	388,739
Bonds and financial assets with fixed income	14,901	28,780	-	-	43,681
	20,870,278	1,397,270	172,427	170,389	22,610,364

Standards & Poors agency rated the Lebanese Government risks B as at 31 December 2011 (2010: "B").

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

	2011			
	Less than 90 days LL million	***91 to 180 days LL million***	***More than 181 days LL million***	***Total LL 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**

	2010			
	Less than 90 days LL million	*91 to 180 days LL million*	*More than 181 days LL million*	*Total LL million*
Loans and advances to customers at amortized cost:				
- Commercial loans	28,714	18,172	11,348	58,234
- Consumer loans	89,374	9,638	15,181	114,193
	118,088	27,810	26,529	172,427

At 31 December 2011 the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounts to LL 73,365 million (2010: LL 62,457 million). The collateral consists of cash, securities, letters of guarantee and properties.

See Note 27 for more detailed information on the allowance for impairment losses on loans and advances to customers.

The outstanding balance of financial assets that were renegotiated is as follows:

	2011 LL million	*2010 LL million*
Loans and advances to customers	**2,495**	4,893

Collateral repossessed

During the year, the Group took possession of real-estate properties with a carrying value of LL 829 million at the statement of financial position date, which the Group is in the process of selling (2010: LL 5,389 million).

56 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

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 recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the Group grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

Individually assessed allowances
The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests, 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 realisable 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, regional and/or global, the Group would include 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 loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, 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 overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

57 RISK MANAGEMENT (continued)

CREDIT RISK (continued)

Commitments and guarantees
To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised 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 shows the Group maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

	2011	*2010*
	LL million	*LL million*
Financing commitments given to banks and financial institutions	**552,339**	933,859
Financing commitments given to customers	**523,392**	581,876
Guarantees given to banks and financial institutions	**423,451**	401,244
Guarantees given to customers	**1,036,243**	1,001,197
Undrawn commitments to lend	**1,434,194**	1,514,547
	3,969,619	4,432,723

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 easily 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. In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Pounds should not be less than 10% and 40%, respectively. The highly liquid net assets consist of cash and balances with central banks, deposits with banks and financial institutions less deposits from banks and financial institutions and deposits that mature within one year.

56 RISK MANAGEMENT (continued)

LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2011 and 2010 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.

2011	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
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**
Equity instruments at fair value through profit or loss	-	-	-	-	**26,603**	**26,603**
Debt instruments and other financial assets at fair value through profit or loss	**14**	**3,755**	**33,342**	**119,909**	**164,536**	**321,556**
Net loans and advances to customers and related parties at amortized cost	**2,313,060**	**548,778**	**1,021,977**	**1,731,471**	**655,723**	**6,271,009**
Debtors by acceptances	**170,370**	**106,615**	**54,836**	-	-	**331,821**
Debt instruments at amortized cost	**489,782**	**531,041**	**1,386,646**	**5,887,306**	**2,182,437**	**10,477,212**
Equity instruments 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' and related parties' deposits at amortized cost	**13,361,332**	**2,219,087**	**3,103,704**	**859,811**	**17,295**	**19,561,229**
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 notes	**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**

2010	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial assets						
Cash and balances with central banks	2,032,669	-	6,410	726,221	12,989	2,778,289
Due from banks and financial institutions and reverse repurchase agreements	3,214,661	364,934	273,997	49,905	165	3,903,662
Financial assets given as collateral	-	-	702	10,362	-	11,064
Derivative financial instruments	938	363	161	-	-	1,462
Financial assets held for trading	12,889	9,108	13,494	136,396	83,614	255,501
Net loans and advances to customers and related parties at amortized cost	2,159,496	521,794	1,122,429	1,706,860	471,991	5,982,570
Debtors by acceptances	96,867	104,320	80,656	9,991	-	291,834
Available-for-sale financial instruments	23,075	311,960	733,627	693,050	332,459	2,094,171
Held to maturity financial instruments	8,004	192,780	70,718	90,407	174,133	536,042
Other financial assets classified as loans and receivables	162,976	400,406	1,318,267	5,425,185	2,243,749	9,550,583
Total undiscounted financial assets	7,711,575	1,905,665	3,620,461	8,848,377	3,319,100	25,405,178
Financial liabilities						
Due to central banks	8,486	99	1,152	9,279	1,601	20,617
Due to banks and financial institutions	822,884	120,623	152,270	277,587	228,585	1,601,949
Derivative financial instruments	3,717	448	185	-	-	4,350
Customers' and related parties' deposits at amortized cost	12,570,333	2,228,393	2,704,442	657,333	19,126	18,179,627
Debt issued and other borrowed funds	-	3,622	10,749	225,887	-	240,258
Engagements by acceptances	96,867	104,320	80,656	9,991	-	291,834
Subordinated notes	-	12	11,428	306,269	-	317,709
Total undiscounted financial liabilities	13,502,287	2,457,517	2,960,882	1,486,346	249,312	20,656,344
Net undiscounted financial assets / (liabilities)	(5,790,712)	(551,852)	659,579	7,362,031	3,069,788	4,748,834

56 RISK MANAGEMENT (continued)

LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of financial assets and liabilities by remaining contractual maturities (continued)

The table below summarizes the maturity profile of the Group's commitments and contingencies:

	2011					
	On demand LL million	***Less than 3 months LL million***	***3 to 12 months LL million***	***1 to 5 years LL million***	***More than 5 years LL million***	***Total LL million***
Financing commitments and guarantees	**123,450**	**552,582**	**1,333,864**	**369,133**	**156,396**	**2,535,425**
Undrawn commitments to lend	**1,434,194**	**-**	**-**	**-**	**-**	**1,434,194**
	1,557,644	**552,582**	**1,333,864**	**369,133**	**156,396**	**3,969,619**

	2010					
	On demand LL million	*Less than 3 months LL million*	*3 to 12 months LL million*	*1 to 5 years LL million*	*More than 5 years LL million*	*Total LL million*
Financing commitments and guarantees	93,795	417,250	1,768,986	637,864	281	2,918,176
Undrawn commitments to lend	1,514,547	-	-	-	-	1,514,547
	1,608,342	417,250	1,768,986	637,864	281	4,432,723

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

Maturities of assets and liabilities

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

	2011							
	Less than 12 months				*Over 12 months*			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*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
Equity instruments at fair value through profit or loss	-	-	-	-	-	**26,603**	**26,603**	26,603
Debt instruments and other financial assets at fair value through profit or loss	**6**	**1,508**	**21,050**	**22,564**	**76,496**	**129,546**	**206,042**	**228,606**
Net loans and advances to customers and related parties	**2,316,123**	**527,596**	**956,255**	**3,799,974**	**1,605,688**	**636,658**	**2,242,346**	**6,042,320**
Debtors by acceptances	**170,370**	**106,615**	**54,836**	**331,821**	-	-	-	**331,821**
Debt instruments at amortized cost	**425,109**	**452,617**	**937,451**	1,815,177	**4,832,423**	**1,959,701**	**6,792,124**	**8,607,301**
Equity instruments 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 taken 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' and related parties' deposits at amortized cost	**13,337,311**	**2,196,807**	**2,984,528**	**18,518,646**	**797,651**	**10,111**	**807,762**	**19,326,408**
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 notes	**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

56 RISK MANAGEMENT (continued)

LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Maturities of assets and liabilities (continued)

	2010							
	Less than 12 months				Over 12 months			
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*Total*	*1 to 5 years*	*Over 5 years*	*Total*	*Total*
ASSETS								
Cash and balances with central banks	2,032,058	-	-	2,032,058	716,063	521	716,584	2,748,642
Due from banks and financial institutions	3,214,450	364,649	271,072	3,850,171	48,674	166	48,840	3,899,011
Financial assets given as collateral	-	-	104	104	8,814	-	8,814	8,918
Derivative financial instruments	938	363	161	1,462	-	-	-	1,462
Financial assets held for trading	12,220	6,946	5,371	24,537	108,964	72,439	181,403	205,940
Net loans and advances to customers and related parties	2,150,023	494,096	1,036,829	3,680,948	1,552,408	451,884	2,004,292	5,685,240
Debtors by acceptances	96,867	104,320	80,656	281,843	9,991	-	9,991	291,834
Available-for-sale financial instruments	13,201	275,338	686,560	975,099	576,363	324,349	900,712	1,875,811
Other financial assets classified as loans and receivables	118,274	332,526	874,554	1,325,354	4,218,479	1,947,023	6,165,502	7,490,856
Held to maturity financial instruments	7,962	185,748	57,942	251,652	44,729	132,317	177,046	428,698
Property and equipment	-	-	-	-	-	281,303	281,303	281,303
Intangible assets	-	-	-	-	-	1,039	1,039	1,039
Assets taken in settlement of debt	-	-	-	-	-	39,092	39,092	39,092
Other assets	23,147	1,672	1,584	26,403	911	62,232	63,143	89,546
Total assets	7,669,140	1,765,658	3,014,833	12,449,631	7,285,396	3,312,365	10,597,761	23,047,392
LIABILITIES								
Due to central banks	8,486	1	1,138	9,625	8,480	1,387	9,867	19,492
Due to banks and financial institutions	818,175	120,566	151,587	1,090,328	250,591	171,866	422,457	1,512,785
Derivative financial instruments	3,717	448	185	4,350	-	-	-	4,350
Customers' and related parties' deposits at amortized cost	12,547,461	2,205,037	2,642,483	17,394,981	581,580	3,465	585,045	17,980,026
Debt issued and other borrowed funds	-	39	-	39	213,462	-	213,462	213,501
Engagements by acceptances	96,867	104,320	80,656	281,843	9,991	-	9,991	291,834
Other liabilities	71,541	6,620	52,217	130,378	7,090	8,289	15,379	145,757
Provisions for risks and charges	-	-	-	-	-	119,905	119,905	119,905
Subordinated notes	-	12	3,340	3,352	299,972	-	299,972	303,324
Total liabilities	13,546,247	2,437,043	2,931,606	18,914,896	1,371,166	304,912	1,676,078	20,590,974
Net liquidity gap	(5,877,107)	(671,385)	83,227	(6,465,265)	5,914,230	3,007,453	8,921,683	2,456,418

MARKET RISK

Market risk is the risk of loss arising from movements in market variables, including interest rates, exchange rates and equity market indices. Market risk is incurred primarily through the Group's trading and foreign exchange activities.

The market risk unit is responsible for the independent control of market risk. It ensures that all market risks are identified, establishes the necessary controls and limits, monitors positions and exposures, and ensures compliance with regulatory and internal limits as set in the market risk policy and securities portfolio investment policy.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the 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.

Interest rate sensitivity

The table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel increase in interest rates, all other variables being held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate financial assets and financial liabilities held at year end, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate financial assets available for sale (applicable prior to 1 January 2011) and swaps designated as cash flow hedges, at year end for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risk (continued)
Interest rate sensitivity (continued)

Currency	Increase in interest rate	2011 Net effect on interest income LL million	2011 Net effect on shareholders' equity LL million	2010 Net effect on interest income LL million	2010 Net effect on shareholder's equity LL million
LBP	+0.5%	(18,679)	-	(19,920)	77,567
US Dollar	+0.5%	(1,178)	-	(2,306)	45,305
Euro	+0.5%	867	-	299	1,741
GBP	+0.5%	27	-	(30)	23
Other	+0.5%	(2,642)	-	(3,949)	(3,267)
		(21,605)	-	(25,906)	121,369

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2011 was as follows:

(Amounts in LL million)	2011 Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Non interest bearing items LL million	Total LL million
ASSETS							
Cash and balances with central banks	2,284,562	670,838	-	716,063	500,499	110,506	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
Equity instruments at fair value through profit or loss	-	-	-	-	-	26,603	26,603
Debt instruments and other financial assets at fair value through profit or loss	-	-	19,713	76,496	129,490	2,907	228,606
Net loans and advances to customers and related parties	2,953,507	1,150,399	1,484,140	473,899	53,859	(73,484)	6,042,320
Debtors by acceptances	-	-	-	-	-	331,821	331,821
Debt instruments at amortized cost	378,243	441,459	864,625	4,828,296	1,968,778	125,900	8,607,301
Equity instruments at fair value through other comprehensive income	-	-	-	-	-	76,967	76,967
Total	10,090,899	2,514,033	2,612,293	6,126,894	2,653,629	610,944	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' and related parties' deposits	13,221,286	2,178,276	3,030,298	796,592	10,044	89,912	19,326,408
Debt issued and other borrowed funds	-	152,484	-	60,978	448,194	634	662,290
Engagements by acceptances	-	-	-	-	-	331,821	331,821
Subordinated notes	-	-	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	(4,102,543)	(82,738)	(892,114)	5,084,873	2,142,234	172,701	2,322,413

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Interest rate risk (continued)

Interest rate sensitivity (continued)

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2010 was as follows:

	2010						
(Amounts in LL million)	*Up to 1 month LL million*	*1 to 3 months LL million*	*3 months to 1 year LL million*	*1 to 5 years LL million*	*Over 5 years LL million*	*Non interest bearing items LL million*	*Total LL million*
ASSETS							
Cash and balances with the central banks	1,002,813	-	-	716,063	-	1,029,766	2,748,642
Due from banks and financial institutions	3,361,014	362,423	165,995	3,241	2,761	3,577	3,899,011
Financial assets given as collateral	-	-	-	8,814	-	104	8,918
Derivative financial instruments	-	-	-	-	-	1,462	1,462
Financial assets held for trading	11,538	4,733	4,666	108,964	55,861	20,178	205,940
Net loans and advances to customers and related parties	2,402,081	533,039	1,515,105	1,086,303	196,557	(47,845)	5,685,240
Debtors by acceptances	-	-	-	-	-	291,834	291,834
Available for sale financial instruments	11,171	268,206	703,724	489,909	275,870	126,931	1,875,811
Other financial assets classified as loans and receivables	177,706	348,904	777,143	4,214,930	1,860,489	111,684	7,490,856
Held to maturity financial instruments	22,872	192,087	59,138	41,444	110,598	2,559	428,698
Total	6,989,195	1,709,392	3,225,771	6,669,668	2,502,136	1,540,250	22,636,412
LIABILITIES							
Due to central banks	4,184	4,303	9,909	1,053	-	43	19,492
Due to banks and financial institutions	1,039,514	215,509	221,039	26,750	378	9,595	1,512,785
Derivative financial instruments	-	-	-	-	-	4,350	4,350
Customers' and related parties' deposits at amortized cost	12,474,221	2,207,698	2,635,408	575,968	3,465	83,266	17,980,026
Debt issued and other borrowed funds	-	-	-	213,462	-	39	213,501
Engagement by acceptances	-	-	-	-	-	291,834	291,834
Subordinated notes	-	-	1,410	299,972	-	1,942	303,324
Total	13,517,919	2,427,510	2,867,766	1,117,205	3,843	391,069	20,325,312
Total interest rate sensitivity gap	(6,528,724)	(718,118)	358,005	5,552,463	2,498,293	1,149,181	2,311,100

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group protects its capital and reserves by holding a foreign currency position in US Dollars representing 60% of its equity after adjustment according to specific requirements set by the Central Bank of Lebanon. The Group is also allowed to hold a net trading position, debit or credit, not to exceed 1% of its net equity, as long as the global foreign position does not exceed, at the same time, 40% of its equity (Central Bank of Lebanon circular number 32).

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 forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, first on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities) . There is no impact on equity. A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

Currency	***Change in currency rate %***	***2011 Effect on profit before tax LL million***	*2010 Effect on profit before tax LL million*
US Dollar	**+5**	**510**	107
Euro	**+5**	**23**	461
GBP	**+5**	**2**	-
SDG	**+5**	**2**	-
Other currencies	**+5**	**4,927**	594

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Currency risk (continued)

The following consolidated statement of financial position as of 31 December 2011 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2011		
ASSETS	*LL million*	*Foreign currencies in LL million*	*Total LL million*
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
Equity instruments at fair value through profit or loss	-	26,603	26,603
Debt instruments and other financial assets at fair value through profit or loss	66,789	161,817	228,606
Net loans and advances to customers at amortized cost	1,228,032	4,800,882	6,028,914
Net loans and advances to related parties at amortized cost	-	13,406	13,406
Debtors by acceptances	-	331,821	331,821
Debt instruments at amortized cost	5,514,183	3,093,118	8,607,301
Equity instruments 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 taken in settlement of debt	(9,287)	44,739	35,452
Other assets	35,925	45,049	80,974
TOTAL 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	7,384,770	11,789,647	19,174,417
Related parties deposits at amortized cost	85,595	66,396	151,991
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 notes	(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 (legal and obligatory)	325,391	143,681	469,072
Distributable free 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 instruments 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

56 RISK MANAGEMENT (continued)

MARKET RISK (continued)

Currency risk (continued)

The following consolidated statement of financial position as of 31 December 2010 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

	2010		
ASSETS	*LL million*	*Foreign currencies in LL million*	*Total LL million*
Cash and balances with central banks	654,572	2,094,070	2,748,642
Due from banks and financial institutions	11,799	3,887,212	3,899,011
Financial assets given as collateral	8,918	-	8,918
Derivative financial instruments	1,055	407	1,462
Financial assets held for trading	5,251	200,689	205,940
Net loans and advances to customers at amortized cost	925,515	4,747,785	5,673,300
Net loans and advances to related parties at amortized cost	-	11,940	11,940
Debtors by acceptances	-	291,834	291,834
Available-for-sale financial instruments	1,027,201	848,610	1,875,811
Other financial assets classified as loans and receivables	5,489,861	2,000,995	7,490,856
Held to maturity financial instruments	155,452	273,246	428,698
Property and equipment	163,043	118,260	281,303
Intangible assets	1,039	-	1,039
Assets taken in settlement of debt	(10,257)	49,349	39,092
Other assets	55,367	34,179	89,546
TOTAL ASSETS	8,488,816	14,558,576	23,047,392
LIABILITIES AND EQUITY			
Due to central banks	8,857	10,635	19,492
Due to banks and financial institutions	3,895	1,508,890	1,512,785
Derivative financial instruments	3,702	648	4,350
Customers' deposits at amortized cost	7,211,363	10,656,267	17,867,630
Related parties' deposits at amortized cost	62,255	50,141	112,396
Debt issued and other borrowed funds	-	213,501	213,501
Engagements by acceptances	-	291,834	291,834
Other liabilities	82,321	63,436	145,757
Provisions for risks and charges	98,785	21,120	119,905
Subordinated notes	(61)	303,385	303,324
TOTAL LIABILITIES	7,471,117	13,119,857	20,590,974
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	434,984	-	434,984
Share capital – priority shares	249,289	-	249,289
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	581,456	581,456
Non distributable reserves (legal and obligatory)	264,859	131,667	396,526
Distributable free reserves	73,705	5,422	79,127
Other equity instruments	-	14,979	14,979
Treasury shares	-	(16,189)	(16,189)
Retained earnings	7,958	8,526	16,484
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial instruments at fair value through other comprehensive income	32,037	21,956	53,993
Net results of the financial period - profit	228,151	27,619	255,770
Foreign currency translation reserves		(9,573)	(9,573)
NON-CONTROLLING INTEREST	31,040	128,989	160,029
TOTAL EQUITY	1,332,552	1,123,866	2,456,418
TOTAL LIABILITIES AND EQUITY	8,803,669	14,243,723	23,047,392

Equity price risk

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. A 5 per cent increase in the value of the Group's equities at 31 December 2011 would have increased equity by LL 3,849 million and net income by LL 1,330 million (2010: LL 4,216 million and LL 1,322 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.

The Group's assets with fixed interest rates are not considered material with respect to the total assets. Moreover, other 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.

56 RISK MANAGEMENT (continued)

OPERATIONAL RISK

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

The Group's approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the Group has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The Head of the GRM division is responsible for ensuring the independence, objectivity and effectiveness of the operational risk framework as prepared by the Operational Risk Management (ORM) department for identification, assessment and measurement of operational risk across the Group. The roles and responsibilities of the ORM department encompasses the development of ORM policies, the assistance and facilitation of the ORM programs and tools, the analysis of new products, activities and systems from an operational risk perspective. It is also responsible for promoting of the ORM culture across the Group through awareness sessions and coaching.

The business line managers are directly responsible for managing and mitigating operational risks in their areas of responsibility. Each business line /support function is assigned a "Risk Champion" who will have a dotted line reporting to the ORM department. 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. Aside from the Risk Champion, all staff in the Group should play a role in the identification and management of Operational Risk.

57 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.

Groups should maintain a required capital adequacy ratio (not less than 8%) based on their capital funds over the total risk weighted assets. The Group complies in full with all its externally imposed capital requirements.

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 in the objectives, policies and processes from the previous years, however, it is under constant scrutiny of the Board.

Regulatory capital

At 31 December 2011 and 2010, the capital consists of the following:

	2011	*2010*
	LL million	*LL million*
Tier 1 capital	**2,146,287**	2,028,101
Tier 2 capital	**52,345**	98,322
Total capital	**2,198,632**	2,126,423
Risk weighted assets	**16,151,534**	14,464,964

57 CAPITAL (continued)

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

	2011	*2010*
Tier 1 capital ratio	**13.29%**	14.02%
Total capital ratio	**13.61%**	14.70%

Tier 1 Capital consists of capital, reserves and brought forward results. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordinated loans and cumulative changes in fair values.

58 DIVIDENDS PAID AND PROPOSED

	2011 *LL million*	*2010* *LL million*
Declared and paid during the year		
Equity dividends on ordinary shares:		
Dividends for 2011: LL 200 (2010: LL 200)	**71,898**	43,422
Equity dividends on priority shares:		
Dividends for 2011: LL 200 (2010: LL 200)	**41,205**	41,205
Distributions to preferred shares – 2008 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 8.00)	**24,224**	24,032
Distributions to preferred shares – 2009 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 3.53)	**24,224**	10,063
Distributions to priority shares		
Interest paid at 4% of share's nominal value: LL 46 for 2011 (2010: LL 48)	**9,518**	9,972
	171,069	128,694
Less dividends on treasury shares	**(630)**	(141)
	170,439	128,553

	2011 *LL million*	*2010* *LL million*
Proposed for approval at Annual General Assembly (not recognized as a liability as at 31 December)		
Equity dividends on ordinary shares:		
Dividends for 2011: LL 200 (2010: LL 200)	**113,103**	71,898
Equity dividends on priority shares:		
Dividends for 2011: LL 200 (2010: LL 200)	-	41,205
Distributions to preferred shares – 2008 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 8.00)	**24,224**	24,120
Distributions to preferred shares – 2009 series:		
Distributions for 2011: US$ 8.00 (2010: US$ 8.00)	**24,224**	24,120
Distributions to priority shares:		
Interest paid at 4% of share's nominal value	-	9,972
	161,551	171,315

58 DIVIDENDS PAID AND PROPOSED (continued)

Dividends paid by the subsidiaries during the year were as follows:

	2011		*2010*	
	Dividends paid LL million	***Non controlling interest share LL million***	*Dividends paid LL million*	*Non controlling interest share LL million*
Byblos Bank Africa	**4,726**	**2,039**	4,543	1,960
Byblos Invest Bank SAL	**22,000**	**2**	23,000	2
Adonis Insurance and Reinsurance Co. (ADIR) SAL	**3,000**	**1,082**	2,750	992
Byblos Bank Syria S.A.	**-**	**-**	5,149	3,012
Adonis Insurance and Reinsurance (ADIR) Syria	**3,164**	**760**	-	-
	32,890	**3,883**	35,442	5,966

59 COMPARATIVE INFORMATION

Reclassifications in the statement of financial position

Pursuant to the early adoption of phase I of IFRS 9, the Group reclassified comparative balances relating to its investments in financial instruments as fully described in note 2 to these consolidated financial statements. Besides, comparative balances relating to the following line items of the statement of financial position were also reclassified as per the requirements of BDL intermediary circular 251 dated 15 April 2011:

Current classification	**Previous Classification**	**Amount reclassified** ***LL million***
Assets taken in settlement of debt	Non-current assets held for sale	**39,092**
Other liabilities	Deferred tax liabilities	**11,445**
Other liabilities	Current tax liabilities	**44,526**
Provisions for risks and charges	End of service benefits	**30,922**
Non-distributable reserves (legal and obligatory)	Capital reserves	**396,526**
Distributable free reserves	Capital reserves	**79,127**

In addition to the above, the Bank reclassified the following:

- Margins on letters of credit and acceptances from "other liabilities" to "due to banks and financial institutions" and "customers' deposits at amortized cost" in the consolidated statement of financial position. Comparative amounts totaling LL 71,439 million and LL 52,348 million respectively, have been reclassified accordingly.
- Obligatory financial assets from "cash and balances with central banks" to "other assets" in the consolidated statement of financial position. Comparative amounts totaling LL 12,468 million have been reclassified accordingly.
- Taxes from "administrative and other operating expenses" to "income tax expense" in the consolidated income statement. Comparative amounts totaling LL 7,284 million have been reclassified accordingly.