BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2012

ERNST & YOUNG

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

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

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

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

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

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

Opinion

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

Ernst & Young

Semaan, Gholam & Co.

19 April 2013
Beirut, Lebanon

Byblos Bank SAL

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2012

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

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

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

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2012

	Notes	*2012* *LL million*	*2011* *LL million*
ASSETS			
Cash and balances with central banks	16	**5,507,572**	4,282,468
Due from banks and financial institutions	17	**3,216,533**	4,330,842
Loans to banks and financial institutions and reverse repurchase agreements	18	**458,707**	667,488
Financial assets given as collateral	19	**8,923**	8,920
Derivative financial instruments	20	**12,174**	5,356
Financial assets at fair value through profit or loss	21	**300,909**	255,209
Net loans and advances to customers at amortized cost	22	**6,195,104**	6,025,682
Net loans and advances to related parties at amortized cost	45	**15,815**	16,638
Debtors by acceptances		**316,232**	331,821
Financial assets at amortized cost	23	**9,145,626**	8,607,301
Financial assets at fair value through other comprehensive income	24	**78,663**	76,967
Property and equipment	25	**265,394**	301,066
Intangible assets	26	**970**	1,129
Assets obtained in settlement of debt	27	**33,202**	35,452
Other assets	28	**94,385**	80,974
TOTAL ASSETS		**25,650,209**	25,027,313
LIABILITIES AND EQUITY			
Liabilities			
Due to central banks	29	**17,918**	15,670
Due to banks and financial institutions	30	**1,327,047**	1,635,480
Derivative financial instruments	20	**8,613**	7,347
Customers' deposits at amortized cost	31	**19,967,531**	19,157,233
Deposits from related parties at amortized cost	45	**208,102**	169,175
Debt issued and other borrowed funds	32	**508,711**	662,290
Engagements by acceptances		**316,232**	331,821
Other liabilities	33	**262,888**	126,267
Provisions for risks and charges	34	**130,465**	129,989
Subordinated debt	35	**410,896**	307,263
TOTAL LIABILITIES		**23,158,403**	22,542,535
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	36	**684,273**	684,273
Share capital – preferred shares	36	**4,840**	4,840
Share premium – common shares	36	**229,014**	229,014
Share premium – preferred shares	36	**586,259**	583,858
Non distributable reserves	37	**568,145**	469,072
Distributable reserves	38	**99,659**	79,127
Other equity instruments	39	**14,979**	14,979
Treasury shares	40	**(25,302)**	(25,476)
Retained earnings	41	**74,024**	65,214
Revaluation reserve of real estate	42	**5,689**	5,689
Change in fair value of financial assets at fair value through other comprehensive income	43	**(23,634)**	(20,556)
Net results of the financial period – profit		**246,450**	259,894
Foreign currency translation reserve		**(92,762)**	(31,329)
		2,371,634	2,318,599
NON-CONTROLLING INTEREST		**120,172**	166,179
TOTAL EQUITY		**2,491,806**	2,484,778
TOTAL LIABILITIES AND EQUITY		**25,650,209**	25,027,313

The consolidated financial statements were authorized for issue in accordance with the resolution of the Board of Directors on 18 April 2013.

Dr François Bassil
Chairman/ General Manager

Mr Ziad El-Zoghbi
Financial and Administrative Manager

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

	Attributable to equity holders of the parent															Non-controlling interest	Total
	Common shares	Priority shares	Preferred shares	Share premium - common shares	Share premium - preferred shares	Non-distributable reserves	Distributable reserves	Other equity instruments	Treasury shares	Retained earnings	Revaluation reserve of real estate	Change in fair value of financial assets at fair value through other comprehensive income	Net results of the financial period - profit	Foreign currency translation reserve	Total		
	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million	LL million
Balance at 1 January 2012	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
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	246,450	-	246,450	5,812	252,262
Other comprehensive loss	-	-	-	-	-	-	-	-	-	-	-	(3,078)	-	(61,433)	(64,511)	(48,513)	(113,024)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	(3,078)	246,450	(61,433)	181,939	(42,701)	139,238
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	259,894	-	-	(259,894)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	2,412	85,518	2,492	-	-	(90,422)	-	-	-	-	-	-	-
Transfer to distributable reserves (note 37)	-	-	-	-	-	(18,040)	18,040	-	-	-	-	-	-	-	-	-	-
Equity component on convertible subordinated Loan (note 35)	-	-	-	-	-	31,618	-	-	-	-	-	-	-	-	31,618	-	31,618
Dividends paid – subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,306)	(3,306)
Translation difference	-	-	-	-	(11)	-	-	-	-	179	-	-	-	-	168	-	168
Equity dividends paid (note 52)	-	-	-	-	-	-	-	-	-	(160,841)	-	-	-	-	(160,841)	-	(160,841)
Treasury shares	-	-	-	-	-	(23)	-	-	174	-	-	-	-	-	151	-	151
Balance at 31 December 2012	**684,273**	-	4,840	229,014	586,259	568,145	99,659	14,979	(25,302)	74,024	5,689	(23,634)	246,450	(92,762)	2,371,634	120,172	2,491,806
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 53)	-	-	-	-	-	-	-	-	-	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	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	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,883)	(3,883)
Translation difference	-	-	-	-	(10)	-	-	-	-	-	-	-	-	-	(10)	-	(10)
Equity dividends paid (note 52)	-	-	-	-	-	-	-	-	-	(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

The attached notes 1 to 54 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 LL million	2011 LL million
OPERATING ACTIVITIES			
Profit before tax		**296,953**	336,924
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	25 & 26	**31,282**	31,625
Provision for loans and advances and direct write offs, net	11	**107,229**	45,016
Write-back of provision for other doubtful bank accounts, net	11	**(942)**	(6,593)
Provision for financial assets at amortized cost, net	11	**(19,490)**	23,575
Loss on disposal of fixed assets		**-**	88
Gain on disposal of assets obtained in settlement of debt	10	**(4,613)**	(3,877)
Provisions for risks and charges, net		**2,468**	14,300
Unrealized fair value (gains) losses on financial instruments at fair value through profit or loss		**(4,361)**	6,339
Realized gains from financial assets		**(75,747)**	(70,052)
Derivative financial instruments		**(5,552)**	(897)
Operating profit before working capital changes		**327,227**	376,448
Changes in operating assets and liabilities			
Due from central banks		**(1,957,792)**	(499,978)
Due from banks and financial institutions		**35,274**	229,110
Financial assets given as collateral		**(3)**	(2)
Financial assets at fair value through profit or loss		**(31,587)**	(2,331)
Due to banks and financial institutions		**(23,314)**	(153,308)
Net loans and advances to customers and related parties		**(275,828)**	(402,096)
Assets obtained in settlement of debt	27	**(286)**	(829)
Proceeds from sale of assets obtained in settlement of debt		**7,149**	8,346
Other assets		**(3,049)**	9,633
Customers' and related parties' deposits		**979,684**	1,346,382
Other liabilities		**1,433**	(9,954)
Cash (used in) from operations		**(941,092)**	901,421
Provision for risks and charges paid		**(1,445)**	(4,216)
Taxation paid		**(51,014)**	(66,327)
Net cash (used in) from operating activities		**(993,551)**	830,878
INVESTING ACTIVITIES			
Financial assets at amortized cost		**(452,840)**	427,407
Financial assets at fair value through other comprehensive income		**(5,179)**	(143)
Loans to banks and financial institutions and reserve purchase agreements		**208,781**	(37,491)
Purchase of property and equipment and intangible assets		**(29,919)**	(57,381)
Proceeds from sale of property and equipment		**278**	1,170
Acquisition of additional non-controlling interest	3	**-**	(8,584)
Net cash (used in) from investing activities		**(278,879)**	324,978
FINANCING ACTIVITIES			
Due to central banks		**763**	(1,265)
Debts issued and other borrowed funds		**(153,579)**	448,789
Subordinated debt		**135,251**	3,939
Treasury shares		**151**	(9,007)
Dividends paid to equity holders of the parent (net)		**(160,841)**	(170,439)
Dividends paid to non-controlling interest		**(3,306)**	(3,883)
Non-controlling interest share in a capital increase of a subsidiary		**-**	23,473
Net cash (used in) from financing activities		**(181,561)**	291,607
Net effect of foreign exchange		**(75,040)**	(32,713)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,529,031)**	1,414,750
Cash and cash equivalents at 1 January		**6,150,118**	4,735,368
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	44	**4,621,087**	6,150,118
Operational cash flows from interest and dividends			
Interest paid		**(881,733)**	(834,902)
Interest received		**1,269,069**	1,249,141
Dividend received		**5,043**	5,214

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

The attached notes 1 to 54 form part of these consolidated financial statements.

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's shares are listed on the Beirut Stock Exchange and London SEAQ.

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

2 ACCOUNTING POLICIES

2.1 Basis of preparation

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

The carrying values of 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 notes.

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

Basis of consolidation

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

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

2 ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

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

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

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

Subsidiary	*Percentage of ownership* 2012 %	2011 %	*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**	52.37	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

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

IFRS 7 *Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements*
The amendment requires additional disclosure about financial assets that have been transferred but not 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 the entity's continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Group does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective

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

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

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

IAS 19 *Employee Benefits* (Revised)

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

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

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

IAS 32 *Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32*

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

IFRS 7 *Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7*

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

IFRS 10 *Consolidated Financial Statements*

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

2 ACCOUNTING POLICIES (continued)

2.3 Standards issued but not yet effective (continued)

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

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

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

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

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

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

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

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

2.4 Summary of significant accounting policies

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Foreign currency translation (continued)

(i) Transactions and balances (continued)

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

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

(ii) Group companies

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

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

Financial instruments –classification and measurement

(i) Date of recognition

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

(ii) Classification and measurement of financial instruments

a. Financial assets

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

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. Financial assets (continued)

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

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

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

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

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.

Balances with central banks, due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties – at amortized cost
After initial measurement, "Balances with central banks", "Due from banks and financial institutions", "Loans to banks and financial institutions" and "Loans and advances to customers and related parties" are subsequently measured at 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 "Net credit losses".

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

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

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. Financial assets (continued)

Financial assets at fair value through profit or loss (continued)

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

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

ii. Equity instruments at fair value through profit or loss

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

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

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

Financial assets at fair value through other comprehensive income

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

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

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

b. Financial liabilities

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

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.

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. Financial liabilities (continued)

Fair value option

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

- doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or 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.

Debt issued and other borrowed funds and subordinated debt

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

After initial measurement, debt issued and other borrowings are subsequently measured at 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.

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

After initial measurement, due to central banks, due to banks and financial institutions, customers' and related parties' deposits are measured at 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Financial instruments –classification and measurement (continued)

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 (loss) from financial instruments at fair value through profit or loss" in the consolidated income statement.

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

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

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.

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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Derecognition of financial assets and financial liabilities (continued)

(i) Financial assets (continued)

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

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

(ii) Financial liabilities

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

Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not 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 "Due to banks and financial institutions", 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" 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 "Due from banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

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

Determination of fair value

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

(i) Financial assets carried at amortised cost
For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, 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 "Net credit losses" in the consolidated income statement.

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Impairment of financial assets (continued)

(i) Financial assets carried at amortised cost (continued)
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.

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

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

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

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

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

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

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

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at 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 recalculated effective interest rate (EIR) method. 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 the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

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

(iii) Hedge of a net investment
Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in other comprehensive income 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 other comprehensive 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 fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Group as a lessee
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are 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.

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Leasing (continued)

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

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Recognition of income and expenses (continued)

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

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

(vi) Insurance revenue
For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the 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 if the recognition criteria are met. 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 "Net gain (loss) on disposal of fixed assets" 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.

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

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 in "Net credit losses". The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee in "Net fee and commission income".

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

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

Provisions for risks and 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.

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

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

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

2 ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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

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

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

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

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

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

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

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

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 consolidated financial statements continue to be prepared on the going concern basis.

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (contined)

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

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:
- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity.

Contractual cash flows of financial assets
The Group exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for 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.

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

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

2 ACCOUNTING POLICIES (continued)

2.5 Significant accounting judgements and estimates (continued)

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.

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

3 BUSINESS COMBINATIONS

Acquisition of additional interest in Byblos Bank Syria S.A.
During the fourth quarter of 2011, the Group acquired an additional 10.87% interest in the voting shares of Byblos Bank Syria S.A, increasing its ownership interest to 52.37%. A cash consideration of 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.

4 SEGMENT INFORMATION

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

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

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

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

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

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

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

4 SEGMENT INFORMATION (continued)

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

Profit for the year information

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

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

Financial position information

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

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

[1] *Other includes certain activities related to assets obtained in settlement of debt, as well as unallocated activities.*

4 SEGMENT INFORMATION (continued)

Geographic information

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

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

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

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

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

5 INTEREST AND SIMILAR INCOME

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

6 INTEREST AND SIMILAR EXPENSE

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

7 NET FEE AND COMMISSION INCOME

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

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

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

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

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

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

9 NET GAIN FROM SALE OF FINANCIAL ASSETS AT AMORTIZED COST

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

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

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

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

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

10 OTHER OPERATING INCOME

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

11 NET CREDIT LOSSES

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

12 PERSONNEL EXPENSES

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

13 OTHER OPERATING EXPENSES

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

14 INCOME TAX EXPENSE

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

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

14 INCOME TAX EXPENSE (continued)

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

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

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

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

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

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

14 INCOME TAX EXPENSE (continued)

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

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

	2011	
	Deferred tax assets LL million	*Deferred tax liabilities LL million*
Fair value of financial instruments	1,061	2,229

15 EARNINGS PER SHARE

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

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

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

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

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

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

15 EARNINGS PER SHARE (continued)

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

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

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

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

16 CASH AND BALANCES WITH CENTRAL BANKS

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

16 CASH AND BALANCES WITH CENTRAL BANKS (continued)

Obligatory reserves:

- In accordance with the Central Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Central Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese 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 2,141,301 million and LL 2,248,890 million respectively as at 31 December 2012 (2011: LL 2,141,893 million and LL 2,256,625 million respectively).

- Subsidiary banks and branches operating in foreign countries are also subject to obligatory reserve requirements determined based on the banking rules and regulations of the countries in which they operate. As of 31 December 2012, obligatory reserve requirements for banks operating in foreign countries and the related covering time deposits, current accounts and cash on hand amounted to LL 124,929 million (2011: LL 134,708 million).

17 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

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

Doubtful banks and registered exchange companies

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

	2012			*2011*		
	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	**4,097**	**2,259**	**6,356**	10,727	2,259	12,986
Write-back (note 11)	**(942)**	**-**	**(942)**	(6,593)	-	(6,593)
Exchange difference	**38**	**-**	**38**	(37)	-	(37)
Balance at 31 December	**3,193**	**2,259**	**5,452**	4,097	2,259	6,356

18 LOANS TO BANKS AND FINANCIAL INSTITUTIONS AND REVERSE REPURCHASE AGREEMENTS

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

19 FINANCIAL ASSETS GIVEN AS COLLATERAL

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

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

20 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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.

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

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

22 NET LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

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

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

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 76,514 million as of 31 December 2012 (2011: LL 91,644 million).

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

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

	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 (note 11)	(4,336)	(11)	(4,347)
- Amounts written off	(3,386)	-	(3,386)
- Difference of exchange	(129)	(53)	(182)
Balance at 31 December	62,207	392	62,599

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

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

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

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

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

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

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

23 FINANCIAL ASSETS AT AMORTIZED COST

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

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

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

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

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

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

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2012 LL million	*2011 LL million*
Quoted shares	**41,669**	39,927
Unquoted shares	**36,994**	37,040
	78,663	76,967

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

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

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

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

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

The cost of buildings at 31 December 2012 and 2011 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 2012 (2011: the same) (note 42).

26 INTANGIBLE ASSETS

	2012 LL million	*2011 LL million*
Cost:		
At 1 January	**2,303**	2,054
Additions for the year	**-**	249
At 31 December	**2,303**	2,303
Accumulated amortization:		
At 1 January	**1,174**	1,015
Amortization expense for the year	**159**	159
At 31 December	**1,333**	1,174
Net book value:		
At 31 December	**970**	1,129

27 ASSETS OBTAINED IN SETTLEMENT OF DEBT

	2012 *LL million*	*2011* *LL million*
Cost		
At 1 January	**40,611**	44,251
Additions during the year	**286**	829
Disposal	**(2,536)**	(4,469)
At 31 December	**38,361**	40,611
Impairment		
At 1 January	**(5,159)**	(5,159)
At 31 December	**(5,159)**	(5,159)
Net carrying value		
At 31 December	**33,202**	35,452

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

28 OTHER ASSETS

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

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

b) Other assets comprise of the following:

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

29 DUE TO CENTRAL BANKS

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

During the year ended 31 December 2010, the Group obtained 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%	21 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 2012 (2011: the same) (note 19).

30 DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

31 CUSTOMERS' DEPOSITS AT AMORTIZED COST

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

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

32 DEBT ISSUED AND OTHER BORROWED FUNDS

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

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

33 OTHER LIABILITIES

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

(a) Current tax liability

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

(b) Deferred tax liability

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

34 PROVISIONS FOR RISKS AND CHARGES

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

34 PROVISIONS FOR RISKS AND CHARGES (continued)

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

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

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

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

35 SUBORDINATED DEBT

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

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

On 21 December 2012, the Bank signed a US$ 300 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US$ 300 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

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

35 SUBORDINATED DEBT (continued)

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

	LL million	*US$ (000)*
Nominal value of convertible bonds	441,697	294,000
Equity component	(31,618)	(20,974)
Liability component	410,079	273,026
Accrued interest payable	817	542
	410,896	273,568

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

36 SHARE CAPITAL

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

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

Preferred shares

i) Series 2008 Preferred Shares

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	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.

36 SHARE CAPITAL (continued)

Preferred shares (continued)

ii) Series 2009 Preferred Shares

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 preferred shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	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 2012, the Bank transferred LL 2,412 million from retained earnings to the share premium on Series-2009 preferred shares (2011: LL 2,412 million) for the difference between the redemption price and the issue price.

Listing of shares

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

	Stock exchange	*2012* **No of shares**	*2011* No of shares
Ordinary shares	Beirut	**501,164,240**	500,804,990
Global depository receipts(*)	London SEAQ and Beirut	**1,287,016**	1,294,201
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.

37 NON DISTRIBUTABLE RESERVES

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

37 NON DISTRIBUTABLE RESERVES (continued)

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

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

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

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 (2017) and 2% at the end of year twenty (2027). This reserve cannot be distributed as dividends.

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

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

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

38 DISTRIBUTABLE RESERVES

	2012 ***LL million***	*2011* *LL million*
General reserves	**94,237**	73,705
Other capital reserves	**5,422**	5,422
	99,659	79,127

38 DISTRIBUTABLE RESERVES (continued)

General reserves

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

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

Other capital reserves

	2012	*2011*
	LL million	*LL million*
Premium on capital increase of Byblos Bank Armenia CJSC	**1,026**	1,026
Premium on capital increase of Byblos Bank Africa	**4,396**	4,396
	5,422	5,422

39 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 2012, the Group accounted for LL 450 million representing the 3% annual return on the notes (2011: the same). 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 2012 (2011: the same). Dividends paid to the holders of the notes amounted to LL 1,049 million during 2012 (2011: the same).

40 TREASURY SHARES

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

Year ended 31 December 2012

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

Year ended 31 December 2011

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

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

41 RETAINED EARNINGS

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

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

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

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

42 REVALUATION RESERVE OF REAL ESTATE

	2012 LL million	2011 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

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

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

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

44 CASH AND CASH EQUIVALENTS

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

45 RELATED PARTY TRANSACTIONS

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

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

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

45 RELATED PARTY TRANSACTIONS (continued)

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

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

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

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

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

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

Compensation of the Key Management Personnel of the Group

	2012 ***LL million***	*2011* *LL million*
Short-term benefits[1]	**15,376**	13,313

[1] *Short-term benefits comprise of salaries, bonuses, profit-sharing, attendance fees and other short-term benefits to Key Management Personnel.*

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

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

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

Credit-related commitments and contingent liabilities (continued)

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

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

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

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

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

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

46 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS (continued)

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

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

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

Other contingencies
The Bank's books and records have been reviewed by 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 1,200 million, which were fully paid during 2012. In addition, the Bank's books and records have not been reviewed by the Department of Income Tax and the National Social Security Fund for the years 2008 to 2012 and for the year 2012 respectively. The subsidiaries' books and records are also subject to review by the tax and social security authorities.

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

47 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2012 ***LL million***	*2011* *LL million*
Assets held in custody and under administration	**3,188,752**	3,325,291

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

48 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments recorded at fair value

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

Derivatives

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

Financial assets at fair value through other comprehensive income

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

Financial assets at fair value through profit or loss

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

Determination of fair value and fair value hierarchy

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

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

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

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

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

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

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

		2012	
	Level 1 ***LL million***	***Level 2*** ***LL million***	***Total*** ***LL million***
FINANCIAL LIABILITIES			
Derivative financial instruments:			
Currency swaps	-	**7,541**	**7,541**
Forward foreign exchange contracts	-	**1,072**	**1,072**
	-	**8,613**	**8,613**

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

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

48 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Determination of fair value and fair value hierarchy (continued)

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.

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

Fair value of financial assets and liabilities not carried at fair value

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

Assets and liabilities for which fair value approximates carrying value

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

Fixed rate financial instruments

The fair value of fixed rate financial assets and liabilities carried at 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.

49 RISK MANAGEMENT

49.1 INTRODUCTION

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

The Group's risk management process involves 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 (Board);
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

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

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

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

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

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

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

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

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

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Group risk management structure (continued)

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

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

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

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

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

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

Risk Management- Basel Perspective
The Group risk management is broadly following the guidelines of the Basel texts to measure and assess the risks identified under 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 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.).

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

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

The GRM is currently made up of 32 people, who are all allocated to the different departments / units:

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

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

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

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

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

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

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

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Risk Management Framework (continued)

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

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

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

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

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

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

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

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

Information compiled from all the businesses is examined and processed in order to analyse, control and identify risks on a timely basis. This information is presented and explained to the Board, and Senior Management.

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

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

49 RISK MANAGEMENT (continued)

49.1 INTRODUCTION (continued)

Excessive risk concentration
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographical location.

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

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

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

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

The *Financial Institution* department (FI) is a separate business line that sets the strategy for banks limits and manages the relationship with banks. The function is determined by liquidity targets and by profit generation through a dynamic yet diversified trade finance business.

The *Consumer Banking* division is responsible to design and implement the strategy and document the program for consumer loans, housing loans, revolving credit cards, small business loans and Kafalat guaranteed loans.

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

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

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Credit approval (continued)

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

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

Loan follow up and monitoring

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

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

Impairment assessment

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be 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 related to the loans.

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.

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.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

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.

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

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

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

Credit–related commitments and financial guarantee 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. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Analysis to maximum exposure to credit risk and collateral and other credit enhancements (continued)

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

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Analysis to maximum exposure to credit risk and collateral and other credit enhancements (continued)

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

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

49 RISK MANAGEMENT (continued)

49.2 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.

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

The main types of collateral obtained are as follows:

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

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

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

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

Credit quality per class of financial assets
The credit quality of financial assets is managed by the Group using internal and external credit ratings. The credit quality of loans and advances is managed using internal credit ratings as well as Supervisory ratings in accordance with Central Bank of Lebanon main circular 58.

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

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

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Credit quality per class of financial assets (continued)

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

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

	2012			
	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	**37,270**	**30,038**	**16,053**	**83,361**
- Consumer loans	**136,077**	**6,407**	**10,202**	**152,686**
	173,347	**36,445**	**26,255**	**236,047**

	2011			
	Less than 90 days 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

Mapping to external credit rating

	Financial assets	***Loans and advances to customers***	
	External credit rating	***Supervisory rating***	***Characteristics***
High grade	Lebanese Sovereign AAA to A-	Regular	Regular and timely payment of dues. Adequacy of cash flows. Timely financial statements. Sufficient collateral / guarantee (if required).
		Follow up	Lack of documentation related to borrower's activity.
Standard grade	BBB+ and below unrated	Follow up and regularization	Credit worthy borrower showing weaknesses; insufficient / inadequate cash flows; highly leveraged; deterioration in economic sector or country where the facility is used; conflict between partners or other lawsuits; loan rescheduling since initiation; excess utilization above limit by more than 10%.
Individually impaired	Impaired	Substandard	Signals of incapacity to repay from identified cash flows; full repayments supposes the liquidation of assets / collateral; recurrent late payments; late interests; losses incurred for over 3 years.
		Doubtful	Full repayment is questioned even after asset liquidation; account stagnation and inability to repay restructured loans.
		Bad	No or little expected inflows from business or assets; borrower is unreachable; insolvency status.

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Mapping to external credit rating (continued)

The classification of loans and advances to customers and related parties at amortised cost as in accordance with the ratings of Central Bank of Lebanon circular 58 are as follows:

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

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

Renegotiated Loans

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

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

	2012 LL million	*2011 LL million*
Commercial loans	**23,609**	2,495

49 RISK MANAGEMENT (continued)

49.2 CREDIT RISK (continued)

Analysis of risk concentration

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

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

Geographic analysis

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

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

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

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

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

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

Regulatory ratios and limits

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

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

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

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

Analysis of financial assets and liabilities by remaining contractual maturities

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

	2012					
	Up to 1 month 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	1,603,352	792,069	75,451	2,690,996	1,285,236	6,447,104
Due from banks and financial institutions	2,384,987	772,104	62,820	1,036	-	3,220,947
Loans to banks and financial institutions and reverse repurchase agreements	45,795	196,531	209,261	8,593	995	461,175
Financial assets given as collateral	-	-	2,218	7,718	-	9,936
Derivative financial instruments	11,459	625	90	-	-	12,174
Financial assets at fair value through profit or loss	18	2,321	39,200	91,808	352,083	485,430
Net loans and advances to customers at amortized cost	2,461,526	419,319	755,223	1,898,151	1,183,872	6,718,091
Net loans and advances to related parties at amortized cost	13,017	-	-	2,798	-	15,815
Debtors by acceptances	165,909	77,378	72,890	55	-	316,232
Financial assets at amortized cost	500,089	264,116	1,732,688	6,458,732	2,185,143	11,140,768
Financial assets at fair value through other comprehensive income	-	-	-	-	78,663	78,663
Total undiscounted financial assets	7,186,152	2,524,463	2,949,841	11,159,887	5,085,992	28,906,335
Financial liabilities						
Due to central banks	7,391	24	2,418	8,648	1	18,482
Due to banks and financial institutions	737,969	144,292	95,659	140,917	266,706	1,385,543
Derivative financial instruments	8,121	352	140	-	-	8,613
Customers' deposits at amortized cost	12,492,539	2,860,961	3,797,211	1,094,591	12,519	2,0257,821
Deposits from related parties at amortized cost	159,779	18,846	27,096	8,425	-	214,146
Debt issued and other borrowed funds	-	1,090	34,988	188,711	558,522	783,311
Engagements by acceptances	165,909	77,378	72,890	55	-	316,232
Subordinated debt	-	8,084	22,047	110,236	564,492	704,859
Total undiscounted financial liabilities	13,571,708	3,111,027	4,052,449	1,551,583	1,402,240	23,689,007
Net undiscounted financial assets / (liabilities)	(6,385,556)	(586,564)	(1,102,608)	9,608,304	3,683,752	5,217,328

	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
Financial assets at fair value through profit or loss	14	3,755	33,342	119,909	191,139	348,159
Net loans and advances to customers at amortized cost	2,299,032	548,778	1,021,977	1,731,471	653,113	6,254,371
Net loans and advances to related parties at amortized cost	14,028	-	-	-	2,610	16,638
Debtors by acceptances	170,370	106,615	54,836	-	-	331,821
Financial assets at amortized cost	489,782	531,041	1,386,646	5,887,306	2,182,437	10,477,212
Financial assets at fair value through other comprehensive income	-	-	-	-	76,967	76,967
Total undiscounted financial assets	9,711,260	2,212,236	2,877,386	8,744,347	3,752,940	27,298,169
Financial liabilities						
Due to central banks	5,943	1	669	9,881	-	16,494
Due to banks and financial institutions	1,042,837	106,718	128,955	293,621	145,595	1,717,726
Derivative financial instruments	4,333	2,624	390	-	-	7,347
Customers' deposits at amortized cost	13,201,532	2,213,127	3,103,278	856,822	17,295	19,392,054
Deposits from related parties at amortized cost	159,800	5,960	426	2,989	-	169,175
Debt issued and other borrowed funds	616	156,075	34,988	193,119	594,709	979,507
Engagements by acceptances	170,370	106,615	54,836	-	-	331,821
Subordinated debt	1,410	1,069	323,839	-	-	326,318
Total undiscounted financial liabilities	14,586,841	2,592,189	3,647,381	1,356,432	757,599	22,940,442
Net undiscounted financial assets / (liabilities)	(4,875,581)	(379,953)	(769,995)	7,387,915	2,995,341	4,357,727

49 RISK MANAGEMENT (continued)

49.3 LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

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

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

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

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

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

49.4 MARKET RISK

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

The market risk governance has been defined in the Security Investment Policy, which defines the roles and responsibilities of the key stakeholders of market risk management, including the Board, the ALCO committee and Market Risk Unit.

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

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

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Interest rate risk
Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of 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. Positions are monitored on a daily basis by management and, whenever possible, hedging strategies are used to ensure positions are maintained within established limits.

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

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

		2012	*2011*
Currency	***Increase in basis points***	***Effect on net interest income LL million***	*Effect on net interest income LL million*
LBP	**50 basis point**	**(15,929)**	(13,865)
US Dollar	**50 basis point**	**560**	3,171
Euro	**50 basis point**	**(236)**	1,237

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

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

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Interest rate risk (continued)

Interest rate sensitivity (continued)

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

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

Currency risk

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

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

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

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

Following is the consolidated statement of financial position as of 31 December 2012 detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

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

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

Following is the 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
Debt instruments and other financial assets at fair value through profit or loss	66,789	188,420	255,209
Net loans and advances to customers at amortized cost	1,226,086	4,799,596	6,025,682
Net loans and advances to related parties at amortized cost	1,946	14,692	16,638
Debtors by acceptances	-	331,821	331,821
Financial assets at amortized cost	5,514,183	3,093,118	8,607,301
Financial assets at fair value through other comprehensive income	20,417	56,550	76,967
Property and equipment	185,886	115,180	301,066
Intangible assets	1,129	-	1,129
Assets obtained in settlement of debt	(9,287)	44,739	35,452
Other assets	35,925	45,049	80,974
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	7,372,419	11,784,814	19,157,233
Deposits from related parties at amortized cost	97,946	71,229	169,175
Debt issued and other borrowed funds	-	662,290	662,290
Engagement by acceptances	-	331,821	331,821
Other liabilities	64,112	62,155	126,267
Provisions for risks and charges	113,679	16,310	129,989
Subordinated debt	(20)	307,283	307,263
TOTAL LIABILITIES	7,676,389	14,866,146	22,542,535
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital – common shares	684,273	-	684,273
Share capital – preferred shares	4,840	-	4,840
Share premium – common shares	-	229,014	229,014
Share premium – preferred shares	-	583,858	583,858
Non distributable reserves	325,391	143,681	469,072
Distributable reserves	73,705	5,422	79,127
Other equity instruments	-	14,979	14,979
Treasury shares	-	(25,476)	(25,476)
Retained earnings	10,758	54,456	65,214
Revaluation reserve of real estate	5,689	-	5,689
Change in fair value of financial assets at fair value through other comprehensive income	11,810	(32,366)	(20,556)
Net results of the financial period - profit	220,657	39,237	259,894
Foreign currency translation reserves	-	(31,329)	(31,329)
NON-CONTROLLING INTEREST	13,475	152,704	166,179
TOTAL EQUITY	1,350,598	1,134,180	2,484,778
TOTAL LIABILITIES AND EQUITY	9,026,987	16,000,326	25,027,313

Group's sensitivity to currency exchange rates

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

49 RISK MANAGEMENT (continued)

49.4 MARKET RISK (continued)

Currency risk (continued)

Group's sensitivity to currency exchange rates (continued)

		2012		*2011*	
Currency	***Change in currency rate %***	***Effect on profit before tax LL million***	***Effect on equity LL million***	*Effect on profit before tax LL million*	*Effect on equity LL million*
US Dollar	+1	**(182)**	**-**	102	-
Euro	+1	**9**	**1,231**	5	1,091
SYP	+1	**-**	**1,515**	-	2,142

Equity price risk

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

Prepayment risk

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

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

49.5 OPERATIONAL RISK

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

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

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

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

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

50 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

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

	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
Financial assets at fair value through profit or loss	6	1,508	21,050	22,564	76,496	156,149	232.645	255,209
Net loans and advances to customers at amortized cost	2,302,095	527,596	956,255	3,785.946	1,605,688	634,048	2,239,736	6,025,682
Net loans and advances to related parties at amortized cost	14,028	-	-	14,028	-	2,610	2,610	16,638
Debtors by acceptances	170,370	106,615	54,836	331,821	-	-	-	331,821
Financial assets at amortized cost	425,109	452,617	937,451	1,815,177	4,832,423	1,959,701	6,792,124	8,607,301
Financial assets at fair value through other comprehensive income	-	-	-	-	-	76,967	76,967	76,967
Property and equipment	-	-	-	-	-	301,066	301,066	301,066
Intangible assets	-	-	-	-	-	1,129	1,129	1,129
Assets obtained in settlement of debt	-	-	-	-	-	35,452	35,452	35,452
Other assets	6,084	95	22,207	28,386	-	52,588	52,588	80,974
TOTAL ASSETS	9,634,203	2,076,386	2,332,596	14,043,185	7,262,916	3,721,212	10,984,128	25,027,313
LIABILITIES								
Due to central banks	5,929	-	423	6.352	9,318	-	9,318	15,670
Due to banks and financial institutions	1,038,122	105,183	115,392	1,258,697	247,661	129,122	376,783	1,635,480
Derivative financial instruments	4,333	2,624	390	7,347	-	-	-	7,347
Customers' deposits at amortized cost	13,176,377	2.190,847	2,984,520	18,351.744	795,378	10,111	805,489	19,157,233
Deposits from related parties at amortized cost	160,934	5,960	8	166,902	2,273	-	2.273	169,175
Debt issued and other borrowed funds	616	152,502	-	153,118	60,978	448,194	509,172	662,290
Engagements by acceptances	170,370	106,615	54.836	331,821	-	-	-	331,821
Other liabilities	47.093	10,104	66.752	123,949	-	2,318	2,318	126,267
Provisions for risks and charges	-	-	-	-	-	129.989	129,989	129,989
Subordinated debt	1,410	11	305,842	307,263	-	-	-	307,263
TOTAL LIABILITIES	14,605.184	2,573,846	3,528,163	20,707,193	1,115,608	719,734	1,835,342	22,542,535
Net liquidity gap	(4,970,981)	(497,460)	(1,195,567)	(6,664,008)	6,147,308	3,001,478	9,148,786	2,484,778

51 CAPITAL

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

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

In accordance with the Central Bank of Lebanon Main Circular 44, the Group should maintain a the minimum required capital adequacy ratio for the years ending 31 December 2012 and thereafter are as follows:

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

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

Regulatory capital

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

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

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

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

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

52 DIVIDENDS PAID AND PROPOSED

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

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

53 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.

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

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