ANNUAL REPORT 2012

Contents

Chairman's Letter

Despite a struggling world economy and regional political instability coupled with a sluggish recovery, BBAC closed the year 2012 with solid achievements on all levels. Our profits exhibited sustainable net income and our solid capital base grew organically.

In 2012, BBAC saw a significant increase in all major financial indicators. Total assets increased year on year by 13.27% and customer loans increased by 10.91%. Customer deposits registered an increase of 12.18%, with a loan/deposit ratio of 27.32%. Additionally, our equity grew by 19.75%, maintaining a high liquidity indicator which reflects our conservative approach to uploading a strong safety net, and our net profits recorded an increase of 11.93% year on year.

Further, our expansion strategy is paving the way for future successes, as demonstrated by the growth of our local network following the inauguration of a new branch in Chiyah-Lebanon. We also plan to spread and strengthen our presence in various other regions of the country as well. On the international front, BBAC is also keen on establishing new international branches in addition to our existing branches in Limassol-Cyprus, Erbil and Baghdad-Iraq.

With a mature presence in the Lebanese banking sector and with continued diversification of its products and services, BBAC's distinguished status has now reached an important milestone. Management revisited its group operating model, identified career enhancement opportunities, and carried out systemic changes through a developed management process. The Bank also embarked on a number of projects, with the assistance of leading consultants, enhancing its support functions and bolstering its Internal Control Framework. Moreover, the Bank adopted and upgraded to new IT systems in coordination with the IT department.

As a corporate institution, BBAC constantly invests in the communities it serves by addressing important issues of social, economic, and national development. In September 2012, we partnered with the United Nations Development Program (UNDP) on the Live Lebanon initiative. The initiative aims to promote greater equality and empower disadvantaged citizens to achieve their goals regardless of sect or region.The diverse nature of Live Lebanon's projects provides long-term sustainable solutions to economic, environmental, and social problems plaguing a great number of rural areas throughout Lebanon.

Lastly, BBAC recognizes that its successes are only realized through the professionalism, dedication, and hard work of its team members and the support of its customers and shareholders. The continued efforts of all our stakeholders drive our commitment to providing competitive financial services and achieving our long-term strategic objectives.

Ghassan T. Assaf
Chairman General Manager

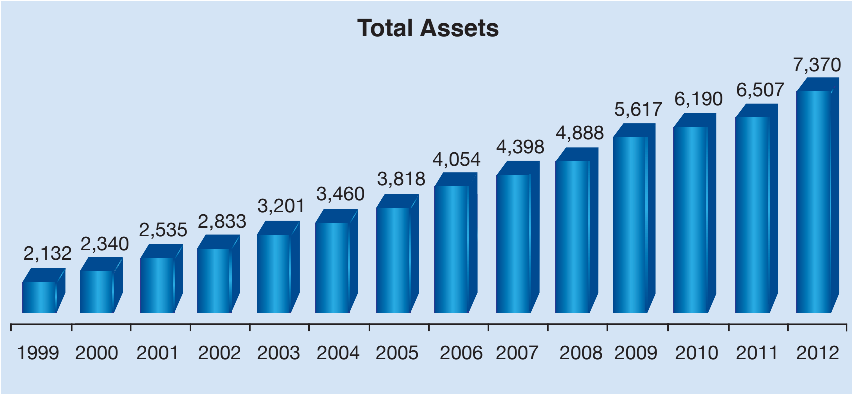
ANNUAL REPORT 2012 Management


Healthy individuals are the cornerstone
of a healthy society

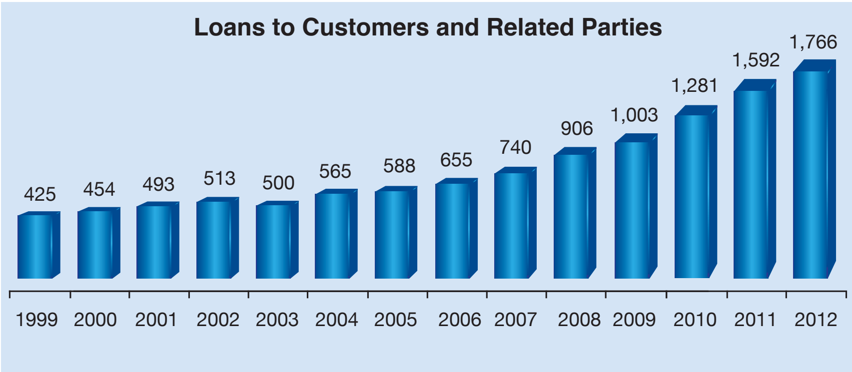
Financial Highlights

Evolution of Key Indicators (in billion LBP)

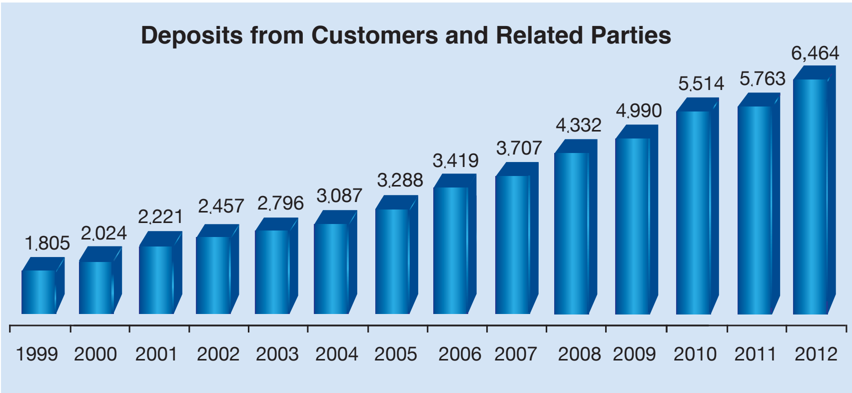
Assets



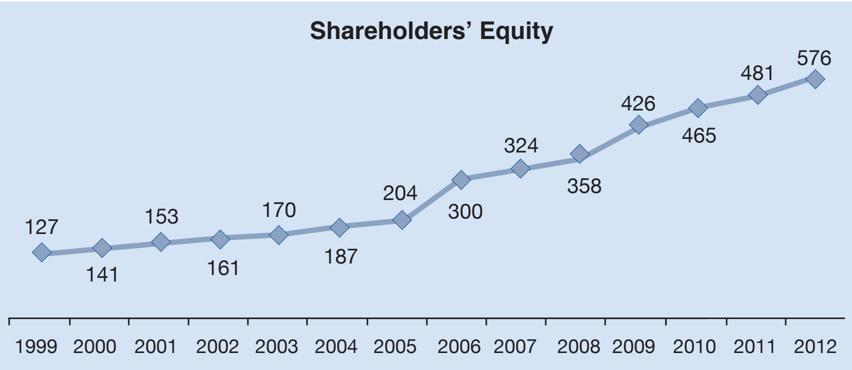
Loans



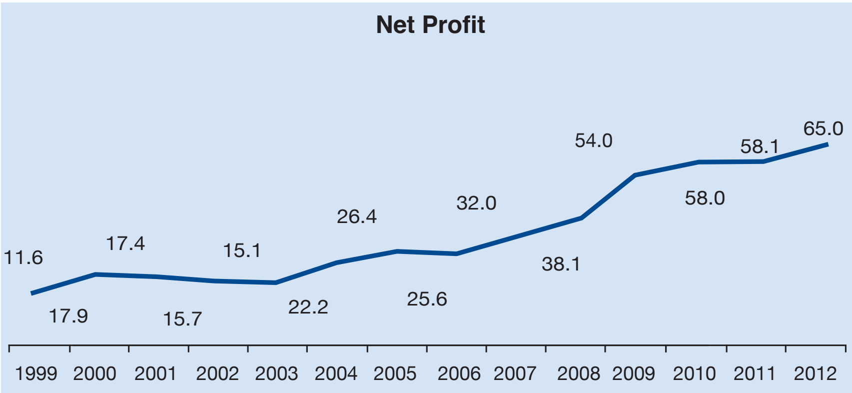
Deposits



Shareholders' Equity



Net Profit



Selected Financial Data

	(In million LBP)		Growth
	2012	2011	2012-2011
Total Assets	7,369,941	6,506,785	13.27%
Total Loans	1,765,774	1,592,030	10.91%
Total Deposits*	6,464,313	5,762,579	12.18%
Net Liquid Assets**	5,206,251	4,573,281	13.84%
Shareholders' Equity	576,084	481,061	19.75%
Net Profit	64,986	58,060	11.93%

* exclude financial liabilities held at fair value through profit or loss (FVTPL)
** "Liquid assets" less "Deposits from banks and financial institutions"

Loan Quality: Loans and Advances by the Central Bank of Lebanon Classification

	(In million LBP)		Growth
	2012	2011	2012-2011
Net Regular Loans (1)	1,747,551	1,567,027	11.52%
Add Collective Impairment on Loans and Advances	25,901	26,212	-1.19%
Gross Regular Loans (2)	**1,773,452**	**1,593,239**	**11.31%**
Net Substandard Loans (3)	16,386	14,363	14.08%
Add Unrealized Interest	5,504	5,031	9.39%
Gross Substandard Loans (4)	**21,890**	**19,394**	**12.87%**
Net Doubtful and Bad Loans (5)	1,837	10,640	-82.74%
Add Unrealized Interest	27,530	26,003	5.88%
Add Provisions	55,651	50,006	11.29%
Gross Doubtful and Bad Loans (6)	**85,018**	**86,649**	**-1.88%**
Net Non-Performing Loans (3+5)	18,223	25,003	-27.12%
Net Loans	1,765,774	1,592,030	10.91%
Gross Loans	**1,880,360**	**1,699,282**	**10.66%**
Net Non-Performing to Gross Loans (3+5)/(2+4+6)	0.97%	1.47%	-34.01%

Key Ratios

Liquidity Ratios (%)	2012	2011
Net LBP Liquidity	88.71%	87.27%
Net FC (Foreign Currency) Liquidity	75.39%	74.25%
Net Liquidity (Total)	80.54%	79.36%
Loans / Deposits (LBP)	19.63%	21.77%
Loans / Deposits (FC)	32.15%	31.41%
Loans / Deposits (Total)	27.32%	27.63%
Liquid Assets / Total Assets	73.54%	72.77%

Asset Quality Ratios[1] (%)	2012	2011
Gross Doubtful and Bad Loans / Gross Loans	4.52%	5.10%
Gross Non-Performing Loans / Gross Loans	5.69%	6.24%
Provisions for Doubtful and Bad Loans / Gross Doubtful and Bad Loans	97.84%	87.72%
Provisions for Loans / Gross Loans	6.09%	6.31%
Net Doubtful and Bad / Total Assets	0.02%	0.16%
Net Non-Performing Loans / Total Assets	0.25%	0.38%

Capital Adequacy Ratios (%)	2012	2011
Capital Adequacy Ratio According to Basel II	11.98%	10.36%

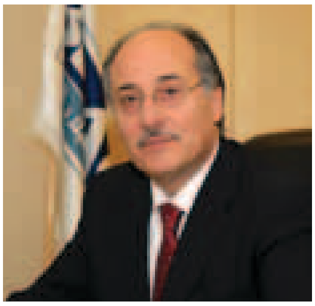
Profitability Ratios (%)	2012	2011
Return on Average Assets ROAA after Tax (%)	0.94%	0.91%
Return on Average Equity ROAE after Tax (%)	12.29%	12.27%
Number of Common Shares Outstanding (million LBP)	144	144
Number of Preferred Shares “A” – Redeemed on March 2013 - (million LBP)	5	5
Number of Preferred Shares “B” Outstanding (million LBP)	8	-
Earnings per Common Share (EPS) in LBP[2]	451	403
Earnings per Common Share (EPS) in LBP[3]	400	360
Dividends per Common Share (DPS) in LBP[4]	70	55
Dividends per Preferred Share “A” in LBP	190	1,244
Dividends per Preferred Share “B” in LBP	804	-
Dividends Payout Ratio	26.87%	24.35%
Retention Ratio	73.13%	75.65%
Book Value per Common Share in LBP[5]	3,163	2,817

Management Efficiency Ratios (%)	2012	2011
Interest Paid / Interest received	66.10%	70.63%
Net Commissions / Income[6]	16.83%	17.34%
Cost / Income[6]	53.38%	53.13%
Cost per Average Branch (LBP million)	2,234	2,015

[1] Non-accrual interest is included in Non-Performing Loans; unrealized interest is included in provisions
[2] Before allocation of any dividends
[3] After the allocation of dividends on Preferred Shares
[4] An interest payment of LBP 1.4 million was made on Cash Contributions for the year 2012, and 1,050 million for 2011
[5] Before distribution of dividends
[6] Income before “Operating Expenses” and “Taxes”

Board of Directors

Chairman General Manager
Sheikh Ghassan T. Assaf



Vice Chairman
Judge Abbas Al Halabi

Mr. Walid T. Assaf	**Member**
Mr. Ali Assaf	**Member**
Mr. Marc Maamary	**Member**
Mr. Ali Ghandour	**Member**
Assaf Holding Company S.A.L.	**Member**
Mr. Farouk Mahfouz	**Member**
Mr. Michel Tueni	**Member**
Me. Amine Rizk	**Secretary of the Board**

Major Shareholders and General Management

Major Shareholders

Assaf Family	54.292%
Fransabank s.a.l.	37.068%
Other Shareholders	8.640%

Solicitors

Me. Chafic Khalaf	Me. Paul Morcos
Me. Amine Rizk	Me. Mazen Tajeddine
Me. Ramzi Haykal	Me. Bassam Daye
Me. Assaad Najm	Me. Adnan Jisr

Auditors

PricewaterhouseCoopers - KPMG

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit and Recovery
Mr. Omar Saab	Business Development
Dr. Amalia Azoury	Economic Studies
Mr. Hani Houssami	Advisor to the Chairman

General Management

Mr. Chawki Badr	Assistant General Manager - International Expansion
Mr. Nadim Hamadeh	Assistant General Manager - Banking
Mr. Marwan Abou Assi	Assistant General Manager - Finance and Administration
Mrs. Lina Makarem	Assistant General Manager - Treasury
Mr. Walid Haddad	Support Division
Mr. Camille Moujaes	Retail Banking Division
Mr. Raja Makarem	Project Finance and SMEs Division
Mr. Anwar Abou Ghaida	Accounting and Financial Control Division
Ms. Wafaa Abed	Internal Audit
Mr. Bachir Yakzan	Risk Management Department – CRO
Ms. Najwa Kaedbey	Human Resources Department
Mr. Marwan Tayara	Recovery and Restructuring Department
Mr. Talal Abou Zeki	Compliance Department
Mr. Salim Karam	Insurance Unit
Mr. Francois Balaa	Information Technology Department
Mrs. Sabah Khatounian	Administration Department
Mr. Tarek Bilal	Marketing Department
Ms. Nahed Zeid	Plastic Cards and Electronic Banking Department
Mr. Elie Nakad	Financial Institutions Unit
Mrs. Hilda Ashkar	Operations Department
Mr. Georges Moarbes	SME Credit Department
Mrs. Micheline Dib	Branch Development and Support Department
Mr. Ayman Fatayri	Corporate Credit Department
Mr. Maher Rahhal	Supported and Kafalat Loans Department
Mr. Salah Saab	Information Unit
Mrs. Joyce Abdelnour	Consumer Credit Department
Mr. Fadi Barakeh	Organization and Methods Department
Ms. Nawal Aziz	Project Finance Department
Mr. Wissam Al Aridi	Project Management Unit

Corporate Governance

BBAC believes in the importance of sound Corporate Governance that guides the Bank forward while promoting the highest standards of conduct. Through Corporate Governance, BBAC defines the functions of the Board of Directors (BOD) and the Senior Management of the Bank, creating a responsible and adequate governance framework in which sets of laws, regulations, and policies are strictly adhered. These policies also govern the relationship between the BOD, Senior Management, shareholders, and other related parties.

BBAC recognizes that the key to its long-term success is to sustain public trust in the Bank, which is accomplished through serving the Bank's clients and communities in the proper way with the right values. Holding the highest standards of corporate governance and ethical conduct requires a set of strong corporate governance practices that allocate rights and responsibilities among the Bank's stockholders, BOD, and management in a manner that enhances shareholder value.

The Bank's management's processes, structures, and policies help to ensure compliance with laws and regulations and provide clear lines of responsible decision-making and accountability. Accordingly, corporate governance practices are designed not just to satisfy regulatory requirements, but also to provide for effective oversight and management of the Bank as a trustee for all stakeholders.

BBAC builds and protects the Bank's culture by aggressively promoting its core values to employees, as well as its Code of Conduct. Moreover, the Bank's current organizational structure aims to segregate the different functions and responsibilities between the BOD, Executive Management, Operating Management, Board Committees, and Management Committees, which are involved in decision making, through setting clear grounds for control, segregation of authorities, job specialization, responsibility and accountability. These functions ensure that the values of the clients and shareholders are preserved and that the resources are utilized in the most effective and appropriate manner.

Excerpts from BBAC's Ordinary General Assembly of Shareholders

Held on May 23, 2013

Resolution No. 1

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statements for the year ending December 31, 2012.

Resolution No. 2

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2012 as follows:

(In thousands LBP)	2012
Profits for the Year 2012	64,985,978
Less: Appropriation of Reserves for "General Banking Risks"	8,345,516
Appropriation of Reserves for "Legal Reserves"	6,498,598
Appropriation of Reserves for "Property in Settlement of Debt"	2,117,101
Unrealised Gain on Financial Instruments Held at Fair Value through Profit or Loss	3,119,954
Profits after Allocations	44,904,809
Add: Retained Earnings - December 2012	127,105,674
Total Retained Earnings - December 2012	172,010,483
Less: Dividends on Preferred Shares A	949,438
Dividends on Preferred Shares B	6,429,796
Dividends on Common Shares	10,080,000
Interest on Cash Contribution	1,404
Retained Earnings Carried Forward	**154,549,845**

ANNUAL REPORT 2012

Management Discussion and Analysis


Caring for the planet…
If there's no environment, there's no human race

Basis of Presentation

The following discussion and analysis have been prepared by management and are based on the audited financial statements of BBAC as at end December 31, 2012 and December 31, 2011.

The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis highlights BBAC's performance in 2012.

Any reference to "BBAC" or the "Bank" stands for BBAC s.a.l. and its international branches and any reference to BDL signifies the Central Bank of Lebanon. Any reference to "Central Banks" implies BDL as well as the Central Banks in countries where BBAC's branches operate.

Unless otherwise indicated, all figures are expressed in Lebanese Pounds, whereas all US Dollar amounts have been translated at the closing exchange rate which is published by BDL on the relevant dates that remained at LBP 1507.50 / USD.

Corporate Profile

BBAC s.a.l was established as a commercial bank in 1956 under the name of "Bank of Beirut and the Arab Countries" by a group of prominent investors headed by Sheikh Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. Currently, 54.292% of the Bank's shares are owned by the Assaf family, 37.068% are owned by Fransabank s.a.l., and the remaining 8.640% are held by other shareholders.

BBAC offers a broad range of banking and financial services including Corporate Banking, Commercial Banking and Trade Finance, Retail Banking, Private Banking, Treasury and Capital Markets, and Insurance.

Throughout the years, the Bank followed an expansion strategy that focused mainly on penetrating local and international markets. BBAC rigorously follows this strategy, with the most recent local branch opening in Chiyah-Lebanon in early 2012 as well as additional branches to follow in the near future. Furthermore, various existing branches were renovated or even relocated, with the specific aim of enhancing customer convenience and better catering to client needs commensurate with the reorganization of branches to convey the Bank's image in accordance with its brand strategy.

As a part of its continued growth strategy, BBAC is constantly seeking opportunities to establish new branches in targeted areas in Lebanon, as well as in key regional markets, in addition to its existing three international branches: one in Limassol-Cyprus, two in Iraq, Erbil and Baghdad, and a representative office in Abu Dhabi-UAE.

Mission Statement

Integrity

BBAC believes that a sound banking relationship is built on integrity and trust. Trust is achieved by conducting clients' personal and business transactions efficiently and with strict confidentiality.

Service

BBAC constantly strives to recognize and satisfy evolving customers' needs by developing services, products and solutions tailored to meet their requirements.

Growth

BBAC is committed to being a leading participant in the economic development of the community where it is present. The extent of the Bank's success in attaining this objective is reflected positively in the measure of its growth.

Business Overview

BBAC offers clients a wide range of financial products and services that vary from traditional banking to the most recent financial engineered products. These are provided through:

Corporate and Commercial Banking

Since its inception, BBAC has sought to fulfill its role in stimulating the growth of the Lebanese economy. To do so, the Bank continuously seeks to provide existing and potential participants in the economy with optimum solutions for their business needs. By supporting and funding business plans of clients, whether they are business-oriented individuals or organizations, BBAC is able to capitalize on development opportunities.

In fulfilling the diverse needs of its clients, the Bank offers short and long term loans as well as a variety of fixed and variable repayment loans. In addition, the range of facilities at BBAC extends from simple lines of credit and term loans to the more advanced forms of financing. These products are granted to entities in numerous industries such as real estate development, construction, manufacturing, trading, and more.

BBAC also delivers a comprehensive range of trade services to help businesses engaged in international and domestic import and export trade expand to new markets and grow their businesses. These services include: Letters of Credit, Letters of Guarantee, Documentary and Clean Collections, and Discounting of Trade Bills.

Moreover, as a way to support small and medium enterprises (SMEs), BBAC presents various types of specialized loans such as Kafalat Loans and Subsidized Loans for non-costly financing. These loans benefit from interest rate subsidies and expand to industries such as tourism and agriculture, which are considered key players in increasing Lebanon's GDP and providing job opportunities to the population.

Furthermore, the Project Finance Department offers specialized products and services covering a wide variety of sectors including real estate development, contracting, construction, special projects and syndicated loans.

High expertise, integrity and quality of service represent the basis of the Department's philosophy, whilst strictly adhering to the regulatory environment and internal policies governing project finance activities.

Despite the current and ongoing challenging economic and political conditions prevailing in Lebanon, Project Finance aims to play a major dynamic role in the ambitious expansion plans of BBAC, not only through building strong relations with existing individuals and large corporations, but also by significantly enhancing and expanding BBAC clients' platform locally and internationally.

Retail Banking

BBAC considers Retail Banking to be a reflection of the Bank's image to the public, with branches located in abundance in all major Lebanese cities. In this spirit, the Retail Banking Division has been consistently growing in terms of professional staff and has introduced a wide range of banking products and differentiated services including retail loans, credit cards, mortgages and deposit accounts to serve the various financial needs of customers.

In addition to providing customers with a diversified bundle of credit programs, BBAC strives to meet the increasing financial demands of the Lebanese housing sector through various mortgage offers, including the Iskan Housing loan, Military Housing loan, Expatriate Housing loan, BDL Housing loan, Judge Housing loan, and BBAC's own housing loan program. Building on a strong track record of success, an increase of 7% in the year 2012 was achieved in housing loan programs.

BBAC also offers a number of personal loans (Public Sector loan, Private Sector loan, Small Business loan, University loan and School loan) to easily meet consumers' different plans. Throughout the year of 2012, BBAC has revamped some of the personal loans' features, in particular the interest rates and repayment period, by launching seasonal offerings and promotions with competitive and distinctive benefits.

BBAC has allocated significant efforts to contribute in the buildup of human capital by introducing particular educational loans with special credit programs for students in financial need; the Bank recognizes the social returns of these loans and believes that, as a part of this community, when investing in education, the Bank participates in a sustainable economic growth.

In order to match the consumers' desires and preferences, BBAC recommends customized banking accounts and products to clients who wish to control their payments, save money or make future plans. These particular accounts and products comprise domiciliation accounts, current accounts, savings accounts and fixed term accounts in addition to the direct debit of service bills.

In light of the growing payment services, BBAC offers a diversified payment cards portfolio such as the "Classic", "Gold" and "Platinum" credit cards designed to offer financial flexibility and purchasing power relative to need and lifestyle. Other credit cards are also available as the "Euro" card for travel enthusiasts to help avoid the hassle of exchange rates when travelling to Europe, and the "Diamond" card exclusively for women, completely free and with an opportunities to win jewelry and diamonds. For customers looking for a secure online shopping experience BBAC offers the "Internet" card which is a charge card designed to provide a sense of confidence and flexibility when making purchases over the internet.

Always keeping in mind the responsibility it bears as a Lebanese institution, BBAC offers its clients an opportunity to contribute to humanitarian causes through the following two credit cards: "CCCL" card that donates 1% of the purchases made to the Children's Cancer Center in Lebanon (CCCL) to help treat children with cancer, and "Kunhadi" card that grants 1% of the purchases made to the Kunhadi Association for youth awareness on road safety.

All BBAC credit cards, which can be used locally and internationally, are issued with a chip, and, for security purposes, a pin code is needed for every purchase or cash withdrawal transaction, providing clients with the utmost protection and assurance.

Treasury and Capital Markets

BBAC aims to sustain a long-term capital position both in local and international markets through carefully calculated investment opportunities. The main function of the Treasury Department at BBAC is to manage the Bank's liquidity by seizing opportunities in order to benefit from available resources in local and international markets and to monitor the liquidity policy by distributing investments in a way to maintain liquidity cover ratios and maximize yields. By doing so, it is able to maximize return on the Bank's assets while adhering to specific risk policies and guidelines set by the BOD and the Assets and Liability Management Committee (ALCO) as well as the rules and regulations set by BDL.

The Bank’s treasury team continuously conducts researches about domestic and international markets in order to identify rewarding and secure investment opportunities. Asset allocation is the central theme of the investment philosophy at BBAC and the dominant factor in determining the return on the portfolio.

Investments usually vary between a wide range of Lebanese (fixed income and equity) and foreign securities, as well as various money market operations and investments. Moreover, the Treasury is also active in the Foreign Exchange markets and national and international Capital markets. It provides the Bank’s clients with round-the-clock services in FX spots, forwards, and can cover any hedging needs for its clients and any trading activity through the local Beirut Stock Exchange as well as regional and international exchanges.

Private Banking

The Private Banking Unit at BBAC provides personalized services in an environment of confidentiality and trust, while finding creative solutions clients who seek to manage their finances and develop new sources of wealth for the future.

Through the assistance of a dedicated professional team, the Unit also seeks to provide its clients with financial stability and continuity during uncertain times, and aims to build a long term relationship with the clients by providing personal guidance and professional consultation on their banking needs.

This is executed through a pool of investment services, which include trade execution, portfolio administration, and advice on investment opportunities and market insights.

The clients have full access to all equity markets and financial instruments that range from simple derivatives to sophisticated structured products such as futures, options, equity securities and all the main commodity products.

In the coming years, BBAC will continue to reinforce its relationship with existing clients and seek to build new ones with potential clients by building on opportunities for successful long-term relationships. The Bank is looking forward to making Private Banking at BBAC the client’s ultimate advisor of choice for wealth management solutions and private banking services by linking personal wealth to a world of financial expertise.

Insurance Services

BBAC differentiates itself by providing its clients with ultimate customer care and a broad portfolio of products and services that address the entire range of its clients’ financial well-being objectives. Accordingly, the Bank offers insurance services as well as savings plans throughout its branch network and in partnership with insurers known for their solidity, security, and expertise.

In collaboration with The Capital Insurance and Reinsurance Co. s.a.l., a subsidiary of BBAC, the Bank offers flexible and competitive insurance contracts that are especially designed to satisfy all clients’ requirements in terms of premium, cover, security, and services. These contracts include: (1) Private Car Insurance; (2) Personal Accidents Insurance; (3) Term Life Insurance (natural and/or accidental death); (4) Home Insurance (fire, neighbors’ recourse and earthquake) and (5) Foreign Domestic Helpers Insurance.

BBAC continues to offer two savings plans; JANA Retirement Plan and NAJAH Education Plan, in partnership with Allianz SNA s.a.l. These plans are designed to give BBAC’s clients and their families protection and guaranteed benefits, offering the opportunity to safeguard their financial future.

Information Technology

Keeping in mind the ultimate purpose of providing clients with a continuous and exceptional quality of service, BBAC encourages a high level of interaction between the Information Technology (IT) Department and different business departments and divisions, with the sole aim of increasing customer satisfaction, creating more synergy and reducing costs.

BBAC acknowledges that the competitive advantage of banks and financial institutions relies heavily on the capability of technology to implement business processes, manage risks and provide excellent customer service. As a result, the Bank seeks to acquire and internally develop advanced technology solutions.

Below are few examples of enhancements implemented in 2012:

- Upgrade of the core banking system to Bank Fusion Equation (BFEQ)

- Implementation of a full Business Continuity and Disaster Recovery (BCDR) solution through a new Data Center based on the latest standards protecting bank IT equipment to ensure a healthy, controlled and monitored environment

- Acquisition of a new international Internet and Mobile banking system to better serve customers remotely

- Enhancement and delivery of new services covering Deposits, Transfers and Cashier operations to minimize the time of execution of these operations

BBAC invests heavily in the latest banking technologies to support growth both internally and externally. The Bank strives to ensure unparalleled protection and crisis management by utilizing the most sophisticated means of high-tech. A heightened importance was given to enhancing overall banking services and continuity.

Compliance

BBAC has been always vigilant about the safety and reputation of its stakeholders and has focused on complying with the requirements of the Anti- Money Laundering (AML) Lebanese Law No. 318 issued on April 20, 2001.

In this perspective, full coordination and transparency have been adopted with the Special Investigation Commission (SIC), which was entrusted to supervise the adherence of the Lebanese banks with this law.

Full efforts are continuously paid to detect and prevent any attempt of money laundering and potential terrorist financing. Policies and procedures have been set and continuously updated and intensive training is provided for all AML officers and controllers, jointly complemented by an up-to-date AML detecting program.

On November 29, 2013, BDL announcement No. 897 requested the Lebanese banks to take necessary procedures to comply with the Foreign Account Tax Compliance Act (FATCA) Law issued by the United States of America. On its behalf, BBAC has taken actions to raise awareness among its staff and customers and is in process of taking all necessary steps to comply and abide by the requirements by the due dates set by the U.S. Internal Revenue Service (IRS).

As per the requirements of BDL circular No. 128 issued on January 12, 2013, BBAC has originated under its Compliance Department, along with the existing AML/CFT Section, a Legal Compliance Section to handle its businesses securely and successfully.

Risk Management

BBAC's Board of Directors strongly believes that adhering to sound corporate governance and reliable internal governance plays a significant role in enhancing the Bank's global performance. Working in such an environment, staying up-to-date with the industry's best practices and encouraging proactive risk initiatives positively contribute to the effectiveness and efficiency of the Bank's risk management activities. The BOD sets the risk appetite for the Bank within which the Executive Management of the Bank operates.

The Risk Management Department (RMD) at BBAC operates independently from the business lines and is divided into the following sections: Credit Risk, Operational Risk, Market Risk, Information Security, and Credit Administration.

The RMD is headed by the Chief Risk Officer (CRO), who reports directly to the Chairman-General Manager and to the Board Risk Committee. The CRO is a non-voting member in the ALCO, the Senior Credit Committee and other committees of the Bank.

The RMD is responsible of overseeing and assisting the Bank's activities in recognizing, assessing, and managing risk. The RMD participates in developing strategies to manage risks and proposing methods to mitigate risks that fall beyond the Bank's appetite. BBAC believes that risk management practices are necessary to identify risks that are inherent to its business, measure and evaluate these risks to make a decision as to whether to accept, manage and/or mitigate them given the Bank's overall profile of risks. Such sound practices encompass at their base:

- Good corporate governance through active oversight by the BOD and Senior Management;
- Consistent application of policies, procedures, and limits in congruence with the Bank's strategic objectives;
- Use of appropriate risk-measurement techniques and reporting;
- Implementation of enterprise-wide internal controls;
- Continuous improvement of the Bank's risk profile and flexibility to change;
- Adoption of comprehensive and up-to-date information systems.

BBAC strives for compliance with local regulatory requirements as well as Basel guidelines. The Bank addresses Pillar I of Basel by measuring credit risk and market risk using the standardized approaches, and operational risk using the Basic Indicator Approach. The Bank also addresses Pillar 2 of Basel by developing and maintaining an Internal Capital Adequacy Assessment Process (ICAAP).

Basel III Capital Adequacy Ratio (CAR) reached 12.07% by the end of 2012, which exceeded the regulatory requirements set by BDL circular No.44. Common Equity Tier 1 (CET1) constitutes the bulk of this capital with a CET1 ratio of 8.94%, which also exceeded the required CET1 regulatory ratio of 5% by the end of 2012.

Risk Weighted Assets* (in million LBP)		
As of December 31	**2012**	**2011**
Credit Risk	3,857,939	3,602,484
Market Risk	43,753	128,150
Operational Risk	270,095	235,917
Total Risk Weighted Assets	**4,171,788**	**3,966,551**

*Risk Weighted Assets are calculated as per the requirements of the Banking Control Commission of Lebanon (BCCL) circular No.04/2013 dated April 11, 2013, which slightly differ from the previous requirements.

Capital Funds as per Basel III* (in million LBP)		
As of December 31	**2012**	**2011**
Net Common Equity Tier One Capital	372,812	326,970
Net Tier One Capital	493,448	397,157
Total Capital	**503,448**	**407,157**

*Capital is calculated as per the requirements of BCCL circular No.04/2013 dated April 11, 2013, which slightly differ from the previous requirements.

Capital Adequacy Ratio as per Basel III*		
As of December 31	**2012**	**2011**
Net Common Equity Tier 1/ Total Risk Weighted Assets	8.94%	8.24%
Net Tier 1 / Total Risk Weighted Assets	11.83%	10.01%
Total Capital/ Total Risk Weighted Assets	**12.07%**	**10.26%**

*CAR is calculated as per the requirements of BCCL circular No.04/2013 dated April 11, 2013, which slightly differ from the previous requirements.

Basel III Implementation in Lebanon as per BDL Circular No. 44				
	2012	**2013**	**2014**	**2015**
Common Equity Tier 1 CAR	5%	6%	7%	8%
Tier 1 CAR	8%	8.50%	9.50%	10%
Total Capital CAR	**10%**	**10.50%**	**11.50%**	**12%**

Besides Pillar I risks, BBAC has developed a comprehensive ICAAP document which accounts for risks that are relevant to the Bank in general as well as various stress testing scenarios for different risks. BBAC relies on the results of the ICAAP in capital planning and in setting actions plans to improve the risk management processes based on the qualitative assessments conducted. The capital adequacy ratio remains at a good level after accounting for Pillar II risks, while the BOD is keen on holding a good economic capital and not just the regulatory one.

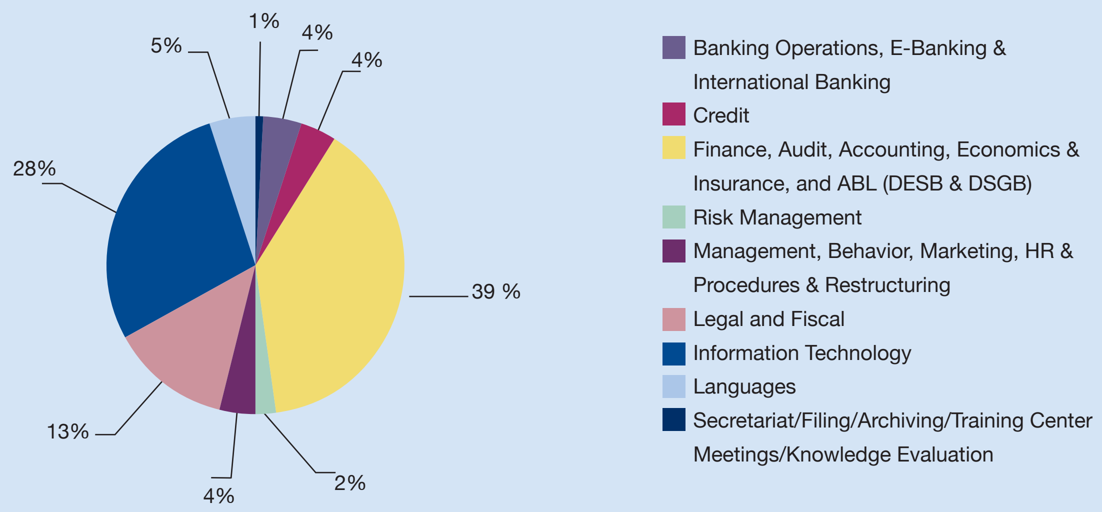
In its preparation to move to more advanced approaches under Pillar I, BBAC adopted Moody's Risk Analyst as a rating system for its commercial and corporate portfolios. Currently, the Bank is planning to implement additional information systems including market risk, liquidity risk, concentration risk and operational risk. BBAC continues to develop policies, procedures and systems with the objective to advance in the methodologies and tools for better risk management and control.

Human Resources Management

The talent retention factor has improved steadily over the last few years and the number of employees below the age of 40 is approaching almost half of the total number of employees. In addition, the number of employees with university degrees has risen significantly. Another major aspect that BBAC strongly advocates is providing financial support to encourage its employees to pursue their post graduate educational plans such as the Centre "d'Etudes Bancaires" diplomas, university B.A.'s and M.B.A.'s. Moreover, BBAC provides internships to numerous university students to be better prepared when they join the workforce upon graduation.

BBAC assigns great importance towards investing in its staff especially through training. In 2012, training sessions emphasized mainly on Accounting and Finance, Information Technology and Legal and Fiscal topics (see graph below). The emphasis on the topic of Finance was partially a result of compliance with the necessary certifications to be obtained by employees occupying specific jobs in accordance with the conditions imposed by BDL circular No. 103.

Distribution of Training Hours According to Training Subjects



BBAC managed to make training available to most of its employees with a coverage ratio of 79%. During the last 5 years, the total average hours of training activities was 13,600. In 2012, training activities totaled 13,744 hours in which internal training represented 57% of the total training hours.

BBAC gives high importance to providing its employees with equal opportunities to advance their careers. The Bank actively promotes and fosters an environment in which growth and personal development are encouraged for present and future opportunities.

Corporate Social Responsibility

BBAC has been committed to supporting the community it serves since its inception in 1956. Seeking both social and economic development of the country, the Bank has always strived to ensure that its corporate social responsibility (CSR) provides a comprehensive welfare program that makes a measurable difference. After all, BBAC is proud to be renowned as Lebanon's 'Caring Bank'.

In 2012, BBAC entered into a partnership with the United Nations Development Program (UNDP) on the Live Lebanon initiative. This partnership signifies a significant leap forward for the Bank. Live Lebanon's high-impact, long-term initiatives provide structured support through which BBAC can clearly demonstrate its care for community growth, social development and the nation's overall wellbeing. The partnership's initial two projects - distributing 1,000 gifts to disadvantaged children and the elderly during the holiday season and empowering a women's cooperative with the tools needed to expand their business further - laid strong foundations for many more highly impactful projects to follow in 2013.

Every year, BBAC supports different community initiatives and organizations active in the areas of health, sports, education, arts and culture, and community outreach through donations and sponsorships.

Based on the firm belief in equal opportunity, BBAC placed particular importance on gender and economic equality in 2012. Accordingly, the Bank sponsored several social projects, such as "We Believe… Partners to End Violence against Women" campaign that was launched by ABAAD - Resource Center for Gender Equality to denounce violence against women in Lebanon, and the WAAAUB-Bekaa Chapter's annual fundraising gala dinner, held to raise money for financial aid that will allow talented students to pursue their studies at the American University of Beirut (AUB).

BBAC believes that it is important to encourage employees to engage in the very philanthropic work that defines the banking business. As a result, internal fundraising campaigns are arranged through which employees can donate money to worthy causes, and volunteer opportunities are offered for various projects. By supporting these projects and other kinds of worthy endeavors, BBAC puts its core values and care into action, stimulating better community growth, development and overall wellbeing.

Financial Activities and Performance Highlights

Overview of the Lebanese Economy and Banking Sector

With political turmoil and conflicts engulfing Lebanon's neighboring countries, and with Lebanon facing some spillover effects, the local economy's growth was somewhat hindered. The estimated real GDP growth rate in 2012 was approximately 2%. Despite the economy's unfavorable conditions, political distress did not affect the banking sector adversely or severely for numerous reasons. The sector experienced an 8% growth in total banking activity by the end of 2012, and total assets of the banks in Lebanon reached more than three times the GDP. Furthermore, the stable monetary policy that the government has implemented limits the potential of financial crises. Last but not least, the regulations and standards set forth by BDL and BCCL have been effective at mitigating all types of risks that banks face in their operations and, therefore, have been able to protect banks in Lebanon from external pressure.

Breakdown of Assets and Liabilities

1. Currency Breakdown

BBAC's currency mix did not experience significant shifts from 2011 to 2012, with Lebanese currency denominating assets and liabilities forming almost 40% of total assets and liabilities. By the end of 2012, the deposit dollarization level at BBAC reached 61.4% which is lower than the domestic Lebanese banking sector's average of 68.8%. This indicates that despite decreasing confidence in the Lebanese banking sector and its stability as a whole, BBAC customers maintained a higher level of assurance towards the Bank.

2. Interest and Non-Interest Earning Assets

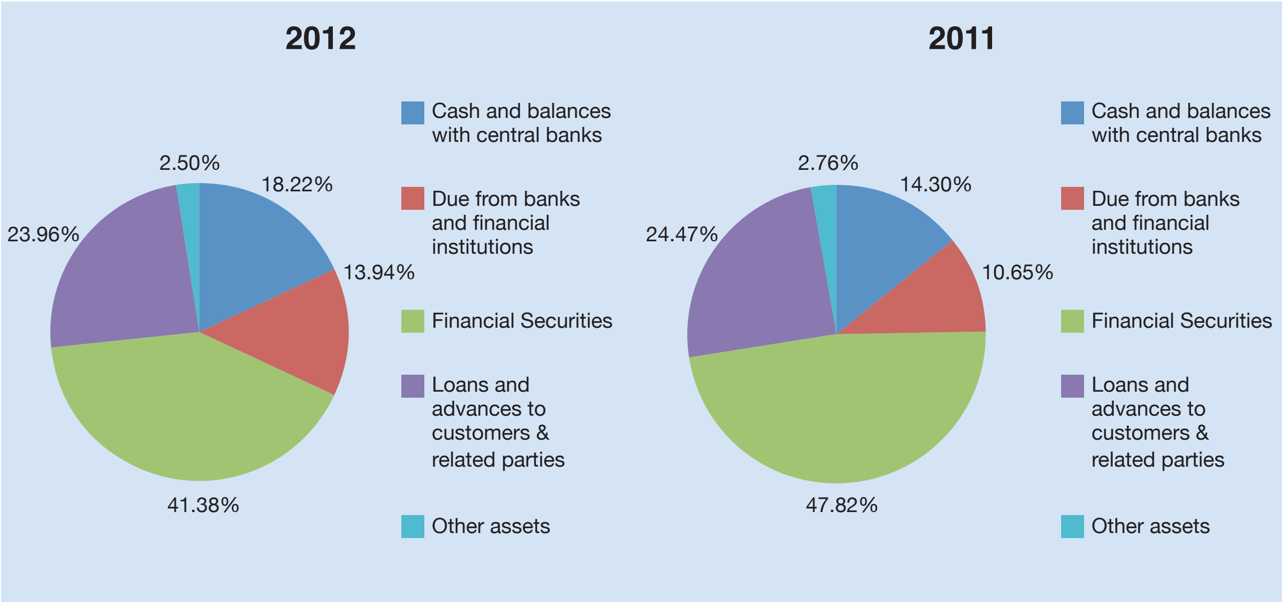
Breakdown of Assets by Interest-Earning and Non-Interest Earning Accounts

(In million LBP)	Amount		Structure		% Change
	2012	2011	2012	2011	2012/2011
Balances with Central Banks	1,013,302	675,628	13.75%	10.38%	49.98%
Due from Banks and Financial Institutions	892,502	443,160	12.11%	6.81%	101.39%
Trading and Investment Securities	3,019,155	2,981,628	40.97%	45.82%	1.26%
Loans and Advances to Customers and Related Parties	1,728,088	1,270,698	23.45%	19.53%	36.00%
Total Interest Earning Assets	**6,653,047**	**5,371,114**	**90.27%**	**82.55%**	**23.87%**
Total Non-Interest Earning Assets	**716,894**	**1,135,671**	**9.73%**	**17.45%**	**(36.87)%**
Total Assets	**7,369,941**	**6,506,785**	**100.00%**	**100.00%**	**13.27%**

BBAC allocated a greater portion of its total assets in interest-generating accounts in 2012, which formed 90.27% as compared to 82.55% in 2011. In line with BBAC's diversification strategy, the Bank invested more in loans and advances to customers and related parties. The growth of the trading and investment securities portfolio in 2012 was merely 1.26% compared to 23.87% growth of total interest earning assets.

Asset and Liability Management

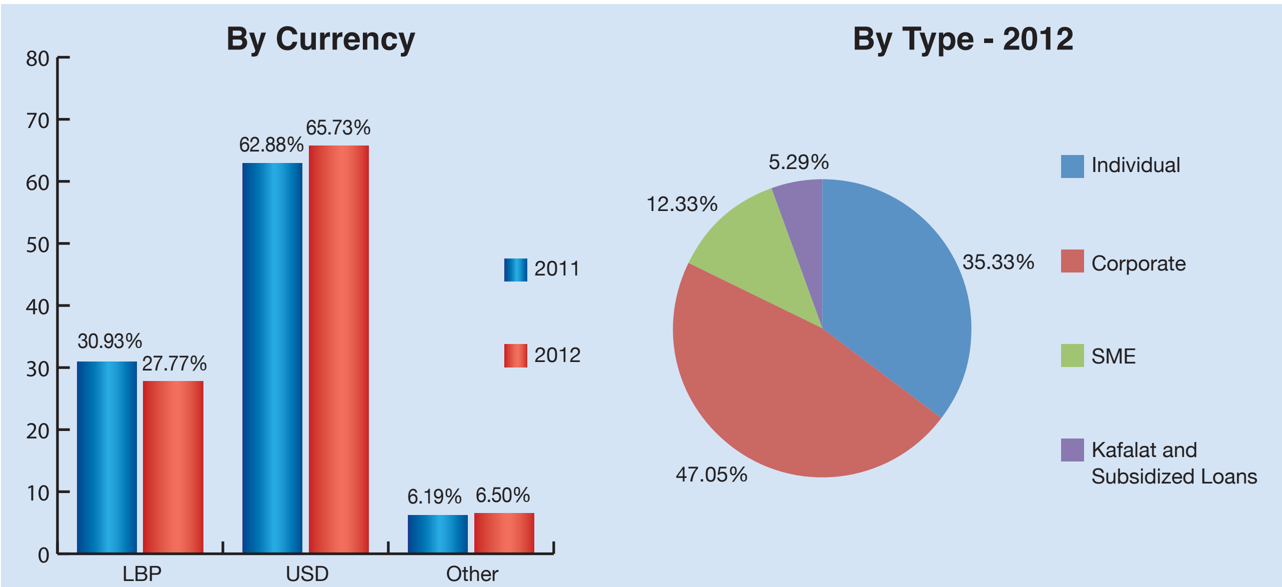
1. Uses of Funds



The Bank utilizes a significant proportion of its funds in investments in financial securities and loans and advances to customers and related parties. The growth of 13.27% in BBAC's total assets, which was primarily triggered by a 36% increase in loans and advances to customers and related parties, displays the Bank's dynamic ability to seize profitable opportunities.

A greater percentage of investment is made in CDs and other debt securities followed by Treasury Bills in both years, which explains the reason behind the classification of 96.5% of investments in 2012 as amortized cost rather than FVTPL.

1.1 Loans and Advances



A slightly greater percentage of foreign currencies denominated loans were granted to customers in 2012 compared to 2011 and these loans comprise a larger fraction of total loans and advances than Lebanese currency products, a feature which is in line with the prevailing market trend in the banking sector. Reflecting BBAC's rigorous pursuit of available profitable opportunities, the allocation of loans by type of customers did not witness any significant changes as 82% of loans were granted to corporate and individual clients.

1.2 Interest-Earning Loans by Maturity

The breakdown of interest-earning loans by maturity witnessed some shifts from longer to shorter term maturities. As of 2012, 36% of the loans will mature within one month as opposed to 20% in 2011. Almost 75% of the interest-earning loans will mature within one year, indicating that BBAC will enjoy an operating inflow in 2013. This also reflects a strong liquidity position, especially since a substantial portion of the loans will mature within one month.

From a geographic aspect, a bulk of the loans granted by BBAC is concentrated in Lebanon (88%), with the rest distributed among other Arab countries (7%), the United Kingdom (2.5%) and other countries (2.5%). This structure did not vary drastically across the two years.

2. Sources of Funds

To fund its operations, BBAC relies heavily on balances due to customers. Consequently, the growth of 12.18% of these deposits was the principal cause of the 13.27% rise in the sources of funds. Another large component of the sources of funds is shareholders' equity. Driven by a consistent high retention ratio and the increase in ordinary and preferred shares, the 19.75% growth of shareholders' equity was greater than the growth of total assets.

Foreign currency deposits dominated the deposits mix, which matches the Lebanese banking industry's dollarized behavior, as well as the Bank's increase in foreign currency loans granted to customers. Despite the high concentration of interest bearing deposits maturing within one month, a trend present in both 2011 and 2012, BBAC enjoys a superior liquidity position, which is discussed in another section.

Asset Quality

The analysis of BBAC's asset quality will focus on loans and advances to customers and related parties as they carry the greatest amount of risk to its capital. In compliance with International Standards of Accounting and Reporting (IAS39 and IFRS 7), BBAC continued with its collective impairments tests on its loans and advances and provisioning any uncovered positions.

BBAC maintained its rigorous pursuit of decreasing the net non-performing loans to gross loans ratio, which dropped from 1.47% to 0.97%, by taking a greater amount of provisions in 2012 than in 2011 combined with a lower amount of gross doubtful and bad loans. Net doubtful and bad loans decreased by approximately 83% and net performing loans increased by approximately 12%. This increase represents the bulk of the total rise in net loans.

BBAC covered 97.84% of its gross doubtful and bad loans through provisions in 2012, which is a significant rise compared to the year before. This indicates that BBAC is mounting effort towards ensuring that non-performing loans do not incur any unexpected losses. Moreover, non-performing loans represented an even smaller percentage of total loans and total assets in 2012 than in 2011, a change which demonstrates improving asset quality and asset management.

Liquidity

Liquidity represents a bank's ability to meet its financial obligations by their due dates and is a core determinant of a bank's success. Consequently, managing liquidity is a crucial and on-going process.

Liquid assets grew at a rate of 14.46% from 2011 to 2012 and also experienced a change in structure as the Bank shifted a portion of its financial securities and distributed it to cash and balances with central banks in addition to due from banks and financial institutions. BBAC maintained approximately the same distribution of liquid assets by currency across the two years (41% in LBP and 59% in foreign currency).

The Bank experienced a slight improvement in its existing strong liquidity position, with its loans covering 27.32% of its deposits. This ratio represents the percentage of the Bank's loans funded by deposits and its current value indicates that BBAC has capacity to rely on more borrowed funds. The Bank can convert 73.54% and 80.54% of its liquid and net liquid assets respectively to cover redemptions as needed. In addition, its strong liquidity position is not limited to one currency only as both Lebanese currency and foreign currency positions have maintained high-quality ratios.

Profitability and Efficiency

A bank's financial success relies on its profitability and efficiency in managing its revenues and expenses when seeking profitable opportunities and allocating respective costs. BBAC experienced an approximate 12% rise in profits due to the execution of a thoroughly formed strategy aimed at promoting profitability, efficiency, and long-term growth.

Profit before Income Tax

The structure of revenues remained relatively stable across the two years, whereas that of expenses shifted slightly. Revenues rose by approximately 8.66% due to the increase of interest and similar income by 8.67 %. The commission income increased by 10.94% in 2012.

Although expenses rose as well, the increase was less than that of revenues, reaching 7.83% at the end of 2012. Moreover, interest expense witnessed a mere 1.31% increase, which means that BBAC was able to boost its income at a suitable and acceptable cost.

1. Interest

The key player in BBAC's profitability is interest, as interest income and expense constitute around 88% and 70% of revenues and expenses respectively.

1.1 Interest Income and Interest Expenses

The Bank generated a higher amount of interest income in 2012 than in 2011 by relying less on investment securities and more on loans and advances to customers and related parties and banks and financial institutions, which triggered the increase of 8.25% in interest income. This is in line with BBAC's goal of employing its resources in the most effective and beneficial way to remain in step with its strategy.

2. Interest Margin Analysis

(In million LBP)	2012 Total	2011 Total
Average Interest Earning Assets	6,012,081	5,634,878
Interest Paid	244,491	241,333
Interest Received	369,893	341,691
Net Interest Received	125,402	100,358
Cost of Average Interest Earning Assets (in %)	4.07%	4.28%
Return on Average Interest Earning Assets (in %)	6.15%	6.06%
Gross Interest Margin (in %)	**2.09%**	**1.78%**
Net Releases (provisions) on Loans and Advances	(6,505)	3,864
Net Interest Margin (in %)	**1.98%**	**1.85%**
Average Interest Earning Assets to Average Assets (in %)	86.65%	88.76%
Gross Spread (in %)	1.81%	1.58%
Net Spread (in %)	1.71%	1.64%

The increase in interest received was larger than the increase in interest paid which drove the gross and net interest margins upwards, consequently leading to the rise in the gross and net spreads. In addition, average interest earning assets grew at a rate higher than the increase in interest paid, which resulted in a reduction of cost of average interest earning assets.

3. Profitability Ratios

Similar to previous years, BBAC was able to sustain its profitable position and even improve it, albeit slightly. The significant increases in both average assets and average equity minimized the increase in the return on average assets (ROAA) and return on average equity (ROAE), despite the rise in net income. In addition, BBAC retained a larger amount of its earnings in 2012, securing a way to finance possible growth opportunities in 2013. The higher amount of retained earnings was also the primary reason for the higher book value per common share in 2012.

4. Management Efficiency Ratios

A bank's efficiency is related to how well it utilizes its resources to generate revenue. It is measured by the allocation of expenses to sources of income. BBAC's rigorous efficiency-based strategy resulted in the decrease in the interest paid to interest received ratio, thereby boosting efficiency. The cost to income ratio was left practically unchanged due to a 13.66% increase in operating expenses combined with the rise in income. The increase in operating expenses, which reflects BBAC's expansion efforts, was driven mainly by a rise in staff expenses, which grew by approximately 17% during 2012. The number of branches increased from 38 to 39. Consequently, the average cost per branch rose from LBP 2.0 billion in 2011 to LBP 2.2 billion in 2012.

ANNUAL REPORT 2012

Auditors' Report

Helping rural communities hold the keys to productivity in their own hands

Contents

Independent Auditors' Report to the Shareholders of BBAC S.A.L.

Report on the stand alone financial statements

We have audited the accompanying stand-alone financial statements of BBAC S.A.L. ("the Bank"), which comprise the balance sheet as at 31 December 2012 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Basis for qualified opinion

As explained in notes 2.17 and 2.18, the Bank's accounting policies require that owner occupied properties and investment properties are measured under the revaluation model and the fair value model respectively. These revaluations must be updated on a regular basis to reflect the properties' current revalued amounts. Although no formal revaluations were obtained by management or reflected in the accounting records, management believe that the carrying amounts of these assets are materially lower than their fair values at 31 December 2012. In the absence of formal revaluations by an independent expert, we were unable to quantify the effects of these understatements on the Bank's financial statements, specifically owner occupied properties, investment properties, real estate revaluation reserve, depreciation expense and profit for the year ended 31 December 2012.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph above, the accompanying financial statements present fairly, in all material aspects, the unconsolidated financial position of the Bank as at 31 December 2012, and of its unconsolidated financial performance and its unconsolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

PricewaterhouseCoopers

KPMG

Beirut, Lebanon

30 April 2013

Balance sheet at 31 December 2012

	Note	2012 LL Million	2011 LL Million
ASSETS			
Cash and balances with central banks	5	**1,343,062**	930,791
Loans and advances to banks	6	**1,027,138**	693,100
Loans and advances to customers	8	**1,765,774**	1,592,030
Debtors by acceptances	9	**52,467**	47,777
Investment securities:			
- Fair value through profit or loss	7,10	**106,781**	170,314
- Amortised cost	10	**2,942,982**	2,941,002
Investments in subsidiaries	11	**3,524**	3,524
Investment properties	12	**7,669**	5,965
Property and equipment	13	**71,615**	67,351
Intangible assets	14	**2,229**	1,612
Other assets	15	**26,800**	31,856
		7,350,041	6,485,322
Non-current assets classified as held for sale	16	**19,900**	21,463
Total assets		**7,369,941**	6,506,785
LIABILITIES			
Deposits from banks and financial institutions	17	**213,712**	161,926
Financial liabilities held at fair value through profit or loss	18	**12,679**	14,489
Deposits from customers	18	**6,464,313**	5,762,579
Engagements by acceptances	9	**52,467**	47,777
Current income tax liabilities	33	**5,419**	2,995
Other liabilities	19	**23,196**	16,877
Retirement benefit obligations	21	**22,071**	19,081
Total liabilities		**6,793,857**	6,025,724
EQUITY			
Share capital – Common shares	22	**149,016**	144,000
Share capital – Preferred shares	22	**120,600**	75,375
Cash contributions to capital	22	**36**	36
Other reserves	23	**134,421**	117,460
Retained earnings	23	**172,011**	144,190
Total equity		**576,084**	481,061
Total equity and liabilities		**7,369,941**	6,506,785

The financial statements on pages 36 to 103 were authorized for issue by the directors on 30 April 2013 and were signed on their behalf by:

Mr. Ghassan Assaf
Chairman and General Manager

The notes on pages 41 to 103 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2012

	Note	2012 LL Million	2011 LL Million
Interest and similar income	24	**369,893**	341,691
Dividend income		**4,343**	2,672
Interest and similar expenses	24	**(244,491)**	(241,333)
Net interest and similar income		**129,745**	103,030
Net loan impairment releases (charges)	29	**(6,505)**	3,864
Net interest and similar income after loan impairment releases (charges)		**123,240**	106,894
Fee and commission income	25	**32,685**	29,461
Fee and commission expense	25	**(4,165)**	(3,478)
Net fee and commission income		**28,520**	25,983
Net gain (loss) on financial instruments held at fair value through profit or loss	26	**13,704**	(1,126)
Net gains on investment securities	27	**2,274**	12,986
Other operating income	28	**1,745**	5,099
Personnel expenses	30	**(52,146)**	(44,622)
Depreciation and amortisation expense	32	**(4,219)**	(3,860)
Other operating expenses	31	**(34,109)**	(31,121)
Profit before income tax		**79,009**	70,233
Income tax expense	33	**(14,023)**	(12,173)
Profit for the year		**64,986**	58,060
Other comprehensive income		-	-
Total comprehensive income for the year		**64,986**	58,060

The notes on pages 41 to 103 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2012

	Common shares LL Million	Preferred shares LL Million	Cash contributions to capital LL Million	Other reserves LL Million	Retained earnings LL Million	Total LL Million
At 1 January 2011	72,000	75,375	43,109	149,457	125,053	464,994
Impact of adoption of IFRS 9 (note 10)	-	-	-	(32,225)	5,221	(27,004)
Profit for the year	-	-	-	-	58,060	58,060
Total comprehensive income	**-**	**-**	**-**	**-**	**58,060**	**58,060**
Transfers from retained earnings and reserves	71,657	-	(43,073)	(15,474)	(13,110)	-
Additional paid in capital	343	-	-	-	-	343
Dividends relating to 2010 (note 34)	-	-	-	-	(14,138)	(14,138)
Interest paid on cash contributions to capital (note 34)	-	-	-	-	(1,194)	(1,194)
Transfers from retained earnings (note 23)	-	-	-	15,702	(15,702)	-
At 31 December 2011	144,000	75,375	36	117,460	144,190	481,061
At 1 January 2012	**144,000**	**75,375**	**36**	**117,460**	**144,190**	**481,061**
Profit for the year	-	-	-	-	64,986	64,986
Total comprehensive income	**-**	**-**	**-**	**-**	**64,986**	**64,986**
Redemption of preferred shares “A” (note 22)	-	(75,375)	-	-	-	(75,375)
Issuance of preferred shares “B” (note 22)	-	120,600	-	-	-	120,600
Dividends relating to 2011 (note 34)	-	-	-	-	(14,138)	(14,138)
Interest paid on cash contributions to capital (note 34)	-	-	-	-	(1,050)	(1,050)
Transfers from retained earnings (note 22 and 23)	5,016	-	-	16,961	(21,977)	-
At 31 December 2012	**149,016**	**120,600**	**36**	**134,421**	**172,011**	**576,084**

The notes on pages 41 to 103 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2012

	Note	2012 LL Million	2011 LL Million
Cash flows from operating activities			
Profit before income tax		**79,009**	70,233
Adjustments for non cash-items:			
Net loan impairment charges (releases)	29	**6,505**	(3,864)
Impairment charges on other assets	31	**-**	1,192
Depreciation charge	13	**3,635**	3,175
Amortisation charge	14	**584**	685
Loss/(gain) on disposal of property and equipment	28	**76**	(407)
Gain on disposal of assets classified as held for sale	28	**(1,214)**	(1,145)
Fair value loss on investment properties	12	**-**	164
Release of provision for restructuring	20	**-**	(2,900)
Net (gain) loss on financial instruments held at fair value through profit or loss		**(551)**	9,608
Net gain on investment securities	27	**(2,274)**	(12,986)
Dividends income		**(4,343)**	(2,672)
Provision for retirement benefit obligations	21	**4,276**	1,954
		85,703	63,037
Balances with central banks	5	**(278,404)**	27,376
Loans and advances to banks	6	**9,465**	(6,490)
Financial assets held at fair value through profit or loss	7	**64,084**	34,437
Loans and advances to customers	8	**(180,249)**	(310,859)
Investment securities	10	**294**	(201,244)
Other assets	15	**5,056**	(8,326)
Deposits from banks and financial institution	17	**51,786**	50,297
Deposits from customers	18	**699,924**	264,275
Other liabilities		**6,152**	2,231
Dividends received		**4,343**	2,672
Employee benefits paid	21	**(1,286)**	(690)
Income taxes paid	33	**(11,599)**	(10,889)
Net cash generated from (used in) operating activities		**455,269**	(94,173)

Statement of cash flows (continued) for the year ended 31 December 2012

	Note	2012 LL Million	2011 LL Million
Cash flows from investing activities			
Purchase of intangible assets	14	**(1,201)**	(1,183)
Purchase of property and equipment	13	**(10,515)**	(11,860)
Proceeds from disposal of property and equipment		**836**	1,002
Proceeds from disposal of assets classified as held for sale		**2,777**	**3,142**
Net cash used in investing activities		**(8,103)**	(8,899)
Cash flows from financing activities			
Cash contribution to capital	22	**-**	343
Interest paid on cash contributions to capital		**(1,050)**	(1,194)
Dividends paid		**(13,971)**	(14,479)
Redemption of preferred shares ''A"		**(75,375)**	-
Issuance of preferred shares "B"		**120,600**	-
Net cash generated from (used in) financing activities		**30,204**	(15,330)
Cash and cash equivalents at beginning of the year	35	**920,271**	1,038,673
Net cash generated from (used in) operating activities		**455,269**	(94,173)
Net cash used in investing activities		**(8,103)**	(8,899)
Net cash generated from (used in) financing activities		**30,204**	(15,330)
Cash and cash equivalents at end of year	35	**1,397,641**	920,271

The notes on pages 41 to 103 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2012

1 General information

BBAC S.A.L. ("the Bank") provides retail, private and corporate banking services through its head office in Beirut and its network of thirty seven branches across Lebanon, in addition to a branch in Cyprus and two branches in Iraq (Erbil and Baghdad).

The Bank was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It appears under number 28 in the list of Lebanese banks. The address of its registered office is as follows: P.O. Box: 11-1536, Clemenceau, Beirut – Lebanon.

2 Summary of significant accounting policies

The financial statements relate to the Bank and are presented on a non-consolidated basis. The Bank has also prepared under a separate cover consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for the Bank and its subsidiaries ("the Group").

The consolidated financial statements can be obtained from BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut – Lebanon.

Users of the stand-alone financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December 2012 in order to obtain full information on the balance sheet, results of operations and changes in balance sheet of the Group as a whole.

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, financial assets held for trading at fair value through profit or loss and financial liabilities designated at fair value through profit or loss.

The financial statements comprise the balance sheet, the statement of comprehensive income, the statement of changes in equity, the statement of cash flows and the notes.

The Bank classifies its expenses by the nature of expense method.

The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency. Except as otherwise indicated, the figures shown in the financial statements are stated in LL million.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 3.

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 35 shows the balance sheet captions in which cash and cash equivalents items are included.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Bank's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the Bank's financial statements therefore present the balance sheet and results fairly. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 4.

2.1.1 Changes in accounting policy and disclosures

(a) Changes in accounting policy and disclosures

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch.

The Bank has adopted IFRS 9 from 1 January 2011, as well as the related consequential amendments to other IFRSs, because this new accounting policy provides reliable and more relevant information for users to assess the amounts, timing and uncertainty of future cash flows.

The Bank's management has assessed the financial instruments held by the Bank at the date of initial application of IFRS 9 (1 January 2011). For more information on the main effects resulting from this assessment, refer to note 10.

(b) Amended standards adopted by the Bank

The following standards and their amendments are effective for financial years beginning on or after 1 January 2012 and prior to 1 January 2013 but do not have a material impact on the Bank:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income, (effective from 1 July 2012). The main change resulting from these amendments is a requirement for Banks to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The amendment of this standard does not have a significant impact on the Bank's financial statements.

- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012). IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the Bank expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendment of this standard does not have a significant impact on the Bank's financial statements

(c) Standards, amendments and interpretations issued but not yet effective

The following standards and interpretations have been issued and are effective for accounting periods beginning on or after 1 January 2013 or later periods.

- IFRS 13, 'Fair value measurement', (effective from 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on 1 January 2013. The impact of this standard is not expected to be significant on the Bank's financial statements.

- Amendment to IAS 19, 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The impact of this standard is not expected to be significant on the Bank's financial statements.

- IFRS 10 'Consolidated financial statements' (effective 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It also sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The impact of this standard is not expected to be significant on the Bank's financial statements.

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Bank is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

Subsidiaries are companies in which the Bank directly or indirectly holds the majority of the voting rights and when it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Bank controls another entity.

The Bank also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Bank's voting rights relative to the size and dispersion of holdings of other shareholders give the Bank power to govern the financial and operating policies.

The Bank has elected to account for its investments in subsidiaries under the cost method, and accordingly:

If the ownership interest in the subsidiary is reduced but significant influence/control is retained, the difference between the carrying value of the portion sold and the amount received on sale is recognised in profit or loss as 'gain/loss on sale of shares in subsidiary'.

The Bank determines at each reporting date whether there is any objective evidence that the investment in the subsidiary is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and accordingly the loss is recognised in the profit or loss as 'impairment loss on investment in subsidiary'. The Bank does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the subsidiary.

Dividend income is recognised in profit or loss in the same period of its declaration by the subsidiaries.

A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that requires settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

2.4 Financial assets and liabilities

2.4.1 Classification and measurement

In accordance with IFRS 9, all financial assets and liabilities – which include derivative financial instruments – have to be recognised in the balance sheet and measured in accordance with their assigned category.

(a) Debt investments

(i) Financial assets at amortised cost

A debt investment is classified as 'amortised cost' only if both of the following criteria are met: the objective of the Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt investment are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

(ii) Financial assets at fair value

If either of the two criteria above is not met, the debt instrument is classified as 'fair value through profit or loss'.

(b) Equity investments

All equity investments are measured at fair value. Equity investments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Bank can make an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

(c) Recognition, measurement and reclassification

Regular purchases and sales of financial assets are recognised on the trade-date, the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset.

Transaction costs of financial assets held at fair value though profit or loss is expensed in the profit or loss.

A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of comprehensive income within 'net gains (losses) on financial instruments held at fair value through profit or loss' in the period in which they arise.

A gain or loss on a debt investment that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present unrealised and realised fair value gains and losses on equity investments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Bank is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

2.4.2 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities designated at fair value through profit or loss, and financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading. Those financial instruments are recognised in the balance sheet as "Financial liabilities held at fair value through profit or loss".

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the statement of comprehensive income and are reported as "Net gains (losses) on financial instruments held at fair value through profit or loss". Interest expenses on financial liabilities held for trading are included in "Interest and similar expenses".

Financial liabilities for which the fair value option is applied are recognised in the balance sheet as "Financial liabilities designated held at fair value through profit or loss". Fair value changes relating to these financial liabilities designated at fair value through profit or loss are recognised in "Net (losses) gains on financial instruments held at fair value through profit or loss ".

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers (even those deposits with embedded derivatives, where the derivative was separated from the host contract and accounted for as a trading derivative), debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

2.4.3 Determination of fair value

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using widely recognised models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, credit default swap spreads) existing at the dates of the balance sheet.

2.4.4 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

2.5 Reclassification of financial assets

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. An entity shall not reclassify any financial liability nor equity instruments.

If an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses or interest.

If an entity reclassifies a financial asset 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 an entity reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

2.6 Classes of financial instruments

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

<table>
<tr><th colspan="2">Category
(as defined by IFRS 9)</th><th colspan="2">Class
(as determined by the Bank)</th><th>Subclass</th></tr>
<tr><td rowspan="5"></td><td rowspan="4"></td><td colspan="3">Loans and advances to banks</td></tr>
<tr><td rowspan="2">Loans and advances to customers</td><td>Loans to individuals</td><td>- Overdraft
- Credit cards
- Personal loans
- Housing loans</td></tr>
<tr><td>Loans to corporate entities</td><td>- SMEs
- Large corporate entities</td></tr>
<tr><td colspan="2">Investment securities - debt instruments</td><td>Unlisted and Listed</td></tr>
<tr><td>At fair value through profit or loss</td><td colspan="2">Investment securities:
Equity instruments
Debt securities
Derivatives – non-hedging</td><td>Unlisted and Listed</td></tr>
<tr><td rowspan="3">Financial liabilities</td><td>Financial liabilities designated at fair value through profit or loss</td><td colspan="3">Credit linked deposits, derivatives</td></tr>
<tr><td rowspan="2">Financial liabilities at amortised cost</td><td colspan="3">Deposits from banks</td></tr>
<tr><td colspan="3">Deposits from customers</td></tr>
<tr><td rowspan="2">Off-balance sheet financial instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees and other financial facilities</td></tr>
</table>

2.7 Offsetting financial instruments

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

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

2.8 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest and similar income" and "interest and similar expenses" in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

2.9 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan.

Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportionate basis. The same principle is applied for wealth management, and custody services that are continuously provided over an extended period of time.

2.10 Dividend income

Dividends are recognised in the statement of comprehensive income when the Bank's right to receive payment is established.

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

• adverse changes in the payment status of borrowers in the portfolio; and
• national or local economic conditions that correlate with defaults on the assets in the portfolio.

The estimated period between a loss occurring and its identification is determined by local management for each identified portfolio. In general, the periods used vary between three months and 12 months; in exceptional cases, longer periods are warranted.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, 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.

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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "Net loan impairment releases (charges)" whilst impairment charges relating to investment securities (Held to maturity and loans and receivables categories) are classified in "Net gains on investment securities". If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Renegotiated loans

Loans that are either subject to collective impairment assessment or individually significant and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans. In subsequent years, the asset is considered to be past due and disclosed only if renegotiated again.

2.12 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2012.

2.13 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.14 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "non-current assets classified as held for sale".

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, exchange-traded options), including recent market transactions, or valuation techniques (for example, for swaps and currency transactions), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Embedded derivatives that cannot be independently transferred from the host contract are accounted for along with the entire hybrid contract at either amortised cost or at fair value. Unlike IAS 39, there is no more bifurcation. Embedded derivatives linked to other indexes (for example, equity, performance, credit default swaps) would not pass the amortised cost test and the entire hybrid would be accounted for at fair value

2.16 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases. The leases entered into by the Bank, are principally operating leases, where a significant portion of the risks and rewards of ownership are retained by another party, the lessor. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The total payments made under operating leases are charged to "other operating expenses" in the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.17 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Bank considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the balance sheet.

Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is based on valuations performed periodically by external appraisers.

The Bank only enters as lessor into lease agreements that are classified as operating leases (IAS 17). A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in "Investment properties".

2.18 Property and equipment

Land and buildings comprise mainly branches and offices and are accounted for using the revaluation model. All other items in property and equipment are accounted for using the cost model (i.e. at historical cost less accumulated depreciation and net of impairment charges, if any).

Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to other operating expenses during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to 'real estate revaluation reserve' in shareholders' equity. Decreases that offset previous increases of the same asset are charged against 'real estate revaluation reserve' in equity; all other decreases are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Computer equipment	5
Furniture, fixtures and equipment	12 - 13
Vehicles	10
Leasehold improvements	16 - 17

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were impaired as at 31 December 2012 (2011 – nil).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

2.19 Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Bank have a definite useful life. At each date of the balance sheet, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Intangible assets comprise only computer software licenses. Intangible assets are recognised at cost.

The Bank chooses to use the cost model for the measurement after recognition.

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives. Software has a maximum expected useful life of 5 years.

2.20 Non-current assets classified as held for sale

Non-current assets held for sale are acquired from customers in settlement of their debt. The Bank exercises its ownership rights over the real estate collateral or acquires the customer's real estate property when it exhausts all other reasonable means for collecting non-performing loans.

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.21 Income tax

(a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity.

Tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set-off against deferred tax liabilities carried in the balance sheet.

The Bank does not offset income tax liabilities and current income tax assets.

(b) Deferred income tax

Deferred income tax is provided in full, using the asset and liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the date of the balance sheet and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurement of properties, which are recognised in other comprehensive income, is also recognised in other comprehensive income.

2.22 Employee benefits

The Bank is subscribed to the compulsory defined benefit plan of the national social security fund.

IAS 19 'Employee benefits' requirements:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

Local requirements:

The compulsory defined benefit plan varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total monthly contributions paid to National Social Security Fund (''NSSF"), End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits.

The difference between the carrying amount of the provision and its value in accordance with IAS 19 'Employee benefits' is not significant.

2.23 Provisions

Provisions for restructuring costs and legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. The Bank recognises no provisions for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.24 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation.

No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in the statement of comprehensive income within other operating expenses.

2.25 Share capital

(a) Share issue costs

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(b) Dividends on ordinary shares

Dividends on ordinary shares are recognised in equity in the period in which they are approved by the Bank's shareholders.

Dividends for the year that are declared after the date of the balance sheet are dealt with in the subsequent events note.

(c) Cash contributions to capital

Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.26 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.
Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

3 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

The Bank's aim is to achieve an appropriate balance between risk and return and minimise potential adverse effects on the Bank's financial performance.

The Bank defines risk as the possibility of losses or profits foregone, which may be caused by internal or external factors.

The Board provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments.

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The Core functions of the risk management department are to identify all key risks for the Bank, measure these risks, manage the risk positions, and determine capital allocations.

The Bank's Risk committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk and operational risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from corporate and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised with the credit administration unit, which reports to the head of risk management department.

3.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)
To measure the credit risk of loans and advances to customers, the Bank rates its counterparties based on the rating model as follows:

- Normal – the loan is expected to be repaid on a timely and consistent basis;
- Special mention – the loan is expected to be repaid but the client's file is not complete;
- Sub-standard – the client has a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful – there is no movement in the clients' balance; and
- Bad – the probability of repayment is low and almost nil.

These credit risk measurements reflect the impairment allowances required under IAS 39, which are based on losses that have been incurred at the balance sheet date (the 'incurred loss model').

(b) Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by the Asset and Liability Committee for managing the credit risk exposures as supported by the Treasury department.

3.1.2 Risk limit control and mitigation policies

The Bank manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual borrowers and groups, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors, (in compliance with the requirements of BDL basic circular no. 48, 62 and 81).

The exposure to any one borrower is further restricted by sub-limits covering on and off-balance sheet exposures.

Lending limits are reviewed in the light of changing market and economic conditions and on yearly basis; the Bank performs credit reviews of the portfolio of loans on hand.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

The Bank employs a range of policies and practices to mitigate credit risk. The most traditional of these is the taking of security for funds advances, which is common practice. The Bank implements guidelines on the acceptability of specific classes of collateral or credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over residential properties (housing loans);
- Mortgages over commercial properties (commercial loans);
- Cash collaterals;
- Bank and public sector guarantees;
- Salary domiciliation;

- Charges over business assets such as premises, inventory, accounts receivable, commercial bills, machinery, vehicles, trade rights; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured. In addition, in order to minimise the credit loss the Bank will seek additional collateral from the counterparty as soon as impairment indicators are identified for the relevant individual loans and advances.

Collateral held as security for financial assets other than loans and advances is determined by the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured.

(b) Master netting arrangements

The Bank further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favourable contracts is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

(c) Financial covenants (for credit related commitments and loan books)

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate in addition to a required cash margin set by the credit committee based on the credit rating of each customer (usually a margin of 15% is blocked in compliance with BDL basic circular no. 52) and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

Impairment allowances are only recognised for losses that have been incurred at the date of the balance sheet based on objective evidence of impairment (refer to note 2.11). Accordingly, the internal and external rating systems described in note 3.1.1 are used as indicators for impairment.

The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's internal rating	2012 Credit risk exposure (%)	2012 Impairment provision (%)[1]	2011 Credit risk exposure (%)	2011 Impairment provision (%)[1]
1, 2. Normal and Special Mention	**94%**	**2%**	94%	2%
3. Sub-standard	**1%**	**25%**	1%	26%
4. Doubtful	**4%**	**80%**	4%	86%
5. Bad	**1%**	**100%**	1%	100%
	100%		100%	

The total impairment constitutes 6% (2011 – 6%) of the total gross loans portfolio.

3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to on-balance sheet assets are as follows:

	Maximum exposure	
	2012 LL Million	2011 LL Million
Assets		
Balances with central banks	**1,280,674**	890,183
Loans and advances to banks	**1,027,138**	693,100
Loans and advances to customers		
Loans to individuals		
- Personal	**106,726**	107,110
- Credit cards	**10,421**	6,874
- Mortgages	**318,545**	306,866
- Other	**188,131**	103,320
Loans to corporate entities		
- Large corporate customers	**830,756**	731,062
- Small and medium size enterprises (“SMEs”)	**217,748**	246,348
- Kafalat loans	**27,150**	28,258
- Subsidized loans	**66,297**	62,192
Debtors by acceptances	**52,467**	47,777
Investment securities (debt securities)	**3,021,727**	3,078,644
Other assets	**14,625**	20,109
At 31 December	**7,162,405**	6,321,843

[1] The impairment provision is shown above as a percentage of gross loans in their respective categories.

Credit risk exposures relating to off-balance sheet items are as follows:

	Maximum exposure	
	2012 LL Million	2011 LL Million
Letters of credit	**258,120**	41,833
Letters of guarantee	**198,761**	223,202
Loan commitment (unused facilities)	**79,482**	-
	536,363	265,035

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2012 and 2011, without taking account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 42% of the total maximum exposure is derived from investment securities (2011 – 49%); 25% is derived from loans and advances to customers (2011 – 25%) and 18% is derived from balances with central banks (2011 – 14%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 94% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2011 – 94%);
- 52% of the gross loans and advances portfolio is fully collateralised and the net exposure (gross loan amount less provisions and collaterals) represents 23% of the total gross loans and advances portfolio.
- 90% of the loans and advances portfolio are considered to be neither past due nor impaired (2011 – 89%); and
- 60% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2011 – 63%), of which 54% is denominated in Lebanese pounds (2011 – 54%), whose risk of default is considered nil.
- 35% of the Bank's debt securities portfolio is allocated to certificates of deposits issued by the Central Bank of Lebanon (2011 – 33%), of which 79% is denominated in Lebanese pounds (2011 – 79%), whose risk of default is considered nil.

Concentration of risks of financial assets with credit risk exposure

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December 2012 and as at 31 December 2011. For this table, the Bank has allocated exposures to regions based on the country of use of its funds.

	Lebanon LL Million	Arab countries LL Million	United Kingdom LL Million	Other European countries LL Million	Other countries LL Million	Total LL Million
Assets						
Balances with central banks	1,176,150	103,146	-	1,378	-	1,280,674
Loans and advances to banks	161,207	289,593	77,871	296,451	202,016	1,027,138
Financial assets held at fair value through profit or loss	45,256	-	31,812	153	1,524	78,745
Loans and advances to customers	1,549,239	120,688	44,113	14,033	37,701	1,765,774
Debtors by acceptances	49,932	1,824	-	50	661	52,467
Investment securities held at amortised cost	2,842,284	5,120	79,169	3,577	12,832	2,942,982
Other assets	13,816	4	-	-	805	14,625
At 31 December 2012	**5,837,884**	**520,375**	**232,965**	**315,642**	**255,539**	**7,162,405**
Balances with central banks	839,280	47,135	-	3,768	-	890,183
Loans and advances to banks	45,219	11,803	448,861	76,529	110,688	693,100
Financial assets held at fair value through profit or loss	77,030	982	34,113	1,432	24,085	137,642
Loans and advances to customers	1,411,679	103,936	40,598	12,605	23,212	1,592,030
Debtors by acceptances	41,305	5,046	-	293	1,133	47,777
Investment securities (debt securities)	2,877,431	4,964	35,114	7,977	15,516	2,941,002
Other assets	18,384	497	-	(3,666)	4,894	20,109
At 31 December 2011	**5,310,328**	**174,363**	**558,686**	**98,938**	**179,528**	**6,321,843**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2012		2011	
	Loans and advances to customers LL Million	Loans and advances to banks LL Million	Loans and advances to customers LL Million	Loans and advances to banks LL Million
Neither past due nor impaired	**1,689,149**	**1,027,138**	1,512,016	693,081
Past due but not impaired	**84,303**	**-**	81,223	-
Individually impaired	**106,908**	**634**	106,043	2,555
Gross	**1,880,360**	**1,027,772**	1,699,282	695,636
Less: allowance for impairment	**(114,586)**	**(634)**	(107,252)	(2,536)
Net	**1,765,774**	**1,027,138**	1,592,030	693,100
Individually impaired	**(88,685)**	**(634)**	(81,040)	(2,536)
Portfolio allowance	**(25,901)**	**-**	(26,212)	-
Total	**(114,586)**	**(634)**	(107,252)	(2,536)

The total impairment charge for loans and advances is LL 115 billion (2011 – LL 110 billion) of which LL 89 billion (2011 – LL 84 billion) represents the individually impaired loans and the remaining amount of LL 26 billion (2011 – LL 26 billion) represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in notes 6 and 8.

(a) Loans and advances neither past due nor impaired

The credit quality of the portfolio of loans and advances to customers that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

At 31 December 2012

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
1. Normal	102,874	10,546	296,901	119,606	792,321	273,538	24,051	43,959	1,663,796
2. Special mention	1,696	26	-	1,776	18,224	2,597	596	438	25,353
Total	**104,570**	**10,572**	**296,901**	**121,382**	**810,545**	**276,135**	**24,647**	**44,397**	**1,689,149**

At 31 December 2011

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
1. Normal	87,403	6,784	285,036	131,912	696,720	205,548	24,942	44,104	1,482,449
2. Special mention	1,073	96	63	3,610	22,244	2,481	-	-	29,567
Total	**88,476**	**6,880**	**285,099**	**135,522**	**718,964**	**208,029**	**24,942**	**44,104**	**1,512,016**

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances to customers that were past due but not impaired broken down by class were as follows:

At 31 December 2012

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
Past due up to 30 days	-	-	19,628	4,345	8,338	6,998	1,374	18,945	59,628
Past due 30-60 days	-	-	4,206	1,259	5,563	1,088	458	107	12,681
Past due 60-90 days	-	-	1,338	757	2,525	383	207	416	5,626
Past due above 90 days	-	-	1,165	801	616	921	697	2,168	6,368
Total	**-**	**-**	**26,337**	**7,162**	**17,042**	**9,390**	**2,736**	**21,636**	**84,303**
Fair value of collateral	**-**	**-**	**39,913**	**34,946**	**102,380**	**33,596**	**1,909**	**23,195**	**235,939**

At 31 December 2011

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades									
Past due up to 30 days	-	-	18,068	5,752	11,596	6,502	1,542	16,663	60,123
Past due 30-60 days	-	-	1,458	844	4,372	926	-	43	7,643
Past due 60-90 days	-	-	469	479	4,813	1,805	135	-	7,701
Past due above 90 days	-	-	980	349	3,355	450	622	-	5,756
Total	**-**	**-**	**20,975**	**7,424**	**24,136**	**9,683**	**2,299**	**16,706**	**81,223**
Fair value of collateral	-	-	25,306	19,328	67,977	15,046	4,103	19,719	151,479

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or by using valuation techniques with updated market data.

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances by class, along with the fair value of related collateral held by the Bank as a security, are as follows:

(i) Loans and advances to customers

At 31 December 2012

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	**16,881**	**3**	**1,396**	**13,963**	**44,829**	**27,489**	**837**	**1,510**	**106,908**
Fair value of collateral	**8,613**	**-**	**1,461**	**3,433**	**29,922**	**33,976**	**284**	**-**	**77,689**

At 31 December 2011

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	19,045	2	1,073	15,547	39,107	28,827	1,041	1,401	106,043
Fair value of collateral	15,445	-	261	14,991	27,815	14,144	405	-	73,061

(ii) Loans and advances to banks

The total amount of individually impaired loans and advances to banks as at 31 December 2012 was LL 634 million (2011 – LL 2.56 billion). No collateral is held by the Bank, and an impairment provision of LL 634 million (2011 – LL 2.54 billion) has been recognised to cover the exposure.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria that, in the judgment of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired are as follows:

	2012 LL Million	2011 LL Million
Loans and advances to customers - individuals		
Term loans	**5,112**	2,307

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2012 and 2011, based on Standard & Poor's ratings:

At 31 December 2012

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Financial assets held at fair value through profit or loss	-	-	33,563	-	-	45,182	78,745
Investment securities held at amortised cost	-	-	87,266	10,227	3,082	2,842,407	2,942,982
Total	**-**	**-**	**120,829**	**10,227**	**3,082**	**2,887,589**	**3,021,727**

At 31 December 2011

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Financial assets held at fair value through profit or loss	-	4,560	57,067	-	-	76,015	137,642
Investment securities (debt securities)	-	17,024	35,862	9,286	3,095	2,875,735	2,941,002
Total	**-**	**21,584**	**92,929**	**9,286**	**3,095**	**2,951,750**	**3,078,644**

3.1.7 Repossessed collateral

The Bank obtained assets by taking possession of collateral held as security, as follows:

	2012 LL Million	2011 LL Million
Nature of assets		
Residential property- carrying amount	-	4,132

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within assets classified as held for sale (note 16).

3.2 Market risk

The Bank takes on exposure to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rate, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates and equity prices. The Bank separates exposures to market risk into either trading or non-trading portfolios.

The market risks arising from trading and non-trading activities are monitored by the Treasury department. Regular reports are submitted to the Board of Directors, Asset Liability Committee ("ALCO") and senior management.
Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's investment securities.

3.2.1 Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is carried out by the Bank's risk management department. The Bank's treasury is responsible for managing the market exposure within the limits as approved by ALCO and as stipulated by the circulars of Central Bank of Lebanon no. 32 and 81. The major measurement technique used to measure and control market risk is outlined below.

Sensitivity analysis

A technique used to determine how different values of an independent variable will impact a particular dependent variable under a given set of assumptions. This technique is used within specific boundaries that will depend on one or more input variables, such as the effect that changes in interest rates will have on a bond's price. Sensitivity analysis is a way to predict the outcome of a decision if a situation turns out to be different compared to the key predictions.

The Bank performs this analysis for each type of market risk to which the Bank is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date.

Foreign exchange risk

If the foreign currency exchange rate increases/decreases by 1%, the net effect [gain/(loss)] is as follows:

	2012		2011	
	USD LL Million	**Euro LL Million**	USD LL Million	Euro LL Million
Effect on profit	**2,461**	**(3)**	1,479	28

Interest rate risk

If the interest rate increases/decreases by 2%, the net effect [gain/(loss)] is as follows:

	2012		2011	
	USD LL Million	**LBP LL Million**	USD LL Million	LBP LL Million
Effect on profit	**3,226**	**(1,901)**	(8,369)	-

There is no impact on Lebanese denominated financial instruments as they are held at amortised cost and carry fixed interest rates.

3.2.2 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its balance sheet and cash flows. The Board of Directors sets limits on the level of exposure by currency as follows:

- Net exposure by currencies should not exceed 1% of Tier I capital.
- Gross exposure (in absolute terms) by currencies should not exceed 40% of Tier I capital.

These exposure limits are set out in compliance with the limits set by the BDL (basic circular no. 32) and closely monitored by the Bank's Treasury department on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2012 and 2011. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At 31 December 2012

	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
ASSETS						
Cash and balances with central banks	384,300	817,968	113,550	1,118	26,126	1,343,062
Loans and advances to banks	19,051	864,931	108,233	11,074	23,849	1,027,138
Financial assets held at fair value through profit or loss	25,436	53,309	-	-	-	78,745
Loans and advances to customers	490,408	1,160,729	51,813	43,530	19,294	1,765,774
Debtors by acceptances	-	45,977	3,520	-	2,970	52,467
Investment securities (debt securities at amortised cost)	1,793,776	1,110,122	39,084	-	-	2,942,982
Other assets	3,481	10,170	815	-	159	14,625
Total financial assets	**2,716,452**	**4,063,206**	**317,015**	**55,722**	**72,398**	**7,224,793**
LIABILITIES						
Deposits from banks and financial institutions	6,731	57,817	129,465	1	19,698	213,712
Deposits from customers	2,497,711	3,698,663	183,770	55,799	28,370	6,464,313
Financial liabilities held at fair value through profit or loss	-	12,679	-	-	-	12,679
Engagements by acceptances	-	45,977	3,520	-	2,970	52,467
Other liabilities	12,045	1,945	588	(4)	20	14,594
Total financial liabilities	**2,516,487**	**3,817,081**	**317,343**	**55,796**	**51,058**	**6,757,765**
Net on-balance sheet financial position	**199,965**	**246,125**	**(328)**	**(74)**	**21,340**	**467,028**
Financial guarantees, loan commitments, and import LC	**45,953**	**426,047**	**29,972**	**197**	**34,194**	**536,363**

At 31 December 2011	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
ASSETS						
Cash and balances with central banks	174,291	712,167	11,780	706	31,847	930,791
Loans and advances to banks	10,077	528,533	111,676	11,027	31,787	693,100
Financial assets held at fair value through profit or loss	1,556	165,882	2,876	-	-	170,314
Loans and advances to customers	492,338	1,001,029	33,134	40,581	24,948	1,592,030
Debtors by acceptances	-	39,125	8,210	30	412	47,777
Investment securities (debt securities at amortised cost)	1,798,889	1,103,756	38,357	-	-	2,941,002
Other assets	12,292	17,824	1,480	1	259	31,856
Total financial assets	**2,489,443**	**3,568,316**	**207,513**	**52,345**	**89,253**	**6,406,870**
LIABILITIES						
Deposits from banks and financial institutions	11,152	100,333	24,890	14	25,537	161,926
Deposits from customers	2,261,567	3,235,519	166,778	52,392	46,323	5,762,579
Financial liabilities held at fair value through profit or loss	-	14,489	-	-	-	14,489
Engagements by acceptances	-	39,125	8,210	30	412	47,777
Other liabilities	9,807	5,624	924	5	517	16,877
Total financial liabilities	**2,282,526**	**3,395,090**	**200,802**	**52,441**	**72,789**	**6,003,648**
Net on-balance sheet financial position	**206,917**	**173,226**	**6,711**	**(96)**	**16,464**	**403,222**
Financial guarantees, loan commitments, and import LC	**31,480**	**154,953**	**25,588**	**63**	**52,951**	**265,035**

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Treasury department.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing (for example for floating rate notes) or maturity dates.

At 31 December 2012

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
ASSETS							
Cash and balances with central banks	96,909	151,821	45,546	441,694	277,332	329,760	1,343,062
Loans and advances to banks	664,062	210,528	15,112	-	2,800	134,636	1,027,138
Financial assets held at fair value through profit or loss	-	15,350	16,117	26,363	18,343	2,572	78,745
Loans and advances to customers	621,875	179,475	485,307	369,907	71,524	37,686	1,765,774
Debtors by acceptances	-	-	-	-	-	52,467	52,467
Investment securities (debt securities at amortised cost)	61,679	107,838	359,443	1,499,642	914,380	-	2,942,982
Other assets	-	-	-	-	-	14,625	14,625
Total financial assets	**1,444,525**	**665,012**	**921,525**	**2,337,606**	**1,284,380**	**571,745**	**7,224,793**
LIABILITIES							
Deposits from banks and financial institutions	163,261	40,629	958	-	6,681	2,183	213,712
Deposits from customers	4,895,694	357,389	578,591	223,920	822	407,897	6,464,313
Financial liabilities held at fair value through profit or loss	-	5,896	6,783	-	-	-	12,679
Engagements by acceptances	-	-	-	-	-	52,467	52,467
Other liabilities	-	-	-	-	-	14,594	14,594
Total financial liabilities	**5,058,955**	**403,914**	**586,332**	**223,920**	**7,503**	**477,141**	**6,757,765**
Total interest repricing gap	**(3,614,430)**	**261,098**	**335,193**	**2,113,686**	**1,276,877**		

At 31 December 2011

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
ASSETS							
Cash and balances with central banks	110,315	165,825	361,800	37,688	-	255,163	930,791
Loans and advances to banks	288,823	136,062	15,075	-	3,200	249,940	693,100
Financial assets held at fair value through profit or loss	-	15,075	-	76,073	39,353	39,813	170,314
Loans and advances to customers	251,891	174,501	504,526	299,481	40,299	321,332	1,592,030
Debtors by acceptances	-	-	-	-	-	47,777	47,777
Investment securities (debt securities at amortised cost)	20,000	35,000	372,280	1,528,936	894,911	89,875	2,941,002
Other assets	-	-	-	-	-	31,856	31,856
Total financial assets	**671,029**	**526,463**	**1,253,681**	**1,942,178**	**977,763**	**1,035,756**	**6,406,870**
LIABILITIES							
Deposits from banks and financial institutions	65,860	40,365	12,860	6,642	-	36,199	161,926
Deposits from customers	2,966,353	356,791	541,124	147,556	2,363	1,748,392	5,762,579
Financial liabilities held at fair value through profit or loss	-	-	-	14,489	-	-	14,489
Engagements by acceptances	-	-	-	-	-	47,777	47,777
Other liabilities	-	-	-	-	-	16,877	16,877
Total financial liabilities	**3,032,213**	**397,156**	**553,984**	**168,687**	**2,363**	**1,849,245**	**6,003,648**
Total interest repricing gap	**(2,361,184)**	**129,307**	**699,697**	**1,773,491**	**975,400**		

3.3 Liquidity risk

Liquidity risk is the risk that the Bank is unable to meet its obligations when they fall due as a result of customer deposits being withdrawn, cash requirements from contractual commitments, or other cash outflows, such as debt maturities. Such outflows would deplete available cash resources for client lending, trading activities and investments. In extreme circumstances, lack of liquidity could result in reductions in the balance sheet and sales of assets, or potentially an inability to fulfill lending commitments. The risk that the Bank will be unable to do so is inherent in all banking operations and can be affected by a range of institution-specific and market-wide events including, but not limited to, credit events, merger and acquisition activity, systemic shocks and natural disasters.

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by the Treasury department, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;

- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;

- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars no. 72, 73, 84, 86 and 87); and

- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets (note 3.3.3).

3.3.2 Non-derivative financial liabilities and assets held for managing liquidity risk

The table below presents the cash flows payable by the Bank under non-derivative financial liabilities and assets held for managing liquidity risk by remaining contractual maturities at the date of the balance sheet. The amounts disclosed in the table are the contractual undiscounted cash flows, whereas the Bank manages the liquidity risk based on a different basis (see note 3.3.1), not resulting in a significantly different analysis.

At 31 December 2012

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
LIABILITIES						
Deposits from banks and financial institutions	164,549	40,523	957	-	7,380	213,409
Deposits from customers	5,287,944	358,763	592,678	246,929	1,629	6,487,943
Financial liabilities held at fair value through profit or loss	-	6,006	6,933	-	-	12,939
Engagements by acceptances	8,975	22,269	21,223	-	-	52,467
Other liabilities	14,594	-	-	-	-	14,594
Total liabilities (contractual maturity dates)	**5,476,062**	**427,561**	**621,791**	**246,929**	**9,009**	**6,781,352**
Assets held for managing liquidity risk (contractual maturity dates)	**1,327,866**	**509,547**	**596,814**	**2,425,048**	**1,536,105**	**6,395,380**

At 31 December 2011	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
LIABILITIES						
Deposits from banks and financial institutions	101,627	40,515	13,264	-	7,558	162,964
Deposits from customers	4,717,675	359,781	557,035	165,400	3,727	5,803,618
Financial liabilities held at fair value through profit or loss	-	-	-	16,790	-	16,790
Engagements by acceptances	47,777	-	-	-	-	47,777
Other liabilities	16,877	-	-	-	-	16,877
Total liabilities (contractual maturity dates)	**4,883,956**	**400,296**	**570,299**	**182,190**	**11,285**	**6,048,026**
Assets held for managing liquidity risk (contractual maturity dates)	**937,634**	**386,221**	**944,976**	**2,138,235**	**1,079,125**	**5,486,191**

3.3.3 Assets held for managing liquidity risk

The Bank holds a diversified portfolio of cash and high-quality liquid securities to support payment obligations and contingent funding in a stressed market environment. The Bank's assets held for managing liquidity risk comprise:

- Cash and balances with central banks;
- Lebanese treasury bills that are easily liquidated in the secondary markets; and
- Secondary sources of liquidity in the form of current accounts and short-term placements (with maturities less than 3 months) with foreign banks (mainly United Kingdom).

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

The table below summarises the carrying amounts and fair values of those financial assets and liabilities not presented on the Bank's balance sheet at their fair value:

	Carrying value		Fair value	
	2012 LL Million	2011 LL Million	**2012 LL Million**	2011 LL Million
Financial assets				
Balances with central banks	**1,280,674**	890,183	**1,236,182**	899,825
Loans and advances to banks	**1,027,138**	693,100	**1,260,039**	697,105
Loans and advances to customers	**1,765,774**	1,592,030	**1,770,462**	1,807,752
Investment securities	**2,942,982**	2,941,002	**3,026,618**	3,101,690
	7,016,568	6,116,315	**7,293,301**	6,506,372
Financial liabilities				
Deposits from banks and financial institutions	**213,712**	161,926	**211,445**	167,177
Deposits from customers	**6,476,992**	5,777,068	**6,433,002**	5,825,388
	6,690,704	5,938,994	**6,644,447**	5,992,565

(i) Loans and advances to banks and balances with central banks

The carrying amount of floating rate placements, overnight deposits, items in the course of collection, and current accounts (i.e. maturity is less than 1 year) is a reasonable approximation of fair value.

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 remaining maturity.

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The carrying amount of overdrafts and impaired loans is a reasonable approximation of fair value.

(iii) Investment securities

The fair value for loans and receivables and assets at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity, and yield characteristics. For more information, refer to step (ii) above.

(iv) Deposits from banks and due to customers

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(b) Financial instruments measured at fair value

See note 2.4.3 “Determination of fair value”.

(c) Fair value hierarchy

IFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources; unobservable inputs reflect the Bank’s market assumptions. These two types of inputs have created the following fair value hierarchy:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components.

This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible.

3.4.1 Assets and liabilities measured at fair value

	Level 1 LL Million	Level 2 LL Million	Total LL Million
At 31 December 2012			
Financial assets held at fair value through profit or loss:			
- Debt securities	19,746	58,999	78,745
- Equity securities	6,656	21,380	28,036
Total assets	**26,402**	**80,379**	**106,781**
Financial liabilities held at fair value through profit or loss	-	12,679	12,679
Total liabilities	**-**	**12,679**	**12,679**
At 31 December 2011			
Financial assets held at fair value through profit or loss:			
- Debt securities	91,212	46,430	137,642
- Equity securities	8,389	24,283	32,672
Total assets	**99,601**	**70,713**	**170,314**
Financial liabilities held at fair value through profit or loss	-	14,489	14,489
Total liabilities	**-**	**14,489**	**14,489**

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial/reputational loss. The Bank is in process of finalising its policies and procedures to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Bank as part of overall risk management activities.

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To apply mitigation techniques that may help lower the capital requirements;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

Capital adequacy and the use of regulatory capital are monitored daily by the Bank's management, employing techniques based on the guidelines developed by the Basel Committee, as implemented by BDL, for supervisory purposes. The required information is filed with the authority on a monthly basis.

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel Ratio') above a minimum level agreed with the authority which takes into account the risk profile of the Bank. In addition, all the Bank's branches located outside Lebanon are subject to capital requirements of the respective jurisdiction (i.e. Cyprus and Iraq).

The regulatory capital requirements are strictly observed when managing economic capital.

The Bank's regulatory capital is managed by its Board of Directors and monitored by the Risk Management department.
In accordance with BDL circular no. 43, the Bank's capital is constituted of the following:

- Tier I capital: common shares, non-cumulative perpetual preferred shares, cash contributions (net of goodwill), unspecified banking reserve, legal reserve, retained earnings and reserves created by appropriations of retained earnings (except for real estate revaluation reserve); and

- Tier II capital: subordinated loans, revaluation surplus on real estate (as approved by BDL) and preferred shares (except non-cumulative).

Investment in insurance companies is deducted from Tier 1 capital and capital adequacy ratio is computed on deconsolidated basis (i.e. without taking into consideration the assets of the insurance company). Any shortfalls in required provisions for non-performing loans and any violation of the set limit on granting facilities to related parties are also deducted from the regulatory capital.

The risk weighted assets are measured using the 'standardised approach' (SA) for credit risk. Risk weights are assigned to assets on and off balance sheet items according to their asset class and credit assessment. For the determination of credit assessments, Standard & Poor rating is used. Any eligible collateral and netting agreements are taken into account for calculating risk-weighted assets.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During these two years, the foreign branches complied with all the externally imposed capital requirements to which they are subject.

Tier I Capital	2012 LL Million	2011 LL Million
Share capital and cash contributions to capital	**149,667**	144,687
Premium	**120,636**	75,375
Unidentified banking reserve	**40,624**	32,690
Legal reserve	**50,376**	45,222
Reserve for capital increase	**1,801**	333
Retained earnings	**133,301**	109,123
Less: intangible assets	**(2,957)**	(1,612)
Less: Investment in subsidiaries	**(3,524)**	(5,223)
Total qualifying Tier I Capital	**489,924**	400,595
Tier II Capital		
Real estate revaluation reserve	**10,000**	10,000
Total qualifying Tier II Capital	**10,000**	10,000
Total regulatory Capital	**499,924**	410,595
Risk- weighted assets		
On-balance sheet	**3,690,527**	3,494,809
Off-balance sheet	**162,641**	107,675
Market risk	**43,753**	128,150
Operational risk	**275,837**	231,672
Total risk-weighted assets	**4,172,758**	3,962,306
Basel ratio (%)	**11.98**	10.36

The increase in the capital adequacy ratio in the year 2012 is mainly due to the increase of the regulatory capital.

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

Accounting policies and management's judgements for certain items are especially critical for the Bank's results and financial situation due to their materiality.

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on semi annual basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Where the net present value of estimated cash flows differs +/- 5%, the impairment loss is estimated LL 2,184 million lower or higher.

(b) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using discounted cash flow model. These cash flow models are based on underlying market prices for interest rates. Where market data is not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. These models are validated and periodically reviewed by the financial control department. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

(d) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.
The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Lebanese government securities that have terms to maturity approximating the terms of the related liability.

If the discount rate differed by +/- 0.5% from management's estimates, the carrying amount of the pension obligations would decrease/increase by approximately LL 1 billion.

(e) Business model

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

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank 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 or are sold shortly after acquisition or an extended time before maturity.

In particular, the Bank exercises judgement to determine the objective of the business model for portfolios which are held for liquidity purposes. Certain debt securities are held by the Bank in a separate portfolio for long term yield and as a liquidity reserve. The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent (for more information on securities sold, refer to note 10). The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. Certain other debt securities are expected to be held by the Bank in separate portfolios in order to manage short-term liquidity. Sales from this portfolio are frequently made to meet ongoing business needs. The Bank determines that these securities are not held within a business model whose objective is to hold assets in order to collect contractual cash flows.

5 Cash and balances with central banks

	2012 LL Million	2011 LL Million
Cash in hand	**61,258**	38,675
Checks for collection	**-**	46,677
Other money market placements	**111,300**	56,718
Balances with central bank other than mandatory reserve deposits	**262,740**	159,361
Included in cash and cash equivalents (note 35)	**435,298**	301,431
Mandatory reserve deposits with Central Banks (a)	**679,905**	626,482
Mandatory reserve – cash in hand (Central Bank of Iraq)	**1,130**	1,933
Placements with BDL other than mandatory reserves	**219,579**	-
Interest receivable – BDL	**7,150**	945
	907,764	629,360
	1,343,062	930,791
Current	**624,036**	893,103
Non-current	**719,026**	37,688
	1,343,062	930,791

(a) In accordance with the BDL regulations, the Bank is required to constitute mandatory reserves in Lebanese pounds ("LL reserves") of 15% and 25% of the average weekly customers deposit accounts denominated in Lebanese pounds. The Bank is also required to constitute mandatory reserves in foreign currency ("FCY reserve") calculated on the basis of 15% of customers deposit accounts denominated in foreign currency. Foreign branches (in Iraq and Cyprus) are also subject to mandatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are operating.

Cash in hand are non-interest bearing, whereas other money-market placements are floating rate assets.

The Bank has LL 129,192 million deposits (of which LL 53,866 million as current accounts and the balance as mandatory reserves). For more information refer to note 38.

6 Loans and advances to banks

	2012 LL Million	2011 LL Million
Current accounts	**348,055**	256,274
Placements with other banks	**574,793**	362,566
Items in course of collection from other banks	**39,495**	-
Included in cash and cash equivalents (note 35)	**962,343**	618,840
Loans and advances to banks	**65,116**	61,184
Pledged advances (a)	**-**	15,075
Less: allowance for impairment	**(634)**	(2,536)
Interest receivable	**313**	537
	64,795	74,260
	1,027,138	693,100
Current	**1,024,338**	674,825
Non-current	**2,800**	18,275
	1,027,138	693,100

(a) The pledged advances represented a cash collateral amounting to LL 15,075 million (US$ 10 million) in respect of an interest swap financial instrument which matured in September 2012 (note 7).

7 Financial instruments at fair value through profit or loss

	2012 LL Million	2011 LL Million
Securities held at fair value through profit or loss		
Debt securities		
Listed:		
- Lebanese treasury bills	**19,746**	76,016
- Other debt securities	**2,156**	15,196
	21,902	91,212
Unlisted:		
- Lebanese treasury bills	**25,436**	-
- Other debt securities	**31,407**	46,430
	56,843	46,430
Total debt securities	**78,745**	137,642
Equity securities:		
- Listed	**6,656**	8,388
- Unlisted	**21,380**	24,284
Total equity securities	**28,036**	32,672
Total securities held at fair value through profit or loss	**106,781**	170,314

The above mentioned securities are held for trading purposes.

Hybrid contracts

At 31 December 2011	LL Million
Credit default swap - credit linked note (a)	46,430
Credit default swap - credit linked deposit (b)	14,489
At 31 December 2012	
Credit default swap - credit linked note (a)	**31,407**
Credit default swap - credit linked deposit (b)	**12,679**

(a) The Bank invested in debt securities that contain an embedded derivative. In case of default prior to maturity, the issuer can settle the notes with the delivery of Lebanese treasury bills.

(b) The Bank issued credit - linked deposits with preferential interest rates. At maturity, the Bank can settle the deposits with the delivery of Lebanese treasury bills in foreign currency. These deposits are linked to the credit risk of the Lebanese treasury bills (note 18).

As at 1 January 2011 and as explained in note 2.15, embedded derivatives that cannot be independently transferred are accounted for with the host contract as one instrument. Accordingly and effective 1 January 2011, the Bank reclassified the host contract from held to maturity and loans and receivables and accounted for the hybrid contract (host contract and embedded derivatives) at fair value through profit or loss.

8 Loans and advances to customers

	2012 LL Million	2011 LL Million
Medium and long term loans	**1,425,003**	1,260,794
Overdrafts	**245,704**	224,646
Short term loans	**59,776**	64,469
Scheduled loans	**17,570**	19,726
Discounted bills	**5,661**	11,075
Loans and advances to related parties (note 37)	**5,976**	5,145
Net debit against credit accounts – speculation accounts	**7,313**	2,442
Creditors accidentally debtors	**1,661**	782
Unpaid bills	**526**	529
Interest receivable	**4,262**	3,631
Non-performing loans:		
- Substandard	**21,890**	19,394
- Doubtful and bad	**85,018**	86,649
Gross loans and advances to customers	**1,880,360**	1,699,282
Less: allowance for impairment	**(114,586)**	(107,252)
Net loans and advances to customers	**1,765,774**	1,592,030

Reconciliation of allowance account for loans and advances to customers is as follows:

	2012 Specific allowance for impairment LL Million	2012 Collective allowance for impairment LL Million	2011 Specific allowance for impairment LL Million	2011 Collective allowance for impairment LL Million
Balance at 1 January	**81,040**	**26,212**	90,824	23,951
Increase in impairment allowances (note 29)	**8,003**	**3,685**	4,394	2,261
Unrealised interest	**5,826**	**-**	5,551	-
Reversal of impairment (note 29)	**(5,183)**	**-**	(10,519)	-
Transfer	**1,215**	**(3,996)**	-	-
Write-off	**(2,216)**	**-**	(9,210)	-
At 31 December	**88,685**	**25,901**	81,040	26,212

9 Debtors and engagements by acceptances

	2012 LL Million	2011 LL Million
Customers' acceptances	**52,467**	47,777

Customers' acceptances represent term documentary credits which the Bank has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under caption entitled "Engagements by acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

10 Investment securities

	2012 LL Million	2011 LL Million
Securities at amortised cost		
Debt securities - at amortised cost		
Listed:		
- Lebanese treasury bills (eurobonds)	**812,671**	845,564
- Other debt securities	**54,351**	79,875
	867,022	925,439
Unlisted:		
- Lebanese treasury bills	**964,333**	1,000,040
- Certificates of deposit – BDL (denominated in LL)	**829,443**	798,849
- Certificates of deposit – BDL (denominated in US$)	**200,757**	201,299
- Certificates of deposit – commercial banks	**18,101**	13,717
- Other debt securities	**63,326**	1,658
	2,075,960	2,015,563
Total securities at amortised cost	**2,942,982**	2,941,002
Current	**528,960**	517,155
Non-current	**2,414,022**	2,423,847
	2,942,982	2,941,002

All debt securities have fixed coupons.

At 1 January 2011, the Bank early adopted IFRS 9 (refer to note 2.1) and the impact on the financial statements was as follows:

Classification			Book value		
Financial assets	IAS 39	IFRS 9	IAS 39 LL Million	IFRS 9 LL Million	Difference LL Million
Lebanese treasury bills	Available for sale	Fair value through profit or loss	32,124	32,124	-
Other debt securities	Available for sale	Fair value through profit or loss	55,157	55,157	-
Equity securities	Available for sale	Fair value through profit or loss	1,296	1,296	-
Lebanese treasury bills	Available for sale	Amortised cost	757,158	729,421	(27,737)
Other debt securities	Available for sale	Amortised cost	18,332	17,927	(405)
Certificates of deposit	Available for sale	Amortised cost	40,570	36,791	(3,779)
			904,637	872,716	(31,921)
Classification			Book value		
Financial assets	IAS 39	IFRS 9	IAS 39 LL Million	IFRS 9 LL Million	Difference LL Million
Equity securities	Held for trading	Fair value through profit or loss	37,731	37,731	-
Lebanese treasury bills	Held for trading	Amortised cost	139,178	135,778	(3,400)
Other debt securities	Held for trading	Amortised cost	6,805	4,666	(2,139)
Certificates of deposit	Held for trading	Amortised cost	40,641	36,184	(4,457)
Trading Derivative (a)	Held for trading	Fair value through profit or loss	888	888	-
			225,243	215,247	(9,996)
Lebanese treasury bills	Held to maturity	Fair value through profit or loss	320	382	62
Other debt securities	Held to maturity	Fair value through profit or loss	31,124	32,730	1,606

Lebanese treasury bills	Held to maturity	Amortised cost	621,326	621,326	-
Other debt securities	Held to maturity	Amortised cost	1,666	1,666	-
Certificates of deposit	Held to maturity	Amortised cost	64,899	64,899	-
			719,335	**721,003**	**1,668**
Lebanese treasury bills	Loans and receivables	Fair value through profit or loss	35,824	41,230	5,406
Other debt securities	Loans and receivables	Fair value through profit or loss	15,695	16,939	1,244
Lebanese treasury bills	Loans and receivables	Amortised cost	260,341	260,341	-
Certificates of deposit	Loans and receivables	Amortised cost	815,443	815,443	-
			1,127,303	**1,133,953**	**6,650**
Total investment securities			**2,976,518**	**2,942,919**	**(33,599)**
Deferred tax liability			**(6,595)**	**-**	**6,595**
Net Impact					**(27,004)**

(a) In 2010, the derivative was accounted for separately from the host contract. In 2011, upon implementation of IFRS 9, the Bank accounted for the hybrid contract (i.e. the host contact and the related embedded derivative) as a financial liability held at fair value through profit or loss.

The movement in investment securities for the year ended 31 December 2011 is summarised as follows:

	Fair value through profit or loss LL Million	Amortised cost LL Million	Held for trading LL Million	Available for sale LL Million	Loans and receivables LL Million	Held to maturity LL Million	Total LL Million
At 1 January 2011	-	-	224,355	904,637	1,127,303	719,335	2,975,630
Transfer to fair value through profit or loss	217,589	-	(37,731)	(88,577)	(51,519)	(31,444)	8,318
Transfer to amortised cost	-	2,724,442	(186,624)	(816,060)	(1,075,784)	(687,891)	(41,917)
Exchange differences on monetary assets	(195)	(693)	-	-	-	-	(888)
Additions	229,336	1,175,936	-	-	-	-	1,405,272
Disposals (sale and redemption)	(266,807)	(958,683)	-	-	-	-	(1,225,490)
Net unrealised loss (note 26)	(9,609)	-	-	-	-	-	(9,609)
At 31 December 2011	**170,314**	**2,941,002**	**-**	**-**	**-**	**-**	**3,111,316**

The movement in investment securities for the year ended 31 December 2012 is summarised as follows:

	Amortised cost LL Million
At 1 January 2012	2,941,002
Exchange differences on monetary assets	208
Additions	553,747
Disposals (sale and redemption)	(551,975)
Net unrealized loss (note 26)	-
At 31 December 2012	**2,942,982**

11 Investments in subsidiaries

	% ownership	2012 LL Million	2011 LL Million
The Capital for Insurance and Reinsurance Company S.A.L.	80%	**3,524**	3,524
Informatics Co. S.A.R.L.	84%	**-**	-
Société Libanaise de Service S.A.R.L.	91%	**-**	-
		3,524	3,524

The Capital Insurance and Reinsurance Company S.A.L. provides life and general insurance services.

Informatics Co. S.A.R.L. was established to provide information technology services to the Bank. However, the Company ceased its operations in 1999 and is now only managing its cash balances.

Société Libanaise de Service S.A.R.L. manages the properties of the Bank and third parties and provides security and maintenance services.

12 Investment property

	Land LL Million	Buildings LL Million	Total LL Million
At 1 January 2011	**5,747**	**532**	6,279
Fair value loss	-	(164)	(164)
Transfer to property and equipment (note 13)	-	(150)	(150)
At 31 December 2011	**5,747**	**218**	5,965
Reclassification of accumulated depreciation (note 13)	-	1,833	1,833
Transfer to property and equipment (note 13)	-	(129)	(129)
At 31 December 2012	**5,747**	**1,922**	**7,669**

The following amounts have been recognised in the statement of comprehensive income:

	2012 LL Million	2011 LL Million
Rental income (note 28)	**127**	183
Maintenance expenses	**(175)**	(164)
	(48)	19

13 Property and equipment

	Land and buildings LL Million	Work in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
At 1 January 2011							
Cost or valuation	50,126	7,544	10,632	8,529	227	18,878	95,936
Accumulated depreciation	(11,713)	-	(7,368)	(5,465)	(100)	(12,179)	(36,825)
Net book amount	**38,413**	**7,544**	**3,264**	**3,064**	**127**	**6,699**	**59,111**
Year ended 31 December 2011							
Opening net book amount	38,413	7,544	3,264	3,064	127	6,699	59,111
Additions	716	7,925	790	809	96	1,524	11,860
Transfers from investment properties (note 12)	150	-	-	-	-	-	150
Disposals	(217)	-	(275)	(103)	-	-	(595)
Transfers	372	(372)	-	-	-	-	-
Depreciation charge (note 32)	(958)	-	(1,167)	(477)	(21)	(552)	(3,175)
Closing net book amount	**38,476**	**15,097**	**2,612**	**3,293**	**202**	**7,671**	**67,351**
At 31 December 2011							
Cost or valuation	51,118	15,097	10,782	9,018	323	20,402	106,740
Accumulated depreciation	(12,642)	-	(8,170)	(5,725)	(121)	(12,731)	(39,389)
Net book amount	**38,476**	**15,097**	**2,612**	**3,293**	**202**	**7,671**	**67,351**

	Land and buildings LL Million	Work in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
Year ended 31 December 2012							
Opening net book amount	38,476	15,097	2,612	3,293	202	7,671	67,351
Additions	819	3,412	2,675	1,083	109	2,417	10,515
Transfers from investment property (note 12)	129	-	-	-	-	-	129
Disposals	-	-	(754)	(112)	(46)	-	(912)
Transfers	2,965	(3,789)	-	-	-	824	-
Depreciation charge (note 32)	(1,220)	-	(1,199)	(539)	(27)	(650)	(3,635)
Reclassification of accumulated depreciation (note 12)	(1,833)	-	-	-	-	-	(1,833)
Closing net book amount	**39,336**	**14,720**	**3,334**	**3,725**	**238**	**10,262**	**71,615**
At 31 December 2011							
Cost or valuation	55,031	14,720	12,549	9,788	356	23,643	116,087
Accumulated depreciation	(15,695)	-	(9,215)	(6,063)	(118)	(13,381)	(44,472)
Net book amount	**39,336**	**14,720**	**3,334**	**3,725**	**238**	**10,262**	**71,615**

14 Intangible assets

	Computer Software Licenses LL Million
At 1 January 2011	
Cost	5,282
Accumulated amortisation	(4,168)
Net book amount	**1,114**
Year ended 31 December 2011	
Opening net book amount	1,114
Additions	1,183
Amortisation charge (note 32)	(685)
Closing net book amount	**1,612**
At 31 December 2011	
Cost	6,465
Accumulated amortisation	(4,853)
Net book amount	**1,612**
Year ended 31 December 2012	
Opening net book amount	1,612
Additions	1,201
Amortisation charge (note 32)	(584)
Closing net book amount	**2,229**
At 31 December 2012	
Cost	7,666
Accumulated amortisation	(5,437)
Net book amount	**2,229**

15 Other assets

	2012 LL Million	2011 LL Million
Advances on purchases of property and equipment (a)	**10,476**	10,102
Electronic card facilities – not yet allocated (b)	**3,407**	9,292
Prepaid expenses	**1,699**	1,645
Receivable from National Social Security Fund (c)	**1,855**	1,542
Other receivables	**2,606**	2,439
Doubtful receivables (d)	**14,310**	14,389
Less: allowance for impairment	**(7,553)**	(7,553)
	26,800	31,856
Current	**15,582**	21,040
Non-current	**11,218**	10,816
	26,800	31,856

(a) Advances on purchases of property and equipment include an amount of LL 5.4 billion (2011 – LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District. In November 2011, the contractor obtained the license to start the project.

(b) This account represents transactions executed by the clients on their electronic cards but not yet allocated on their accounts.

(c) This account represents medical expenses advanced by the Bank to the employees prior to collection from the National Social Security Fund.

(d) This account includes doubtful receivables of LL 2.7 billion (2011 – LL 2.7 billion) from one of the Bank's money dealers. Management recorded a provision of LL 1.8 billion (2011 – LL 1.8 billion) to cover the expected loss.

This account also includes an amount of LL 3.2 billion (2011 – LL 3.2 billion) that is fully provided for to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches.

Moreover, this account includes amounts receivable from two employees of LL 8.4 billion (2011 – LL 8.5 billion), which were involved in fraudulent activities. Management recorded a provision of LL 2.5 billion (2011 – LL 2.5 billion) against the uncovered exposure.

16 Non-current assets classified as held for sale

The movement of non-current assets classified as held for sale is as follows:

	2012 LL Million	2011 LL Million
Balance at 1 January	**21,463**	19,328
Acquisitions during the year	**-**	4,132
Disposals during the year	**(1,563)**	(1,997)
Balance at 31 December	**19,900**	21,463

These assets represent properties acquired in settlement of defaulting facilities to clients. As required by the Central Bank of Lebanon, banks have two years (from date of acquisition) to liquidate those assets, else banks are required to constitute reserves (through appropriation from retained earnings) against these assets, prior to distribution of dividends. For more information, refer to note 23(c).

17 Deposits from banks and financial institutions

	2012 LL Million	2011 LL Million
Deposits from banks	**156,689**	104,475
Deposits from financial institutions	**55,798**	56,066
Interest payable	**1,225**	1,385
	213,712	161,926
Current	**207,102**	155,316
Non-current	**6,610**	6,610
	213,712	161,926

Deposits from banks and financial institutions are classified as liabilities at amortised cost. Included in deposits from banks and financial institutions are fixed – interest deposits amounting to LL 207,102 (2011 – LL 155,316 million) and variable – interest deposits amounting to LL 6,610 million (2011 – LL 6,610 million).

18 Due to customers

	2012 LL Million	2011 LL Million
Term deposits	**4,804,181**	4,282,632
Sight deposits (i)	**1,029,818**	926,092
Related parties (note 37)	**109,614**	88,290
Deposits held as collateral (ii)	**494,500**	442,550
Interest payable	**26,200**	23,015
Deposits from customers	**6,464,313**	5,762,579
Financial liabilities designated at fair value through profit or loss (a)	**12,679**	14,489
Due to customers	**6,476,992**	5,777,068
Current	**6,253,233**	5,612,659
Non-current	**223,759**	164,409
	6,476,992	5,777,068
(i) Sight deposits:		
Checking and current accounts	**677,731**	610,626
Debtors accidentally creditors	**36,005**	36,235
Payment orders	**20,564**	13,809
Public sector deposits	**111**	152
Saving accounts - demand	**295,407**	265,270
	1,029,818	926,092
(ii) Deposits held as collateral:		
Blocked accounts against credit facilities	**379,038**	377,312
Margins on speculation accounts	**5,521**	5,268
Margins against issuance of letters of guarantee	**84,789**	37,258
Margins against issuance of documentary credits	**25,152**	22,712
	494,500	442,550

(a) Deposits from customers other than (a) above only include financial instruments classified as liabilities at amortised cost. All deposits are at fixed interest rates.

These deposits bear preferential fixed interest rates and are classified at fair value through profit or loss. At maturity, the Bank can settle them with Lebanese treasury bills denominated in US Dollars. For more information, refer to note 7.

19 Other liabilities

	2012 LL Million	2011 LL Million
Due to financial institution (a)	**5,077**	3,985
Accrued expenses	**3,499**	3,666
Due to National Deposit Guarantee Institution	**2,778**	-
Withholding taxes and other charges	**2,710**	2,285
Due to employees	**1,820**	1,527
Due to National Social Security Fund	**509**	606
Dividends payable and interest payable on cash contribution to capital	**216**	49
Due to clients (b)	**110**	182
Other provisions	**5,824**	1,998
Other liabilities	**653**	2,579
	23,196	16,877

Other liabilities are expected to be settled within no more than 12 months of the date of the balance sheet.

(a) This account represents transactions executed by the clients on credit cards and settled on behalf of the Bank.

(b) This account represents the redemption of securities (Lebanese treasury bills) and/or related coupon on behalf of clients and not yet settled to them.

20 Provision for restructuring

The provision for restructuring represents the indemnities payable by the Bank under a restructuring plan that started in 2007. However in 2011, the Bank took a decision to stop the plan and therefore released the provision (note 28).

21 Retirement benefit obligations

Provision for retirement benefit obligations comprises the following:

	2012 LL Million	2011 LL Million
Provision for retirement benefit obligations	**22,276**	19,286
Advances against retirement benefit obligations	**(205)**	(205)
	22,071	19,081

The movement in provision for retirement benefit obligations can be summarised as follows:

	2012 LL Million	2011 LL Million
At 1 January	**19,286**	18,022
Charge for the year (note 30)	**4,276**	1,954
Payments during the year	**(1,286)**	(690)
At 31 December	**22,276**	19,286

The principal assumptions used were as follows:

	2012	2011
Discount rate	**8%**	8%
Future salary increases	**6%**	6%

22 Share capital and cash contributions to capital

	2012 LL Million	2011 LL Million
Common shares	**149,016**	144,000
Preferred shares		
Par value	**8,000**	5,000
Premium on issuance	**112,600**	70,375
	120,600	75,375
Cash contributions to capital		
Interest bearing (5.5% per annum)	**36**	36

On 9 March 2012, an extraordinary general assembly was held to issue 8,000 non-cumulative redeemable preferred shares ‘B’ with a nominal value of LL 1,000 each at an issue price of LL 15,075 (US$ 10 per share). These shares were fully issued and paid.

In addition, on 9 March 2012, an extraordinary general assembly was held to redeem 5,000 preferred shares ‘A’ with a nominal value of LL 1,000 each and previously issued at LL 15,075 (US$ 10 per share) and to increase the Bank’s common shares through appropriation of retained earnings by an amount of LL 5,016 million.

23 Other reserves and retained earnings

	2012 LL Million	2011 LL Million
Reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**56,658**	50,159
Reserve for unidentified banking risks (c)	**48,969**	40,624
Reserve for capital increase (d)	**2,332**	1,118
Reserve for liquidation of assets classified as held for sale (e)	**4,719**	4,165
Other reserves	**682**	333
	134,421	117,460
Retained earnings (f)		
Retained earnings – available for distribution ("REA")	**166,559**	141,787
Retained earnings. – not available for distribution	**5,452**	2,403
	172,011	144,190

(a) Real estate revaluation reserve

The revaluation reserve arose from the revaluation of investment properties and property and equipment. The revaluation was performed by an independent appraiser under the provisions of fiscal law 282/93 based on the market values of 31 December 1993.

(b) Legal reserve

In compliance with the requirements of Code of Money and Credit article number 132, banks are required to appropriate 10% of their annual profits as legal reserve. This reserve is not available for distribution.

(c) Reserve for unidentified banking risks

In compliance with the requirements of BDL basic circular no. 50, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk weighted assets (on and off-balance sheet accounts) as a reserve for unidentified banking risks. This reserve is considered as part of Tier I capital, but is not available for distribution.

(d) Reserve for capital increase

In compliance with Banking Control Commission circular no. 173, all gains recognised on the sale of properties acquired in settlement of debt (note 16) should be appropriated from retained earnings and recorded as “ reserve for capital increase”.

(e) Reserve for liquidation of assets classified as held for sale

In compliance with BDL basic circular no. 78, banks are required to deduct from annual profits an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt (note16), in case the Bank failed to liquidate the properties within 2 years from the date of acquisition. In 2011 and in compliance with Banking Control Commission memo 4/2011 and 10/2011, the Bank transferred the recorded provision to equity as “Reserve for liquidation”. From that date onward, the required reserves are established through appropriation of retained earnings. This reserve is not considered as part of the Bank’s Tier Capital nor is available for distribution.

(f) Retained earnings

	2012 LL Million	2011 LL Million
Balance at 1 January	**144,190**	125,053
Impact of adoption of IFRS 9	**-**	5,221
Profit for the year	**64,986**	58,060
Dividends declared (note 34)	**(14,138)**	(14,138)
Interest paid on cash contributions to capital (note 34)	**(1,050)**	(1,194)
Transfer to legal reserve (x)	**(6,499)**	(5,806)
Transfer to reserve for unidentified banking risks (x)	**(8,345)**	(7,933)
Transfer to reserve for liquidation of assets classified as held for sale (x)	**(903)**	(845)
Transfer to reserve for capital increase (x)	**(1,214)**	(1,118)
Transfer for capital increase (note 22)	**(5,016)**	(13,110)
At 31 December	**172,011**	144,190

(x) Transfers from retained earnings to other reserves amounted to LL 16,961 million (2011 – LL 15,702 million).

As stipulated by the Banking Control Commission (‘’BCC”) circular no. 270 (issued in September 2011), the Bank is not allowed to distribute from its retained earnings all income (gross of loss) generated from the revaluation of financial assets held at fair value through profit or loss. This income should be recorded under “Retained earnings – not available for distribution” once the financial asset is sold, the related unrealised gain will become available for distribution.

	2012 LL Million	2011 LL Million
Balance at 1 January	**2,403**	-
Unrealised gain on financial instruments held at fair value through profit or loss (note 26)	**3,120**	2,403
Revaluation gains related to financial assets sold (reclassified to REA)	**(71)**	-
At 31 December	**5,452**	2,403

24 Net interest and similar income

	2012 LL Million	2011 LL Million
Interest and similar income		
Loans and advances:		
- Customers	**117,880**	98,694
- Banks and financial institutions	**27,125**	9,073
- Related parties (note 37)	**317**	204
	145,322	107,971
Financial assets at fair value through profit or loss	**7,131**	10,793
Investment securities:		
- Amortised cost	**217,440**	222,927
	369,893	341,691
Interest and similar expenses		
Deposits due to customers	**(233,868)**	(230,489)
Deposits from banks and financial institutions	**(6,095)**	(8,538)
Deposits due to related parties (note 37)	**(4,528)**	(2,306)
	(244,491)	(241,333)
Net interest income	**125,402**	100,358

25 Net fee and commission income

	2012 LL Million	2011 LL Million
Fee and commission income		
Credit-related fees and commissions	**10,455**	9,390
Commissions on letters of credit and guarantees	**8,090**	6,808
Commissions on banking operations	**7,006**	6,530
Brokerage fees	**2,498**	2,389
Commissions on transfers	**1,446**	1,224
Other	**3,190**	3,120
	32,685	29,461
Fee and commission expense		
Commissions on banking operations	**(2,785)**	(1,379)
Brokerage fees paid	**(1,189)**	(1,012)
Other	**(191)**	(1,087)
	(4,165)	(3,478)
Net fee and commission income	**28,520**	25,983

26 Net gain (loss) on financial instruments held at fair value through profit or loss

	2012 LL Million	2011 LL Million
Net gains on foreign exchange transactions (realised)	**9,460**	902
Net gains on foreign exchange translation (unrealised)	**3,964**	3,838
Unrealised loss on financial instruments held at fair value through profit or loss	**(3,671)**	(12,012)
Unrealised gain on financial instruments held at fair value through profit or loss (note 23)	**3,120**	2,403
Realised gain	**831**	3,743
	13,704	(1,126)

27 Net gains on investment securities

Net gains on investment securities comprise:

Sale of financial assets held at amortised cost	**2,274**	12,986

In 2012, the Bank sold investment securities from its amortised cost.

- In February 2012, the Bank performed a swap with BDL on a portion of its debt securities portfolio with a nominal value of LL 7.5 billion. This transaction only included debt securities maturing in a period not exceeding 6 months and resulted in a loss of LL 31 million.
- In January 2012, the Bank performed a swap with BDL on a portion of its unlisted treasury bills ("TBs") portfolio with a nominal value of LL 20 billion. This transaction only included TBs maturing in a period not exceeding 6 months and generated a profit of LL 330 million.
- In January 2012, the Bank performed a swap with BDL on a portion of its TBs portfolio with a nominal value of LL 15 billion. This transaction only included TBs maturing in a period not exceeding 6 months and generated a profit of LL 233 million.
- In November 2012, the Bank performed a swap with BDL on a portion of its TBs portfolio with a nominal value of LL 68 billion. This transaction only included TBs maturing in a period not exceeding 6 months and generated a profit of LL 1,742 million.

As for 2011, the Bank sold investment securities from its amortised cost portfolio for the following reasons:

- In January 2011, the Bank performed a swap with BDL on a portion of its CDs portfolio with a nominal value of LL 52 billion. This transaction only included CDs maturing in a period not exceeding 6 months. In addition, this transaction did not generate any profit or loss.
- In March 2011, the Bank performed a swap with BDL on a portion of its CDs portfolio with a nominal value of LL 30 billion. This transaction only included CDs maturing in a period not exceeding 6 months. In addition, this transaction generated profit of LL 90 million.
- In April 2011, the Bank performed a swap with BDL on a portion of its TBs portfolio with a nominal value of LL 87 billion. This transaction only included TBs maturing in a period not exceeding 6 months. In addition, this transaction did not generate any profit or loss.
- In June 2011, the Bank sold Eurobonds with a nominal amount of LL 84 billion and bought new Eurobonds (with a nominal value of around LL 100 billion) with different maturities to adjust the maturity mismatch between its assets and liabilities. This transaction resulted in a gain of LL 11.5 billion.
- In November 2011, the Bank performed a swap with BDL on a portion of its Eurobonds portfolio with a nominal value of LL 30 billion. This transaction only included Eurobonds maturing in a period not exceeding 6 months. In addition, this transaction generated profit of LL 1.3 billion.

The Bank believes that the above mentioned sales are consistent with its objective to collect contractual cash flows.

28 Other operating income

	2012 LL Million	2011 LL Million
Gain on disposal of assets classified as held for sale (note 23 (d))	**1,214**	1,145
(Loss) gain on disposal of property and equipment	**(76)**	407
Rental income (note 12)	**127**	183
Release of provision for restructuring (note 20)	**-**	2,900
Other	**480**	464
	1,745	5,099

29 Net loan impairment (charges) releases

	2012 LL Million	2011 LL Million
Loans and advances to customers		
Reversal of impairment (note 8)	**5,183**	10,519
Increase in impairment – collective (note 8)	**(3,685)**	(2,261)
Increase in impairment – specific (note 8)	**(8,003)**	(4,394)
	(6,505)	3,864

30 Personnel expenses

	2012 LL Million	2011 LL Million
Wages and salaries	**34,100**	29,173
Social security costs	**4,428**	3,877
Pension costs – defined benefit plan (note 21)	**4,276**	1,954
Scholarship	**2,250**	2,159
Transportation	**2,265**	2,109
Medical expenses	**1,370**	1,227
Training expenses	**396**	342
Other employee benefits	**3,061**	3,781
	52,146	44,622

31 Other operating expenses

	2012 LL Million	2011 LL Million
Office supplies and utilities	**5,605**	4,761
Advertising expense	**4,629**	2,170
Professional fees	**2,856**	2,363
Deposit guarantee premiums	**2,780**	2,702
Repairs and maintenance	**2,022**	1,820
Municipality and other taxes	**1,797**	2,653
Software costs	**1,599**	1,491
Travel expense	**1,499**	1,251
Subscriptions	**1,198**	925
Operating leases	**1,193**	1,074
Directors' remuneration (note 37)	**1,124**	1,124
Insurance expense (note 37)	**851**	670
Donations	**836**	1,036
Directors' attendance fees (note 37)	**711**	580
Expenses related to investment properties (note 12)	**175**	164
Impairment charge on other assets	**-**	1,192
Other	**5,234**	5,145
	34,109	31,121

32 Depreciation and amortisation

	2012 LL Million	2011 LL Million
Depreciation charge (note 13)	**3,635**	3,175
Amortisation charge (note 14)	**584**	685
	4,219	3,860

Lebanon branches ("Head office")	**11,254**	10,936
Foreign branches	**2,769**	1,237
Tax charge for the year	**14,023**	12,173

33 Income tax expense

The tax on the Bank's whole profit (including foreign branches) before tax differs from the theoretical amount that would arise using the basic tax rate of the Lebanon branches as follows:

	2012 LL Million	2011 LL Million
Profit before income tax	**79,009**	70,233
Tax calculated at the Head office tax rate of 15% (2011 – 15%)	**11,851**	10,535
Add back (deduct) charges (gains) not accountable for tax purposes:		
Different tax rates in other countries	**(333)**	(233)
Differences between accounting and fiscal depreciation	**86**	37
Net loss on investment securities	**83**	899
Donations and other provisions	**1,984**	645
Other	**352**	290
Income tax	**14,023**	12,173

The income tax rate applicable to head office income is 15% (2011 – 15%). The income tax rate applicable to foreign branches ranges from 0% to 10% (2011 – 0% to 10%).

The movement in the current income tax liability is as follows:

	2012 LL Million	2011 LL Million
At 1 January	**2,995**	1,711
Charge for the year	**14,023**	12,173
Payments during the year	**(11,599)**	(10,889)
At 31 December	**5,419**	2,995

The fiscal years 2008 to 2012 remain subject to examination by the income tax authorities.

34 Dividends per share and interest on cash contributions

The general assembly meeting held on 27 June 2012 approved the distribution of dividends of LL 14,138 million (LL 55 per common share and LL 1,244 per preferred share) and interest on cash contributions to capital of LL 1,050 million in respect of the financial year ended 31 December 2011.

A dividend in respect of 2010 of LL 110 per common share and LL 1,244 per preferred share amounting to a total dividend of LL 14,138 million and interest on cash contributions to capital of LL 1,194 million was declared and paid.

35 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks.

	2012 LL Million	2011 LL Million
Cash and balances with central banks (note 5)	**435,298**	301,431
Loans and advances to banks (note 6)	**962,343**	618,840
	1,397,641	920,271

36 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings involving claims by and against the Bank at 31 December 2012, which arose in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to which Bank is party to have a significantly adverse effect on the balance sheet of the Bank.

(b) Loan commitments, guarantees and other financial facilities

At 31 December 2012, the Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit and guarantees to customers as follows:

	2012 LL Million	2011 LL Million
Letters of guarantee (i)	**198,761**	223,202
Letters of credit	**258,120**	41,833
Loan commitment (unused facilities)	**79,482**	-
	536,363	265,035

(i) The nature and the amounts of the letters of guarantee are as follows:

	2012 LL Million	2011 LL Million
Guarantees given to insurance brokers	**-**	63,541
Guarantees given to customers	**114,827**	95,175
Guarantees against bank facilities	**83,934**	64,486
	198,761	223,202

37 Related-party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 45% of the ordinary shares, and Fransabank S.A.L. (incorporated in Lebanon) which owns 37% of the ordinary shares. The remaining 18% of the shares are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other financial facilities (i.e. loan commitments, guarantees, etc.).

The volumes of related party transactions, outstanding balances at the year end, and related expenses and income for the year are as follows:

(a) Loans and advances to related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2012 LL Million	2011 LL Million	**2012 LL Million**	2011 LL Million
Loans and advances (note 8)	**5,976**	5,145	**-**	-
Interest income (note 24)	**317**	204	**-**	-

No provisions have been recognised in respect of loans given to related parties (2011 – nil).

Loans and advances to related parties comprise loans with variable rates and fixed rates of LL 3,811 million (2011 – LL 3,214 million) and LL 2,165 million (2011 – LL 1,931 million) respectively. The majority of these loans are secured by real estate mortgages.

(b) Deposits from related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2012 LL Million	2011 LL Million	**2012 LL Million**	2011 LL Million
Due to customers (note 18)	**38,099**	46,214	**71,515**	42,076
Interest expense (note 24)	**2,891**	1,162	**1,637**	1,144

Deposits from related parties are unsecured and comprise deposits with variable rates (repayable on demand), and fixed rates (repayable at maturity) of LL 18,893 million (2011 – LL 13,292 million) and LL 90,721 million (2011 – LL 74,998 million) respectively.

(c) Other transactions with related parties

	2012 LL Million	2011 LL Million
Insurance expense – Bank (note 31)	**851**	670
Insurance expense – staff	**271**	243
Cost of other services received	**531**	386
Commissions paid	**14**	14

(d) Key management compensation

Directors' remuneration (note 31)	**1,124**	1,124
Directors' attendance fees (note 31)	**711**	580
Other key management compensation	**2,249**	1,753

38 Events after the reporting period

The economy of Cyprus has been adversely affected over the last few years by the international credit crisis and the instability in the financial markets. During 2012 there was a considerable tightening of financing availability from Cypriot financial institutions, mainly resulting from financial instability in relation to the Greek sovereign debt crisis, including the impairment of Greek Government Bonds, and its impact on the Cyprus economy. In addition, following its credit downgrades, the ability of the Republic of Cyprus to borrow from international markets has been significantly affected. The Cyprus government is in negotiations with the European Commission, the European Central Bank and the International Monetary Fund in order to obtain financing. As a result of the ongoing negotiations, there are uncertainties prevailing the economic environment of Cyprus.

Further to the negotiations of the Republic of Cyprus with the European Commission, the European Central Bank and the International Monetary Fund (Troika) for the purpose of obtaining financing, on 25 March 2013 the Euro Group has agreed with the Cyprus government a financial assistance to be provided to Cyprus with a package of measures that included the split of Laiki bank into a good bank (depositors with amounts up to Euros 100,000) and a bad bank (depositors with amounts over Euros 100,000); and a conversion of certain percentage of uninsured deposits (amounts over Euros 100,000) on Bank of Cyprus depositors into equity instruments. In addition, the corporate tax rate increased from 10% to 12.5%.

These measures do not apply on foreign banks and accordingly are not expected to have a significant impact on the Branch’s operations.

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2012 Network

Fostering youth to help create a world in which life can flourish

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Bank of Ceylon

Copenhagen
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Doha
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Dubai
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Commerzbank AG

Kuwait
National Bank of Kuwait SAK

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Banque Audi Saradar France SA

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Stockholm
Skandinaviska Enskilda Banken AB

Sydney
Westpac Banking Corporation

Tokyo
U.B.A.F.

Vienna
Unicredit Bank Austria AG

Zurich
Credit Suisse

Subsidiaries

• Informatics Co. s.a.r.l.

It is a software company that offers commercial and technical services. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 84 % of the company's shares.

• Société Libanaise de Service s.a.r.l.

The company is active in real estate management. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 91 % of the company's shares.

• The Capital Insurance and Reinsurance Co. s.a.l.

The company provides a full-range of insurance and reinsurance services. It is chaired by Mr. Assad G. Merza. BBAC owns 80% of the company's shares.