بنك بيروت
Bank of Beirut

Banking Beyond Borders

Annual Report 2012

Consolidated Financial Statements and Independent Auditor´s Report

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Bank of Beirut S.A.L.
Beirut, Lebanon

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, within the framework of local banking laws. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Beirut, Lebanon
March 28, 2013

DFK Fiduciaire du Moyen Orient

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Consolidated statement of financial position

ASSETS

As at December 31st - LBP'000	Notes	2012	2011
Cash and deposits at central banks	5	3,405,046,629	2,352,430,632
Deposits with banks and financial institutions	6	1,250,120,397	1,389,598,890
Trading assets at fair value through profit or loss	7	529,990,312	616,480,527
Loans to banks	8	460,523,121	365,626,387
Loans and advances to customers	9	5,186,795,880	4,542,602,876
Loans and advances to related parties	10	123,175,116	154,980,954
Investment securities	11	5,349,061,127	4,471,009,210
Customers' liability under acceptances	12	410,635,482	457,406,326
Investment in an associate	13	31,297,419	35,768,858
Assets acquired in satisfaction of loans	14	21,355,189	27,618,905
Property and equipment	15	135,844,668	117,889,505
Goodwill	16	90,819,289	88,736,427
Other assets	17	49,964,168	47,873,745
Total Assets		17,044,628,797	14,668,023,242

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

As at December 31st - LBP'000	Notes	2012	2011
Letters of guarantee and stand by letters of credit	45	1,196,268,977	964,619,686
Documentary and commercial letters of credit		893,501,068	725,661,289
Interest rate swap		83,131,905	83,477,432
Forward exchange contracts		1,442,454,369	1,020,000,639
Fiduciary accounts	46	**643,707,423**	**597,575,707**

LIABILITIES

As at December 31st - LBP'000	Notes	2012	2011
Deposits from banks and financial institutions	18	1,043,392,575	732,261,020
Customers' and related parties' deposits designated at fair value through profit or loss	19	-	2,955,538
Customers' and related parties' deposits at amortized cost	20	13,620,945,203	11,458,002,064
Liabilities under acceptance	12	410,635,482	457,406,326
Other borrowings	21	52,309,733	60,711,595
Certificates of deposit	22	46,793,527	226,726,442
Other liabilities	23	116,551,142	116,159,715
Provisions	24	36,860,887	34,636,319
Total liabilities		15,327,488,549	13,088,859,019

SHAREHOLDERS´ EQUITY

As at December 31st - LBP'000	Notes	2012	2011
Common stock	25	68,130,990	63,588,924
Shareholders› cash contribution to capital	27	20,978,370	20,978,370
Non-cumulative preferred shares	26	783,824,625	744,328,125
Reserves and retained earnings	28	646,900,353	573,249,519
Owned buildings' revaluation surplus		1,668,934	1,668,934
Cumulative change in fair value of			
investment securities at fair value			
through other comprehensive income		348,406	298,873
Regulatory reserve for assets acquired in			
satisfaction of loans		5,244,293	5,196,381
Treasury shares	29	(11,407,769)	(9,303,821)
Profit for the year	30	175,704,969	155,715,141
Currency translation adjustment		309,254	(716,089)
Equity attributable to the equity holders of the Group		1,691,702,425	1,555,004,357
Non-controlling interests	31	25,437,823	24,159,866
Total equity		1,717,140,248	1,579,164,223
Total Liabilities and Equity		17,044,628,797	14,668,023,242

The accompanying notes 1 to 56 form an integral part of the consolidated financial statements

Consolidated income statement

As at December 31st - LBP'000	Notes	2012	2011
Interest income	33	764,280,196	645,047,526
Interest expense	34	(502,193,874)	(448,621,441)
Net interest income		262,086,322	196,426,085
Fee and commission income	36	126,831,828	108,406,233
Fee and commission expense	37	(14,430,562)	(13,051,997)
Net fee and commission income		112,401,266	95,354,236
Net interest and other gains on trading securities	38	41,006,686	77,838,212
Net interest and gain on financial liability designated at fair value through profit or loss	35	(74,470)	(256,248)
Other operating income	39	39,593,938	13,737,683
Net financial revenues		455,013,742	383,099,968
Provision for credit losses (net)	40	(11,863,550)	(2,506,425)
Provision for impairment of investment in associate	13	(5,213,980)	-
Write back of/provision for loss on fixed exchange position	24	-	607,976
Other allowance for impairment (net)		91,941	-
Allowance for impairment for a brokerage account (net)	6	193,932	(678,375)
Net financial revenues after impairment charge for credit losses		438,222,085	380,523,144
Staff costs	41	(127,887,845)	(116,362,187)
General and administrative expenses	42	(86,650,883)	(64,516,475)
Depreciation and amortization	43	(13,626,880)	(10,374,729)
Write back of provisions for contingencies	24	4,610,819	-
Write off of property and equipment	15	-	(603,000)
Write back of provision for impairment of assets acquired in satisfaction of loans	14	40,357	122,005
Profit before income tax		214,707,653	188,788,758
Income tax expense		(36,467,563)	(31,244,586)
Profit for the year before withholding tax on profits from subsidiaries		178,240,090	157,544,172
Deferred tax on undistributed profit	23	(1,754,129)	(1,483,041)
Profit for the year		176,485,961	156,061,131
Attributable to:			
Non-controlling interests		780,992	345,990
Equity holders of the Group		175,704,969	155,715,141
Basic earnings per share in LBP	44	LBP 2,369	LBP 2,176
Diluted earnings per share in LBP	44	LBP 2,369	LBP 2,176

The accompanying notes 1 to 56 form an integral part of the consolidated financial statements

Consolidated statement of commprehensive income

As at December 31st - LBP'000	Notes	2012	2011
Profit for the year		176,485,961	156,061,131
Other comprehensive income:			
Foreign currency translation adjustment related to foreign operations		1,024,640	(450,019)
Change in fair value of financial assets at fair value through other comprehensive income		49,533	-
Revaluation of fixed and special exchange position to hedge foreign investments		4,484,640	(1,439,706)
Change in fair value of subsidiaries cash flow hedge		(415,948)	(1,082,685)
Total other comprehensive income		5,142,865	(2,972,410)
Total comprehensive income for the year		181,628,826	153,088,721
Attributable to:			
Equity holders of the Group		180,879,733	152,831,995
Non-controlling interests		749,093	256,726
		181,628,826	153,088,721

The accompanying notes 1 to 56 form an integral part of the consolidated financial statements

Consolidated statement of changes in equity

LBP'000	Common Stock	Cash Cantribution to Capital	Non-Cumulative Preferred Shares	Reserves and Retained Earnings
Balance, January 1, 2011	63,588,924	20,978,370	539,911,125	481,566,407
Impact of IFRS 9 early adoption	-	-	-	19,407,183
Restated balance January 1,2011	63,588,924	20,978,370	539,911,125	500,973,590
Allocation of 2010 net profit	-	-	-	150,110,847
Dividends paid to common shareholders – Note 34	-	-	-	(32,803,810)
Dividends paid to preferred shareholders – Note 34	-	-	-	(43,054,200)
Dividends on treasury shares	-	-	-	89,961
Issuance of series "H" preferred shares	-	-	203,512,500	-
Reclassification to free reserves from regulatory reserves	-	-	-	1,773,426
Loss on sale of assets acquired in satisfaction of loans	-	-	-	-
Disposal of assets acquired in satisfaction of loans				
recorded in retained earnings – Note 14	-	-	-	51,453
Transfer from free reserves to Series "D" Preferred shares	-	-	904,500	(904,500)
Change in treasury shares (Note 29)	-	-	-	-
Treasury share revaluation adjustment	-	-	-	(386,867)
Effect of exchange difference	-	-	-	(159,191)
Acquisition of a subsidiary	-	-	-	-
Total comprehensive income	-	-	-	(2,441,190)
Balance, December 31, 2011	63,588,924	20,978,370	744,328,125	573,249,519
Restatement due to correction of an error	-	-	-	(3,215,879)
Restated balance January 1, 2012	63,588,924	20,978,370	744,328,125	570,033,640
Allocation of 2011 net profit	-	-	904,500	153,375,642
Dividends paid on preferred shares	-	-	-	(46,270,774)
Dividends paid on common shares	-	-	-	(32,803,810)
Dividends on treasury shares	-	-	-	165,136
Transfer from free reserve to series "D" preferred shares	-	-	904,500	(904,500)
Redemption of Series "D"	-	-	(150,750,000)	-
Increase and reconstitution of capital	4,542,066	-	-	(4,542,066)
Issuance of series "I" preferred shares	-	-	188,437,500	-
Reclassification to free reserves from regulatory reserves	-	-	-	1,366,057
Disposal of assets acquired in satisfaction of loans – Note 14	-	-	-	58,485
Write off loans special reserves	-	-	-	(33,516)
Effect of exchange difference	-	-	-	2,356,171
Write off of foreclosed assets regulatory reserve	-	-	-	-
Change in treasury shares (Note 29)	-	-	-	-
Total comprehensive income for the year	-	-	-	4,099,888
Balance, December 31, 2012	68,130,990	20,978,370	783,824,625	646,900,353

The accompanying notes 1 to 56 form an integral part of the consolidated financial statements

Revaluation Surplus	Change in Fair value of Available-for-Sales securities	Reserve for assets acquired in in satisfaction of debets	Treasury Shares	Currency Translation Adjustment	Profit for the year	Equity attributable to the Group	Non Controlling Interest	Total
1,967,807	109,234,850	5,183,654	(4,294,396)	(274,133)	151,898,748	1,369,761,356	382,972	1,370,144,328
-	(109,234,850)	-	-	-	-	(89,827,667)	-	(89,827,667)
1,967,807	-	5,183,654	(4,294,396)	(274,133)	151,898,748	1,279,933,689	382,972	1,280,316,661
-	-	1,787,901	-	-	(151,898,748)	-	-	-
-	-	-	-	-	-	(32,803,810)	-	(32,803,810)
-	-	-	-	-	-	(43,054,200)	-	(43,054,200)
-	-	-	-	-	-	89,961	-	89,961
-	-	-	-	-	-	203,512,500	-	203,512,500
-	-	(1,773,426)	-	-	-	-	-	-
-	-	(1,748)	-	-	-	(1,748)	-	(1,748)
-	-	-	-	-	-	51,453	-	51,453
-	-	-	-	-	-	-	-	-
-	-	-	(5,464,564)	-	-	(5,464,564)	-	(5,464,564)
-	-	-	455,139	-	-	68,272	-	68,272
-	-	-	-	-	-	(159,191)	-	(159,191)
-	-	-	-	-	-	-	23,520,168	23,520,168
-	-	-	-	(441,956)	155,715,141	152,831,995	256,726	153,088,721
1,967,807	-	5,196,381	(9,303,821)	(716,089)	155,715,141	1,555,004,357	24,159,866	1,579,164,223
(298,873)	298,873	-	-	-	-	(3,215,879)	-	(3,215,879)
1,668,934	298,873	5,196,381	(9,303,821)	(716,089)	155,715,141	1,551,788,478	24,159,866	1,575,948,344
-	-	1,434,999	-	-	(155,715,141)	-	-	-
-	-	-	-	-	-	(46,270,774)	-	(46,270,774)
-	-	-	-	-	-	(32,803,810)	-	(32,803,810)
-	-	-	-	-	-	165,136	-	165,136
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	(150,750,000)	-	(150,750,000)
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	188,437,500	-	188,437,500
-	-	(1,366,057)	-	-	-	-	-	-
-	-	-	-	-	-	58,485	-	58,485
-	-	-	-	-	-	(33,516)	-	(33,516)
-	-	-	-	-	-	2,356,171	528,864	2,885,035
-	-	(21,030)	-	-	-	(21,030)	-	(21,030)
-	-	-	(2,103,948)	-	-	(2,103,948)	-	(2,103,948)
-	49,533	-	-	1,025,343	175,704,969	180,879,733	749,093	181,628,826
1,668,934	348,406	5,244,293	(11,407,769)	309,254	175,704,969	1,691,702,425	25,437,823	1,717,140,248

Consolidated statement of cash flows

As at December 31st - LBP'000	Notes	2012	2011
Cash flows from operating activities:			
Profit for the year		176,485,961	156,061,131
Adjustments for:			
Write back of provision impairment of assets acquired in satisfaction of loans (net)		(61,387)	(67,501)
Write back of provision for impairment of deposits with banks		(193,933)	678,375
Depreciation and amortization	43	13,626,880	10,374,729
Write off of property and equipment		-	603,000
Provision for credit losses (Net of write back)		11,863,550	2,506,425
Provision for impairment of investment in associate	13	5,213,980	-
Write back of provisions and accruals		(5,213,980)	-
Deferred tax on profits for distribution	23	1,754,129	1,483,041
Accretion of treasury bills discount	23	2,339,000	676,733
Unrealized loss/(gain) on trading assets at fair value through profit or loss		12,668,835	(160,679)
Change in fair value of fair value and cash flow hedge		(4,037,496)	(1,001,484)
Gain on sale of assets acquired in satisfaction of loans		(21,227,757)	(16,861,223)
Loss/(gain) on sale on property and equipment		4,415	2,865
Share in profits of an associates	13	(1,783,373)	(2,698,425)
Provision for end of service indemnity for employees (net of settlements)		4,987,796	92,909
Pension costs		-	605,326
Write back of provision for fixed currency position		-	(607,976)
Other adjustments and effect of difference on exchange		3,537,833	3,537,833
		199,964,453	150,711,978
Net decrease / (increase) in trading assets at fair value through profit or loss		77,037,259	(508,462,875)
Net decrease in loans to banks		(14,626,283)	21,889,128
Net increase in loans and advances to customers		(656,132,086)	(189,258,938)
Net decrease / (increase) in loans and advances to related parties		31,805,838	(47,900,534)
Net (increase) / decrease in cash deposits at central banks		(662,136,513)	177,885,909
Net increase in deposits with banks and financial institutions		(226,496,449)	(79,121,903)
Net increase in other assets		(4,218,020)	(15,209,159)
Net (decrease) / increase in deposits from banks		183,506,208	25,467,146
Net (decrease) / increase in other liabilities		(759,541)	(28,917,858)
Net increase in provision for contingencies		1,847,591	(176,946)
Net decrease in customers' and related parties' accounts at fair value through profit or loss		(2,955,538)	(3,637,813)
Net increase in customers' and related parties' accounts at amortized cost		2,162,943,139	1,090,718,383
Net cash provided by operating activities		1,089,780,058	593,986,518
Cash flows from investing activities:			
Property and equipment		(29,483,967)	(24,065,364)
Proceeds from sale of assets acquired in satisfaction of loans		27,665,847	24,305,298
Proceeds from sale of property and equipment		-	137,017
Acquisition of a subsidiary		-	(138,754,843)
Intangible assets		(45,000)	
Dividends from investments in an associate		1,040,832	1,044,392
(Increase)/decrease in investment securities		(878,002,384)	107,322,780
Net cash used in investing activities		(878,824,672)	(30,010,720)
Cash flows from financing activities:			
Dividends paid		(78,909,448)	(75,768,049)
Issuance of Series "H" preferred shares		-	203,512,500
Issuance of Series "I" preferred shares		188,437,500	-
Redemption of series "D" preferred shares		(150,750,000)	-
Increase in other borrowings		(10,740,862)	(10,679,444)
(Decrease)/increase in certificates of deposit		(179,932,915)	75,424,432
Change in treasury shares		(2,103,948)	(5,396,292)
Net cash (used in)/provided by financing activities		(233,999,673)	187,093,147
Net (decrease)/increase in cash and cash equivalents		(23,044,287)	751,068,945
Cash and cash equivalents - Beginning of year	48	2,180,407,461	1,429,338,516
Cash and cash equivalents - End of year	48	2,157,363,174	2,180,407,461

The accompanying notes 1 to 56 form an integral part of the consolidated financial statements

Notes to the consolidated financial statements

1. General information

Bank of Beirut S.A.L. (the “Bank”) is a Lebanese joint stock company listed on the Beirut stock exchange, registered under number 13187 in the Lebanese commercial register and under number 75 in the list of banks published by the Central Bank of Lebanon. The Bank was established in Lebanon in 1963 and provides a full range of banking services and operates through a network of 57 branches throughout Lebanon with a focus in the city of Beirut and its suburbs. The Bank has a branch in Cyprus and 3 branches in the Sultanate of Oman and representative offices in Dubai in the United Arab Emirates, in Iraq and in Nigeria. The Bank has a subsidiary bank in the UK acquired in 2002 and this subsidiary opened a branch in Frankfurt during 2010. The Bank established during 2007 a new investment subsidiary bank under the name of Bank of Beirut Invest S.A.L. During 2011, the Bank acquired 85% equity stake in a subsidiary bank in Sidney – Australia named “Laiki Bank” and changed its name to Beirut Hellenic Bank. The Bank further increased its equity stake to 92.5% during 2011.

2. Adoption of new and revised international financial reporting standards (IFRSs)

2.1 Standards and Interpretations effective for the current period

The following revised standard has been applied in the current year with no material impact on the disclosures and amounts reported for the current and prior years, but may affect the accounting for future transactions or arrangements:

Amendments to IAS 12 Income Taxes provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale.

2.2 New and Revised Standards in issue but not yet effective

The Group has not applied the following new standards, amendments and interpretations that have been issued but not yet effective:

• Amendments to IFRS 7 Financial Instruments Disclosures: enhancing disclosures about offsetting of financial assets and liabilities. Disclosures should be provided retrospectively for all comparative periods.

• IFRS 10 Consolidated Financial Statements* replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements, and SIC 12 Consolidation - Special Purpose Entities. IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee and includes a new definition of control. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. IAS 27 Consolidated and Separate Financial Statements* and IAS 28 Investments in Associates and Joint Ventures* have been amended for the issuance of IFRS 10 and SIC – 12 consolidation Special Purpose Entities will be withdrawn upon the effective date of IFRS 10.

• IFRS 11 Joint Arrangements* replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non monetary Contributions by Venturers. IFRS 11 establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate. IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS 11 and SIC – 13 Jointly Control Entities will be withdrawn upon the effective date of IFRS 11.

• IFRS 12 Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

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

• IFRS 13 Fair Value Measurement defines fair value, establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The scope of IFRS 13 is broad and applies to both financial and non-financial items for which other IFRSs

Notes to the consolidated financial statements

require or permit fair value measurement and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards.

• Amendments to IAS 1– Presentation of Other Comprehensive Income. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.

• Amendments to IAS 19 Employee Benefits eliminate the "corridor approach" and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.

• Amendments to IAS 32 Financial Instruments:
  ▸ Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.

  ▸ Resulting from Annual Improvements 2009, 2011 cycle (tax effect of equity distributions)

• IAS 27 Separate Financial Statements (as revised in 2011) as a consequence of the new IFRS 10 and IFRS 12, what remains in IAS 27 is limited to accounting for subsidiaries, jointly controlled entities and associates in separate financial statements.

• IAS 28 Investment in Associates and Joint Ventures (as revised in 2011): As a consequence of the new IFRS 11 and 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.

Annual Improvements May 2012

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

IFRS 1 First-time Adoption of International Financial Reporting Standards
This improvement clarifies that an entity that stopped applying IFRS in the past and chooses, or is required, to apply IFRS, has the option to re-apply IFRS 1. If IFRS 1 is not re-applied, an entity must retrospectively restate its financial statements as if it had never stopped applying IFRS.

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

IAS 16 Property Plant and Equipment
This improvement clarifies that major spare parts and servicing equipment that meet the definition of property, plant and equipment are not inventory.

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

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

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

*In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, consisting of IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that the adoption of the above Standards and Interpretation will have no material impact on the financial statements of the Group in the period of initial application, except for IFRS 13 which may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Notes to the consolidated financial statements

3. Significant account policies

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). Prior year comparable financial statements were either reclassified to conform to current year presentation or corrected for prior year misstatement included as an adjustment to retained earnings.

Basis of Preparation

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

- Financial assets and liabilities held for trading.
- Financial instruments designated at fair value through profit or loss ("FVTPL").
- Investments in equity securities designated at fair value through other comprehensive income ("OCI").
- Derivative financial instruments measured at fair value.

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Bank of Beirut S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries). The Bank and its subsidiaries (collectively "the Group") have the same financial reporting year and use consistent accounting policies. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. Control is achieved when, among other things, the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries consist of the following:

	Country of Incorporation	Year of Acquisition or Incorporation	Percentage of Ownership 2012	Percentage of Ownership 2011	Business Activity
Bank of Beirut UK LTD	United Kingdom	2002	100	100	Banking
Bank of Beirut Invest S.A.L.	Lebanon	2007	100	100	Investment Banking
Beirut Broker Company S.A.R.L.	Lebanon	1999	100	100	Insurance brokerage
BOB Finance S.A.L.	Lebanon	2006	100	100	Financial Institution
Cofida Holding S.A.L.	Lebanon	2008	100	100	Holding
Beirut Life	Lebanon	2010	90	90	Insurance
Beirut Hellenic Bank	Australia	2011	92.5	92.5	Banking

Notes to the consolidated financial statements

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

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the other entities of the Group.

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

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Bank.

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

B. Business Combinations:

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

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

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

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein.

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

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

C. Goodwill:

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

Notes to the consolidated financial statements

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described under "Investments in associates and other instruments".

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pounds ("LBP"), which is the Group's reporting currency. However, the primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar ("USD"). The exchange rate of the USD against the LBP has been constant for over 10 years.

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

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

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognized in profit or loss.

Goodwill and fair value adjustments on identifiable assets and liabilities acquired arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognized in equity.

E. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

Notes to the consolidated financial statements

costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

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

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

Upon derecognition of a financial asset that is classified as at fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

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

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

F. Classification of Financial Assets:

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

Debt Instruments:

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

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

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

Equity Instruments:

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

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

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated

Notes to the consolidated financial statements

in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

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

A financial asset is held for trading if:

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

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

Reclassification is not allowed where:
- the 'other comprehensive income' option has been exercised for a financial asset, or
- the fair value option has been exercised in any circumstance for a financial instrument.

Designation at Fair Value through Profit and Loss:
The Group designates financial assets and liabilities at fair value through profit or loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis; or
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

G. Financial Liabilities and Equity Instruments:

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

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

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

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

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

A financial liability is classified as held for trading if:

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

- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument.

Notes to the consolidated financial statements

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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

Financial liabilities at FVTPL are stated at fair value. Any gains or losses arising on remeasurement of held-for-trading financial liabilities are recognised in profit or loss. Such gains or losses that are recognised in profit or loss incorporate any interest paid on the financial liabilities and are included in the “Net interest and other gains on trading securities” in the consolidated income statement.

However, for non-held-for-trading financial liabilities that are designated as at FVTPL, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is recognised in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability’s credit risk that are recognised in other comprehensive income are not subsequently reclassified to profit or loss.

H. Offsetting:

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

I. Fair Value Measurement of Financial Instruments:

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

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm’s length basis;

- the fair value of other financial assets and financial liabilities and those traded in inactive markets (excluding derivative instruments) are determined either based on quoted prices adjusted downward for factors related to illiquidity or in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, as applicable; and

- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

J. Impairment of Financial Assets:

Financial assets carried at amortized cost are assessed for impairment at the reporting date. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the financial asset have been affected.

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

Notes to the consolidated financial statements

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

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

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

Embedded Derivatives

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

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

Hedge Accounting

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

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

Fair Value Hedge

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

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

Cash Flow Hedge

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

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

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

Notes to the consolidated financial statements

Hedges of net investments in foreign operations:
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognized in other comprehensive income and accumulated in the foreign currency translation reserve. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gains and losses accumulated in the foreign currency translation reserve are reclassified to profit or loss on disposal of the foreign operation.

L. Loans and Advances

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

M. Financial Guarantees:

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

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated at FVTPL, are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

N. Investments in Associates

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

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

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

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

O. Property and Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1993 are stated at their revalued amounts based on market prices prevailing during 1996 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under "Equity".

Notes to the consolidated financial statements

Depreciation is recognized so as to write off the cost or valuation of property and equipment (other than advance payments on capital expenditures) less their residual values, if any, over their useful lives, using the straight-line method as follows:

	Rate	Years
Buildings	2%	50
Furniture and equipment	8%	12.5
Computer equipment	20%	5
Vehicles	10%	10

The estimated useful lives and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

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

P. Intangible Assets Other than Goodwill:

Intangible assets other than goodwill, are amortized on a straight-line basis at the rate of 20%. Intangible assets are subject to impairment testing.

Q. Assets acquired in satisfaction of loans:

Policy applicable to Lebanese Group entities: Real estate properties acquired through the enforcement of collateral over loans and advances are stated at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the regulatory authorities require an appropriation of a special reserve from the yearly profits reflected in equity.

R. Impairment of Tangible and Intangible Assets (Other than Goodwill):

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

The fair value of the Group's owned properties and of properties acquired in satisfaction of loans debts, is the estimated market value as determined by real estate appraisers on the basis of market compatibility by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale after adjustment for an illiquidity factor and market constraints.

The impairment loss is charged to the consolidated income statement.

Notes to the consolidated financial statements

S. Provision for Employees´ End-of-Service Indemnity / Staff Retirement Benefits:

Policy applicable to Lebanese Group Entities:
The provision for employees' termination indemnities is based on the liability that would arise if the employment of all the employees' were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund.

Policy applicable to other Jurisdictions:

The Group contributes to a defined contribution scheme which is open to all members of staff over the age of 18. Contributions are charged to the income statement when they become in accordance with the scheme.

T. Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the statement of financial position date.

Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

U. Revenue and Expense Recognition:

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

Interest income and expense presented in the income statement include:
- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income on financial assets measured at fair value through profit or loss and interest income on the trading portfolio are presented separately in the income statement.

Net trading income presented in the income statement includes:

- Interest income and expense on the trading portfolio.
- Dividend income on the trading equities.
- Realized and unrealized gains and losses on the trading portfolio.

Other net income from financial assets measured at fair value through profit or loss, other than those held for trading, includes:

- Dividend income.
- Realized and unrealized fair value changes.
- Foreign exchange differences.

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

Notes to the consolidated financial statements

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

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

V. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of the items that are never taxable or deductible. Income tax expense for the insurance subsidiary is based on deemed profits which are set up by the Ministry of Finance of Lebanon as 5% of revenues. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Part of debt securities invested in by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

W. Fiduciary Accounts:

Fiduciary assets held or invested on behalf of individuals and others are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, these deposits are reflected as off-balance sheet accounts.

X. Operating lease agreements:

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated income statement on a straight line basis over the lease term.

Y.Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Bank and deposits with banks and financial institutions.

Z. Earnings per Share:

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

A.A. Dividends on ordinary shares

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

Notes to the consolidated financial statements

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

4. Critical accounting judgments and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the future periods if the revision affects both current and future periods.

A. Critical accounting judgments in applying the Group´s accounting policies:

Classification of Financial Assets (Applicable from January 1, 2011):

Business Model:
The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:
Once the Group determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group that would be consistent with amortized cost measurement include:

- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:

- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

Qualifying hedge relationships:
In designating financial instruments as qualifying hedge relationships, the Group has determined that it expects the hedge to be highly effective over the life of the hedging instrument.

Notes to the consolidated financial statements

In accounting for derivatives as cash flow hedges, the Group has determined that the hedged cash flow exposure relates to highly probable future cash flows.

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowances for Credit Losses - Loans and Advances to Customers:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios, etc…), concentrations of risks, economic data and the performance of different individual groups.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3G. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

Where available, management has used market indicators in its mark to model approach for the valuation of the Lebanese government debt securities and Central Bank certificates of deposit at fair value. The IFRS fair value hierarchy allocates the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. The fair value hierarchy used in the determination of fair value consists of three levels of input data for determining the fair value of an asset or liability.

Level 1 - quoted prices for identical items in active, liquid and visible markets such as stock exchanges,

Level 2 - observable information for similar items in active or inactive markets,

Level 3 - unobservable inputs used in situations where markets either do not exist or are illiquid.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data. Where practical, the discount rate used in the mark to model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the Lebanese Government debt securities and Central Bank certificates of deposit.

Impairment of goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

Notes to the consolidated financial statements

5. Cash and deposits at Central Banks

As at December 31st - LBP'000	2012	2011
Cash on hand	38,703,549	30,401,840
Non-Interest earning accounts:		
- Compulsory reserves with the Central Bank of Lebanon	122,327,418	95,516,672
Interest earning accounts:		
- Current accounts with the Central Bank of Lebanon	283,267,156	43,793,872
- Current accounts with other Central Banks (of which compulsory reserves LBP5billion)	631,797,729	475,247,339
- Term placements with the Central Bank of Lebanon	2,306,263,035	1,694,274,790
- Term placements with other Central Banks	1,833,644	11,238,898
Accrued interest receivable	20,854,098	1,957,221
	3,405,046,629	2,352,430,632

The non-interest earning cash compulsory reserves with the Central Bank of Lebanon ("BDL") represent deposits in Lebanese Pounds computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with local banking regulations.

Compulsory deposits with BDL are not available for use in the Group's day-to-day operations.

The term placements with the Central Bank of Lebanon include as of December 31, 2012 and 2011, the equivalent in foreign currencies of LBP1,005billion and LBP837billion, respectively deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposit in foreign currencies, certificates of deposits and loans acquired from non-resident financial institutions.

Term placements with other central banks also include the equivalent in Euro of LBP1.7billion as at December 31, 2012 (LBP2.9billion as at December 31, 2011) deposited in accordance with banking laws and regulations in Cyprus which require banks to maintain at the Central Bank of Cyprus mandatory interest earning deposits in Euro to the extent of 1% (2% as at December 31, 2011) of banks' and customers' deposits maturing in less than two years, after deducting a fixed amount of Euro100,000.

At December 31, 2012, term placement with other central banks also include the equivalent in OMR of LBP1.96billion (LBP1.96billion as at December 31, 2011) as minimum reserve requirements at Central Bank of Oman.

6. Deposits with banks and financial institutions

As at December 31st - LBP'000	2012	2011
Checks in course of collection	79,548,355	56,135,900
Current accounts	243,160,258	350,989,845
Current accounts with an associate	29,181,656	-
Term placements	831,344,804	901,292,108
Pledged deposits	66,114,142	81,325,312
Provision for impairment of a brokerage account	(484,442)	(678,375)
Accrued interest receivable	1,255,624	534,100
	1,250,120,397	1,389,598,890

Notes to the consolidated financial statements

The Group has deposits pledged against facilities obtained. Refer to Note 50.

Furthermore, the Group has as of December 31, 2012 and 2011, term placements with banks amounting to LBP46.8billion and LBP92billion, respectively, subject to right of set-off against trade finance exposures related to financial institutions in the form of letters of credit and acceptances in the amount of LBP25.6billion and LBP11.2billion respectively as at December 31, 2012 (LBP7.34billion and LBP2.9billion respectively as at December 31, 2011).

Movement of provision for impairment of a brokerage account during 2012 and 2011 was as follows:

LBP' 000	2012	2011
Opening balance	678,375	-
Additions	-	678,375
Write-back	(193,933)	-
Ending balance	484,442	678,375

7. Trading assets at fair value through profit or loss

As at December 31st, 2012 - LBP'000	LBP	C/V of F/Cy	Total
Quoted equity securities	-	16,876,748	16,876,748
Unquoted equity securities	-	20,765,395	20,765,395
Lebanese treasury bills	297,007,201	-	297,007,201
Lebanese Government bonds	-	59,155,537	59,155,537
Foreign Government treasury bills	-	53,347,277	53,347,277
Certificates of deposit issued by the Central Bank of Lebanon	33,721,049	4,674,152	38,395,201
Certificates of deposit issued by private sector	-	1,594,602	1,594,602
Debt securities issued by financial institutions	-	35,961,152	35,961,152
Accrued interest receivable	5,237,403	1,649,796	6,887,199
	335,965,653	194,024,659	529,990,312

As at December 31st, 2011 - LBP'000	LBP	C/V of F/Cy	Total
Quoted equity securities	-	16,092,703	16,092,703
Unquoted equity securities	-	20,781,132	20,781,132
Lebanese treasury bills	368,589,882	-	368,589,882
Lebanese Government bonds	-	46,969,623	46,969,623
Certificates of deposit issued by the Central Bank of Lebanon	136,403,065	4,818,391	141,221,456
Certificates of deposit issued by private sector	-	11,774,428	11,774,428
Accrued interest receivable	10,145,991	905,312	11,051,303
	515,138,938	101,341,589	616,480,527

Net interest income, gains and losses on trading assets' portfolio are detailed under Note 38.

Notes to the consolidated financial statements

8. Loans to banks

Loans to banks are reflected at amortized cost and consist of the following:

As at December 31st - LBP'000	2012	2011
Resident housing bank	36,125,200	41,049,600
Discounted acceptances	398,811,369	315,158,938
Discounted acceptances with an associate	25,252,221	7,652,433
Accrued interest receivable	2,679,166	1,944,724
Less: Unearned interest	(2,344,835)	(179,308)
	460,523,121	365,626,387

Discounted acceptances in foreign currencies represent facilities derived from trade finance activity (discounted letters of credit) mainly granted to Middle Eastern/African banks.

Since 2004, the Group has been granting 12 year LBP financing loans to a resident housing bank. These loans are subject to interest at the rate of 40% of the 2 years coupon treasury bills plus 1.75%. Interest is paid semi-annually and reset every 3 years. The loans are payable after a grace period of 2 years from withdrawal date in 10 annual equal installments.

These loans are broken down as follows:

			December 31, 2012		December 31, 2011	
Loan	Year Granted	Loan Amount LBP'000	Interest Rate %	Balance LBP'000	Interest Rate %	Balance LBP'000
1	2004	9,000,000	4.13	2,700,000	4.13	3,600,000
2	2007	8,972,000	4.35	6,280,400	4.87	7,177,600
3	2008	10,000,000	4.13	8,000,000	4.13	9,000,000
4	2009	11,272,000	3.53	10,144,800	4.28	11,272,000
5	2009	10,000,000	2.55	9,000,000	2.72	10,000,000
		49,244,000		36,125,200		41,049,600

Notes to the consolidated financial statements

As a guarantee for these loans, the borrower has pledged in favour of the Group bills related to the housing loans granted to its customers. In this connection, housing loans in the amount of LBP48billion were pledged in favor of the Group as of December 31, 2012 and 2011.

Performing loans and advances to customers as at December 31, 2012, include loan balances in US Dollar aggregating LBP126billion granted to customers against credit balances in Lebanese Pounds aggregating LBP134billion and margins in US Dollar aggregating LBP18billion reflected under "Customers' and related parties' deposits" in the statement of financial position. Furthermore, performing loans and advances to customers as at December 31, 2012, include loan balances in US Dollar aggregating to LBP298billion granted against matching credit balances in US Dollar reflected under "Customers' and related parties' deposits" in the statement of financial position.

Loans and advances to customers include as at December 31, 2012 and 2011 creditors accidentally debtors with carrying value amounting to LBP4billion and LBP4.5billion respectively.

Loans and advances to customers also include as at December 31, 2012 and 2011 multicurrency trading exposures amounting to LBP504million and LBP434million respectively net of corresponding credit balances in the amount of LBP31billion and LBP20billion respectively.

Rescheduled loans represent loans with renegotiated terms.

Notes to the consolidated financial statements

9. Loans and advances to customers

	2012			
As at December 31st - LBP'000	Gross Amount	Unrealized Interest	Impairment Allowance	Carrying Amount
REGULAR RETAIL CUSTOMERS:				
Retail loans	2,578,373,252	-	-	2,578,373,252
Unearned interest	(56,856,922)			(56,856,922)
PERFORMING CORPORATE CUSTOMERS' LOANS:				
Rescheduled loans	2,988,286	-	-	2,988,286
Corporate loans	2,647,066,091	-	-	2,647,066,091
Unearned interest	(1,075,845)	-	-	(1,075,845)
NON-PERFORMING RETAIL LOANS:				
Rescheduled substandard loans	226,950	(75,795)	-	151,155
Substandard loans	6,876,320	(941,732)	-	5,934,588
Rescheduled doubtful and bad loans	31,327	(17,326)	(14,001)	-
Doubtful and bad loans	8,128,599	(1,613,503)	(1,777,210)	4,737,886
NON-PERFORMING CORPORATE CUSTOMERS' LOANS:				
Rescheduled substandard loans	4,696,540	(2,038,570)	-	2,657,970
Substandard loans	6,647,579	(1,493,241)	(82,227)	5,072,111
Rescheduled doubtful and bad loans	9,082,660	(5,274,526)	(1,612,163)	2,195,971
Doubtful and bad loans	83,384,124	(43,073,774)	(28,377,461)	11,932,889
Allowance for impairment of collectively assessment loans	-	-	(23,135,627)	(23,135,627)
Accrued interest receivable	6,754,075	-	-	6,754,075
	5,296,323,036	(54,528,467)	(54,998,689)	5,186,795,880

Notes to the consolidated financial statements

2011

	Gross Amount	Unrealized Interest	Impairment Allowance	Carrying Amount
	1,954,728,425	-	-	1,954,728,425
	(49,015,106)	-		(49,015,106)
	4,247,033	-	-	4,247,033
	2,615,473,556	-	-	2,615,473,556
	(1,332,464)	-	-	(1,332,464)
	4,195,147	(1,662,704)	-	2,532,443
	2,784,427	(304,560)	-	2,479,867
	31,658	(23)	(33,919)	(2,284)
	619,369	(31,600)	(410,969)	176,800
	3,996,913	(1,695,036)	-	2,301,877
	9,993,900	(2,579,803)	-	7,414,097
	21,461,509	(12,965,398)	(3,695,973)	4,800,138
	66,548,187	(40,910,135)	(16,040,371)	9,597,681
	-	-	(16,003,856)	(16,003,856)
	5,204,669	-	-	5,204,669
	4,638,937,223	(60,149,259)	(36,185,088)	4,542,602,876

Notes to the consolidated financial statements

The movement of substandard loans (including restructured substandard loans) and related unrealized interest during 2012 and 2011 is summarized as follows:

	2012			
	Substandard Loans	Unrealized Interest	Impairment Allowance	Net Book Value
Balance, January 1	20,970,387	(6,242,103)	-	14,728,284
Settlements of loans	(7,627,188)	-	-	(7,627,188)
Additions to unrealized interest	1,827,648	(1,827,648)	-	-
Additional provision – Note 40	-	-	(25,521)	(25,521)
Write-back of provision – Note 40	-	-	23,762	23,762
Write-back of unrealized interest to income statement	-	488,830	-	488,830
Write-off to income statement	(14,544)	-	-	(14,544)
Write-off	(1,334,737)	1,333,391	-	(1,346)
Transfer from/to other classifications (net)	4,441,940	1,696,237	(80,794)	6,057,383
Additions to substandard loans from legal expenses	171,142	-	-	171,142
Effect of exchange rates changes	12,741	1,955	326	15,022
Balance, December 31	18,447,389	(4,549,338)	(82,227)	13,815,824

The movement of doubtful and bad loans (including restructured loans) and related unrealized interest and allowance for impairment during 2012 and 2011 is summarized as follows:

	2012			
	Bad and Doubtful	Unrealized Interest	Allowance for Impairment	Net Book Value
Balance, January 1	105,189,498	(53,907,156)	(36,710,007)	14,572,335
Addition from acquisition of a subsidiary	-	-	-	-
Settlements of loans	(6,771,072)	-	-	(6,771,072)
Additions from unrealized interest	7,585,432	(7,585,432)	-	-
Additions to loans	126,776	-	-	126,776
Additional provision – Note 40	-	-	(6,107,385)	(6,107,385)
Write back of provision – Note 40	-	-	1,267,813	1,267,813
Write back of unrealized interest to income statement	(12,780)	812,705	-	799,925
Write-off	(15,128,150)	12,343,281	2,921,850	136,981
Write-off to equity	(33,515)	-	-	(33,515)
Direct loss to income statement	(890)	-	-	(890)
Transfer to/from unclassified loans	9,203,499	-	-	9,203,499
Transfer to/from substandard loans	7,435,438	(1,696,237)	(5,348)	5,733,853
Transfer to/from off-balance sheet	-	-	(576,539)	(576,539)
Transfer to collective provision	-	-	117,775	117,775
Transfer to sundry creditors	-	-	414,055	414,055
Effect of exchange rates changes	(106,027)	53,710	35,452	(16,865)
Balance December 31	107,488,209	(49,979,129)	(38,642,334)	18,866,746
Contractual write-off on restructured debts	(6,861,499)	-	6,861,499	-
Balance, December 31	100,626,710	(49,979,129)	(31,780,835)	18,866,746

Notes to the consolidated financial statements

2011

Substandard Loans	Unrealized Interest	Net Book Value
23,023,150	(7,313,416)	15,709,734
(12,720,360)	-	(12,720,360)
2,973,073	(2,973,073)	-
-	-	-
-	-	-
-	2,521,641	2,521,641
(16,038)	-	(16,038)
(164,684)	166,902	2,218
6,934,923	1,320,724	8,255,647
872,564	-	872,564
67,759	35,119	102,878
20,970,387	(6,242,103)	14,728,284

2011

Bad and Doubtful	Unrealized Interest	Allowance for Impairment	Net Book Value
97,810,099	(46,703,201)	(35,506,860)	15,600,038
99,428	-	(68,835)	30,593
(8,998,530)	305,909	3,230,481	(5,462,140)
7,835,222	(7,835,222)	-	-
3,453,548	-	-	3,453,548
-	-	(5,077,891)	(5,077,891)
-	-	1,165,325	1,165,325
-	826,295	-	826,295
(3,886,037)	876,197	3,009,840	-
-	-	-	-
(255)	-	-	(255)
-	-	-	-
4,329,994	(1,320,723)	-	3,009,271
4,490,316	-	(4,490,316)	-
-	-	827,323	827,323
-	-	186,930	186,930
55,713	(56,411)	13,996	13,298
105,189,498	(53,907,156)	(36,710,007)	14,572,335
(16,528,775)	-	16,528,775	-
88,660,723	(53,907,156)	(20,181,232)	14,572,335

Notes to the consolidated financial statements

The movement of the allowance for impairment of collectively assessed loans during 2012 and 2011 is as follows:

LBP'000	2012	2011
Balance, January 1	16,003,856	16,384,768
Additions from acquisition of a subsidiary	-	231,854
Additions (Note 40)	7,006,785	1,301,692
Write-back (Note 40)	-	(2,742,707)
Transfer from specific provision	117,775	827,323
Transfer from off-balance sheet	3,538	-
Difference on exchange	3,673	926
Balance, December 31	23,135,627	16,003,856

10. Loans and advances to related parties

As at December 31st - LBP'000	2012	2011
PERFORMING RETAIL ACCOUNTS:		
Mortgage loans	9,809,010	11,158,018
Personal loans	1,269,013	472,935
Car loans	208,103	119,200
Credit cards	334,279	381,035
Other	164,887	7,627
PERFORMING CORPORATE ACCOUNTS:		
Small and medium enterprises	111,341,050	142,786,654
Accrued interest receivable	48,774	55,485
	123,175,116	154,980,954

Loans and advances to related parties are partially covered by collaterals Refer to Note 47.

Performing corporate accounts includes as at December 31, 2012 and 2011 multicurrency trading exposures amounting to LBP19.8million and LBP19.7million respectively net of corresponding credit balances in the amount of LBP7.6billion and LBP7.4billion respectively.

11. Investment securities

	Fair Value through Other Comprehensive Income			Amortized Cost			
As at December 31st 2012 - LBP'000	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	Total
Unquoted equity securities	3,391,575	177,112	3,568,687	-	-	-	3,568,687
Lebanese treasury bills	-	-	-	1,303,079,793	-	1,303,079,793	1,303,079,793
Lebanese government bonds	-	-	-	-	1,693,486,004	1,693,486,004	1,693,486,004
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	1,440,131,118	54,409,976	1,494,541,094	1,494,541,094
Certificates of deposit issued by private sector	-	-	-	-	513,971,458	513,971,458	513,971,458
Financial private sector debt securities	-	-	-	-	263,556,829	263,556,829	263,556,829
	3,391,575	177,112	3,568,687	2,743,210,911	2,525,424,267	5,268,635,178	5,272,203,865
Accrued interest receivable	-	-	-	46,479,422	30,377,840	76,857,262	76,857,262
	3,391,575	177,112	3,568,687	2,789,690,333	2,555,802,107	5,345,492,440	5,349,061,127

Notes to the consolidated financial statements

As at December 31st 2011 - LBP'000	Fair Value through Other Comprehensive Income			Amortized Cost			
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total	Total
Unquoted equity securities	3,391,575	47,899	3,439,474	-	-	-	3,439,474
Lebanese treasury bills	-	-	-	1,120,216,502	-	1,120,216,502	1,120,216,502
Lebanese government bonds	-	-	-	-	1,158,816,832	1,158,816,832	1,158,816,832
Foreign government treasury bonds	-	-	-	-	27,898,440	27,898,440	27,898,440
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	1,262,992,770	156,359,969	1,419,352,739	1,419,352,739
Certificates of deposit issued by private sector	-	-	-	-	80,438,664	80,438,664	80,438,664
Financial private sector debt securities	-	-	-	-	588,506,070	588,506,070	588,506,070
	3,391,575	47,899	3,439,474	2,383,209,272	2,012,019,975	4,395,229,247	4,398,668,721
Accrued interest receivable	-	-	-	44,045,123	28,295,366	72,340,489	72,340,489
	3,391,575	47,899	3,439,474	2,427,254,395	2,040,315,341	4,467,569,736	4,471,009,210

Financial assets at amortized cost:

2012

As at December 31st - LBP'000	LBP Amortized Cost	LBP Accrued Interest Receivable	LBP Fair Value	F/Cy Amortized Cost	F/Cy Accrued Interest Receivable	F/Cy Fair Value
Lebanese treasury bills	1,303,079,793	21,219,992	1,306,135,538	-	-	-
Lebanese Government bonds	-	-	-	1,693,486,004	23,660,186	1,735,665,260
Certificates of deposit issued by the Central Bank of Lebanon	1,440,131,118	25,259,430	1,490,088,763	54,409,976	1,370,957	59,382,654
Certificate of deposit issued by private sector	-	-	-	513,971,458	3,035,823	515,901,241
Financial private sector debt securities	-	-	-	263,556,829	2,310,874	263,143,350
	2,743,210,911	46,479,422	2,796,224,301	2,525,424,267	30,377,840	2,574,092,505

2011

As at December 31st - LBP'000	LBP Amortized Cost	LBP Accrued Interest Receivable	LBP Fair Value	F/Cy Amortized Cost	F/Cy Accrued Interest Receivable	F/Cy Fair Value
Lebanese treasury bills	1,120,216,502	22,278,141	1,146,471,016	-	-	-
Lebanese Government bonds	-	-	-	1,158,816,832	19,271,563	1,235,551,785
Certificates of deposit issued by the Central Bank of Lebanon	1,262,992,770	21,766,982	1,357,902,825	156,359,969	2,327,270	165,487,118
Foreign government treasury bonds	-	-	-	27,898,440	19,811	27,896,488
Certificate of deposit issued by private sector	-	-	-	80,438,664	467,054	80,774,603
Financial private sector debt securities	-	-	-	588,506,070	6,209,668	574,346,414
	2,383,209,272	44,045,123	2,504,373,841	2,012,019,975	28,295,366	2,084,056,408

Notes to the consolidated financial statements

Certificates of deposit issued by the Central Bank of Lebanon include as of December 31, 2012 certificates of deposit with a carrying value of LBP4billion classified as financial assets at fair value through profit or loss and LBP55billion classified as financial assets at amortized cost (LBP29billion classified at amortized cost and LBP4billion classified as held for trading as of December 31, 2011) maturing in 2015 with a put option exercisable at a redemption value of 91.63% of par in year 2012. The Group followed the policy of providing annually for the difference of 8.37% between the nominal value and the early redemption value in 2012. Provision booked up to April 2012, the date on which the put option expired and which was reflected under “Other Liabilities”, and amounting to LBP2.34billion was recycled to the consolidated income statement and recorded under “Other operating income” (Note 39).

During 2012, the Group sold investment securities at amortized cost with an aggregate nominal value of LBP254billion. The sale was triggered by withdrawal of deposits in matching currencies. As a result of this transaction, the Group recognized gains on sale in the amount of LBP21billion recorded under “Other operating income” in the consolidated income statement (Note 39).

During 2012, the Group exchanged Lebanese bonds with aggregating carrying value of LBP20.7billion maturing in March 2013 and LBP67.1billion maturing in June 2013 against Lebanese government bonds maturing on November 2018 and January 2023. The Group classified LBP6billion as trading and LBP83billion at amortized cost. The resulting discount in the amount of LBP2.3billion will be amortized over the maturity of the new bonds as a yield adjustment.

At December 31, 2012, the Group had Lebanese government bonds with an aggregate carrying value of LBP914million (LBP905million as at December 31, 2011) pledged in favor of the Lebanese Ministry of Economy and Trade as a guarantee of insurance business in compliance with local regulations (Note 50).

12. Customers´ liability under acceptances

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

13. Investments in an associate

This caption represents the Group’s 20.42% equity stake in an African bank.

The movement of the investment balance during 2012 and 2011 is as follows:

	2012		2011	
	USD	C/V in LBP’000	USD	C/V in LBP’000
Balance January 1,	23,706,824	35,768,858	22,609,621	34,114,825
Share in net profit (Note 41)	1,183,000	1,783,373	1,790,000	2,698,425
Distribution of dividends	(690,436)	(1,040,832)	(692,797)	(1,044,392)
Provision for impairment	(3,458,693)	(5,213,980)	-	-
Balance December 31,	**20,740,695**	**31,297,419**	**23,706,824**	**35,768,858**

During 2012, the Group provided for impairment of the investment in the associate in the amount of LBP5.2billion recorded under the consolidated income statement.

Notes to the consolidated financial statements

14. Assets acquired in satisfaction of loans

Assets acquired in satisfaction of loans have been acquired through extinguishment and/or restructuring of debt.

The movement of assets acquired in satisfaction of loans was as follows:

LBP'000	Real Estate
GROSS AMOUNT:	
Balance January 1, 2011	40,247,598
Additions	1,766,023
Disposals	(7,444,074)
Balance December 31, 2011	34,569,547
Additions	75,532
Disposals	(12,131,480)
Balance December 31, 2012	22,513,599
ALLOWANCE FOR IMPAIRMENT:	
Balance January 1, 2011	(7,069,596)
Additions	(54,504)
Write-back to income statement	122,005
Write-back to reserves	51,453
Balance December 31, 2011	(6,950,642)
Disposals	5,693,390
Write-back to income statement	40,357
Write-back to reserves	58,485
Balance December 31, 2012	(1,158,410)
CARRYING AMOUNT:	
December 31, 2012	21,355,189
December 31, 2011	27,618,905

During 2012, the Group sold assets that were previously acquired in satisfaction of loans with an aggregate cost of LBP12.1billion (LBP7.4billion during 2011). The sales resulted in a gain in the amount of LBP11.84billion during 2012 (LBP16.9billion during 2011) that was recorded in the consolidated income statement under "Other operating income" (Note 39).

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is redeemed to 5% annually when certain conditions linked to the restructuring of non-performing loans are met. In this connection, an amount of LBP1.4billion was appropriated in 2012 (LBP1.8billion in 2011). An amount of LBP1.37billion was transferred during 2012 to retained earnings upon the sale of the related foreclosed assets (LBP1.8million in 2011).

Notes to the consolidated financial statements

15. Property and equipment

2012 - LBP'000	Buildings and Real Estate	Furniture	Equipments
GROSS AMOUNT:			
Balance December 31, 2011	91,481,526	20,793,232	35,280,004
Additions	7,137,654	2,767,143	3,897,206
Disposal	-	(134,922)	(267,704)
Transfers between categories	3,516,335	242,278	1,614,940
Transfers to adjustment Opening balance	-	1,606	84,561
Transfers to intangible assets	-	-	-
Write off to general and administrative expenses	-	-	-
Exchange Difference	-	60,761	234,121
Balance December 31, 2012	102,135,515	23,730,098	40,843,128
ACCUMULATED DEPRECIATION:			
Balance December 31, 2011	(15,876,162)	(13,798,569)	(27,114,598)
Additions	(1,856,265)	(1,175,201)	(2,863,207)
Disposal	-	122,199	265,143
Transfers to adjustment opening balance	-	(18)	-
Exchange Difference	-	(40,327)	(165,913)
Balance December 31, 2012	(17,732,427)	(14,891,916)	(29,878,575)
IMPAIRMENT ALLOWANCE:			
Balance December 31, 2011	(346,429)	-	-
Write-offs/write backs	46,429	-	-
Balance December 31, 2012	(300,000)	-	-
CARRYING AMOUNT:			
December 31, 2012	84,103,088	8,838,182	10,964,553

Notes to the consolidated financial statements

Vehicles	Key Money	Installations and improvement	Advances on Capital Expenditure	Total
609,272	3,712,425	45,390,538	7,618,395	204,885,392
19,578	-	1,662,487	15,301,031	30,785,099
-	-	(85,432)	-	(488,058)
-	-	2,320,870	(7,694,423)	-
-	-	(86,167)	-	-
-	-	-	(1,105,604)	(1,105,604)
-	-	-	(520,437)	(520,437)
4,176	-	304,074	2,517	605,649
633,026	3,712,425	49,506,370	13,601,479	234,162,041
(246,046)	(2,053,582)	(27,560,501)	-	(86,649,458)
(100,375)	(165)	(5,483,942)	-	(11,479,155)
-	-	85,432	-	472,774
(1)	-	19	-	-
(700)	-	(154,594)	-	(361,534)
(347,122)	(2,053,747)	(33,113,586)	-	(98,017,373)
-	-	-	-	(346,429)
-	-	-	-	46,429
-	-	-	-	(300,000)
285,904	1,658,678	16,392,784	13,601,479	135,844,668

Notes to the consolidated financial statements

2011 - LBP'000	Buildings and Real Estate	Furniture	Equipments
GROSS AMOUNT:			
Balance December 31, 2010	89,709,530	18,718,635	26,957,983
Additions from acquisition of a subsidiary	-	460,882	5,473,239
Additions	2,375,252	1,743,261	2,202,253
Disposal	(90,450)	(52,131)	(462,994)
Transfers between categories	87,589	(76,852)	1,112,531
Transfers to intangible assets	-	-	-
Write off	(603,000)	-	-
Exchange Difference	2,605	(563)	(3,008)
Balance December 31, 2011	91,481,526	20,793,232	35,280,004
ACCUMULATED DEPRECIATION:			
Balance December 31, 2010	(14,102,865)	(12,761,310)	(21,908,601)
Additions from acquisition of a subsidiary	-	(304,036)	(3,520,068)
Additions	(1,731,889)	(1,007,795)	(2,198,729)
Disposals	-	35,815	413,955
Transfers between categories	(41,658)	218,040	(32,992)
Exchange Difference	250	20,717	131,837
Balance December 31, 2011	(15,876,162)	(13,798,569)	(27,114,598)
IMPAIRMENT ALLOWANCE:			
Balance December 31, 2011 and 2010	(346,429)	-	-
CARRYING AMOUNT:			
December 31, 2011	75,258,935	6,994,663	8,165,406

Notes to the consolidated financial statements

	Vehicles	Key Money	Installations and improvement	Advances on Capital Expenditure	Total
	412,221	3,711,722	28,955,271	2,630,110	171,095,472
	-	-	7,300,400	-	13,234,521
	202,960	-	3,892,488	14,169,448	24,585,662
	(5,909)	-	(2,344,741)	-	(2,956,225)
	-	702	7,589,158	(8,713,128)	-
	-	-	-	(468,035)	(468,035)
	-	-	-	-	(603,000)
	-	1	(2,038)	-	(3,003)
	609,272	3,712,425	45,390,538	7,618,395	204,885,392
	(153,020)	(2,053,473)	(20,986,621)	-	(71,965,890)
	-	-	(4,636,360)	-	(8,460,464)
	(100,015)	(165)	(4,209,137)	-	(9,247,730)
	5,909	-	2,299,376	-	2,755,055
	-	56	(143,446)	-	-
	1,080	-	115,687	-	269,571
	(246,046)	(2,053,582)	(27,560,501)	-	(86,649,458)
	-	-	-	-	(346,429)
	363,226	1,658,843	17,830,037	7,618,395	117,889,505

Notes to the consolidated financial statements

16. Goodwill

This section comprises the following:

	2012			2011		
As at December 31st - LBP'000	**LBP**	**C/V of F/Cy**	**Total**	**LBP**	**C/V of F/Cy**	**Total**
Goodwill at cost	452,265	90,367,024	90,819,289	407,025	88,329,402	88,736,427
	452,265	90,367,024	90,819,289	407,025	88,329,402	88,736,427

The goodwill in Lebanese Pounds of LBP452million as at December 31, 2012 (LBP407million as at December 31, 2011) represents the Group's share in the sum of all licenses, discounted future income on existing insurance policies portfolio of the subsidiary Beirut Life S.A.L. acquired in 2010 whereby 90% of its shares were acquired by the Group.

The goodwill in foreign currencies includes LBP87.2billion corresponding to the excess acquisition cost over the fair value of the Group's share in the net assets of a subsidiary bank in Australia acquired in 2011.

The goodwill arising from the acquisition of the subsidiary bank in Australia was determined as follows:

	AUD	**C/V in LBP'000**
Net book value of the subsidiary at acquisition date	102,507,173	160,355,046
Percentage of ownership	85%	85%
	87,131,097	136,301,789
Less: Acquisition cost	(142,876,072)	(223,505,326)
Excess of acquisition cost over net asset value	55,744,975	87,203,537

Moreover, the Group entered into an option agreement with the seller whereby the Group has a call option and the seller has a put option exercisable for an indefinite period of time commencing after the expiration of two years from transaction date, to acquire / sell the remaining shares for a consideration calculated using a predetermined formula.

Moreover, goodwill in foreign currencies includes an amount of LBP1.8billion that corresponds to the acquisition of a private banking unit of a foreign bank by the Group's subsidiary in the United Kingdom.

The goodwill arising on the acquisition is attributable to the anticipated additional profitability that will be contributed to the Group in the future.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Group has determined that the Business constitutes a single cash generating unit and tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired.

The recoverable amount of the cash generating unit is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to net interest margin during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the Business. The growth rates are based on industry growth forecasts. Changes in net interest margin are based on expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the Business and extrapolates cash flows for the review period based on the assumption that the cash flows will remain relatively stable throughout the period under review.

Notes to the consolidated financial statements

17. Other assets

As at December 31st - LBP'000	2012	2011
Advances on employees medical bills	4,870,487	3,977,519
Deferred software charges	8,043,426	6,638,768
Fair value of derivative assets	2,483,827	1,371,928
Deferred tax asset	2,530,535	2,199,976
Accrued income	607,444	691,023
Prepayments	13,139,456	12,404,885
Regulatory blocked deposit	4,500,000	4,500,000
Sundry accounts receivable	11,726,942	14,237,588
Fair value of fixed position	-	(175,833)
Premium on swap operation	546,976	682,718
Other	1,515,074	1,345,173
	49,964,167	**47,873,745**

Amortization of deferred software changes amounted to LBP2.15billion for the year 2012 (LBP1.13 billion in 2011) (Note 43).

The regulatory blocked deposit represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon the inception of investment banks in accordance with Article 132 of the Lebanese Code of Money and Credit, and is refundable in case of cease of operations.

The fair value of derivative assets consists of the following:

As at December 31st - LBP'000	2012	2011
Fair value of currency options – Note 19	-	257,929
Fair value of interest rate swap	199,889	96,536
Fair value of forward contracts	2,283,938	1,017,463
	2,483,827	**1,371,928**

Deferred tax asset consists of the following:

As at December 31st - LBP'000	2012	2011
Eurobond swap transaction	-	1,718
Deferred tax asset on depreciation of property and equipment	423,237	364,771
Provisions	1,380,485	1,341,715
Other	726,813	491,772
	2,530,535	**2,199,976**

18. Deposits and from banks and financial institutions

Deposits and borrowings from banks and financial institutions are reflected at amortized cost and consist of the following:

	2012		
As at December 31st - LBP'000	LBP	C/V of /F/Cy	Total
Current deposits of banks and financial institutions	450,590	231,165,283	231,615,873
Current deposits – associate bank	-	5,025,737	5,025,737
Short term deposits	63,699,598	733,150,376	796,849,974
Short term deposit – associate bank	-	5,985,280	5,985,280
Accrued interest payable	1,068,459	2,847,252	3,915,711
	65,218,647	**978,173,928**	**1,043,392,575**

Notes to the consolidated financial statements

As at December 31st - LBP'000	2011 LBP	2011 C/V of /F/Cy	2011 Total
Current deposits of banks and financial institutions	155,769	239,027,082	239,182,851
Current deposits – associate bank	-	3,035,702	3,035,702
Short term deposits	54,033,287	433,331,607	487,364,894
Short term deposits - associated bank	-	1,169,154	1,169,154
Blocked deposits	-	150,750	150,750
Accrued interest payable	830,875	526,794	1,357,669
	55,019,931	677,241,089	732,261,020

Because of the short-term nature of the above accounts' balances, the carrying value approximates the fair value as of the date of the financial position.

Blocked deposits as of December 31, 2011 consist of time deposits blocked in counter guarantee of standby letters of credit and letters of guarantee.

Short term deposits include withdrawals from the Arab Trade Finance Program credit limit. The balance amounted to USD8,879,648 as of December 31, 2012 (USD5,051,608 in 2011). This facility was granted to the Group to finance imports and exports among Arab countries.

Short term deposits also include as of December 31, 2012 an amount of LBP3.2billion representing Murabaha agreements with a resident Islamic bank maturing in 2013 (LBP18billion as of December 31, 2011).

19. Customers´ and related parties´ deposits designated at fair value through profit or loss

This section consists of the following:

As at December 31st - LBP'000	2012	2011
Customers' deposits designated at fair value through profit or loss	-	2,894,287
Accrued interest payable	-	61,251
	-	2,955,538

Certain deposits from customers had been designated at fair value through profit or loss as they are subject to embedded derivatives, the underlying of which consists of a basket of commodities and currencies hedged through effective over the counter (OTC) options at 95% and 100% of the nominal amount. An accounting mismatch would arise if customers' deposits were accounted for at amortized cost, because the related derivative is measured at fair value with movements in the fair value taken through the income statement. By designating those deposits from customers at fair value, the movement in the fair value of these deposits is recorded in the consolidated income statement. These instruments provide a notional amount protection for customers on maturity of the deposits of 95% and 100% of the initially invested capital.

The changes in the fair value recognized on these deposits and the related derivative acquired for hedging are broken down as follows as at December 31, 2011:

As at December 31st - LBP'000	2011 Initial Value	2011 Fair Value	2011 Cumulative Change in fair Value
Customers' deposits designated at fair value through profit or loss	2,638,125	2,894,287	256,162
	2,638,125	2,894,287	256,162

Notes to the consolidated financial statements

20. Customers´ and related parties´ deposits at amortized cost

As at December 31st - LBP'000	2012 LBP	2012 F/Cy	2012 Total
DEPOSITS FROM CUSTOMERS:			
Current and demand deposits	199,315,774	1,324,921,150	1,524,236,924
Term deposits – Note 9	3,991,112,011	6,896,236,329	10,887,348,340
Credit accounts against loans and advances – Note 9	260,166,502	415,630,399	675,796,901
Margins for irrevocable import letters of credit	50,324,282	122,109,194	172,433,476
Margins on letters of guarantee	7,536,803	39,406,762	46,943,565
Other margins	5,998,606	29,870,791	35,869,397
Accrued interest payable	32,113,067	35,729,445	67,842,512
Total third party customers› deposits	4,546,567,045	8,863,904,070	13,410,471,115
Of which non-interest bearing	161,827,663	181,081,287	342,908,950
DEPOSITS FROM RELATED PARTIES:			
Current and demand deposits	821,436	75,502,476	76,323,912
Term deposits	28,047,136	99,402,910	127,450,046
Credit accounts against loans and advances	469,625	2,897,052	3,366,677
Margins on letters of guarantee	1,557,190	687,339	2,244,529
Other margins	-	588,442	588,442
Accrued interest payable	133,536	366,946	500,482
Total related parties' deposits	31,028,923	179,445,165	210,474,088
Total Deposits	4,577,595,968	9,043,349,235	13,620,945,203

As at December 31st - LBP'000	2011 LBP	2011 F/Cy	2011 Total
DEPOSITS FROM CUSTOMERS:			
Current and demand deposits	217,883,806	1,315,902,186	1,533,785,992
Term deposits	3,345,638,148	5,694,105,796	9,039,743,944
Credit accounts against loans and advances	114,648,288	341,773,538	456,421,826
Margins for irrevocable import letters of credit	53,600,653	58,516,459	112,117,112
Margins on letters of guarantee	7,611,047	26,598,646	34,209,693
Other margins	1,146,117	34,570,489	35,716,606
Accrued interest payable	25,741,047	42,635,701	68,376,748
Total third party customers' deposits	3,766,269,106	7,514,102,815	11,280,371,921
Of which non-interest bearing	272,306,130	601,824,852	874,130,982
DEPOSITS FROM RELATED PARTIES:			
Current and demand deposits	9,699,239	10,764,423	20,463,662
Term deposits	20,950,172	122,589,744	143,539,916
Credit accounts against loans and advances	302,927	3,398,641	3,701,568
Margins on letters of guarantee	1,620,018	2,878,375	4,498,393
Other margins	4,788,873	85,590	4,874,463
Accrued interest payable	196,849	355,292	552,141
Total related parties' deposits	37,558,078	140,072,065	177,630,143
Total Deposits	3,803,827,184	7,654,174,880	11,458,002,064

Customers' and related parties' deposits at amortized cost are allocated by brackets of deposits as follows (excluding accrued interest payable):

	2012		
	LBP	F/Cy	
As at December 31st - LBP'000	Total Deposits	Total Deposits	Total % of Customers
DEPOSITS FROM CUSTOMERS:			
Less than LBP500 million	1,999,965,174	2,412,468,616	96
From LBP500 million to LBP1.5billion	732,125,776	1,403,519,502	2
From LBP1.5 billion to LBP5billion	600,642,253	1,505,147,878	1
Over LBP5billion	1,181,720,775	3,507,038,629	1
	4,514,453,978	8,828,174,625	100
DEPOSITS FROM RELATED PARTIES:			
Less than LBP500 million	2,531,544	5,121,761	83
From LBP500 million to LBP1.5 billion	4,291,048	7,864,286	8
From LBP1.5 billion to LBP5billion	5,755,187	19,826,778	6
Over LBP5billion	18,317,608	146,265,394	3
	30,895,387	179,078,219	100
	4,545,349,365	**9,007,252,844**	

	2011		
	LBP	F/Cy	
As at December 31st - LBP'000	Total Deposits	Total Deposits	Total % of Customers
DEPOSITS FROM CUSTOMERS:			
Less than LBP500 million	1,929,991,986	2,571,770,121	96
From LBP500 million to LBP1.5billion	631,605,484	1,232,784,198	2
From LBP1.5 billion to LBP5billion	503,381,036	1,279,727,570	1
Over LBP5billion	675,549,553	2,387,185,225	1
	3,740,528,059	7,471,467,114	100
DEPOSITS FROM RELATED PARTIES:			
Less than LBP500 million	2,954,363	5,640,915	90
From LBP500 million to LBP1.5 billion	9,893,155	5,033,042	4
From LBP1.5 billion to LBP5billion	5,005,631	11,232,703	3
Over LBP5billion	19,508,080	117,810,113	3
	37,361,229	139,716,773	100
	3,777,889,288	**7,611,183,887**	

Deposits from customers at amortized cost include at December 31, 2012 coded deposit accounts in the aggregate of LBP68billion (LBP91billion as at December 31, 2011). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers at amortized cost include at December 31, 2012 deposits of fiduciary nature received from resident and non-resident banks for a total amount of LBP50billion and LBP364billion respectively (LBP21billion and LBP270billion in 2011).

The average balance of customers' deposits at amortized cost and related cost of funds over the last 3 years are as follows:

	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
LBP'000	LBP	LBP %	F/Cy %	LBP	%
Year 2012	11,329,342,493	36	64	477,056,106	4.21
Year 2011	9,846,089,776	35	65	424,433,807	4.30
Year 2010	7,478,855,932	42	58	317,578,530	4.22

The average balance of related parties' deposits at amortized cost and related cost of funds over the last 3 years are as follows:

	Average Balance of Deposits	Allocation of Deposits		Cost of Funds	Average Cost of Funds
LBP'000	LBP	LBP %	F/Cy %	LBP	%
Year 2012	203,835,473	21	79	8,771,862	4.30
Year 2011	166,006,486	14	86	3,750,298	2.26
Year 2010	169,813,034	21	79	8,482,678	5.00

21. Other Borrowings

Other borrowings are denominated in foreign currencies and are reflected at amortized cost and consist of the following:

As at December 31st - LBP'000	2012	2011
Subordinated loans from shareholders	-	18,090,000
Borrowing from the European Investment Bank	52,190,470	40,648,742
Other	-	746,484
Accrued interest payable	119,263	1,226,369
	52,309,733	60,711,595

In August 2002, the Group obtained a USD12million subordinated loan from three of the shareholders. This subordinated loan is subject to an interest rate of 6% per annum or Libor + 2%, whichever is higher, calculated semi annually and paid annually. This loan was to be settled in one installment at the end of year five, subject to the Central Bank of Lebanon approval. However, upon maturity this loan was renewed for 5 years ending in August 2012. During 2012, the loan was fully settled. Interest expenses on this loan for the year ended December 31, 2012 amounted to LBP722million (LBP1.09billion in 2011) and is recorded under interest expense (Note 34).

For the purpose of computation of the risk based capital ratio, and according to Lebanese banking laws and regulations, this instrument is considered as Tier II capital and is reduced on a yearly basis by 20% of the loan principal over 5 years.

The borrowing from the European Investment Bank were obtained to finance manufacturing loans granted to customers. The balance of loans granted to customers under this facility amounted to LBP36billion as of December 31, 2012 (LBP34billion as of December 31, 2011). Interest expense on this borrowing amounted to LBP456million during 2012 (LBP518million in 2011) recorded under interest expense.

The Group did not have any defaults of principal, interest or other breaches with respect to its borrowings during 2012 and 2011.

22. Certificates of deposit

Certificates of deposit denominated monthly in U. S. Dollar are reflected at amortized cost and consist of the following:

As at December 31st - LBP'000	2012		2011	
	C/V of /F/Cy	Average Interest Rate %	C/V of /F/Cy	Average Interest Rate %
Certificates of deposit	46,349,278	4.17	227,206,548	3.46
Accrued interest payable	444,249		1,214,558	
Discounted interest	-		(1,694,664)	
	46,793,527		226,726,442	

The Group did not have any defaults of principal, interest or other breaches with respect to its certificates of deposit during 2012 and 2011.

23. Other liabilities

As at December 31st - LBP'000	2012	2011
Checks and incoming payment orders in course of settlement	36,761,830	32,360,951
Derivative financial liabilities	1,735,705	7,907,629
Suspense account	2,205,104	-
Accrued expenses	19,893,129	16,824,041
Deferred income	6,375,171	6,514,842
Provision for early redemption of investment securities (Note 11)	-	2,339,425
Income tax payable	16,412,080	17,145,909
Deferred tax liability	2,362,038	1,859,879
Withheld taxes	8,597,382	7,259,231
Fair value of financial guarantees	1,406,443	291,666
Sundry accounts payable	20,626,429	23,656,142
Net fixed position	175,831	-
	116,551,142	116,159,715

Fair value of derivative financial liabilities consists of the following:

As at December 31st - LBP'000	2012	2011
Fair value of interest rate swap	1,716,083	2,163,003
Fair value of forward contracts	19,622	5,744,626
	1,735,705	7,907,629

The Group uses foreign currency, interest rate swaps and forwards for hedging purposes only. These represent commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates.

The movement of deferred tax liability which relates to undistributed profits from subsidiaries during 2012 and 2011 was as follows:

LBP'000	2012	2011
Opening balance	1,859,879	2,166,838
Additions	1,754,129	1,483,041
Settlements	(1,250,000)	(1,790,000)
Previous year adjustment	(1,970)	-
Ending balance	**2,362,038**	**1,859,879**

At December 31, 2012, a deferred tax liability for temporary differences of LBP8.8billion related to the undistributed profits of subsidiaries was not recognized on the grounds that management has committed to retain the profits in one of the subsidiaries for purpose of permanent capitalization of profits.

During 2012, two of the Group subsidiaries paid cash dividends in the amount of LBP12.5billion. The tax amount of LBP1.25billion was settled from the deferred tax liability.

During 2011, three of the Group's subsidiaries paid cash dividends in the amount of LBP17.9billion. The related distribution tax amount of LBP1.79billion was settled from the deferred tax liability.

The regrouping of reconciliations between average effective tax rate and enacted tax rates is summarized as follows:

LBP'000	2012	2011
Bank's gross profit(before elimination of inter-company transactions)	214,707,658	188,788,758
Less: Non-taxable revenues	(14,571,624)	(3,913,805)
Add: Non-deductible expenses/losses	21,407,245	13,782,905
Less: Income from an associate bank	(1,783,373)	(2,698,425)
Less: Income of foreign branches and subsidiaries not subject to 15%	(52,001,767)	(41,487,255)
Bank's net taxable profit	167,758,139	154,472,178
Tax at the domestic income tax rate of 15%	25,163,721	23,170,827
Add: Income tax provision - foreign branches and subsidiaries not subject to 15%	11,303,842	8,073,759
Tax expense for the year	36,467,563	31,244,586
Deferred tax assets	-	(2,496)
Less: Tax paid during the year in the form of withholding tax	(12,618,174)	(12,800,542)
Deferred tax to be paid (effect of IFRS 9)	-	3,358,340
Less: Subsidiaries income tax paid	(7,437,309)	(4,653,979)
Income tax payables as at December 31,	**16,412,080**	**17,145,909**

During the year 2012, the tax department issued its tax assessment report in respect of Bank of Beirut S.A.L. fiscal years 2006 and 2007 which started in 2009. As a result of this tax review the Group paid LBP2.9billion and claimed LBP1.2billion which were collected in December 2012. The net effect of this settlement in the amount of LBP1.7billion was booked to "Other liabilities" in the consolidated statement of financial liabilities.

During 2012, the Group wrote back accrued liabilities no longer required in the amount of LBP603million recorded under "General and administrative expenses" in the consolidated income statement.

24. Provisions

This caption consists of the following:

As at December 31st - LBP'000	2012	2011
Provision for staff and executive management termination indemnity	33,881,151	28,893,355
Provision for loss on foreign currency position	194,000	194,000
Provision for contingencies	46,429	4,715,288
Provision for insurance contracts liabilities	2,607,638	741,722
Other	131,669	91,954
	36,860,887	34,636,319

At the statement of financial position date, an actuarial valuation of the life portfolio was carried out by a professional independent actuary whose report states that the provision is computed in a manner that conforms to the appropriate actuarial standards of practice.

During 2012, the Group wrote back provision for contingencies in the amount of LBP4.6billion recorded under "Write back of provisions for contingencies" in the consolidated income statement.

The movement of provision for staff and executive management termination indemnity is as follows:

LBP'000	2012	2011
Balance January 1	28,893,355	26,536,182
Additions from acquisition of a subsidiary	-	2,264,264
Additions	7,101,135	4,301,370
Settlements	(2,113,339)	(4,208,461)
Balance December 31	33,881,151	28,893,355

The movement of the provision for foreign currency position was as follows:

LBP'000	2012	2011
Balance January 1	194,000	801,976
Write-back	-	(607,976)
Balance December 31	194,000	194,000

25. Share capital

At December 31, 2012, the authorized ordinary share capital of the Bank was LBP68.13billion consisting of 50,467,400 fully paid shares of LBP1,350 par value each (LBP63.59billion consisting of 50,467,400 fully paid shares of LBP1,260 par value each as of December 31, 2011). The increase in the nominal value of the share in the amount of LBP90 per share during 2012 resulted from a transfer from reserves restricted for capital increase following a decision by the general assembly to reconstitute the capital which decreased by an amount of LBP3.64billion as a result of the redemption of all Series "D" preferred shares and partly for rounding the nominal value of the share by an aggregate amount of LBP900million.

As of December 31, 2012 and 2011, the Bank's capital was partly hedged by maintaining a blocked foreign currency position to the extent of USD47.17million and GBP13.6million, which resulted in a favorable variance of LBP484million as at December 31, 2012 (unfavorable variance as of December 31, 2011 of LBP603million) recorded under reserves in equity.

Moreover, as at December 31, 2012 and 2011, the Group has a fixed position of AUD 98million resulting from its investment in the Australian subsidiary, which created a favorable variance of LBP2.56billion (unfavorable variance of LBP836million as of December 31, 2011) booked under reserves in equity (Note 28).

26. Non-cumulative preffered shares

On July 30, 2007 the Extraordinary General Assembly of Shareholders approved the issuance of 4,000,000 non cumulative, redeemable preferred shares (Series "D"), at an issue price of USD25 per share with the minimum subscription set at USD2,500. These shares earn an annual dividend of 9% of the issue price annually provided there are enough declared net profits to allow the payment of such dividend. Holders of Series "D" preferred shares were entitled to an upfront payment equal to 3% of the issue price. This upfront payment in the amount of USD3million was deducted from the proceeds of issuance the Series "D" Preferred shares and was being reconstituted by appropriation of net income over the life of the Series "D" preferred shares. On December 28, 2012, the Extraordinary General Assembly of shareholders allowed holders of Series "D" preferred shares to redeem their shares and to subscribe to Series "I" preferred shares.

On November 13, 2008, the Group offered non-cumulative perpetual redeemable Series "E" preferred shares, with an aggregate amount of USD60,000,000, distributed over 2,400,000 preferred shares, at an issue price of USD25 per preferred share each. These preferred shares earn an annual dividend equal to 8% per year of the issue price. These preferred shares are listed on the Beirut Stock Exchange.

On July 8, 2009, the Group issued 3,000,000 non-cumulative perpetual redeemable Series "F" preferred shares with an aggregate amount of USD75,000,000 distributed over 3,000,000 preferred shares at an issue price of USD25. These preferred shares earn an annual dividend equal to 8% per year of the issue price.

On September 29, 2010, the Extraordinary General Assembly of shareholders approved the issuance of 3,570,000 non cumulative convertible redeemable Series "G" preferred shares at an issue price of USD35 with an aggregate amount of USD124,950,000. These preferred shares earn an annual dividend of 6.75% of the issue price.

On June 30, 2011, the Group issued 5,400,000 of series "H" non cumulative perpetual redeemable preferred shares, at an issue price of USD25 with an aggregate amount of USD135,000,000. The preferred shares earn annual dividends of 7% of the issue price. These preferred shares are listed on the Beirut Stock Exchange.

On November 19, 2012, the Group issued 5,000,000 non cumulative perpetual redeemable Series "I" preferred shares with an aggregate amount of USD125,000,000 at an issue price of USD25. These preferred shares earn an annual dividend of 6.75% of the issue price. These preferred shares will be listed on the Beirut Stock Exchange.

As at December 31st - LBP'000	2012	2011
Legal reserves	80,205,214	66,584,423
General banking risks reserve	107,589,766	86,681,216
Special reserves setup from net release of provision for credit losses	5,721,892	6,898,705
Retained earnings	195,281,310	176,341,624
Reserves restricted for capital increase	22,948,844	6,074,864
Issue premiums on common shares	232,108,393	232,108,393
Revaluation of change in fair value of forward contracts designated as hedging instruments (Note 25)	3,044,934	(1,439,706)
	646,900,353	573,249,519

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law on the basis of 10% of net profit. This reserve is not available for distribution.

The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

During 2012, the Group appropriated an amount of LBP16.8billion (LBP1.1billion in 2011) representing gains from disposals of assets acquired in satisfaction of debts from net income of the previous year to reserves restricted for capital increase.

29. Treasury shares

The Group is authorized to buy back up to one third of its listed shares on the Beirut Stock Exchange from its free reserves.

The movement of treasury shares for the years ended December 31, 2012 and 2011 was as follows:

	2012		2011	
	No. of Shares	Value in USD	No. of Shares	Value in USD
COMMON SHARES:				
Opening balance	250,470	4,606,586	138,193	2,745,682
Purchases of treasury shares	58,593	1,118,386	131,627	2,520,795
Sales of treasury shares	(5,100)	(94,000)	(19,350)	(357,975)
Valuation adjustment	-	-	-	(301,916)
Ending balance	303,963	5,630,972	250,470	4,606,586
PREFERRED SHARES:				
Opening balance	-	1,565,103	-	102,806
Purchases of treasury shares	-	371,267	-	1,462,297
Ending balance	-	1,936,370	-	1,565,103
Total	303,963	7,567,342	250,470	6,171,689
Counter value in LBP'000		11,407,769		9,303,821

30. Net income for the year

The consolidated net income is allocated as follows:

	2012			2011		
LBP'000	Profit before Income Tax	Income Tax expense	Net Profit for the Year	Profit before Income Tax	Income Tax expense	Net Profit for the Year
Income of the Bank›s local branches	160,922,518	(25,163,721)	135,758,797	151,414,482	(21,773,432)	129,641,050
Income of foreign branches and subsidiaries:						
Cyprus	3,717,643	(473,994)	3,243,649	2,919,942	(418,518)	2,501,424
Oman	10,139,608	(1,356,886)	8,782,722	7,459,769	(904,499)	6,555,270
Bank of Beirut UK Ltd	21,463,730	(5,245,680)	16,218,050	19,256,386	(5,058,914)	14,197,472
Beirut Hellinic Bank	8,167,325	(2,493,390)	5,673,935	4,984,333	(1,534,817)	3,449,516
Beirut Broker S.A.R.L.	9,670,507	(1,450,576)	8,219,931	9,165,096	(1,374,765)	7,790,331
BOB Finance S.A.L.	426,843	(64,027)	362,816	133,500	(22,630)	110,870
Bank of Beirut Invest S.A.L.	5,583,413	(148,578)	5,434,835	5,514,420	(132,309)	5,382,111
Cofida S.A.L.	1,503,349	(5,000)	1,498,349	1,504,334	(5,000)	1,499,334
Beirut Life S.A.L.	3,620,176	(65,711)	3,554,465	892,463	(19,702)	872,761
	225,215,112	(36,467,563)	188,747,549	203,244,725	(31,244,586)	172,000,139
Income from an associate	1,783,373	-	1,783,373	2,698,425	-	2,698,425
Less: Dividends received from an associate	(1,040,832)	-	(1,040,832)	(1,044,392)	-	(1,044,392)
	225,957,653	(36,467,563)	189,490,090	204,898,758	(31,244,586)	173,654,172
Tax on undistributed profits from subsidiaries	-	(1,754,129)	(1,754,129)	-	(1,483,041)	(1,483,041)
Eliminations	(11,250,000)	-	(11,250,000)	(16,110,000)	-	(16,110,000)
	214,707,653		176,485,961	188,788,758		156,061,131
Non controlling interests			(780,992)			(345,990)
Net profit attributable to equity holders of the group			175,704,969			155,715,141

31. Non-controlling interests

As at December 31st - LBP'000	2012 Beirut Hellenic Bank	2012 Beirut Life	2012 Total
Share in capital	18,355,920	225,000	18,580,920
Retained earnings	5,333,698	245,244	5,578,942
Profit for the year	425,545	355,447	780,992
Other comprehensive income	(31,196)	-	(31,196)
Currency translation adjustment	(703)	-	(703)
Effect of exchange rate	528,868	-	528,868
	24,612,132	825,691	25,437,823

As at December 31st - LBP'000	2011 Beirut Hellenic Bank	2011 Beirut Life	2011 Total
Share in capital	18,355,920	225,000	18,580,920
Retained earnings	5,164,248	157,968	5,322,216
Profit for the year	258,714	87,276	345,990
Other comprehensive income	(81,201)	-	(81,201)
Currency translation adjustment	(8,059)	-	(8,059)
	23,689,622	470,244	24,159,866

32. Dividends paid

The following dividends were declared and paid by the Group:

LBP'000	2012	2011
LBP650 (LBP650 for 2011) per ordinary share	32,803,810	32,803,810
LBP0 (LBP4,523 for 2011) per preferred share Series "C"	-	13,205,700
LBP3,391.88 (LBP3,391.88 for 2011) per preferred share Series "D"	13,567,500	13,567,500
LBP3,015 (LBP3,015 for 2011) per preferred share Series "E"	7,236,000	7,236,000
LBP3,015 (LBP3,015 for 2011) per preferred share Series "F"	9,045,000	9,045,000
LBP3,561.47 per preferred share Series "G"	12,714,443	-
LBP659.5 per preferred share Series "H"	3,707,830	-
	79,074,583	75,858,010

Subsequent to the date of the consolidated statement of financial position, the following dividends were proposed by the board of directors in respect of 2012. These dividends have not been provided for in the consolidated financial statements for the year ended December 31, 2012.

LBP'000	
LBP716 per ordinary share	36,134,658
LBP3,391.86 per preferred share Series "D"	13,567,500
LBP3,015 per preferred share Series "E"	7,236,000
LBP3,015 per preferred share Series "F"	9,045,000
LBP3,561.47 per preferred share Series "G"	12,714,443
LBP2,638.13 per preferred share Series "H"	14,245,875
	92,943,476

Dividends on Series "D" preferred shares were determined as representing 9% for 2012 (9% for 2011) of the share sale price.

Dividends on Series "E" preferred shares were determined as representing 8% of issue price for 2012 (8% for 2011).

Dividends on Series "F" preferred shares were determined as representing 8% of issue price for 2012 (8% for 2011).

Dividends on Series "G" preferred shares were determined as representing 6.75% of issue price for 2012 (6.75% for 2011).

Dividends on Series "H" preferred shares were determined as representing 7% of issue price for 2012. (7% for 2011 calculated for the period from issue closing date to year end).

33. Interest income

LBP'000	2012	2011
Deposits with the Central Banks	64,614,970	14,625,642
Deposits with banks and financial institutions	30,912,646	24,714,014
Deposits with an associate bank	-	716,940
Financial assets at amortized cost	319,219,398	288,082,359
Provision for early redemption of investment securities	-	(659,235)
Loans and advances to customers	340,744,610	308,447,668
Loans and advances to related parties	6,823,254	5,772,202
Interest recognized on non-performing loans and advances to customers	1,965,318	3,347,936
	764,280,196	645,047,526

Interest income realized on impaired loans and advances to customers represent recoveries of interest. Accrued interest on impaired loans and advances is not recognized until recovery or debt restructuring.

Interest income on trading portfolio is included under "Net interest and other gains on trading securities" (Note 38).

34. Interest expense

LBP'000	2012	2011
Soft loans from the Central Bank of Lebanon	-	1,165,592
Deposits and borrowings from banks and financial institutions	10,398,523	8,160,272
Customers' accounts at amortized cost	477,056,106	424,433,807
Related parties' accounts at amortized cost	8,771,862	3,750,298
Subordinated loans from shareholders – Note 21	722,134	1,089,169
Certificates of deposit	5,245,249	10,022,303
	502,193,874	448,621,441

35. Net interest and gains on financial liability designated at fair value through profit or loss

LBP'000	2012	2011
Interest expense on customers' accounts at fair value	50,818	191,225
Commission expense on customer's accounts at fair value	23,652	63,776
Gain/(loss) on structured deposits	-	1,247
	74,470	256,248

36. Fee and commission income

This caption consists of the following:

LBP'000	2012	2011
Commissions on documentary credits	33,203,329	30,741,123
Commissions on letters of guarantee	22,348,835	23,489,030
Commissions on money transfers' transactions	4,667,449	1,643,210
Insurance brokerage and service fees	16,933,034	11,848,585
Asset management fees	5,302,842	4,746,143
Commissions on fiduciary accounts	1,258,177	1,330,061
Commissions on banking services	15,962,567	12,267,427
Commissions on credit cards	7,940,522	5,663,968
Commissions on capital market transactions	13,912,490	9,800,870
Other	5,302,583	6,875,816
	126,831,828	108,406,233

Asset management fees represent fees earned by the Group on custody and fiduciary activities where the Group holds or invests assets on behalf of its customers.

37. Fee and commission expense

LBP'000	2012	2011
Commissions on transactions with banks and financial institutions	927,787	1,608,650
Commissions on credit card	3,179,541	2,514,091
Commissions on fiduciary deposits	1,342,775	1,204,398
Commissions on loans	3,899,687	4,613,112
Commissions on money transfers' transactions	1,326,593	653,293
Commissions on insurance transactions	2,008,715	1,133,369
Other	1,745,464	1,325,084
	14,430,562	13,051,997

38. Net interest and other gains on trading securities

This caption consists of the following:

LBP'000	2012	2011
Interest income	33,192,300	55,474,816
Commissions on trading securities (net)	76,779	(2,560,372)
Change in fair value (net)	(12,668,835)	160,679
Gain on sale	19,207,723	23,131,937
Dividends received	1,198,719	1,631,152
	41,006,686	77,838,212

39. Other operating income

This caption consists of the following:

LBP'000	2012	2011
Gain on sale of securities classified at amortized cost (Note 11)	21,227,757	-
Share in profits of an associate (Note 13)	1,783,373	2,698,425
Foreign exchange gain	8,126,790	5,878,508
(Loss)/gain on forward contracts	(7,233,647)	(12,074,219)
Other operating income (Note 11)	2,493,558	80,860
Gain on sale of assets acquired in satisfaction of loans (Note 14)	11,835,079	16,861,223
(Loss)/gain on sale of property and equipment	(4,415)	(2,865)
Dividends on other investments	1,365,443	295,751
	39,593,938	13,737,683

40. Provision for credit losses

This caption consists of the following:

LBP'000	2012	2011
Provision charged during the year	13,139,691	6,379,583
Write-back	(1,291,575)	(3,908,032)
Direct write-off of loans	15,434	34,874
	11,863,550	2,506,425

41. Staff Costs

This caption consists of the following:

LBP'000	2012	2011
Salaries	83,620,351	80,002,383
Social Security contributions	8,524,724	7,696,862
Executive board members remunerations	13,331,365	14,451,914
Catch up provision for end-of-service indemnities staff (Lebanese jurisdiction)	3,433,926	2,690,535
Catch up provision for end-of-service indemnities lawyers and executive management (Lebanese jurisdiction)	3,667,209	1,610,835
Pension costs	1,543,470	605,326
Other staff benefits	13,766,800	9,304,332
	127,887,845	116,362,187

42. General and administrative expenses

This caption is composed of the following:

LBP'000	2012	2011
Rent expense under operating leases	8,529,257	6,832,645
Cleaning	226,213	833,072
Electricity, water and fuel	3,024,421	2,918,653
Telephone, mail and other communication expenses	6,725,398	4,571,301
Maintenance and repair fees	8,539,937	4,315,759
Subscription fees	1,665,553	1,423,688
Office supplies	3,611,516	2,918,938
Advertizing and marketing expenses	12,221,096	9,182,100
Reception and entertainment	1,844,091	1,379,924
Travel and related expenses	3,751,259	3,551,667
Insurance premiums	554,951	238,650
Professional fees	3,290,047	3,947,555
Regulatory charges	3,471,554	2,854,338
Taxes and fiscal charges	3,941,473	2,736,138
Insurance expenses	2,906,401	76,214
Donation and gifts	657,290	568,011
Centrale des risques	207,811	482,715
Management fees	11,674,977	11,171,039
Training, research and development expenses	875,420	431,808
Miscellaneous expenses	8,932,218	4,082,260
	86,650,883	64,516,475

43. Depreciation and amortization

This caption consists of the following:

LBP'000	2012	2011
Depreciation property and equipment – Note 15	11,479,155	9,247,730
Amortization of deferred software charges – Note 17	2,147,725	1,126,999
	13,626,880	10,374,729

44. Earnings per share

The computation of the basic earnings per share is based on the Group net income before non-recurring income and the weighted average number of outstanding shares during each year, net of treasury shares held by the Group.

As at December 31st - LBP'000	2012	2011
EARNINGS:		
Earnings for the purpose of basic earnings per share (net income for the year)	175,704,969	155,715,141
Less: Dividends proposed to non-cumulative preferred shares	(56,808,818)	(46,270,773)
Net income after distribution to non-cumulative preferred shares	118,896,151	109,444,368
NUMBER OF SHARES:		
Weighted average number of ordinary shares for the purpose of basic earnings per share	50,190,859	50,286,589
Effect of dilutive potential ordinary share, preferred shares	-	-
Weighted average number of ordinary shares for the purpose of diluted earnings per share	50,190,859	50,286,589
Basic Earnings per share	LBP 2,369	LBP 2,176
Diluted Earnings per share	LBP 2,369	LBP 2,176

The conversion effect of Series "G" preferred shares was excluded from the calculation of diluted earnings per share for 2012 and 2011 since they have anti-dilutive effect.

45. Financial instruments with off-balance sheet risks

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

Forward exchange contracts outstanding as of December 31, 2012 and 2011 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group. The forward exchange contracts outstanding as at December 31, 2012 and 2011 include forward transactions for the purchase of USD101.7million and LBP32.98billion versus AUD98million and GBP13.6million. These transactions were effected to hedge the investment in the Australian and UK banking subsidiaries, respectively.

46. Fiduciary accounts

This caption consists of the following:

As at December 31st - LBP'000	2012	2011
Deposits with banks/loans from banks	(28,091,609)	(56,473,495)
Lebanese treasury bills and Eurobonds and others	452,904,330	462,281,925
Debt securities (Private sector)	56,244,653	30,729,144
Back-to-back lending	35,301,591	37,076,371
Liabilities of funds under management	(4,960,317)	(6,848,614)
Equity securities (long position)	91,709,141	91,989,337
Derivatives	(1,532,031)	(8,322,047)
Debt leverage	42,131,665	47,143,086
	643,707,423	597,575,707

47. Balances / transactions with related parties

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Balances with related parties consist of the following:

As at December 31st - LBP'000	2012	2011
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
Secured loans and advances	101,767,269	116,519,159
Unsecured loans and advances	21,359,071	38,406,325
Deposits	(209,973,606)	(177,078,002)
Accrued interest receivable	48,774	55,485
Accrued interest payable	(500,482)	(552,141)
Indirect facilities:		
Letters of credit	-	-
Letters of guarantees	2,457,096	5,038,915
Performance bonds	78,587	46,133
Associated companies		
Direct facilities and credit balances:		
Financial loans	25,252,221	7,652,433
Bank debit account	29,181,656	-
Deposits	(11,010,017)	(4,204,856)
Acceptances	1,262,489	18,248,735
Margin on letter of credit	(8,270,545)	(3,962,744)
Indirect facilities:		
Letters of credit	9,230,225	17,087,967

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction.

Secured loans and advances are covered as of December 31, 2012 by real estate mortgages to the extent of LBP24.6billion, pledged deposits of the respective borrowers to the extent of LBP65.4billion, pledged securities to the extent of 2.2billion and car mortgages to the extent of LBP239million.

The remuneration of executive management amounted to LBP1.39billion during 2012 (LBP1.39million during 2011) in addition to incentives linked to performance representing 6% of profit before tax.

Moreover, the Group is accruing on a current basis for end-of-service indemnity for executive management (Refer to Note 41).
General and administrative expenses for the year ended December 31, 2012 included rent expenses to related parties for USD150,000 and AED87,240 (USD150,000 and AED114,250 for the year ended December 31, 2011) and management expenses to related parties for USD900,000 (USD900,000 for the year ended December 31, 2011).

48. Cash and cash equivalents

A. cash and cash equivalents

Cash and cash equivalents for the purpose of the cash flows statement consist of the following:

As at December 31st - LBP'000	2012	2011
Cash	38,703,549	30,401,840
Current accounts with central banks	1,037,392,302	614,557,883
Time deposits with central banks	575,046,144	615,702,788
Checks for collection	79,548,355	56,147,573
Demand deposits with banks and financial institutions	276,570,781	350,995,071
Time deposits with banks and financial institutions	561,119,367	876,264,734
Demand deposits from banks	(215,243,372)	(242,218,554)
Time deposits from banks	(598,855,774)	(444,255,245)
Loans to banks	403,081,822	322,811,371
	2,157,363,174	2,180,407,461

Time deposits with and from central banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

B. Obtaining control of a subsidiary

On February 28, 2011, Bank of Beirut S.A.L. acquired 85% of Beirut Hellinic Bank (Australia) for a total consideration of AUD143million. The assets acquired and liabilities assumed at the acquisition date were as follows:

	AUD	LBP'000
ASSETS		
Cash and deposits at central banks	6,348,487	9,711,027
Deposits with banks and financial institutions	86,787,725	132,755,712
Loans and advances to customers	798,280,951	1,221,098,439
Financial assets at amortized cost	138,315,730	211,576,040
Property and equipment (less accumulated depreciation)	3,289,193	5,031,346
Other assets	2,613,061	3,997,095
Derivative financial asset	243,248	372,086
Intangible assets	632,968	968,225
Total assets	1,036,511,363	1,585,509,970
LIABILITIES		
Deposits and borrowings from banks	40,097,784	61,335,976
Derivative liability	674,125	1,031,183
Customers› and related parties› deposits at amortized cost	878,904,891	1,344,425,655
Other liabilities	13,188,700	20,174,226
Provisions	1,138,689	1,741,807
Total liabilities	934,004,189	1,428,708,847
Net assets	102,507,174	156,801,123
Total consideration	142,876,072	218,551,797
Less: Cash and cash equivalents acquired	(52,166,464)	(79,796,954)
Net cash outflow arising on acquisition	90,709,608	138,754,843

C. Non-cash transactions

The statement of cash flow is prepared after excluding the effect of the following material non-cash transactions:

As at December 31st - LBP'000	2012	2011
OPERATING ACTIVITIES:		
Loans and advances for the effect of assets acquired in satisfaction of debts and transfer from provisions for sundry contingencies	75,532	1,766,023
Investment in associate	(5,213,980)	-
Other liabilities	603,161	-
Provisions	4,610,818	-
INVESTING ACTIVITIES:		
Effect of assets acquired in satisfaction of debts	75,532	1,766,023
Central Bank soft loan against treasury bills	-	163,458,275
FINANCING ACTIVITIES:		
Central Bank soft loan against treasury bills	-	163,458,275

49. Contingencies

As of the date of the statement of financial position, there are lawsuits and litigations, whereby the Group is either plaintiff or defendant, pending before the competent courts and the outcome of which cannot be determined at present. One of these litigations might be sensitive with risk relatively low and not based on valid grounds according to the Group's legal advisor.

50. Collateral given

The carrying values of financial assets given as collateral or in the form of deposits with right of set off are as follows:

		Corresponding Facilities			
As at December 31st 2012 - LBP'000	**Pledged Amount**	**Nature of Facility**	**Amount of Facility**	**Nature of Facility**	**Amount of Facility**
Term deposits with banks and financial institutions	18,918,756	Risk participation	23,192,271	-	-
Pledged deposits with banks	888,425	Trade Finance	4,865,569	Letters of guarantee	11,373,280
Pledged deposits with banks	44,988,585	Foreign currency (Bought)	671,785,337	Foreign currency (Sold)	668,116,031
Lebanese government bond at amortized cost	914,566	Letter of guarantee	1,200,000	-	-

		Corresponding Facilities			
As at December 31st 2011 - LBP'000	**Pledged Amount**	**Nature of Facility**	**Amount of Facility**	**Nature of Facility**	**Amount of Facility**
Pledged deposits	17,400,000	Obligations under settlement agreements	-	-	-
Term deposits with banks and financial institutions	17,699,200	Risk participation	50,188,398	-	-
Pledged deposits with banks	891,907	Financial guarantees	3,818,372	Performance bonds	25,056,896
Pledged deposits with banks	44,953,572	Foreign currency (Bought)	235,904,703	Foreign currency (Sold)	236,835,810
Lebanese government bond at amortized cost	905,542	Letter of guarantee	1,200,000	-	-

51. Capital management

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator, and retain an economic capital enough to meet the Group's medium term expansion plan.

Furthermore, the Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad in addition to the minimum regulatory capital required by the host country. In addition, banks are required to observe the minimum capital adequacy ratio set by the regulator at 8% (Basle II Ratio).

The Group's capital is split as follows:

Tier I capital: Comprises share capital (after deduction of treasury shares), shareholders' cash contribution to capital, eligible non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings (inclusive of current year's net profit after deduction of proposed dividends). Goodwill and cumulative unfavorable change in fair value of available-for-sale securities are deducted from Tier I Capital.

Tier II capital: Comprises qualifying subordinated liabilities, 50% of cumulative favorable change in fair value of available-for-sale securities and revaluation surplus of owned properties and ineligible non-cumulative perpetual preferred shares.

Investments in associates are deducted from Tier I and Tier II capital.

Also, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital. Moreover total non-cumulative perpetual preferred shares cannot exceed 49% of Tier I capital and total non-convertible non-cumulative preferred shares cannot exceed 35% of Tier I.

The Group has complied with the regulatory capital requirement throughout the period.

The Group's capital adequacy ratio according to Basle II as of December 31, 2012 and 2011, is as follows:

As at December 31st - LBP'000	2012	2011
Common Equity (Net)	710,162,467	587,307,882
Additional Tier 1 Capital (Net)	589,106,125	604,654,985
Net Tier 2 Capital	199,949,607	167,425,263
Total regulatory capital (including remaining net profit after distribution of dividends)	1,499,218,199	1,359,388,130
Credit risk	10,403,024,696	9,000,910,000
Market risk	361,800,000	366,399,000
Operational risk	679,856,250	565,771,000
Risk weighted assets and risk weighted off-balance sheet items	11,444,680,946	9,933,080,000
Capital adequacy ratio	13.10%	13.68%

The Group's capital strategy is based on the following constraints:

- Comply with regulatory ratios, on individual and consolidated basis, primarily in respect of the Capital Adequacy Ratio under Basle II.
- Ensure a high return on equity for the common shareholders.
- Dividends payout policy is consistent to provide shareholders with acceptable dividend yield.

The Group's total equity funding consists of the following:

As at December 31st - LBP'000	2012	2011
Equity allotted to common shares	907,877,800	810,676,232
Preferred shares	783,824,625	744,328,125
Subordinated loans	-	18,090,000
Total equity	**1,691,702,425**	**1,573,094,357**

By virtue of the Central Bank of Lebanon regulations, banks are requested to implement the Basle II – pillar 1 starting fiscal 2008 by applying the following mechanisms:

- Standardized approach for the Credit Risk
- Basic indicator approach for the Operational Risk

The Quantitative Impact Studies of the Group's compliance with Basle II capital adequacy ratio has demonstrated that the Bank is meeting the regulatory threshold ratio of 8%, taking into consideration the high risk weights applied on the Lebanese sovereign risk exposure in foreign currency.

The Group's strategy is to maintain a satisfactory economic capital beyond the regulatory threshold of 8%.

Pursuant to Central Bank Decision No 10848 dated December 7, 2011, adopted with respect to the application of the Basel III regulation, all banks operating in Lebanon must gradually reach the following capital ratios:

Ratio	December 31, 2012	December 31, 2013	December 31, 2014	December 31, 2015
	%	%	%	%
Common Equity Tier 1 ratio	5.00	6.00	7.00	8.00
Tier 1 ratio	8.00	8.50	9.50	10.00
Total Capital ratio	**10.00**	**10.50**	**11.50**	**12.00**

52. segment information

The Group's operating segments are organized as follows: Lebanon and the Middle East, Europe and Australia.

Measurement of segment assets, liabilities, income and expenses is based on the Group's accounting policies.

Segment income and expenses include transfers between segments and these transfers are conducted on arm's length terms and conditions. Shared costs are included in segments on the basis of the actual recharges made, if any.

The Group has three reportable business segments which reflect the basis on which senior management reviews operating activities, allocates capital and assesses performance.

	2012			
As at December 31st - LBP'000	Lebanon & Middle East	Europe	Australia	Inter-segment
Total Assets	15,493,789,329	895,521,421	1,930,501,841	(1,275,183,794)
Total Liabilities	13,691,464,803	724,537,745	1,637,440,566	(725,954,565)
Total Equity	1,802,324,525	170,983,676	293,061,277	(549,229,230)
Profit for the year	166,855,564	16,218,050	5,673,935	(12,261,588)
ASSETS				
Trading assets at fair value through profit or loss	449,442,651	53,347,277	30,119,462	(2,919,078)
Loans and advances to customers	3,916,708,433	94,616,839	1,175,470,608	-
Loans and advances to related parties	112,500,112	-	11,603,368	(928,364)
Investment securities	4,806,094,927	18,691,228	524,274,972	-
LIABILITIES				
Customers' and related parties' deposits designated at fair value through profit or loss	-	-	-	-
Customers' deposits at amortized cost	11,751,191,938	198,899,464	1,460,379,713	-
Related parties' deposits at amortized cost	285,017,269	-	5,106,506	(79,649,687)

2011			
Lebanon & Middle East	**Europe**	**Australia**	**Inter-segment**
13,134,736,664	760,139,114	1,864,598,620	(1,091,451,156)
11,445,330,027	597,821,428	1,583,165,370	(537,457,806)
1,689,406,637	148,154,531	281,433,250	(539,830,195)
154,353,151	14,197,472	3,449,516	(15,939,008)
618,839,920	-	-	(2,359,393)
3,248,349,363	147,991,565	1,162,351,490	(16,089,542)
142,751,818	-	13,625,828	(1,396,692)
3,888,189,815	38,904,470	543,914,925	-
2,955,538	-	-	-
9,661,083,379	206,897,012	1,415,519,063	(3,127,812)
248,254,993	-	1,248,169	(71,872,740)

As at December 31st - LBP'000	2012 Lebanon & Middle East	Europe	Australia	Inter-segment
Interest income	648,373,253	20,066,353	114,367,424	(18,526,834)
Interest expense	(444,078,556)	(4,205,817)	(72,436,335)	18,526,834
Net interest income	204,294,697	15,860,536	41,931,089	-
Fee and commission income	103,306,440	17,482,909	6,042,479	-
Fee and commission expense	(14,248,081)	-	(182,481)	-
Net fee and commission income	89,058,359	17,482,909	5,859,998	-
Net interest and other gains on trading securities	39,323,710	76,779	1,606,197	-
Net interest and gain on financial liability designated at fair value through profit or loss	(74,470)	-	-	-
Other operating income	54,072,526	1,436,518	(4,157,647)	(11,757,459)
Net financial revenues	386,674,822	34,856,742	45,239,637	(11,757,459)
Provision for credit losses (net)	(11,768,446)	-	(95,104)	-
Provision for impairment of investment in associate	-	-	-	(5,213,980)
Write back of/provision for loss on fixed exchange position	-	-	-	-
Other allowance for impairment (net)	(204,397)	296,338	-	-
Allowance for impairment for a brokerage account (net)	193,933	-	-	-
Net Financial revenues after impairment charge for credit losses	374,895,912	35,153,080	45,144,532	(16,971,439)
Staff Costs	(97,578,850)	(8,907,081)	(21,401,914)	-
General and administrative expenses	(71,379,562)	(4,419,995)	(12,704,480)	1,853,161
Depreciation and amortization	(10,393,793)	(362,274)	(2,870,813)	-
Write back of provisions for contingencies	-	-	-	4,610,819
Write-off of property and equipment	-	-	-	-
Write back of provision for impairment of assets acquired in satisfaction of loans	40,357	-	-	-
Profit before income tax	195,584,057	21,463,730	8,167,325	(10,507,459)
Income tax expense	(28,728,493)	(5,245,680)	(2,493,390)	-
Profit for the year before withholding tax on profits from subsidiaries	166,855,564	16,218,050	5,673,935	(10,507,459)
Deferred tax on undistributed profit	-	-	-	(1,754,129)
Profit for the year	166,855,564	16,218,050	5,673,935	(12,261,588)

2011			
Lebanon & Middle East	Europe	Australia	Inter-segment
539,225,090	18,125,133	105,934,011	(18,236,708)
(386,772,324)	(3,633,487)	(76,452,338)	18,236,708
152,452,766	14,491,646	29,481,673	-
88,741,164	16,041,517	3,923,552	(300,000)
(13,083,544)	(176,231)	(92,222)	300,000
75,657,620	15,865,286	3,831,330	-
77,303,312	136,129	398,771	-
(256,248)	-	-	-
27,163,244	1,346,509	1,473,897	(16,245,967)
332,320,694	31,839,570	35,185,671	(16,245,967)
(2,469,389)	(66,734)	29,698	-
-	-	-	-
607,976	-	-	-
-	-	-	-
(678,375)	-	-	-
329,780,906	31,772,836	35,215,369	(16,245,967)
(82,458,309)	(8,139,824)	(16,945,179)	(8,818,875)
(59,480,844)	(4,038,994)	(11,605,487)	10,608,850
(8,356,752)	(337,632)	(1,680,370)	25
-	-	-	-
(603,000)	-	-	-
122,005	-	-	-
179,004,006	19,256,386	4,984,333	(14,455,967)
(24,650,855)	(5,058,914)	(1,534,817)	-
154,353,151	14,197,472	3,449,516	(14,455,967)
-	-	-	(1,483,041)
154,353,151	14,197,472	3,449,516	(15,939,008)

Subsequent to the statement of financial position date, Cyprus has been exposed to a severe restructuring of its banking system led by the Troika as a condition precedent to provide the state of Cyprus a financial bailout to support servicing its foreign debts. In the light of the above, there could be adverse economic consequences that may arise from the prevailing situation, a matter of uncertainty that cannot be determined at present. Management is of the opinion that considering the Bank's size and business model of international banking operations with little exposure to the domestic market, it will not be materially affected by the current crisis

53. Financial instruments and risk management

The Group holds and issues financial instruments for three main purposes:
- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance.

The main risks arising from the Bank's financial instruments are:
- Credit risk
- Liquidity risk
- Interest rate risk; and
- Foreign currency risk

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established various Committees to develop and monitor the Group's risk management policies in their specified areas.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its management standards and procedures, aims to develop a disciplined control environment, in which employees understand their roles and obligations.

A – Credit Risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers and other banks and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

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

1- Management of credit risk

Credit risk is the risk of loss resulting from the failure of an obligor or counterparty to meet its contractual obligations. It is a part of many of the Group's business activities and exists in the different banking products (for example loans, letters of credit, derivative contracts….) provided to customers of all sizes, from large corporate clients to individual consumers.

The risk is controlled through monitoring and enforcing compliance with the risk principles and with policies, limits and regulatory requirements, whereby the Group has developed policies and practices to preserve the independence and integrity of decision-making and ensure credit exposure beyond normal risk are identified promptly, assessed accurately, approved properly, reviewed in light of market and external developments, monitored regularly and managed actively.

The Group assesses the creditworthiness of new contracting parties before entering into any transaction giving rise to credit exposure and continuously monitors creditworthiness and exposures thereafter. It applies a well-defined system for assessing the creditworthiness of its clients on the basis of many criteria related to the borrower mainly the nature of activity, financial performance and structure, credit history, cash flows, projected financials and management quality (e.g. purpose, amount, tenor, collateral presented as a second way out).

The Group sets limits on the credit exposure to both individual and groups and applies limits in a variety of forms to portfolios or sectors where it considers appropriate to restrict credit concentrations or areas of high risk. In addition credit concentration is subject to regulatory authority constraints whereby the credit concentration to one individual or Group (a Group is defined as a group of clients that are linked to one another by any of a number of criteria established, including capital ownership, voting rights, effective control and other indications) does not exceed a maximum of 20% of regulatory equity.

In order to meet credit risk management objectives, the Group seeks to maintain a risk profile that is diverse in terms of borrower, product type, industry and geographic concentration.

Through the risk reporting, credit risk trends and limit exceptions are provided regularly and discussed with concerned committees. In this connection, the Group works continuously towards enhancing its credit risk management tools and adopting more advanced approaches.

2- Measurement of credit risk

a) Loans and advances

The Group assesses the probability of default of individual counterparties using internal rating tools. The Group's rating scale reflects the range of default probabilities defined for each rating class as explained below:

- Watch List: Loans and advances rated Watch List are loans that are not impaired but for which the Group determines that they require special monitoring. These loans are graded 4 and 5 in the Group's internal credit risk rating.

- Past due but not impaired: Loans past due but not impaired are loans where contractual interest or principal are past due but management believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Group.

- Rescheduled loans: Rescheduled loans are loans that have been restructured after they have been rated as substandard or doubtful and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in its original category.

- Substandard loans: Substandard loans are inadequately protected by current sound worth and paying capacity of the obligor or by any collateral pledged. Loans so classfied must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Group will sustain some loss if the deficiencies are not corrected.

- Doubtful loans: Doubtful loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that existing facts, conditions, and values make collection or liquidation in full highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until a more exact status may be determined. Pending factors include merger, acquisition, liquidation procedures, capital injection, additional collateral, new financing sources, or additional guarantors.

- Loss: Loans classified as a loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value. Rather, the amount of loss is difficult to measure and its is not practical or desirable to defer writing off this basically worthless asset even if partial recovery may be obtained in the future. Loans are charged off in the period in which they are deemed uncollectible.

The Group establishes an allowance for impairment that represents its estimate of incurred losses in its loan portfolio. The main component of its allowance are specific loss component that relate to individually significant exposures, and a minor part of a collective loan loss allowance established for retail and Small and Medium Enterprises (SME's) where there is objective evidence that unidentified losses exist at the reporting date. This provision is estimated based on various factors including credit ratings allocated to borrower or group of borrowers, the current economic conditions, the experience the Group has had in dealing with a borrower or group of borrowers and available historical default information.

The Group writes off a loan / security balance (and any related allowances for impairment losses) when it determines that the loans / securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower / issuer's financial position such as the borrower / issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

3- Risk mitigation policies

Collateral:

The Group mainly employs collateral to mitigate credit risk. The principal collateral types for loans and advances are:

- Pledged deposits
- Mortgages over real estate properties (land, commercial and residential properties)
- Bank guarantees
- Financial instruments (equities and debt securities)
- Business other assets (such as inventories and accounts receivable)

Collateral generally is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities.

Other specific risk mitigation policies include:

Netting arrangements:

The Group further restricts its exposure to credit losses by entering into netting arrangements with counterparties. Netting arrangements reduce credit risk associated with favorable contracts to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis.

a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the Group's exposure to credit risk by counterparty segregated between the categories of financial assets:

	2012	2011
As at December 31st - LBP'000	Gross Maximum Exposer	Gross Maximum Exposer
Deposits at central banks	3,366,343,081	2,322,028,792
Deposits with banks and financial institutions	1,250,120,397	1,389,598,890
Trading assets at fair value through profit or loss	529,990,312	616,480,527
Loans to banks	460,523,121	365,626,387
Loans and advances to customers	5,186,795,880	4,542,602,876
Loans and advances to related parties	123,175,116	154,980,954
Financial assets measured at amortized cost	5,345,492,440	4,467,569,736
Financial assets at fair value through other comprehensive income	3,568,687	3,439,474
Customers' acceptances liabilities	410,635,482	457,406,326
Other assets	21,377,913	24,182,382
Total	16,698,022,429	14,343,916,344
Financial instruments with off-balance sheet risk	3,615,356,319	2,793,759,046
Fiduciary deposits and assets under management	643,707,423	597,575,707
Total	4,259,063,742	3,391,334,753
Total credit risk exposure	20,957,086,171	17,735,251,097

b) Concentration of loans by industry or sector:

2012

As at December 31st - LBP'000	Agriculture	Manufacturing and Industry	Financial Services	Real Estate and Construction	Trade Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	460,523,121	-	-	-	460,523,121
Loans and advances to customers	92,466,767	916,021,887	229,139,645	1,042,208,086	1,648,242,725	1,258,716,770	5,186,795,880
Loans and advances to related parties	-	1,502,149	-	3,602,778	94,046,799	24,023,390	123,175,116
Total	92,466,767	917,524,036	689,662,766	1,045,810,864	1,742,289,524	1,282,740,160	5,770,494,117

2011

As at December 31st - LBP'000	Agriculture	Manufacturing and Industry	Financial Services	Real Estate and Construction	Trade Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	365,626,387	-	-	-	365,626,387
Loans and advances to customers	47,807,498	1,027,445,793	175,813,719	431,586,603	1,341,323,972	1,518,625,291	4,542,602,876
Loans and advances to related parties	-	5,116,493	36,018,893	4,415,539	96,091,324	13,338,705	154,980,954
Total	47,807,498	1,032,562,286	577,458,999	436,002,142	1,437,415,296	1,531,963,996	5,063,210,217

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

December 31, 2012

				Fair Value of Collateral Received						
LBP'000	Gross Exposure Net of Unrealized Interest	Allownce for Impairment	Net Exposure	Pledged Funds	First Degree Mortage on Property	Debt Securities	Bank Guarantees	Vehicles	Other	Total
Performing loans	5,177,248,937	-	5,177,248,937	320,222,842	3,768,084,372	70,914,459	57,853,229	157,643,824	364,998,915	4,739,717,641
Substandard	13,898,051	(82,227)	13,815,824	49,355	7,566,558	-	-	1,504,829	1,483,672	10,604,414
Doubtful	50,647,581	(31,780,835)	18,866,746	-	8,992,401	-	-	170,302	1,179,585	10,342,288
Collective provision	-	(23,135,627)	(23,135,627)	-	-	-	-	-	-	-
Total	5,241,794,569	(54,998,689)	5,186,795,880	320,272,197	3,784,643,331	70,914,459	57,853,229	159,318,955	367,662,172	4,760,664,343

December 31, 2011

LBP'000	Gross Exposure Net of Unrealized Interest	Allownce for Impairment	Net Exposure	Fair Value of Collateral Received: Pledged Funds	First Degree Mortage on Property	Debt Securities	Bank Guarantees	Vehicles	Other	Total
Performing loans	4,529,306,113	-	4,529,306,113	238,805,013	3,675,137,601	51,014,714	72,855,339	162,847,146	337,367,305	4,538,027,118
Substandard	14,728,284	-	14,728,284	30,983	6,173,064	-	-	773,528	516,074	7,493,649
Doubtful	34,753,567	(20,181,232)	14,572,335	-	4,111,833	-	-	77,619	426,449	4,615,901
Collective provision	-	(16,003,856)	(16,003,856)	-	-	-	-	-	-	-
Total	4,578,787,964	(36,185,088)	4,542,602,876	238,835,996	3,685,422,498	51,014,714	72,855,339	163,698,293	338,309,828	4,550,136,668

Estimates of fair value for properties held as collateral are based on the value of collateral assessed at the time of borrowing discounted for the effect of illiquidity in the range of 5% to 20% applied based on geographical distribution of mortgages held.

Collateral held over loans and advances to banks represent securities held as part of reverse repurchase agreements.

c) Concentration of financial assets and liabilities by geographical area:

2012 LBP'000	Lebanon	Middle East and Africa	Europe	Norrh America	Other	Total
FINANCIAL ASSETS						
Cash and deposits at central banks	2,795,723,655	585,621,354	1,908,509	-	21,793,111	3,405,046,629
Deposits with banks and financial institutions	383,854,434	157,387,078	403,546,148	81,448,472	223,884,265	1,250,120,397
Loans to banks	55,305,047	264,296,361	(8,405,659)	-	149,327,372	460,523,121
Trading assets at fair value through profit or loss	438,332,912	6,683,163	53,347,277	-	31,626,960	529,990,312
Loans and advances to customers	3,278,808,705	636,562,331	80,109,263	84,989	1,191,230,592	5,186,795,880
Loans and advances to related parties	110,936,498	635,250	-	-	11,603,368	123,175,116
Investment securities	4,598,885,754	-	28,812,990	-	721,362,383	5,349,061,127
Customers' liability under acceptances	186,003,334	200,450,129	9,765,133	987,481	13,429,405	410,635,482
Other assets	12,273,028	-	96,099	-	1,841,642	14,210,769
	11,860,123,367	1,851,635,666	569,179,760	82,520,942	2,366,099,098	16,729,558,833
FINANCIAL LIABILITIES						
Deposits from banks and financial institutions	357,287,507	293,317,874	152,451,928	3,062,819	237,272,447	1,043,392,575
Customers' and related parties' deposits designated at fair value through profit and loss	-	-	-	-	-	-
Customers' and related parties' deposits at amortized cost	9,316,161,245	1,978,206,526	581,989,070	153,356,965	1,591,231,397	13,620,945,203
Liabilities under acceptances	57,108,666	56,631,992	197,897,042	1,776,289	97,221,493	410,635,482
Other borrowings	(20,093,728)	-	72,403,461	-	-	52,309,733
Certificates of deposit	27,123,684	17,487,000	675,343	-	1,507,500	46,793,527
Other liabilities	52,324,514	1,156,527	696,492	-	4,946,431	59,123,964
	9,789,911,888	2,346,799,919	1,006,113,336	158,196,073	1,932,179,268	15,233,200,484
Net financial assets	2,070,211,479	(495,164,253)	(436,933,576)	(75,675,131)	433,919,830	1,496,358,349

2011 LBP'000	Lebanon	Middle East and Africa	Europe	Norrh America	Other	Total
FINANCIAL ASSETS						
Cash and deposits at central banks	1,860,354,899	463,626,392	9,406,351	-	19,042,990	2,352,430,632
Deposits with banks and financial institutions	339,616,314	58,544,688	582,639,670	210,763,309	198,034,909	1,389,598,890
Trading assets at fair value through profit or loss	602,637,208	12,335,821	-	-	1,507,498	616,480,527
Loans to banks	44,338,721	48,469,910	265,603,679	-	7,214,077	365,626,387
Loans and advances to customers	2,757,061,094	442,168,859	176,048,672	15,226	1,167,309,025	4,542,602,876
Loans and advances to related parties	141,277,754	77,372	-	-	13,625,828	154,980,954
Investment securities	3,787,544,266	23,225,451	40,015,230	-	620,224,263	4,471,009,210
Customers' liability under acceptances	176,933,692	256,251,974	24,220,660	-	-	457,406,326
Other assets	12,463,338	194	732,995	-	2,237,159	15,433,686
	9,722,227,286	1,304,700,661	1,098,667,257	210,778,535	2,029,195,749	14,365,569,488
FINANCIAL LIABILITIES						
Deposits from banks and financial	428,016,967	138,583,341	(16,450,476)	737,588	181,373,600	732,261,020
Customers' and related parties' deposits designated at fair value through profit and loss	2,955,538	-	-	-	-	2,955,538
Customers' and related parties' deposits at amortized cost	7,826,018,467	1,500,132,082	562,968,478	34,540,906	1,534,342,131	11,458,002,064
Liabilities under acceptances	179,508,026	256,251,974	21,646,326	-	-	457,406,326
Other borrowings	27,174,257	4,522,500	29,014,838	-	-	60,711,595
Certificates of deposit	181,625,894	18,316,125	10,883,323	-	15,901,100	226,726,442
Other liabilities	51,747,657	1,886,117	2,350,023	-	6,879,648	62,863,445
	8,697,046,806	1,919,692,139	610,412,512	35,278,494	1,738,496,479	13,000,926,430
Net financial assets	1,025,180,480	(614,991,478)	488,254,745	175,500,041	290,699,270	1,364,643,058

B – Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1- Management of liquidity risk

Liquidity is the “Group’s ability to ensure the availability of funds to meet commitments (including off-balance sheet commitments) at a reasonable price at all times.” In ‘business as usual’ circumstances the day-to-day cash management of a bank should not lead to any threats to its solvency.

The Liquidity Risk is defined as the risk of the Group’s ability to meet its current and future payment obligations in full or on time.

The Liquidity Risk arises when, in the case of a liquidity crisis, refinancing may only be raised at higher market rates (funding risk) or assets may only be liquidated at a discount to the market rates (market liquidity risk). It also results from the mismatches in the maturity pattern of assets and liabilities.

Liquidity Measurement

Liquidity is measured on a “business as usual basis” using:

- Balance Sheet Liquidity Ratios (purchased and stored liquidity ratios): such as immediate liquidity, loans / deposits, liquid assets ratio, interbank ratio, medium-term funding ratio, wholesale borrowing capacity, etc
- The liquidity relationship between the sub-components of the balance sheet at a particular point in time: Cash Flow Gap Scheduling which is the Gap between cash inflows and outflows determined within a series of time buckets.
- Stress testing: by stress testing “the business as usual” assumptions via standardized scenarios, the potential shortage of liquidity can be measured. This shortage needs to be covered by the Liquidity Buffer, which consists of unencumbered assets that can be reported or used as collateral at a Central Bank to generate cash.

The Bank’s objectives are to comply with the Central Bank instructions for liquidity risk monitoring and set other internal prudential limits as described hereafter. Some of the internal limits are:

- Liquidity gap ratios for Lebanese Pounds and foreign currencies (special focus on the foreign currencies): One month GAP/Tier One Capital
- Liquid assets in foreign currencies (including Placement with the Central Bank) / Total Deposits in foreign currencies.
- Placements with Non Resident Banks in foreign currencies/Total Deposits in foreign currencies
- Long-term foreign currency Funds (including equity)/Long-term Loans (above one year)

The Contingency Funding Plan

Liquidity problems will usually arise only when the Group encounters a crisis. In this case, there is a need to put in place a Contingency Funding Plan that both quantifies the adequacy of the Bank's resources (Liquidity Buffer) to withstand a set of potential liquidity crises and sets out an Action Plan to be activated in the event of a liquidity crisis.

A mechanism to identify stress situations ahead of time, and to plan dealing with such unusual situations in a timely and effective manner should be in existence. The Contingency Plan is reviewed regularly and tested.

The responsibilities and authorities of overseeing efficient implementation of liquidity risk mitigation is distributed in the best way to achieve proficient handling of the problems facing the Group and thus ensuring a smooth continuation of the activity without jeopardizing the business. Accordingly, officials and committees of the Bank (namely ALCO, Treasury Department, Finance Department) assess the situation, decide on the activation of the contingency plan and act as follows:

- ALCO Committee is informed immediately, and quickly makes its assessment as to whether the plan should be activated.
- ALCO Committee takes all major decisions on loans or deposits, investment purchases, borrowing, whether to stop making additional loans, etc.
- ALCO Committee provides general, ongoing guidance on communicating with major depositors and other sources of funding, internal staff, and the press.
- The treasury Department is responsible for maintaining sufficient liquidity to meet the Bank's obligations and to meet the specific liquidity requirements of the supervisory authorities. The key measure used by the Bank for managing liquidity risk is the ratio of behaviorally adjusted net liquid assets (maturing in less than one month) to total deposits.
- In the unlikely event of a liquidity crisis the Treasury Department would immediately endeavour to sell the Bank's liquid assets, or if more expedient, seek additional funds from the shareholders or borrow in the market to alleviate the shortfall.

Residual contractual maturities of financial assets and liabilities:

The tables below show the Group's financial assets and liabilities in Lebanese Pounds and foreign currencies base accounts segregated by maturity:

LBP Base Accounts As at December 31st, 2012 - LBP'000	With No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years
FINANCIAL ASSETS				
Cash and deposits at central banks	195,232,160	233,300,000	-	-
Deposits with banks and financial institutions	14,125,211	14	-	-
Trading assets at fair value through profit or loss	14,697,003	-	4,007,850	50,971,030
Loans to banks	172,836	79,023	-	18,144,800
Loans and advances to customers	17,160,802	191,901,502	222,657,771	161,508,585
Loans and advances to related parties	(174,451)	6,199,662	600,526	188,387
Investment securities	89,624,058	121,600,000	322,750,000	844,817,400
Other assets	633,635	-	-	-
	331,471,254	553,080,201	550,016,147	1,075,630,202
FINANCIAL LIABILITIES				
Deposits from banks and financial institutions	1,214,457	46,164,581	17,839,609	-
Customers' and related parties' deposits at amortized cost	305,102,524	3,451,771,679	648,556,221	154,615,878
Other liabilities	8,084,649	-	-	-
	314,401,630	3,497,936,260	666,395,830	154,615,878
Maturity Gap	17,069,624	(2,944,856,059)	(116,379,683)	921,014,324

F/Cy Base Accounts As at December 31st, 2012 - LBP'000	With No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years
FINANCIAL ASSETS				
Cash and deposits at central banks	851,054,243	698,319,826	-	188,437,500
Deposits with banks and financial institutions	280,510,570	955,454,055	30,547	-
Trading assets at fair value through profit or loss	14,280,577	55,725,400	6,952,175	30,338,165
Loans to banks	(13,581,795)	321,688,671	112,200,474	3,838,712
Loans and advances to customers	106,068,300	2,150,128,303	577,709,895	465,229,405
Loans and advances to related parties	590,974	86,233,877	19,055,013	361,546
Investment securities	100,962,236	103,724,973	89,066,449	563,117,376
Customers' liability under acceptances	-	-	410,635,482	-
Other assets	13,577,134	-	-	-
	1,353,462,239	4,371,275,105	1,215,650,035	1,251,322,704
FINANCIAL LIABILITIES				
Deposits from banks and financial institutions	224,275,394	620,606,286	72,992,248	60,300,000
Customers' and related parties' deposits at amortized cost	956,604,796	6,755,446,679	980,211,924	268,766,417
Liabilities under acceptance	-	-	401,635,482	-
Other borrowings	119,264	22,147,797	9,543,066	645,327
Certificates of deposit	440,934	-	17,107,093	29,245,500
Other liabilities	28,776,238	-	-	-
	1,210,216,626	7,398,200,762	1,481,489,813	358,957,244
Maturity Gap	143,245,613	(3,026,925,657)	(265,839,778)	892,365,460

3 to 5 Years	5 to 10 Years	Over 10 Years	Total
-	450,000,000	-	878,532,160
-	-	-	14,125,225
23,250,000	243,039,770	-	335,965,653
2,700,000	15,280,400	-	36,377,059
116,796,125	67,874,009	167,772,061	945,670,855
140,272	121,287	-	7,075,683
1,038,139,050	376,151,400	-	2,793,081,908
-	-	-	633,635
1,181,025,447	1,152,466,866	167,772,061	5,011,462,178
-	-	-	65,218,647
148,298	2,610,540	14,790,829	4,577,595,969
-	-	-	8,084,649
148,298	2,610,540	14,790,829	4,650,899,265
1,180,877,149	1,149,856,326	152,981,232	360,562,913

3 to 5 Years	5 to 10 Years	Over 10 Years	Total
411,827,900	226,125,000	150,750,000	2,526,514,469
-	-	-	1,235,995,172
46,492,274	22,461,136	17,774,932	194,024,659
-	-	-	424,146,062
150,493,858	85,164,702	706,330,562	4,241,125,025
706,939	409,951	8,741,133	116,099,433
426,227,077	1,049,564,581	223,316,527	2,555,979,219
-	-	-	410,635,482
-	-	-	13,577,134
1,035,748,048	1,383,725,370	1,106,913,154	11,718,096,655
-	-	-	978,173,928
82,319,418	-	-	9,043,349,234
-	-	-	401,635,482
11,102,304	8,751,975	-	52,309,733
-	-	-	46,793,527
-	-	-	28,776,238
93,421,722	8,751,975	-	10,551,038,142
942,326,326	1,374,973,395	1,106,913,154	1,167,058,513

LBP Base Accounts As at December 31st, 2011 - LBP'000	With No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years
FINANCIAL ASSETS				
Cash and deposits at central banks	110,535,083	197,500,000	-	-
Deposits with banks and financial institutions	18,861,346	4,830,857	-	-
Trading assets at fair value through profit or loss	32,356,978	-	68,273,750	90,400,000
Loans to banks	75,951	17,692	11,272,000	9,000,000
Loans and advances to customers	35,167,111	394,820,388	(912,911)	8,844,296
Loans and advances to related parties	4,289	3,752,755	-	-
Investment securities	80,117,903	122,360,000	333,081,880	917,225,000
Other assets	1,763,682	-	-	-
	278,882,343	723,281,692	411,714,719	1,025,469,296
FINANCIAL LIABILITIES				
Deposits from banks and financial institutions	976,119	23,724,797	30,319,018	-
Customers' and related parties' deposits at amortized cost	332,720,484	2,737,400,800	695,827,164	22,587,200
Other liabilities	6,611,245	-	-	-
	340,307,848	2,761,125,597	726,146,182	22,587,200
Maturity gap	(61,425,505)	(2,037,843,905)	(314,431,463)	1,002,882,096

F/Cy Base Accounts As at December 31st, 2011 - LBP'000	With No Maturity	Up to 3 Months	3 Months to 1 Year	1 to 3 Years
FINANCIAL ASSETS				
Cash and deposits at central banks	521,503,521	433,081,128	595,462,500	188,437,500
Deposits with banks and financial institutions	392,145,047	980,153,953	(8,491,220)	2,098,907
Trading assets at fair value through profit or loss	41,003,144	3,496,099	1,357	6,497,323
Loans to banks	1,689,464	289,123,113	33,670,567	-
Loans and advances to customer	106,851,622	2,934,906,508	260,954,286	99,652,332
Loans and advances to related parties	1,296,750	143,601,922	-	4,642,529
Investment securities	66,899,015	642,225,844	100,641,852	235,124,895
Customers' liability under acceptances	-	-	457,406,326	-
Other	13,670,004	-	-	-
	1,145,058,567	5,426,588,567	1,439,645,668	536,453,486
FINANCIAL LIABILITIES				
Deposits from banks and financial institutions	240,137,040	423,144,261	13,959,785	-
Customers' and related parties' deposits designated at fair value through profit and loss	2,955,538	-	-	-
Customers' and related parties' deposits at amortized cost	1,125,135,013	5,316,804,514	1,021,779,209	114,731,908
Other borrowings	1,226,368	24,918,619	22,932,704	377,021
Certificates of deposit	1,211,533	114,759,711	93,691,125	16,431,750
Liabilities under acceptances	-	-	457,406,326	-
Other liabilities	56,252,200	-	-	-
	1,426,917,692	5,879,627,105	1,609,769,149	131,540,679
Maturity gap	(281,859,125)	(453,038,538)	(170,123,481)	404,912,807

3 to 5 Years	5 to 10 Years	Over 10 Years	Total
-	-	-	308,035,083
-	-	-	23,692,203
90,670,300	233,437,910	-	515,138,938
3,600,000	17,177,600	-	41,143,243
53,586,897	81,591,025	281,586,252	854,683,058
-	-	-	3,757,044
458,527,284	519,333,903	-	2,430,645,970
-	-	-	1,763,682
606,384,481	851,540,438	281,586,252	4,178,859,221
-	-	-	55,019,934
138,100	15,153,436	-	3,803,827,184
-	-	-	6,611,245
138,100	15,153,436	-	3,865,458,363
606,246,381	836,387,002	281,586,252	313,400,858

3 to 5 Years	5 to 10 Years	Over 10 Years	Total
305,910,900	-	-	2,044,395,549
-	-	-	1,365,906,687
18,713,325	31,630,341	-	101,341,589
-	-	-	324,483,144
180,193,975	83,378,882	21,982,213	3,687,919,818
1,682,709	-	-	151,223,910
163,621,364	831,850,270	-	2,040,363,240
-	-	-	457,406,326
-	-	-	13,670,004
670,122,273	946,859,493	21,982,213	10,186,710,267
-	-	-	677,241,086
-	-	-	2,955,538
75,724,236	-	-	7,654,174,880
840,314	10,416,569	-	60,711,595
632,323	-	-	226,726,442
-	-	-	457,406,326
-	-	-	56,252,200
77,196,873	10,416,569	-	9,135,468,067
592,925,400	936,442,924	21,982,213	1,051,242,200

C – Market Risks

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

1- Management of market risks

Interest Rate Risk

Interest rate risk arises when there is a mismatch between positions, which are subject to interest rate adjustment within a specified period. The Group's lending, funding and investment activities give rise to interest rate risk. The immediate impact of variation in interest rate is on Group's net interest income, while a long term impact is on Group's net worth since the economic value of Group's assets, liabilities and off-balance sheet exposures are affected.

Interest sensitivity analysis for accounts in lebanese pounds as at december 31, 2012:

		Floating					
Interest Rate Sensitivity Balance Sheet LBP'000	Non-Interest Bearing	Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	195,232,160	-	-	-	-	-	-
Deposits with banks and financial institutions	14,125,211	-	-	-	-	-	-
Trading assets at fair value through profit or loss	14,697,003	-	-	-	-	-	-
Loans to banks	172,836	-	-	36,125,200	-	-	36,125,200
Loans and advances to customers	17,160,802	49,797,043	744,739,416	-	-	-	794,536,459
Loans and advances to related parties	(174,451)	5,896,628	-	-	-	-	5,896,628
Investment securities	89,624,058	-	-	-	-	-	-
Other assets	633,635	-	-	-	-	-	-
	331,471,254	55,693,671	744,739,416	36,125,200	-	-	836,558,287
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	1,214,456	304,592	-	-	-	-	304,592
Customers' and related parties' deposits at amortized cost	305,102,524	8,377	-	-	-	-	8,377
Other liabilities	8,084,649	-	-	-	-	-	-
	314,401,629	312,969	-	-	-	-	312,969
Interest rate gap	17,069,625	55,380,702	744,739,416	36,125,200	-	-	836,245,318

Interest Rate Risk Measurement

Major concern is to be given to interest rates movements both in the local and international markets whenever hedging against rates rise should be undertaken as part of the Group's strategy.

Interest rate risk is the risk that changes in interest rates will affect the Group's income or the value of its holdings group of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimising the return on risk.

Interest rate risk originating from banking activities arises partly from the employment of non-interest bearing liabilities such as shareholders' funds and customer current accounts, but also from the gaps that arise from the normal course of business.

The policy of the Group is to price all placements / exposures at floating rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

Fixed						
Up to 3 Months	3 Months to 1 Year	1 Year & 3 Years	3 Years & 5 Years	Over 5 Years	Total	Grand Total
233,300,000	-	-	-	450,000,000	683,300,000	878,532,160
14	-	-	-	-	14	14,125,225
-	4,007,850	50,971,030	23,250,000	243,039,770	321,268,650	335,965,653
79,023	-	-	-	-	79,023	36,377,059
127,337,261	973,833	-	5,662,500	-	133,973,594	945,670,855
1,353,506	-	-	-	-	1,353,506	7,075,683
121,600,000	322,750,000	844,817,400	1,038,139,050	376,151,400	2,703,457,850	2,793,081,908
-	-	-	-	-	-	633,635
483,669,804	327,731,683	895,788,430	1,067,051,550	1,069,191,170	3,843,432,637	5,011,462,178
45,859,990	17,839,609	-	-	-	63,699,599	65,218,647
3,451,713,258	648,606,263	154,615,878	148,298	17,401,370	4,272,485,067	4,577,595,968
-	-	-	-	-	-	8,084,649
3,497,573,248	666,445,872	154,615,878	148,298	17,401,370	4,336,184,666	4,650,899,264
(3,013,903,444)	(338,714,189)	741,172,552	1,066,903,252	1,051,789,800	(492,752,029)	360,562,914

Interest sensitivity analysis for accounts in foreign currency as at december 31, 2012:

Interest Rate Sensitivity Balance Sheet LBP'000	Non-Interest Bearing	Floating Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	855,817,300	-	-	-	-	-	-
Deposits with banks and financial institutions	229,493,060	200,931,546	-	-	-	-	200,931,546
Trading assets at fair value through profit or loss	14,285,873	4,522,500	-	6,638,605	20,082,161	-	31,243,266
Loans to Banks	(13,581,795)	38,369	-	-	-	-	38,369
Loans and advances to customers	106,068,298	1,767,758,478	1,320,686	155,294	-	9,610,934	1,778,845,392
Loans and advances to related parties	590,975	102,804,196	-	-	-	-	102,804,196
Investment securities	100,961,871	50,134,206	-	-	-	-	50,134,206
Customers' liability under acceptances	410,635,482	-	-	-	-	-	-
Other assets	13,577,134	-	-	-	-	-	-
	1,717,848,198	2,126,189,295	1,320,686	6,793,899	20,082,161	9,610,934	2,163,996,975
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	226,341,518	13,268,562	-	-	-	-	13,268,562
Customers' and related parties' deposits at amortized cost	1,002,276,474	84,193,359	7,204,015	-	-	-	91,397,374
liabilities under acceptance	410,635,482	-	-	-	-	-	-
Other borrowings	119,264	-	-	-	-	-	-
Certificate of deposit	442,138	-	-	-	-	-	-
Other liabilities	28,776,238	-	-	-	-	-	-
	1,668,591,114	97,461,921	7,204,015	-	-	-	104,665,936
Interest rate gap	49,257,084	2,028,727,374	(5,883,329)	6,793,899	20,082,161	9,610,934	2,059,331,039

Fixed						
Up to 3 Months	3 Months to 1 Year	1 Year & 3 Years	3 Years & 5 Years	Over 5 Years	Total	Grand Total
693,556,769	-	188,437,500	411,827,900	376,875,000	1,670,697,169	2,526,514,469
805,540,004	30,562	-	-	-	805,570,566	1,235,995,172
81,117,829	2,424,960	7,884,950	16,831,712	40,236,069	148,495,520	194,024,659
321,650,302	112,200,474	3,838,712	-	-	437,689,488	424,146,062
1,997,233,074	97,391,092	104,724,310	51,621,316	105,241,543	2,356,211,335	4,241,125,025
5,790,474	4,652,784	1,679,611	581,393	-	12,704,262	116,099,433
582,669,834	45,977,243	219,247,172	284,107,784	1,272,881,109	2,404,883,142	2,555,979,219
-	-	-	-	-	-	410,635,482
-	-	-	-	-	-	13,577,134
4,487,558,286	262,677,115	525,812,255	764,970,105	1,795,233,721	7,836,251,482	11,718,096,655
605,271,600	72,992,248	60,300,000	-	-	738,563,848	978,173,928
6,626,716,926	971,872,625	268,766,417	82,319,418	-	7,949,675,386	9,043,349,234
-	-	-	-	-	-	410,635,482
22,147,797	9,543,066	645,327	11,102,304	8,751,975	52,190,469	52,309,733
-	17,105,889	29,245,500	-	-	46,351,389	46,793,527
-	-	-	-	-	-	28,776,238
7,254,136,323	1,071,513,828	358,957,244	93,421,722	8,751,975	8,786,781,092	10,560,038,142
(2,766,578,037)	(808,836,713)	166,855,011	671,548,383	1,786,481,746	(950,529,610)	1,158,058,513

Interest sensitivity analysis for accounts in lebanese pounds as at december 31, 2011:

Interest Rate Sensitivity Balance Sheet LBP'000	Non-Interest Bearing	Floating Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	110,535,083	-	-	-	-	-	-
Deposits with banks and financial institutions	18,861,346	-	-	-	-	-	-
Trading assets at fair value through profit or loss	32,356,978	-	-	-	-	-	-
Loans to banks	75,951	-	-	41,049,600	-	-	41,049,600
Loans and advances to customers	35,167,111	89,926,409	425,621,303	-	-	-	515,547,712
Loans and advances to related parties	4,289	2,538,654	-	-	-	-	2,538,654
Investment securities	80,117,903	-	-	-	-	-	-
Other assets	1,763,682	-	-	-	-	-	-
	278,882,343	92,465,063	425,621,303	41,049,600	-	-	559,135,966
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	976,119	10,528	-	-	-	-	10,528
Customers' and related parties' deposits at amortized cost	332,720,484	5	-	-	-	-	5
Other liabilities	6,611,245	-	-	-	-	-	-
	340,307,848	10,533	-	-	-	-	10,533
Interest rate gap	(61,425,505)	92,454,530	425,621,303	41,049,600	-	-	559,125,433

Fixed						
Up to 3 Months	3 Months to 1 Year	1 Year & 3 Years	3 Years & 5 Years	Over 5 Years	Total	Grand Total
197,500,000	-	-	-	-	197,500,000	308,035,083
4,830,857	-	-	-	-	4,830,857	23,692,203
-	68,273,750	90,400,000	90,670,300	233,437,910	482,781,960	515,138,938
17,692	-	-	-	-	17,692	41,143,243
303,968,235	-	-	-	-	303,968,235	854,683,058
1,214,101	-	-	-	-	1,214,101	3,757,044
122,360,000	333,081,880	917,225,000	458,527,284	519,333,903	2,350,528,067	2,430,645,970
-	-	-	-	-	-	1,763,682
629,890,885	401,355,630	1,007,625,000	549,197,584	752,771,813	3,340,840,912	4,178,859,221
23,714,269	30,319,018	-	-	-	54,033,287	55,019,934
2,737,400,795	695,827,164	22,587,200	138,100	15,153,436	3,471,106,695	3,803,827,184
-	-	-	-	-	-	6,611,245
2,761,115,064	726,146,182	22,587,200	138,100	15,153,436	3,525,139,982	3,865,458,363
(2,131,224,179)	(324,790,552)	985,037,800	549,059,484	737,618,377	(184,299,070)	313,400,858

Interest sensitivity analysis for accounts in foreign currency as at december 31, 2011:

Interest Rate Sensitivity Balance Sheet LBP'000	Non-Interest Bearing	Floating Up to 3 Months	3 Months to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
FINANCIAL ASSETS							
Cash and deposits at central banks	521,503,521	21,116,741	-	-	-	-	21,116,741
Deposits with banks and financial institutions	392,145,047	362,687,597	3,983,088	2,098,907	-	-	368,769,592
Trading assets at fair value through profit or loss	41,003,144	-	-	4,522,500	-	-	4,522,500
Loans to banks	1,689,464	261,935	-	-	-	-	261,935
Loans and advances to customers	106,851,622	2,721,238,046	273,919,847	37,074,713	7,130,017	19,303,951	3,058,666,574
Loans and advances to related parties	1,296,750	143,208,044	-	4,572,415	1,682,709	-	149,463,168
Investment securities	66,899,015	576,744,414	-	17,178,082	32,012,060	6,074,981	632,009,537
Customers' liability under acceptances	457,406,326	-	-	-	-	-	-
Other assets	13,670,004	-	-	-	-	-	-
	1,602,464,893	3,825,256,777	277,902,935	65,446,617	40,824,786	25,378,932	4,234,810,047
FINANCIAL LIABILITIES							
Deposits from banks and financial institutions	240,137,040	260,154,191	-	-	-	-	260,154,191
Customers' and related parties' deposits designated at fair value through profit and loss	2,955,538	-	-	-	-	-	-
Customers' and related parties' deposits at amortized cost	1,125,135,013	1,088,703,254	480,043,830	382,332	-	-	1,569,129,416
Other borrowings	1,226,368	26,111,677	11,264,945	-	-	-	37,376,622
Certificates of deposit	1,211,533	-	-	-	632,323	-	632,323
Acceptance under liability	457,406,326	-	-	-	-	-	-
Other liabilities	56,252,200	-	-	-	-	-	-
	1,884,324,018	1,374,969,122	491,308,775	382,332	632,323	-	1,867,292,552
Interest rate gap	(281,859,125)	2,450,287,655	(213,405,840)	65,064,285	40,192,463	25,378,932	2,367,517,495

Fixed						
Up to 3 Months	3 Months to 1 Year	1 Year & 3 Years	3 Years & 5 Years	Over 5 Years	Total	Grand Total
411,964,387	595,462,500	188,437,500	305,910,900	-	1,501,775,287	2,044,395,549
617,466,356	(12,474,308)	-	-	-	604,992,048	1,365,906,687
3,496,099	1,357	1,974,823	18,713,325	31,630,341	55,815,945	101,341,589
288,861,178	33,670,567	-	-	-	322,531,745	324,483,144
213,668,462	(12,965,561)	62,577,619	173,063,958	86,057,144	522,401,622	3,687,919,818
393,878	-	70,114	-	-	463,992	151,223,910
65,481,430	100,641,852	217,946,813	131,609,304	825,775,289	1,341,454,688	2,040,363,240
-	-	-	-	-	-	457,406,326
-	-	-	-	-	-	13,670,004
1,601,331,790	704,336,407	471,006,869	629,297,487	943,462,774	4,349,435,327	10,186,710,267
162,990,070	13,959,785	-	-	-	176,949,855	677,241,086
-	-	-	-	-	-	2,955,538
4,228,101,260	541,735,379	114,349,576	75,724,236	-	4,959,910,451	7,654,174,880
(1,193,058)	11,667,759	377,021	840,314	10,416,569	22,108,605	60,711,595
114,759,711	93,691,125	16,431,750	-	-	224,882,586	226,726,442
-	-	-	-	-	-	457,406,326
-	-	-	-	-	-	56,252,200
4,504,657,983	661,054,048	131,158,347	76,564,550	10,416,569	5,383,851,497	9,135,468,067
(2,903,326,193)	43,282,359	339,848,522	552,732,937	933,046,205	(1,034,416,170)	1,051,242,200

Foreign Exchange Risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Group's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimizing the return on risk.

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

The Group does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

The table shown below gives details of the Group's exposure to currency risk:

As at December 31st, 2012 - LBP'000	LBP	USD	Euro
FINANCIAL ASSETS			
Cash and deposits at central banks	878,532,159	1,846,755,105	72,179,827
Deposits with banks and financial institutions	14,125,225	695,352,831	159,639,786
Trading assets at fair value through profit or loss	335,965,653	100,677,260	9,867,756
Loans to banks	36,377,059	282,574,909	99,314,268
Loans and advances to customers	945,670,855	2,480,506,349	128,113,716
Loans and advances to related parties	7,075,683	76,019,375	7,248,334
Investment securities	2,793,081,908	1,915,523,907	52,250,725
Customers' acceptance liability	-	226,803,753	151,704,544
Investments in associates	-	31,297,419	-
Assets acquired in satisfaction of loans	779,944	20,575,245	-
Property and equipment	107,186,119	172,604	162,797
Goodwill	407,025	45,240	-
Other assets	18,958,410	14,848,257	255,804
	5,138,160,040	7,691,152,254	680,737,557
FINANCIAL LIABILITIES			
Deposits from banks and financial	65,218,647	615,643,429	280,630,171
Customers' and related parties' deposits at amortized cost	4,577,595,968	5,995,399,521	500,887,691
Liabilities under acceptance	-	226,803,753	151,704,544
Other borrowings	-	52,309,733	-
Certificate of deposit	-	46,118,184	-
Other liabilities	52,419,766	43,213,527	1,715,185
Provisions	14,007,180	19,905,831	503,176
	4,709,241,561	6,999,393,978	935,440,767
Currencies to be delivered (sold)	-	(657,980,957)	(131,840,172)
Currencies to be received (purchased)	-	778,737,043	347,086,024
	-	120,756,086	215,245,852
Net exchange position	428,918,479	812,514,362	(39,457,358)

Any foreign exchange forward swap transaction is either immediately covered or incorporated into the respective loan and deposit book (the banking book).

At the outset the Group's overall currency risk exposures is split into:

- Operational FX positions: The management of these risks is done via Trading books under the responsibility of the Global Markets Division.
- Structural FX positions: ALCO Committee decides on the level of the Structural FX positions to be held against the LBP denominated equity and foreign investment, to ensure proper hedging.

Treasury Department is responsible to monitor the compliance to the regulatory rations set by the regulatory authorities. ALCO Committee is notified by the Finance department of any breach.

GBP	AUD	Other	Total
17,495,431	20,725,050	569,359,057	3,405,046,629
151,521,557	119,884,635	109,596,363	1,250,120,397
53,347,277	30,119,462	12,904	529,990,312
15,741,414	-	26,515,471	460,523,121
62,445,259	1,149,141,123	420,918,578	5,186,795,880
4,462,446	11,603,368	16,765,910	123,175,116
12,588,255	575,616,332	-	5,349,061,127
1,087,144	-	31,040,041	410,635,482
-	-	-	31,297,419
-	-	-	21,355,189
1,016,106	8,532,053	18,774,989	135,844,668
1,822,455	88,544,569	-	90,819,289
2,898,578	11,011,754	(285,938)	47,686,865
324,425,922	2,015,178,346	1,192,697,375	17,042,351,494
41,747,027	2,477,166	37,676,135	1,043,392,575
140,304,230	1,426,381,585	980,376,208	13,620,945,203
1,087,144	-	31,040,041	410,635,482
-	-	-	52,309,733
675,343	-	-	46,793,527
3,513,605	11,386,934	4,302,125	116,551,142
-	2,248,984	195,716	36,860,887
187,327,349	1,442,494,669	1,053,590,225	15,327,488,549
(2,250,363)	(391,841,200)	(356,111,663)	(1,540,024,355)
25,614,852	151,216,046	239,647,693	1,542,301,658
23,364,489	(240,625,154)	(116,463,970)	2,277,303
160,463,062	332,058,523	22,643,180	1,717,140,248

As at December 31st, 2011 - LBP'000	LBP	USD	Euro
FINANCIAL ASSETS			
Cash and deposits at Central Banks	308,035,083	1,416,267,606	140,298,102
Deposits with banks and financial institutions	23,692,203	953,705,303	190,132,824
Trading assets	515,138,938	87,885,483	9,774,649
Loans to banks	41,143,243	16,465,519	38,115,380
Loans and advances to customers	854,683,058	1,972,782,298	88,509,192
Loans and advances to related parties	3,757,044	103,632,605	7,815,905
Investment securities	2,430,645,970	1,363,282,386	26,618,845
Customers' acceptance liability	-	218,717,957	129,154,490
Investments in associates	-	35,768,858	-
Assets acquired in satisfaction of loans	9,102,639	18,516,266	
Property and equipment	90,901,647	191,950	-
Goodwill	407,025	-	-
Other assets	13,480,333	(417,914,133)	(77,247,839)
	4,290,987,183	5,769,302,098	553,171,548
FINANCIAL LIABILITIES			
Deposits and borrowings from banks	55,019,931	320,666,532	20,345,535
Customers› and related parties› deposits designated at fair value through profit and loss	-	2,955,538	-
Customers› and related parties› deposits at amortized cost	3,803,827,184	4,791,361,534	475,202,763
Liabilities under acceptance	-	218,717,957	129,154,490
Other borrowings	-	60,711,595	-
Certificates of deposit	-	226,094,119	-
Other liabilities	40,047,493	(1,020,407,984)	(229,078,385)
Provisions	22,408,193	11,691,940	395,566
	3,921,302,801	4,611,791,231	396,019,969
Currencies to be delivered (Sold)	-	(413,937,525)	(5,280,527)
Currencies to be received (Purchased)	-	727,995,905	82,655,890
	-	314,058,380	77,375,363
Net financial position	369,684,382	843,452,487	79,776,216

GBP	AUD	Other	Total
7,752,067	18,198,684	461,879,090	2,352,430,632
110,616,772	62,247,586	49,204,202	1,389,598,890
3,668,917	-	12,540	616,480,527
265,536,029	-	4,366,216	365,626,387
135,843,195	1,162,351,490	328,433,643	4,542,602,876
349,635	24,398,409	15,027,356	154,980,954
56,149,962	594,312,047	-	4,471,009,210
30,534,206	-	78,999,673	457,406,326
-	-	-	35,768,858
-	-	-	27,618,905
1,316,195	8,617,407	16,862,306	117,889,505
1,747,233	86,582,169		88,736,427
55,171,644	642,641,822	(168,258,082)	47,873,745
668,685,855	2,599,349,614	786,526,944	14,668,023,242
324,675,411	1,678,156	9,875,455	732,261,020
-	-	-	2,955,538
256,441,871	1,387,879,822	743,288,890	11,458,002,064
30,534,206	-	78,999,673	457,406,326
	-	-	60,711,595
632,323	-	-	226,726,442
166,482,118	496,830,146	664,718,768	118,592,156
	-	140,620	34,636,319
778,765,929	1,886,388,124	1,497,023,406	13,091,291,460
(91,299,089)	(396,423,242)	(299,071,557)	(1,206,011,940)
37,597,798	154,511,111	200,818,795	1,203,579,499
(53,701,291)	(241,912,131)	(98,252,762)	(2,432,441)
(56,378,783)	954,873,621	(612,243,700)	1,579,164,223

54. Fair value of financial assets and liabilities

The summary of the Group's classification of each class of financial assets and liabilities covered by IFRS 9 and their fair values are as follows:

As at December 31st, 2012 - LBP'000	At fair value through profit or less	At fair value through other comprehensive income	Measured at amortized cost	Total carrying value	Total faire value
FINANCIAL ASSETS					
Cash and deposits at central banks	-	-	3,405,046,630	3,405,046,630	3,544,056,956
Deposits with banks and financial institutions	-	-	1,250,120,397	1,250,120,397	1,250,120,397
Trading assets at fair value through profit or loss	529,990,312	-	-	529,990,312	529,990,312
Loans to banks	-	-	460,523,121	460,523,121	460,523,121
Loans and advances to customers	-	-	5,186,795,881	5,186,795,881	5,128,201,469
Loans and advances to related parties	-	-	123,175,116	123,175,116	123,175,116
Investment securities	-	3,568,687	5,345,492,440	5,349,061,127	5,373,601,961
Customers' liabilities under acceptances	-	-	410,635,482	410,635,482	410,635,482
Other assets	-	-	14,210,769	14,210,769	14,210,769
	529,990,312	3,568,687	16,195,999,836	16,729,558,835	16,834,515,583
FINANCIAL LIABILITIES					
Deposits from banks and financial institutions	-	-	1,043,392,575	1,043,392,575	1,043,392,575
Customers and related parties' deposits at amortized cost	-	-	13,620,945,203	13,620,945,203	13,056,908,385
Liabilities under acceptance	-	-	410,635,482	410,635,482	410,635,482
Other borrowings	-	-	52,309,733	52,309,733	54,125,017
Certificate of deposits	-	-	46,793,527	46,793,527	47,346,552
Other liabilities	-	-	36,860,887	36,860,887	36,860,887
	-	-	15,210,937,407	15,210,937,407	14,649,268,898

As at December 31st, 2011 - LBP'000	At fair value through profit or less	At fair value through other comprehensive income	Measured at amortized cost	Total carrying value	Total faire value
FINANCIAL ASSETS					
Cash and deposits at central banks	-	-	2,352,430,632	2,352,430,632	2,343,736,098
Deposits with banks and financial institutions	-	-	1,391,098,805	1,391,098,805	1,391,386,325
Trading assets at fair value through profit or loss	616,480,527	-	-	616,480,527	616,480,527
Loans to banks	-	-	100,090,358	100,090,358	101,047,851
Loans and advances to customers	-	-	4,806,638,990	4,806,638,990	4,825,579,208
Loans and advances to related parties	-	-	154,980,954	154,980,954	154,413,822
Investment securities	-	3,439,474	4,467,569,736	4,471,009,210	4,588,430,249
Customers' liability under acceptance	-	-	457,406,326	457,406,326	457,406,326
Other assets	-	-	15,433,686	15,433,686	15,433,686
	616,480,527	3,439,474	13,745,649,487	14,365,569,488	14,493,914,092
FINANCIAL LIABILITIES					
Deposits from banks and financial institutions	-	-	732,261,020	732,261,020	732,861,822
Customers' and related parties' deposits designated at fair value through profit and loss	2,955,538	-	-	2,955,538	2,955,538
Customers' and related parties' deposits at amortized cost	-	-	11,458,002,064	11,458,002,064	11,481,400,266
Liabilities under acceptance	-	-	457,406,326	457,406,326	457,406,326
Other borrowings	-	-	60,711,595	60,711,595	68,195,652
Certificates of deposit	-	-	226,726,442	226,726,442	239,823,279
Other liabilities	-	-	62,863,445	62,863,445	62,863,445
	2,955,538	-	12,997,970,892	13,000,926,430	13,045,506,328

As at December 31st, 2012 - LBP'000	Level 1 (Quoted Price on Active Market	Level 2 (Valuation Technique)	Level 3 (Valuation Technique)	Total
FINANCIAL ASSETS				
Trading assets at fair value through profit or loss:				
Quoted equity securities	16,876,748	-	-	16,876,748
Lebanese treasury bills	-	297,007,201	-	297,007,201
Lebanese Government bonds	59,155,537	-	-	59,155,537
Foreign government treasury bills	53,347,277	-	-	53,347,277
Certificates of deposit issued by the Central Bank of Lebanon	-	-	38,395,201	38,395,201
Debt securities issued by financial institutions	35,961,152	-	-	35,961,152
Certificate of deposits issued by private sector	-	1,594,602	-	1,594,602
	165,340,714	298,601,803	38,395,201	502,337,718

As at December 31st, 2011 - LBP'000	Level 1 (Quoted Price on Active Market	Level 2 (Valuation Technique)	Level 3 (Valuation Technique)	Total
FINANCIAL ASSETS				
Trading assets at fair value through profit or loss:				
Quoted equity securities	16,092,703	-	-	16,092,703
Lebanese treasury bills	-	368,589,882	-	368,589,882
Lebanese Government bonds	46,969,623	-	-	46,969,623
Certificates of deposit issued by the Central Bank of Lebanon	-	-	141,221,456	141,221,456
Debt securities issued by financial institutions	10,266,930	-	-	10,266,930
Certificate of deposits issued by private sector	-	1,507,498	-	1,507,498
	73,329,256	370,097,380	141,221,456	584,648,092
FINANCIAL LIABILITIES				
Customers' and related parties' deposit at fair value through profit or loss	2,894,287	-	-	2,894,287
	2,894,287	-	-	2,894,287

55. Subsequent events

In the period subsequent to the balance sheet date, and in accordance with the option agreement related to the share purchase agreement dated January 26, 2011, Marfin Popular Bank Public Co. Limited former owner of Beirut Hellenic Bank (formerly Laiki Bank Australia) exercised its put option to sell the remaining share of 7.5% of the subsidiary bank's equity stake at a strike price of approximately AUD27.5million.

56. Approval of the financial statements

The financial statements for the year ended December 31, 2012 were approved by the Board of Directors in its meeting held on March 27, 2013.