North Africa Commercial Bank S.A.L.

Beirut – Lebanon

ANNUAL REPORT

2012

North Africa Commercial Bank S.A.L.

Head Office

List of banks: 62

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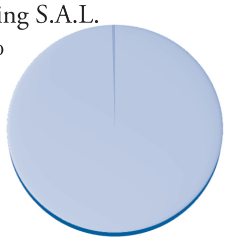
Ownership, BOD, General Management

Ownership

Libyan Foreign Bank	99.564%
Demoreco Holding S.A.L.	0.433%
Others	0.003%



Board of Directors Members

Mr. Mohamed Najib Hmeida Aljamal	Chairman/General Manager
Representative of Libyan Foreign Bank	Member
Demoreco Holding S.A.L. *Represented by Mr. Salah Eldine Wakwak*	Member
Mr. Ibrahim Milad Gasem Agha	Member
Dr. Abubaker Mohamed Al Waddan	Member
Mr. Jean Paul Marsel Touma	Member
Mr. Mohamad Mounir Naffi	Member
Dr. Khaled Mohamed El Kurdi	Member
Mr. Tarek Sami Nahas	Member
Mrs. Rania Joseph El hage	Secretary of the board

General Management

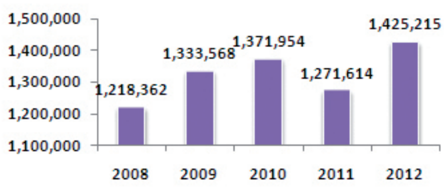
Mr. Mohamed Najib Hmeida Aljamal	Chairman/General Manager
Mr. Naji Halabi	Assistant General Manager
Mr. Bachir AlGhabar	Assistant General Manager
Mr. AlHadi Emjahed altaher	Assistant General Manager

The Board of Directors Members of North Africa Commercial Bank S.A.L.

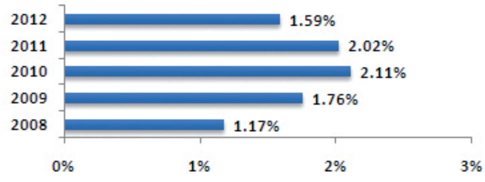
Members Name	Independent	Executive	Internal Audit Committee	Risk Management Committee
Mr. Mohammad Najib ahmida Al Jamal		•		
Representative of Foreign Libyan Bank				•
Demoreco Co. Holding Represented by Mr. Salah Eldine Wakwak				•
Mr. Ibrahim Milad Kassem Agha			President •	
Dr. Abu Baker Al Wadan			•	
Mr. Tarek Sami Nahass	•		•	
Dr. Khaled Mohammad Al Kurdi	•		•	
Mr. Mohammad Mounir Al Naffi	•			President •
Mr. Jean Paul Marcel Touma	•			•

Financial Highlights

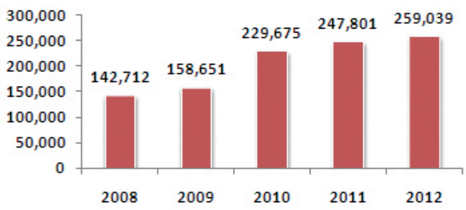
Total Assets



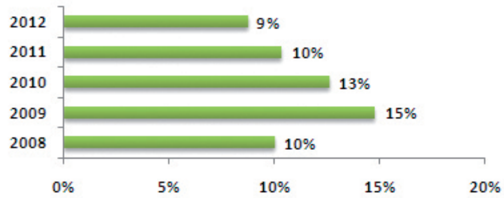
Return on Assets



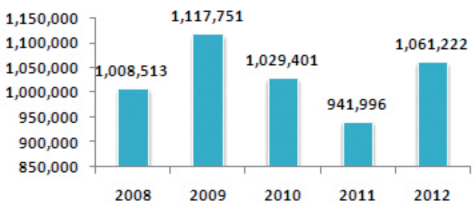
Shareholders' Equity



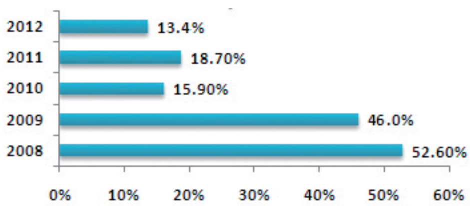
Return on Equity



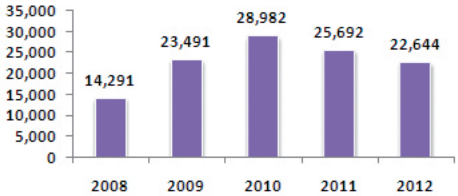
Total Deposits



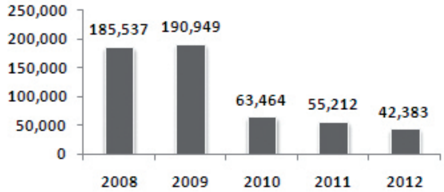
Loans and Advances to Deposits



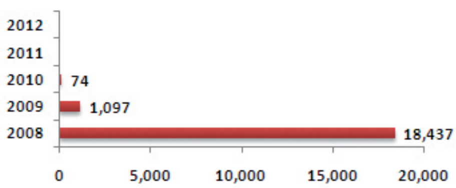
Net Profit



Financial Portfolio



Doubtful Debts



Gearing ratio (deposits to equity) times

Board of Directors Report

Chairman's letter

Dear Sirs,

The economical and financial crisis that spanned around the globe coupled with the international increasing tensions and leaving its marks on the major financial and economical institutions in the European countries that are witnessing financial difficulties, had a direct impact on the banking and money funds in the world resulting in a non optimistic indication and reaching also the Arab region amongst which the country of Lebanon and which has resulted in a decrease in the credit portfolio in the Lebanese banking and financial sector both of which this country highly depends upon. In the midst of all of these circumstances, the bank was able through its available resources during the year 2012 in reaching a net profit of 15.02 million US Dollars with total assets reaching 945.9 million US Dollars with an increase of 12 % from last year, with capital adequacy ratio of 17% within unstable and extremely severe economical conditions due to the surrounding events affecting the region in all economical activities, while the Lebanese banking sector was affected by different degrees.

The global economic problems and changes in international financial markets that were pointed out last year are based on economic reports issued by specialized entities, triggered a clear warning sign calling for actions to review the standing of financial institutions and to prepare for meeting its consequences. Indeed, the contents of these reports started to materialize in reflecting the increasing economical risk in the European countries and the banking institutions in general, especially on these entities with small and medium sized capitals scattered in our Arab world. Bringing out the need for these entities to develop a road map and most importantly to throng the path of mergers as being the only way out for getting over the great difficulties, where it has been clear that upcoming years would be hard on the banking sector. Accordingly, its imperative in the first phase to adapt a strategy that establishes a practical program in order to hedge these risks and support the base of small bank's capitals as a first step is inevitable. The Lebanese Central Bank is continuing its efforts to address their issues and changes in the world's economy, where it has been able, this year as well, and due to its well governed policies to preserve the Lebanese banking sector and moreover to maintain its support to the financial institutions by stimulating capital restructuring and compliance with local circulars and international best practices, despite the burdens of addressing these economical factors and changes in international financial markets and problems surrounding this region.

Hence, it is imperative for the medium and small sized banks in the Arab world to initiate, within its priorities, a deep evaluation of the surrounding events and trigger the action towards the objective of hedging for the future, and we are fully convinced of the fact that merger and reunions are the only option to withstand all these obstacles and this is the direction which central banks are always calling for in numerous countries as well as the Central Bank of Lebanon, as this represents the only way to continue its presence in the market. With the hope that our vision will witness changes and that we look deeper and in a responsible manner to the future economic events around the world.

At the end, in my name and the names of the Members of the Board of Directors, we are thankful to our sister and friendly banks inside and outside Lebanon and all of our clients for their full cooperation, and all the employees and wish for everybody and for this company the full prosperity. We look forward with confidence and faith to intensify efforts and work seriously to raise the level of our banking institutions in our countries to progress to the ranks of major banks worldwide as well as exploiting our vast resources in the Arab world for the development of our weak economies and to have a strong insight on developed countries in order to keep up with their progress in all areas and protect our future generations.

Mohamad Najib Ahmeida EL Jamal
Chairman of the Board / General Manager

Corporate Governance, Internal Control and Risk Management Systems

The Board of Directors of the bank assumes the overall responsibilities regarding the adoption of a strategic risk management policy and setting the optimal strategic goals, objectives and professional values of the institution. The BOD also ensures the implementation and monitoring processes in order to preserve the interests and long-term safety of the bank.

North Africa Commercial Bank is perpetually working on applying the local and international standards and best practices of good governance, which is based on several factions. Most vital is the transparency with respect to information systems, informing shareholders on the details of the transactions, the methodology process of decision-making undertaken by the Governing Council and the reasons behind it, the benefits arising from those decisions and their consequences, and the application of international accounting standards, with the promotion of the level of human competencies through training being a constant goal at hand.

And through the adhesive corporate governance structure, the bank possesses the ability to lay the foundations that define the desired objectives of the system, and monitor overall performance, which provides the necessary confidence to invest in the surrounding environment.

The application of corporate governance practices in the bank was facilitated by the development of internal systems and frameworks related to banking and management in accordance with the rules and internationally accepted recommendations (Basel Committee) and regulatory authorities in Lebanon. The bank also oversees and coordinates the development of the internal systems of governance, in order to follow up the implementation by all the bank's facets, and protect the interests of the bank's clients by providing suggestions to the senior management for the issuance of instructions and internal guidelines relating to most aspects of handling all procedures between the bank and its clients, including disclosure, transparency and the distribution of profits. Furthermore, it also provides to the governing council, on a periodic basis, and whenever the need arises, reports and recommendations based on the results obtained, and makes sure that all departments are compliant with the policies and procedures set for governance systems, developed by the administration, and gives them priority of transaction.

In order to facilitate the Governing Council's functions, several committees have been set up, in addition to the decision making senior management committees and the specialized recommendation committees. The BOD participates in appointing the members of the specialized committees to ensure the perfect combination of skills and experience. Furthermore, this allows these committees to fully understand the issues that concern them, evaluate them objectively, and analyze them from new perspectives. Each committee is composed of at least three members and meets at least quarterly and whenever the need arises.

A representation of the respective work is provided in the graph shown below:

Board of Directors' Committees

Internal Audit Committee

- Ensuring qualifications and independence of both regulators and internal audit unit.

- Monitoring the integrity of financial statements and reviewing disclosures standards adopted in the Bank.

- Assuring adequacy and effectiveness of systems and internal control procedures.

- Follow up the good execution of corrective suggestions presented in the reports of the internal audit unit and the regulatory authorities and controller's commission.

- Monitoring the bank's compliance to regulations and recommendations issued by the Central Bank of Lebanon and the Banking Control Commission.

Risk Committee

- Review the Risk Management strategy, as well as the risk appetite approved by the Board of Directors.

- Ensure the availability of risk management policies, frameworks, programs, and tools to do so, in parallel to the periodic revision to ensure their effectiveness and modify them if necessary.

- Revise stress tests used in the analysis of credit, market, and operational risks and approve plans for emergency cases.

- Discuss the reports of risk management.

- Monitor's the Bank's preparations to apply Basel 2 and 3 requirements with respect to the risk management and measurement.

Core Decisions' Executive Committees

Credit Committee

- Issues the necessary decisions on credit operations according to the limits and terms specified by the Bank Board of Directors.

- Examines and follows up on everything pertaining to the Credit Department, including the development of its policies and procedures.

ALCO Committee

- Issues all major decisions relating to investment processes in order to contribute, participate and ensure an optimal return.

- Illustrates the general framework for market risk management policy, including interest rate risk, liquidity risk, and Forex risk.

Senior Management Committees

Strategic Committee

- Formulates guidelines for conducting a new strategy in the Bank
- Recognizes expansion plans in terms of offering new products, accessing new markets, developing Bank activities, and training staff.

Anti-Money Laundering Committee

- Publishes a comprehensive guide for antimoney laundering activities.
- Follows up and discusses periodic reports filed by the Compliance Unit on banking operations, and ensures appropriate reporting to the Board.

Human Resource Committee

- Examines all the basic issues concerning human resources at the Bank.
- Plans for the enhancement of the staff capabilities to keep pace of developments in the banking industry.

Business Continuity Plan Committee

- Develops business continuity plan to mitigate the risk of disasters and exceptional conditions.
- Categorizes the Bank's activities priorities to basic, necessary and not obligatory.
- Identifies alternative location and key staff to perform this task.

Information Technology Security Committee

- Supervises the preparation of policies to ensure the safety of information technology systems.
- Examines and assesses all the information security risks.
- Reviews and adopts alternative plans to ensure the integrity of information systems in the Bank.

Management Information Systems Committee

- Creates comprehensive and complete databases.
- Plans and develops Management Information Systems, especially those related to financial reports for authorities and regulators, disclosures and risk management systems.

Internal Control Policies and Procedures Committee

- Continues to update these policies and procedures to keep pace with the progress of operational processes and controls in the Bank and any updates in the banking industry.
- Supervises the development of internal control policies and procedures in the Bank depending on the nature of its activities and the degree of complexity of its operations.

Internal Control Systems and the Risk Management of the bank:

The recent global financial crisis played its role in highlighting the importance of restructuring the global financial system, and improving legislation and overall practices of control and supervision on the banking and financial institutions industry, and the capital markets in general. This need has led to joint international efforts, to work on several aspects in order to improve the banking regulatory legislations, in contribution to strengthening the pillars of the global financial system. The agenda of amendments to the internationally recognized legislation and regulatory principles, has proposed many of the changes that aim to protect global financial stability, and the reduction of systemic risk.

Among the most notable of these amendments with regard to the new requirements for capital adequacy (Basel III), are in terms of raising the minimum required capital of banks, imposing strict leverage ratios, introducing new standards and ratios of liquidity, as well as developing and enhancing the monitoring precautionary regulation's framework and its indicators to reduce fluctuations in the economic cycles.

The bank continues to activate the role of its regulatory regime in accordance with best practices and regulators' instructions. In this respect, Bank's risk management unit manages policies and takes appropriate actions to mitigate these risks and minimize their effects in the scope of a cost-benefit analysis. The Unit strives to achieve a balance between the degree of risk and profitability, and continuously control these risks through analysis, monitoring and control, and also within the powers and functions, limits and ceilings approved by the Board of Directors based on Risk Management's recommendations.

The Risk Management unit is responsible for daily following-up the overall work and activities, ensuring compliance with the ceilings and levels identified in the risk management policy, adjusting the excesses, and following it up immediately with senior management. Also, it is responsible for the use of advanced technology to manage credit risk and application of systems to evaluate and measure these risks. Additionally, it examines the debt risk classification, evaluation and reports the necessary provisions regarding it.

In order to promote Risk Management's culture, the Bank works in compliance with the credit policy, credit control and follow-up procedures related to the stages of issuing a credit according to the bank operations' instructions, and continuous credit portfolio study to adjust and follow-up credit products.

In addition to credit risk, the Bank manages market risk through the risk management unit in studying new products and value of returns that can be achieved after studying competitive products in the market and providing sufficient capital or funds to meet these risks. Also, it examines the status of correspondent banks before accepting to deal with them, analyzing the net funding requirement in the context of alternative scenarios and contingency plan, and the management of Bank's assets and liabilities and off-balance sheet contractual arrangements in order to maintain sufficient liquidity. In addition to a full understanding of the impact of other risks such as credit risk, market risk and operational risk in respect to the Bank's overall liquidity strategy.

Moreover, the Risk Management Unit ensures that employees understand the presence of risks and are aware how to avoid them, and works on providing a culture that encourages an understanding of the nature of operational risk that the employee may be exposed to during the exercise of his functions within an environment that encourages disclosure of operational accidents and work collectively to avoid and minimize their effects. That occurs through subjecting employees to training courses in this field.

However, the Bank has purchased a system to enhance information management (MIS), which depends on determining the needs of the Bank's strategic management and then moves to study and identify the needs of departments in order to facilitate the work and efficiency of those departments, in addition to providing all types of required data accurately and fast to support decision-makers at all levels enabling them to make right decisions as well as helping them in doing plans ahead. This system also works in linking the Bank's operations with a single system for all departments and divisions.

Also, the Bank applies International Security Standards and International Best Practices to provide a basis for identifying and handling business risk through integrated information technology security policy.

Recently, the Bank merged the tasks and responsibilities of Information Security with business continuity plan to become under one umbrella in order to ensure the continuity of banking operations at the same time, and in this aspect, a new security software is being developed to secure the data and prevent any loss. On the other hand, regulatory flexibility is one of the most important functions of the information technology security unit and it is managed through business continuity plan practices.

The Compliance Unit at the bank ensures that the measures taken against money laundering activities and terrorism funding are in line with the circulars issued by the Lebanese Central Bank and its main Financial Intelligence Unit (FIU) known as the Special Investigation Commission (SIC). In this regard, the Unit secures the development of the necessary software needed to enable the Bank Information System monitor all customer accounts activities and at the same trace any unusual activity taking place. The Unit always strives to improve the practices and measures used to combat money-laundering and terrorism financing on each and every level in the Bank structure.

It is important to note here that the Compliance Unit streamlines its AML/CFT strategy according to the FATF and Egmont Group Recommendations in order to bring compliance up to par with best market industry practice and standards. To that effect, the Bank's Compliance Unit has recently devised a Risk-Based Approach in classifying customers and operations according to various predefined risk levels, thus allowing the Unit to better enhance and fortify its AML/CFT strategy.

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Financial Analysis

Even with the difficult and unstable conditions witnessed by MENA's economies, North Africa Commercial Bank has been able to showcase ascending growth rates in several aspects during the last 4 years. Highly noted is the steep growth in capital, which peaked at 259 billion Lebanese Pounds by the end of 2012, brandishing a 15% increase, after it had only reached 142.7 billion Lebanese Pounds by the end of 2008, the fact that aided in the bank's compliance with the Basel III accord requirements, and moreover, alleviated the bank's capital adequacy and liquidity ratios.

Furthermore, the bank was able to generate around 22.6 billion Lebanese Pounds by the end of 2012, a 12% increase over 2008's figure of 14.2 billion.

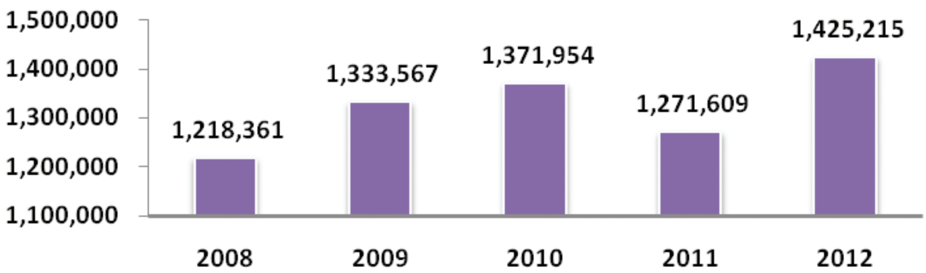
In the following, we will present the developments of the Bank's assets and liabilities' growth rates and the analysis of profitability, liquidity and solvency over the last five years.

I- Assets Distribution:

During the last five years, the Bank has been able to register concrete growth rates in its total assets, mainly due to the attractiveness of the Lebanese market, and the stability in its banking industry. Moreover, the ascending interest rate environment along with the extensive marketing efforts exercised by the bank in order to enhance the confidence of depositors, especially non-residents, in the strength of the bank, was also pivotal in that period. By the end of 2012 the size of the total assets base had increased by 12% with respect to the prior year.

Total Assets

In Millions of LBP

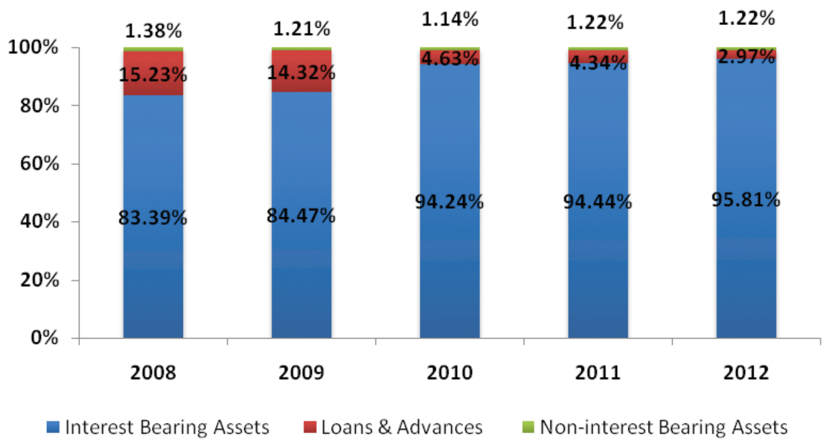


The exchange rate of U.S. dollar is 1507.50 LBP

Assets Distribution Ratios:

The Bank has followed a conservative policy in its fund investments by focusing on low risk investments with a rewarding yield represented by investments with the Central Bank of Lebanon and commercial banks and certificates of deposits issued by resident banks and government bills, whereby these investments constituted 95.81% of the Bank's total assets by the end of 2012, maintaining its high liquidity ratios.

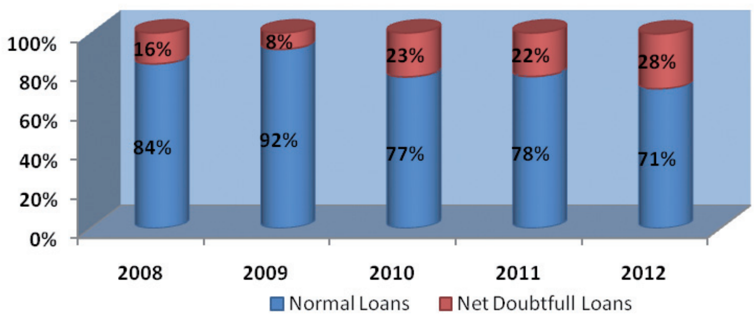
Percentage Distribution of Assets



1- Loans and Advances to customers:

The conservative policy of the Bank during the past years has been reflected in a substantial decrease in loans and advances to customers due to the selective approach in providing loans and advances to customers against sufficient guarantees. Furthermore, the bank was able to rid itself of the financial burden of its bad debt expenses by gradually accumulating sufficient provisions.

Loans and Advances



The exchange rate of U.S. dollar is 1507.50 LBP

In Millions of LBP	2008	2009	2010	2011	2012
Normal Loans	156,155	174,962	49,178	42,902	30,326
Net Doubtful Loans	29,382	15,987	14,286	12,310	11,971
Total Loans & Advances	185,537	190,949	63,464	55,212	42,483

2- Investment with BDL and other Commercial Banks:

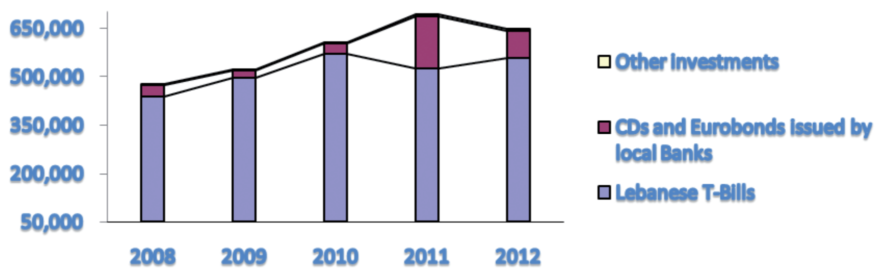
The size of deposits with commercial banks has grown substantially in 2012 to represent around 35% of the bank's total assets. The bank has retained its policy of matching the durations of its short term liabilities with its money market portfolio, in order to stay its liquidity ratios to par.

3- Financial Bills:

During the last period, the financial bills portfolio witnessed significant growth whereby financial bills comprised 46% of total assets in 2012. These investments are represented by Lebanese T-bills and Lebanese Government Eurobonds, certificates of deposit, bonds (issued by BDL and Lebanese banks) in addition to a few funds. The progress of the financial bills is as follows:

Growth in Financial Instruments

In Millions of LBP



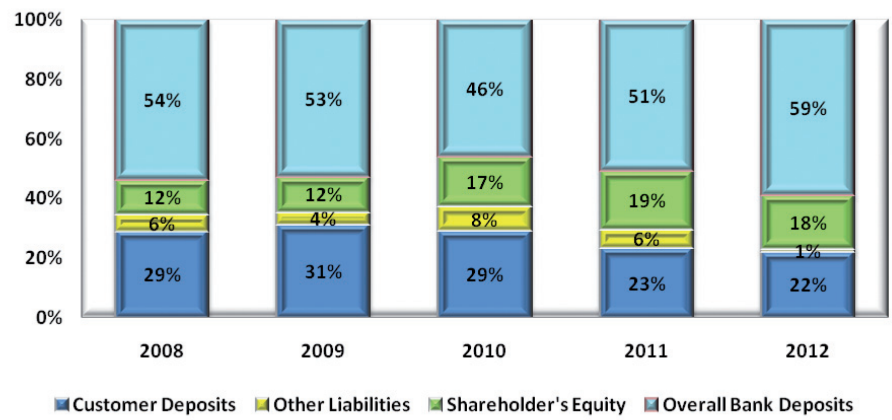
II- Liabilities:

Extensive efforts exercised in this period, in addition to the increase in interest rates prevailing in Lebanon compared to other countries, along with the confidence enshrined in the Lebanese banking sector, have led to the expansion in the client base and thus, the increase of the deposit's volume, particularly non-resident companies and banks. These deposits enabled the Bank to seek better investment opportunities and maintain stability in liquidity ratios.

The exchange rate of U.S. dollar is 1507.50 LBP

Liabilities Distribution:

The prior period witnessed a notable change in the Bank's structure of its source of funds, with capital comprising 18% of these sources at end of year 2012, whereas bank deposits represented around 59% of these sources, delineating the largest portion.

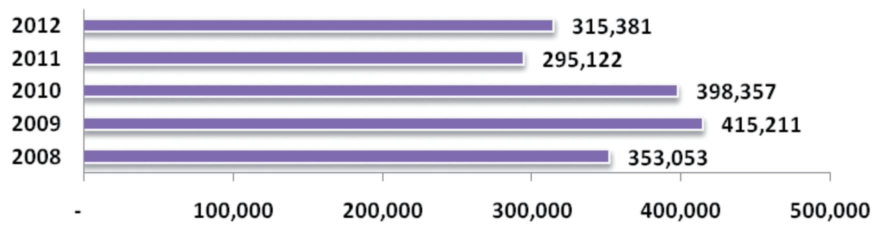


1- Customer Deposits:

The Bank was able to maintain its portfolio of customer deposits especially from non-residents. These deposits represent 34% of total sources of funds.

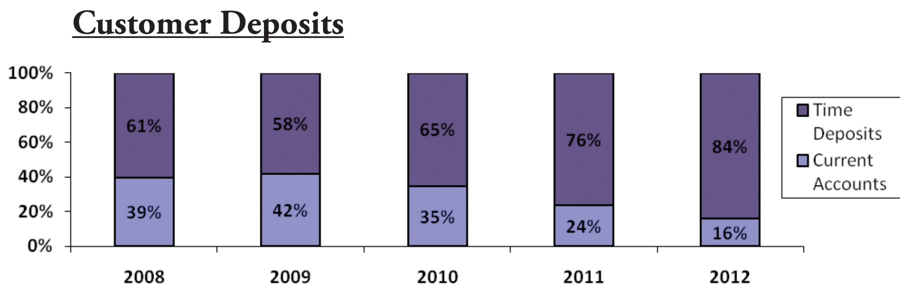
Customer Deposits

In Millions of LBP



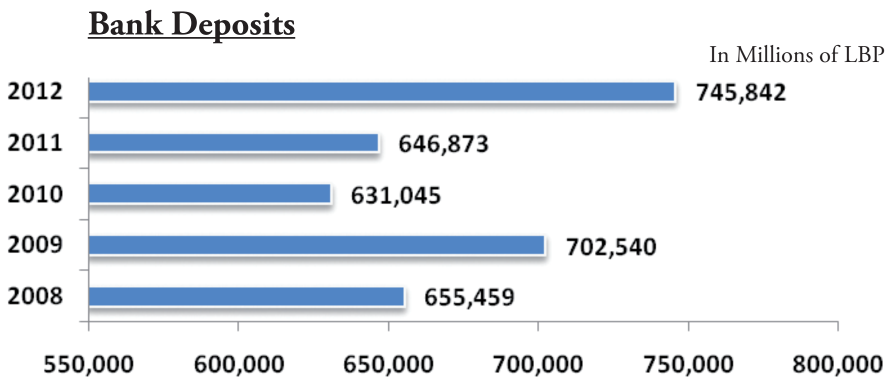
The exchange rate of U.S. dollar is 1507.50 LBP

Customer deposits represented almost 22% of total sources of funding for the bank by the end of 2012, notably 7% higher than its equivalent in 2011. This showcases the bank's successful marketing plans in attracting new clientele.



2- Bank Deposits:

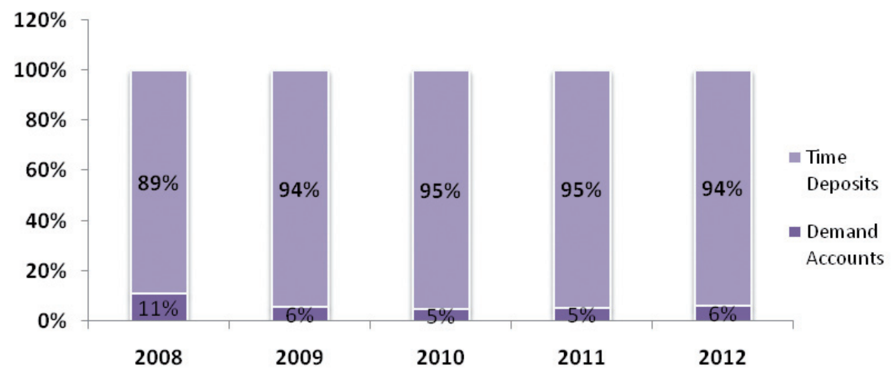
Deposits from correspondent banks augmented significantly as a result of persistent efforts exerted, leading to a growth of 15% in 2012 in comparison to 2011. These deposits now represent 52% of total sources of funds in year 2012.



In Millions of LBP	2008	2009	2010	2011	2012
Bank Deposits	655,459	702,540	631,045	646,873	745,842
Demand Deposits	71,829	41,612	30,723	34,641	46,519
Time Deposits	583,630	660,928	600,322	612,232	699,323

The exchange rate of U.S. dollar is 1507.50 LBP

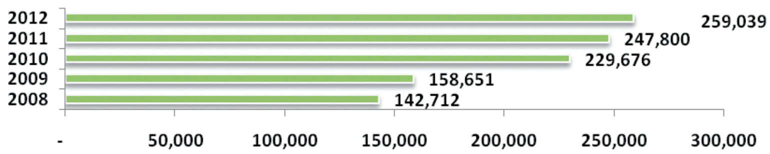
Bank Deposits



3- Shareholder's Equity:

At the end of the year 2012, total shareholder's equity before provisions has reached 259 billion Lebanese Pounds after providing for reserves compared with 247.8 billion at the end of 2011.

Shareholder's Equity



	2008	2009	2010	2011	2012
Shareholder's Equity	142,712	158,651	229,676	247,800	259,039

4- Dividend Payout:

Year	Dividends Paid Out
2011	7,500,000
2012	10,500,000

The working assembly agreed upon the payout of 7,500 billion Lebanese Pounds at 29/05/2013 as dividends to shareholders for the year 2012.

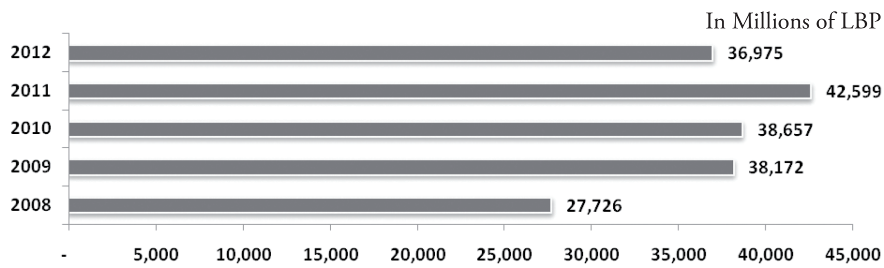
The exchange rate of U.S. dollar is 1507.50 LBP

III- Income Statement:

1- Net Interest Income:

The investment policy adopted by the Bank during the past years, has led to an average increase of 7% in net interest income by the end of 2012 compared to the figure generated in 2008.

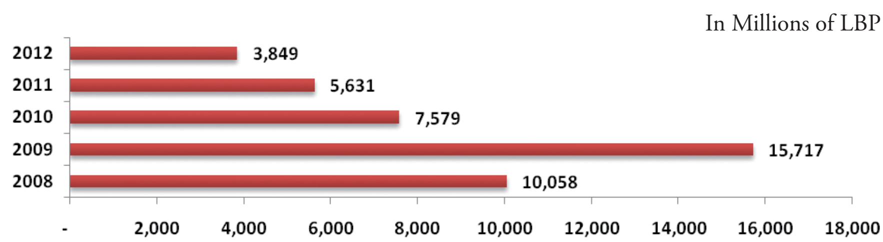
Net Interest Income



2- Net Commissions and Other Income:

Net commissions are greatly affected by the commissions generated from trade finance operations, mainly Letters of Credit and Letters of Guarantee. Net commissions decreased in 2012 by 32% relative to 2011, explained mainly by the difficult and unstable political and economical situation in the Arab world, and the bank's dependence on the Libyan market for its trade finance operations.

Net Commissions and Other Income



3- Administrative and General Expenses:

During the past years, the Bank maintained consistent levels of general and administrative expenses in line with the growth of the Bank and the budget set.

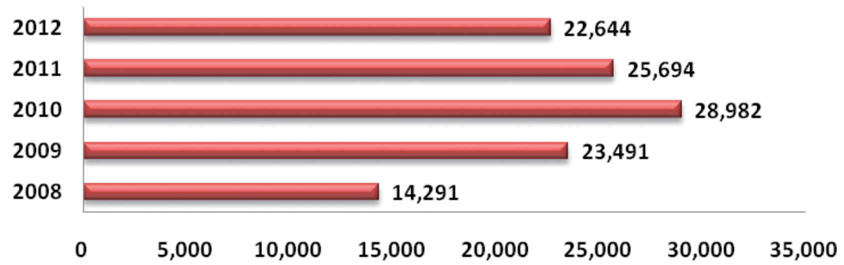
The exchange rate of U.S. dollar is 1507.50 LBP

4- Net Income:

The bank's profitability began escalation in 2008 and peaked over the coming years. It is noteworthy that the Bank was able to free its financial position of the burden of doubtful debts portfolio by forming sufficient provisions and specific reserves by the end of 2012. The bank was also capable of generating around 22.6 billion Lebanese Pounds in 2012, in spite of the overwhelming political/economic situation in Lebanon this past year.

Net Profit

In Millions of LBP



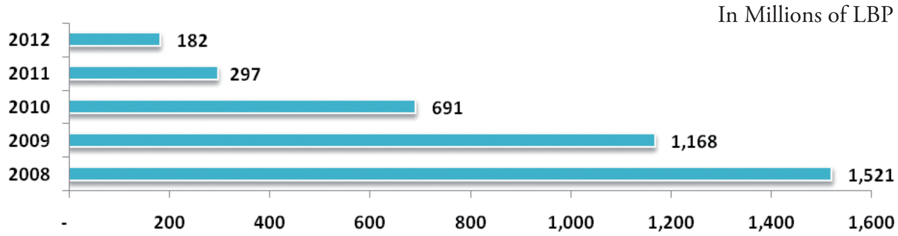
	2008	2009	2010	2011	2012
Net Profit	14,291	23,491	28,982	25,694	22,644

IV- Letters of Credit:

The bank has played a pivotal role as a financial intermediary in the MENA region during the last couple of years. However, the escalating predicaments faced by that region took a toll on the size of the LCs circulated, whereby decreasing it by approximately 39% by the end of 2012, relative to its equivalent in 2011.

Total L/cs Processed

In Millions of LBP

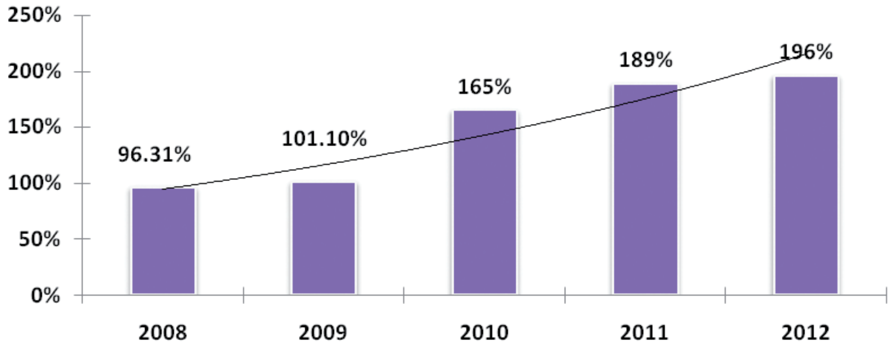


The exchange rate of U.S. dollar is 1507.50 LBP

V- Liquid Assets to Client Deposits:

The ratio increased in 2012 to around 196% which conveys the bank's strategy regarding liquid investments which provides the bank with the required liquidity and solvency buffers aiding in its risk management process.

Net Liquid Assets / Customer Deposits



VI- Capital Adequacy Ratio:

The bank's capital adequacy ratio increased to 18.28% in 2012 due to the increase in shareholder's equity, and keeping in line with the Basel III accord requirements.

	2008	2009	2010	2011	2012
Total equity/RWA	12.38%	14.89%	16.25%	18.65%	18.28%
Required By BDL	10%	10%	10%	10%	10%
Tier 1/RWA	12.38%	14.89%	16.25%	18.65%	18.28%
Required By BDL	8%	8%	8%	8%	8%
Net Common Equity/RWA	12.38%	14.89%	16.25%	18.65%	18.28%
Required By BDL	5%	5%	5%	5%	5%

* RWA: Risk Weighted Assets

In Millions of LBP	2008	2009	2010	2011	2012
Total Risk Weighted Assets (operational risk)	44,975	68,001	85,576	91,477	83,035
Total Risk Weighted Assets (market risk)	4,889	5,944	5,373	18,157	17,574
Total Risk Weighted Assets (credit risk)	1,027,420	945,046	1,056,728	998,237	1,176,384
Total Risk Weighted Assets	1,077,283	1,018,991	1,147,676	1,107,871	1,276,993

The exchange rate of U.S. dollar is 1507.50 LBP

Shareholders Annual Meeting

The Shareholders Annual Ordinary Meeting held on 29/05/2013 approved the board of directors' report, the balance sheet and the profit and loss account for the financial year 2012 giving discharge to the members of the board.

NORTH AFRICA COMMERCIAL BANK S.A.L.

Report and financial statements
for the year ended 31 December 2012

Independent Auditor's Report
to the shareholders of North Africa Commercial Bank s.a.l.

Report on the financial statements:

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

Management's responsibility for the financial statements:

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the International Financial Reporting Standards (IFRS), and for such internal control as management determines 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. 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PricewaterhouseCoopers ***Sidani & Co.***

Beirut, Lebanon

Balance sheet at 31 December 2012

	Notes	2012 L.L. Million	2011 L.L. Million
Assets			
Cash and balances with the Central Bank	5	200,068	198,712
Deposits with banks and financial institutions	6	491,683	289,234
Deposits with the parent bank, sister banks and other related banks	7	24,747	20,864
Loans and advances to customers and related parties	9	42,383	55,212
Debtors by acceptances	10	1,503	-
Equity securities at fair value through profit and loss	11	6,148	6,227
Debt securities held at amortised cost	11	642,845	685,826
Non-current assets classified as held for sale	12	5,871	5,871
Property and equipment	13	8,302	8,370
Intangible assets	14	311	349
Other assets	15	1,354	944
Total assets		**1,425,215**	**1,271,609**
Liabilities			
Deposits from a central bank	16	93,399	72,522
Deposits from banks and financial institutions	17	243,228	150,655
Deposits from the parent bank, sister banks and other related banks	18	502,614	496,218
Deposits from customers and related parties	19	315,380	295,122
Engagements by acceptances	10	1,503	-
Current income tax liability	30	4,177	4,502
Other liabilities	20	1,303	1,096
Retirement benefit obligations	21	4,403	3,525
Provisions for risks and charges		169	169
Total liabilities		**1,166,176**	**1,023,809**
Shareholders' equity			
Share capital	22	15,000	15,000
Cash contribution to capital	22	148,489	148,489
Reserves not available for distribution	22	38,820	31,215
Reserves available for distribution	22	466	466
Retained earnings	22	33,620	26,938
Profit for the year	22	22,644	25,692
Total shareholders' equity		**259,039**	**247,800**
Total equity and liabilities		**1,425,215**	**1,271,609**
Off balance sheet			
Letters of guarantee	31	53,095	83,231
Letters of credit import	31	23,883	24,652
Letters of credit export – confirmed	31	44,306	33,089
		121,284	140,972

The financial statements on pages 29 to 91 were authorized for issue by the directors on 12 March 2013 and were signed on their behalf by: **Mr. Mohammad Najib Ahmida Al Jamal**

Chairman/ General Manager

The notes on pages 34 to 91 are an integral part of these financial statements.

Income statement for the year ended 31 December 2012

	Notes	2012 L.L. Million	2011 L.L. Million
Interest and similar income	23	51,965	55,983
Interest and similar expenses	23	(14,990)	(13,384)
Net interest income		**36,975**	**42,599**
Net loan impairment releases (charges)	26	3,797	(369)
Net interest income after loan impairment releases (charges)		**40,772**	**42,230**
Fee and commission income	24	3,129	4,677
Fee and commission expense	24	(218)	(120)
Net fee and commission income		**2,911**	**4,557**
Net trading loss		(41)	(153)
Net loss on difference of exchange		(80)	(215)
Net gains on investment securities	11	769	1,190
Other income	25	323	310
Personnel expenses	27	(12,412)	(11,692)
Administrative and operating expenses	28	(5,000)	(5,325)
Depreciation and amortisation expense	29	(779)	(676)
Profit before income tax		**26,463**	**30,226**
Income tax expense	30	(3,819)	(4,534)
Profit for the year		**22,644**	**25,692**

The notes on pages 34 to 91 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 L.L. Million	2011 L.L. Million
Profit and Loss		22,644	25,692
Other comprehensive income			
Total comprehensive income for the year		**22,644**	**25,692**
Basic and diluted earnings per share	**33**	**75,480**	**85,640**

The notes on pages 34 to 91 are an integral part of these financial statements.

Statement of Changes in Equity for the year ended 31 December 2012

	Share Capital L.L. Million	Cash Contribution to Capital L.L. Million	Legal reserve L.L. Million	Reserve for unspecified banking risks L.L. Million	Revaluation reserve of available-for-sale securities L.L. Million	Special reserve L.L. Million	Reserve for liquidation of assets classified as held for sale L.L. Million	Free reserve L.L. Million	Retained Earnings L.L. Million	Profit for the Year L.L. Million	Total L.L. Million
At 1 January 2011	15,000	148,489	3,780	8,751	68	14,041	-	13	10,553	28,981	229,676
Effect of changes in accounting policy for classification and measurement of of financial assets	-	-	-	-	(68)	-	-	-	-	-	(68)
Net profit for the year	-	-	-	-	-	-	-	-	-	25,692	25,692
Total comprehensive income for the year	-	-	-	-	**(68)**	-	-	-	-	**25,692**	**25,624**
Transfers to retained earnings	-	-	-	-	-	-	-	-	28,981	(28,981)	-
Distribution of dividends	-	-	-	-	-	-	-	-	(7,500)	-	(7500)
Transfers from retained earnings	-	-	1,220	2,707	-	(453)	1,169	453	(5,096)	-	-
At 31 December 2011	**15,000**	**148,489**	**5,000**	**11,458**	-	**13,588**	**1,169**	**466**	**26,938**	**25,692**	**247,800**
At 1 January 2012	15,000	148,489	5,000	11,458	-	13,588	1,169	466	26,938	25,692	247,800
Net profit for the year	-	-	-	-	-	-	-	-	-	22,644	22,644
Total comprehensive income for the year	-	-	-	-	-	-	-	-	-	**22,644**	**22,644**
Transfers to retained earnings	-	-	-	-	-	-	-	-	25,692	(25,692)	-
Distribution of dividends	-	-	-	-	-	-	-	-	(10,500)	-	(10,500)
Transfers from retained earnings	-	-	2,570	3,856	-	-	1,179	-	(7,605)	-	-
Other transfers	-	-	-	-	-	-	-	-	(905)	-	(905)
At 31 December 2012	**15,000**	**148,489**	**7,570**	**15,314**	-	**13,588**	**2,348**	**466**	**33,620**	**22,644**	**259,039**

The notes on pages 34 to 91 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2012

	Notes	2012 L.L. Million	2011 L.L. Million
Cash flows from operating activities			
Profit before income tax		26,463	30,226
Adjustments for non-cash items:			
Depreciation charge	13	684	609
Amortisation charge	14	95	67
Fair value change in investments at fair value through profit and loss		41	-
Gain on disposal of property and equipment		-	(53)
Net loan impairment (releases) charges	26	(3,797)	369
Provision for retirement benefit obligations	27	1,237	1,317
Changes in operating assets and liabilities:			
Balances with the Central Bank		(14,484)	(13,201)
Deposits with banks and financial institutions		(113,816)	24,082
Equity securities at fair value through profit and loss		38	(2,787)
Debt securities held at amortised cost		41,890	(23,293)
Loans and advances to customers and related parties		16,625	7,899
Other assets		(410)	187
Deposits from a central bank		20,871	(27,965)
Deposits from banks and financial institutions		92,388	(99,413)
Deposits from the parent bank, sister banks and other related banks		6,234	115,810
Deposits from customers		27,040	(109,878)
Net change in interest receivable		349	2,614
Net change in interest payable		321	(678)
Other liabilities		207	(18)
Retirement benefit to obligations paid	27	(359)	(742)
Cash generated from (used in) operating activities		101,617	(94,848)
Income taxes paid		(4,144)	(5,435)
Other transfers from retained earnings		(905)	-
Net cash generated from (used in) operating activities		**96,568**	**(100,283)**
Cash flow from investing activities			
Purchase of property and equipment	13	(616)	(501)
Purchase of intangible assets	14	(57)	(259)
Additions of assets classified as held for sale		-	(22)
Proceeds from sale of property and equipment		-	59
Net cash used in investing activities		**(673)**	**(723)**
Cash flow from financing activities			
Payment of tax on dividend distribution		(1,050)	(750)
Dividends paid		(16,200)	-
Net cash used in financing activities		**(17,250)**	**(750)**
Cash and cash equivalents at beginning of the year		356,831	458,587
Net cash generated from (used in)operating activities		96,568	(100,283)
Net cash used in investing activities		(673)	(723)
Net cash used in financing activities		(17,250)	(750)
Cash and cash equivalents at the end of the year	**8**	**435,476**	**356,831**
Operaing cash flow from interest			
Interest received		52,314	58,597
Interest paid		(14,669)	(14,062)

The notes on pages 34 to 91 are an integral part of these financial statements.

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

1. General information

North Africa Commercial Bank S.A.L. ("the bank") is a Lebanese joint stock company established in 1973 and registered in the Commercial Court under the number 30199 CR and in the Central Bank's list under the number 62.

The Bank offers a full range of commercial banking activities in accordance with the applicable Lebanese Laws and banking regulations. The head office is situated in Justinian Street – Hamra – Beirut. The Bank has one branch in Sin El Fil.

2. Summary of significant accounting policies

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

2.1 Basis of presentation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC interpretations. The financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss.

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

The bank classifies its expenses by the nature of expense method. The financial statements are presented in Lebanese pounds, which is the Bank's presentation currency. The figures shown in the financial statements are stated in LL million. The disclosures on risks from financial instruments are presented in the financial risk management report contained in Note 3.

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 8 shows in which item of the balance sheet cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid is classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

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

(a) New and amended standards adopted by the Bank:

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2012 that would be expected to have a material impact on the Bank.

(b) New standards and interpretations that are not effective for annual periods beginning on 1 January 2012 and not early adopted

- IFRS 13, 'Fair value measurement' (effective from 1 January 2013), aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The impact of this standard is not expected to be significant on the Bank's financial statements.
- IAS 1 (amendment), 'Financial statement presentation' regarding other comprehensive income, (effective for annual periods beginning after 1 July 2012). The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The impact of this standard is not expected to be significant on the Bank's financial statements.
- Amendment to IAS 19, 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The impact of this standard is not expected to be significant on the Bank's financial statements.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Bank.

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions that are transactions denominated, or that require settlement, in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

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

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

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary financial instruments, such as equities classified as fair value through other comprehensive income, are included in the fair value reserve in equity.

2.3 Sale and repurchase agreements

Securities sold subject to repurchase agreements ("repos") are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ("reverse repos") are recorded as loans and advances to other banks or customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

2.4 Financial assets and liabilities

2.4.1 Financial assets

The Bank classifies its financial assets in the following categories: those to be measured subsequently at fair value, and those to be measured at amortised cost. This classification depends on whether the financial asset is a debt or equity investment.

(a) Financial assets at amortised cost

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

(b) Financial assets at fair value

If either of the two criteria above are not met, the debt instrument is classified as "fair value through profit or loss". The Bank has not designated any debt investment as measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch.

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

(c) Recognition, derecognition and reclassification

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

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

A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss in the period in which they arise.

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

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

The Bank is required to reclassify all affected debt investments when and only when its business model for managing those assets changes. The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category (as defined by IFRS 9)		Class (as determined by the Bank)	Subclass
Financial assets	Held at amortised cost	Deposits with banks and financial institutions	
		Deposits with the parent bank, sister banks and other related banks	
		Loans and advances to customers and related parties	- Retail - SME - Corporate - Housing
		Investment securities - debt instruments	Unlisted and Listed
	At fair value through profit & loss	Investment securities - equity instruments	Unlisted and Listed
Financial liabilities	Financial liabilities at amortised cost	Deposits from a central bank	
		Deposits from banks and financial institutions	
		Deposits from the parent bank, sister banks and other related banks	
		Deposits from customers and related parties	
Off balance sheet	Guarantees, letters of credit and other financial facilities		

2.4.2 Financial liabilities

The Bank holds financial liabilities at amortised cost. Financial liabilities measured at amortised cost are deposits from central bank, deposits from banks and financial institutions, deposits from parent bank, sister banks and other related banks and deposits from customers and related parties. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4.3 Determination of fair value

Fair value is the amount at which an asset is replaced or a liability is settled between knowledgeable parties at an arm's length basis.

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

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

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

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

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

2.5 Offsetting financial instruments

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

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

2.6 Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

2.7 Fee and commission income

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

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

2.8 Dividend income

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

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

* adverse changes in the payment status of borrowers in the portfolio; and

* national or local economic conditions that correlate with defaults on the assets in the portfolio

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

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

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income.

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

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

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

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

(b) Renegotiated loans

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

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2012.

2.11 Cash and cash equivalents

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

2.12 Leases

The leases entered into by the Bank, are principally operating leases. Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss on a straight-line basis over the period of the lease. The total payments made under operating leases are charged to other operating expenses in the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.13 Property and equipment

Buildings comprise mainly branches and offices. All property and equipment are stated at historical cost less depreciation and impairment if any.

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

Depreciation of property and equipment is calculated using the straight-line method to allocate their carrying amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Computer equipment	5
Furniture and fixtures	5 - 12.5
Vehicles	4
Leasehold improvements	4 - 16.5

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

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

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within "other income" in the profit and loss.

2.14 Intangible assets

Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 5 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Bank have a definite useful life. At each date of the balance sheet, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

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

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

2.15 Non-current assets held for sale

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

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

2.16 Reserves for liquidation of assets classified held for sale

At each balance sheet date, an appropriation of retained earnings is made in respect of non-current assets held for sale. The amount of this appropriation is determined by applying the percentages specified in the relevant Banking Control Commission circulars (20%) to the carrying amounts of those assets.

2.17 Income tax

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law and is recognised as an expense for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income directly. In these circumstances, current tax is charged or credited to other comprehensive income or to equity. The Bank's profit is subject to a tax rate of 15%. In accordance with article 51 of law number 497/2003, a 5% tax is withheld at source on interest received. The Bank's tax charge is determined as the higher of corporate tax and tax on interest income withheld during the year.

(b) Deferred income tax

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

2.18 Retirement benefit obligation

The Bank is subscribed to the compulsory defined benefit plan of the national social security fund regulations. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation.

The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund, together with adjustments for actuarial gains/losses and past service costs. The defined benefit obligation is calculated annually by the Bank using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

2.19 Provisions

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

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

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

2.20 Financial guarantee contracts

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

2.21 Share capital

(a) Share issue costs

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

(b) Cash contribution to capital

Cash contributions for increase of capital are recorded under equity.

(c) Dividends on ordinary shares

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

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

2.22 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

3. Financial risk management

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

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

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

The Board of Directors provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. In addition, internal audit is responsible for the independent review of risk management and the control environment.

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

3.1 Credit risk

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

The Bank is also exposed to other credit risks mainly arising from investments in debt securities.

3.1.1 Credit risk measurement

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised in a credit risk management unit, under the risk management unit which reports to the Board of Directors.

(a) Loans and advances to customers

To measure the credit risk of loans and advances to customers and to banks at a counterparty level, the Bank rates its counterparties according to the six rating classes defined by the Central Bank of Lebanon ("BDL") and the Banking Control Commission of Lebanon ("BCC") requirements as follows:

- Normal – the loan is expected to be repaid on a timely and consistent basis;
- Follow-up – the customer has the ability to repay the loan but the client file is not complete or updated;
- Special mention – the loan is expected to be repaid but weaknesses that might lead to default in the future have been identified;
- Sub-standard – the client has a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful – there is no movement in the clients' balance; and
- Bad – the probability of repayment is low and almost nil.

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

In addition, the Risk Management department proceeded in coordination with the Credit Management department of the Bank to develop a technical framework necessary for the application of credit risk management policy and the requirement of circular No. 58 issued by BDL relating to the classification of risk of loans. The Bank adopted a risk-rating system (RCMS) designed by 6 Sigma consulting company to provide the ability to assess the risk of the customer, to be used as a practical tool during all phases of the granting credit in the Bank.

The system approved by the Board of Directors aims to rate the risk of individual institutions, small businesses and medium-sized businesses, trading companies and new projects according to a special classification (Loan Grading System), mainly in terms of identifying the risk of the portfolio of loans and advances as loans and advances granted are assessed according to the six rating classes as follows:

- 7 classes to rate performing loans;
- 3 classes to rate non-performing loans.

(b) Debt securities

For debt securities and other bills, external ratings are used by the Bank's treasury department for managing credit risk exposure.

3.1.2 Risk limit control and mitigation policies

The Bank manages limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and Banks, and to industries and countries.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

The principal collateral types for loans and advances are:

- Mortgages over residential properties (housing loans);
- Mortgages over real estate;
- Cash collaterals;
- Personal guarantees as well as bank and public sector guarantees;
- Salary domiciliation;
- Charges over business assets such as premises, inventory, accounts receivable, commercial bills and machinery; and
- Charges over financial instruments such as debt securities and equities.

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

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

(b) Master netting arrangements

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

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

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate in addition to a required credit margin set by the credit committee based on the credit rating of each customer and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

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

3.1.3 Impairment and provisioning policies

The rating system described in note 3.1.1 focus on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see note 2.9).

The categorisation of loans follows the BCC grading system. The impairment provision shown in the balance sheet at year-end is derived from each of the six internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings shown under 3 below. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

Bank's rating

	31 December 2012		31 December 2011	
	Loans and advances %	Impairment provision %	Loans and advances %	Impairment provision %
1. Normal, follow-up and special mention	44%	-	50%	-
2. Substandard	-	-	-	-
3. Doubtful	56%	100%	50%	100%
	100%	100%	100%	100%

The above mentioned balances were recorded at net value after deducting the suspended interests.

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

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

	2012 L.L. Million	2011 L.L. Million
Assets		
Balances with the Central Bank	199,013	197,298
Deposits with banks and financial institutions	491,683	289,234
Deposits with the parent bank, sister banks and other related banks	24,747	20,864
Loans and advances to customers and related parties		
Retail loans	3,563	4,555
SME	1,533	2,031
Corporate loans	33,633	44,458
Housing loans	3,654	4,168
Debtors by acceptances	1,503	-
Debt securities measured at amortised cost	642,845	685,826
Other assets	1,354	944
	1,403,528	1,249,378

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

	2012 L.L. Million	2011 L.L. Million
Letters of guarantee	53,095	83,231
Letters of credit import	23,883	24,652
Letters of credit export- confirmed	44,306	33,089
	121,284	140,972
At 31 December	**1,524,812**	**1,390,350**

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

As shown above, at 31 December 2012, 42% of the total maximum exposure is derived from investments in debt securities (2011 - 49%); 3% from loans and advances to customers and related parties (2011 - 4%), 13% from balances with the Central Bank (2011 - 14%) and 32% from deposits with banks and financial institutions (2011 - 21%).

The Bank is confident in its ability to continue to control and sustain minimal exposure of credit risk resulting from both its loan and advances portfolio and debt securities based on the fact that 97% of the investments in debt securities are Lebanese government securities: Treasury bills, Eurobonds and Certificate of deposit.

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors

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

	Lebanon L.L. Million	Arab Countries L.L. Million	Africa L.L. Million	European Countries L.L. Million	Other L.L. Million	Total L.L. Million
Assets						
Balances with the Central Bank	199,013	-	-	-	-	199,013
Deposits with banks and financial institutions	378,904	23	-	75,004	37,752	491,683
Deposits with the parent bank, sister banks and other related banks	-	153	20,962	2,924	708	24,747
Loans and advances to customers						
Retail loans	3,563	-	-	-	-	3,563
SME	1,533	-	-	-	-	1,533
Corporate loans	30,602	-	-	-	3,031	33,633
Housing loans	3,654	-	-	-	-	3,654
Debtors by acceptances	-	-	1,503	-	-	1,503
Debt securities measured at amortised cost	642,845	-	-	-	-	642,845
Other assets	1,354	-	-	-	-	1,354
At 31 December 2012	**1,261,468**	**176**	**22,465**	**77,928**	**41,491**	1,403,528
Assets						
Balances with the Central Bank	197,298	-	-	-	-	197,298
Deposits with banks and financial institutions	237,399	39	-	36,664	15,132	289,234
Deposits with the parent bank, sister banks and other related banks	-	206	2,041	18,228	389	20,864
Loans and advances to customers						
Retail loans	4,555	-	-	-	-	4,555
SME	2,031	-	-	-	-	2,031
Corporate loans	41,427	-	-	-	3,031	44,458
Housing loans	4,168	-	-	-	-	4,168
Debt securities measured at amortised cost	685,826	-	-	-	-	685,826
Other assets	944	-	-	-	-	944
At 31 December 2011	**1,173,648**	**245**	**2,041**	**54,892**	**18,552**	**1,249,378**

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

	Lebanon L.L. Million	Arab Countries L.L. Million	Africa L.L. Million	European Countries L.L. Million	Other L.L. Million	Total L.L. Million
Letters of guarantee	50,181	2,914	-	-	-	53,095
Letters of credit import	140	23,743	-	-	-	23,883
Letters of credit export- confirmed	19,868	24,438	-	-	-	44,306
At 31 December 2012	**70,189**	**51,095**	-	-	-	**121,284**
Letters of guarantee	55,017	28,214	-	-	-	83,231
Letters of credit import	156	24,496	-	-	-	24,652
Letters of credit export- confirmed	19,486	13,603	-	-	-	33,089
At 31 December 2011	**74,659**	**66,313**	-	-	-	**140,972**

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors

The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Bank's counterparties.

	Financial institutions L.L. Million	Manufacturing L.L. Million	Construction L.L. Million	Commercial L.L. Million	Other L.L. Million	Individual L.L. Million	Total L.L. Million
Assets							
Balances with the Central Bank	199,013	-	-	-	-	-	199,013
Deposits with banks and financial institutions	491,683	-	-	-	-	-	491,683
Deposits with the parent bank, sister banks and other related banks	24,747	-	-	-	-	-	24,747
Loans and advances to customers							
Retail loans	-	-	-	-	-	3,563	3,563
SME	-	298	176	302	757	-	1,533
Corporate loans	-	5,463	16,199	11,971	-	-	33,633
Housing loans	-	-	-	-	-	3,654	3,654
Debtors by acceptances	-	-	1,503	-	-	-	1,503
Debt securities measured at amortised cost	642,845	-	-	-	-	-	642,845
Other assets	-	-	-	-	1,354	-	1,354
At 31 December 2012	**1,358,288**	**5,761**	**17,878**	**12,273**	**2,111**	**7,217**	**1,403,528**
Assets							
Balances with the Central Bank	197,298	-	-	-	-	-	197,298
Deposits with banks and financial institutions	289,234	-	-	-	-	-	289,234
Deposits with the parent bank, sister banks and other related banks	20,864	-	-	-	-	-	20,864
Loans and advances to customers							
Retail loans	-	-	-	-	-	4,555	4,555
SME	-	188	-	285	1,558	-	2,031
Corporate loans	-	2,014	28,047	11,366	3,031	-	44,458
Housing loans	-	-	-	-	-	4,168	4,168
Debt securities measured at amortised cost	685,826	-	-	-	-	-	685,826
Other assets	-	-	-	-	944	-	944
At 31 December 2011	**1,193,222**	**2,202**	**28,047**	**11,651**	**5,533**	**8,723**	**1,249,378**

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

	Financial institutions L.L. Million	Manufacturing L.L. Million	Construction L.L. Million	Commercial L.L. Million	Individual L.L. Million	Total L.L. Million
Letters of guarantee	41,479	420	10,223	24	949	53,095
Letters of credit import	-	-	23,883	-	-	23,883
Letters of credit export- confirmed	19,868	95	3,541	20,802	-	44,306
At 31 December 2012	**61,347**	**515**	**37,647**	**20,826**	**949**	**121,284**
Letters of guarantee	43,695	421	38,089	43	983	83,231
Letters of credit import	-	156	24,496	-	-	24,652
Letters of credit export- confirmed	19,487	2,975	4,007	6,620	-	33,089
At 31 December 2011	**63,182**	**3,552**	**66,592**	**6,663**	**983**	**140,972**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2012		2011	
	Loans and advances to customers and related parties L.L. Million	Loans and advances to banks and financial institutions L.L. Million	Loans and advances to customers and related parties L.L. Million	Loans and advances to banks and financial institutions L.L. Million
Neither past due nor impaired	30,326	491,683	42,773	289,234
Individually impaired	37,982	-	43,044	-
Gross amount	**68,308**	**491,683**	**85,817**	**289,234**
Less: allowance for impairment	(25,925)	-	(30,605)	-
Net amount	**42,383**	**491,683**	**55,212**	**289,234**
Individually impaired	(25,925)	-	(30,605)	-

The above mentioned balances were recorded at net value after deducting the suspended interests.

A special reserve of LL 14 billion was appropriated in accordance with BDL circular 73 and it represents the portion of long outstanding bad and doubtful loans for which no provision was set up.

(a) Loans and advances neither past due nor impaired

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

	Retail L.L. Million	SME L.L. Million	Corporate L.L. Million	Housing L.L. Million	Total L.L. Million
31 December 2012					
Normal	3,563	1,533	19,641	3,654	28,391
Special mention and follow up	-	-	1,935	-	1,935
Total	**3,563**	**1,533**	**21,576**	**3,654**	**30,326**
31 December 2011					
Normal	4,019	1,290	31,078	4,168	40,555
Special mention and follow up	-	44	2,014	-	2,058
Total	**4,019**	**1,334**	**33,092**	**4,168**	**42,613**

(b) Loans and advances individually impaired

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

	Retail L.L. Million	SME L.L. Million	Corporate L.L. Million	Housing L.L. Million	Total L.L. Million
31 December 2012					
Individually impaired loans	1,430	1,712	34,840	-	37,982
Provision on individually impaired loans	(1,234)	(1,217)	(23,474)	-	(25,925)
Fair value of the collateral	-	-	44,662	-	44,662
31 December 2011					
Individually impaired loans	1,769	1,746	39,529	-	43,044
Provision on individually impaired loans	(1,234)	(1,208)	(28,163)	-	(30,605)
Fair value of the collateral	-	1,508	43,718	-	45,226

(c) Loans and advances renegotiated

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

3.1.6 Debt securities

Debt securities held by the bank consist of Lebanese treasury bills denominated in Lebanese Pounds and foreign currencies, in addition to certificates of deposits from commercial banks and Central Bank of Lebanon.

	2012 Rating	2011 Rating	2012 L.L. Million	2011 L.L. Million
Certificates of deposit (BDL) - unlisted	Not rated	Not rated	62,755	62,987
Certificates ofdeposit (Banks) - listed	B	B	22,647	96,896
Lebanese treasury bills - unlisted	Not rated	Not rated	102,999	80,640
Lebanese treasury bills - listed	B	B	454,444	445,303
Total debt securities			**642,845**	**685,826**

3.1.7 Repossessed collateral

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

	2012 L.L. Million	2011 L.L. Million
Nature of assets		
Residential property - Carrying amount	5,871	5,871

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within non-current assets held for sale (note 12).

3.2 Market risk

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

3.2.1 Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is called out by the Bank's Risk Management Department. The Bank's Treasury and Investment department is responsible for managing the Bank's exposure within the risk exposure limits set out in the policies as approved by the Assets and Liabilities Committee and the Board of Directors. These policies set out the nature of the market risks that may be taken along with aggregate risk limits, and stipulates the procedures, instruments and controls to be used in managing market risk. The basic techniques used by the Risk Management Department to assess and monitor market risk are set out below:

(a) Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The stress tests carried out by Bank's Risk Management Department include: risk factor stress testing, where stress movements are applied to each risk category; emerging market stress testing, where emerging market portfolios are subject to stress movements; and ad hoc stress testing, which includes applying possible stress events to specific positions or regions – for example, the stress outcome to a region following a currency peg break.

The results of the stress tests are reviewed by the Assets and Liabilities Committee. The stress testing is tailored to the business and typically uses scenario analysis.

(b) Sensitivity analysis

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

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

(1) Foreign exchange risk

If we hypothetically increase 1% on foreign currency exchange rate, the net effect as gain or loss will be as follows:

	2012		2011	
	Effect on Profits L.L. Million	Effect on Equity L.L. Million	Effect on Profits L.L. Million	Effect on Equity L.L. Million
In Lebanese pound	(51)	(408)	(57)	(456)

(2) Interest rate risk

If we hypothetically increase 1% on rate of interest, the net effect, gain or loss will be as follows:

	2012		2011	
	Effect on Profits L.L. Million	Effect on Equity L.L. Million	Effect on Profits L.L. Million	Effect on Equity L.L. Million
In Lebanese pound	(2,203)	(4,580)	(2,655)	(7,438)

3.2.2 Foreign exchange risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Central Bank of Lebanon sets limits on the level of exposure to foreign exchange risk which should not exceed 1% of Tier 1 capital.

As the Bank does not actively seek foreign exchange exposures, the limit placed on this risk is small in relation to the Bank's other risk exposures. This exposure limit is related to and is set out in compliance with the limits set by the Central Bank of Lebanon as approved by the board of directors and closely monitored by the Bank's treasury management on a daily basis.

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

	LBP	USD	GBP	EUR	YEN	Others	Total
	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million	L.L. Million
31 December 2012							
Assets							
Cash and balances with the Central Bank	29,953	139,714	70	30,331	-	-	200,068
Deposits with banks and financial Institutions	20	412,389	1,005	76,356	-	1,913	491,683
Deposits with the parent bank, sister banks and other related banks	-	21,684	325	1,625	1,099	14	24,747
Loans and advances to customers and related parties	997	4,455	-	-	36,931	-	42,383
Debtors by acceptances	-	-	-	1,503	-	-	1,503
Equity securities measured at fair value through profit and loss	170	5,978	-	-	-	-	6,148
Debt securities measured at amortised cost	130,649	486,026	-	26,170	-	-	642,845
Other assets	740	614	-	-	-	-	1,354
Total financial assets	**162,529**	**1,070,860**	**1,400**	**135,985**	**38,030**	**1,927**	**1,410,731**
Liabilities							
Deposits from a central bank	-	81,973	-	11,426	-	-	93,399
Deposits from banks and financial institutions	-	141,015	2	64,212	37,988	11	243,228
Deposits from parent bank, sister banks and other related banks	-	502,479	-	135	-	-	502,614
Deposits from customers and related parties	83,180	170,308	1,383	58,700	-	1,809	315,380
Engagements by acceptances	-	-	-	1,503	-	-	1,503
Other liabilities	855	448	-	-	-	-	1,303
Total financial liabilities	**84,035**	**896,223**	**1,385**	**135,976**	**37,988**	**1,820**	**1,157,427**
Net on- balance sheet financial position	**78,494**	**174,637**	**15**	**9**	**42**	**107**	**253,304**
Credit commitments	**1,694**	**69,656**	**-**	**49,514**	**-**	**420**	**121,284**

31 December 2011	LBP L.L. Million	USD L.L. Million	GBP L.L. Million	EUR L.L. Million	YEN L.L. Million	Others L.L. Million	Total L.L. Million
Assets							
Cash and balances with the Central Bank	31,482	125,903	67	41,260	-	-	198,712
Deposits with banks and financial Institutions	225	261,522	82	23,513	2,105	1,787	289,234
Deposits with the parent bank, sister banks and other related banks	-	16,717	1,36	1,565	1,218	4	20,864
Loans and advances to customers and related parties	523	17,566	-	-	37,123	-	55,212
Equity securities measured at fair value through profit and loss	171	6,056	-	-	-	-	6,227
Debt securities measured at amortised cost	108,276	551,896	-	25,654	-	-	685,826
Other assets	755	189	-	-	-	-	944
Total financial assets	**141,432**	**979,849**	**1,509**	**91,992**	**40,446**	**1,791**	**1,257,019**
Liabilities							
Deposits from a central bank	-	71,739	-	783	-	-	72,522
Deposits from banks and financial institutions	-	96,118	2	25,888	28,636	11	150,655
Deposits from parent bank, sister banks and other related banks	-	495,856	-	362	-	-	496,218
Deposits from customers and related parties	70,389	156,616	1,497	64,952	-	1,668	295,122
Other liabilities	680	-	-	-	416	-	1,096
Total financial liabilities	**71,069**	**820,329**	**1,499**	**91,985**	**29,052**	**1,679**	**1,015,613**
Net on- balance sheet financial position	**70,363**	**159,520**	**10**	**7**	**11,394**	**112**	**241,406**
Credit commitments	**893**	**57,641**	**-**	**82,018**	**-**	**420**	**140,972**

3.2.3 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may result in losses in the event that unexpected movements arise.

The Bank complies with the requirements of the Central Bank of Lebanon in respect of the management of interest rate rise. The Assets and Liabilities Committee monitors these risks which are measured using the gap analysis. Gap analysis depends on the earnings approach and the economic value of equity approach which measure the effect of interest rate repricing of assets and liabilities on the income.

The tables below summarise the Bank's exposure to interest rate risk. This table includes the assets and liabilities categorised by the earlier of contractual repricing.

	Up to 1month L.L. Million	1-3 months L.L. Million	3-12 months L.L. Million	1-5 years L.L. Million	Over 5 years L.L. Million	Not interest bearing L.L. Million	Total L.L. Million
31 December 2012							
Assets							
Cash and balances with the Central Bank	154,493	9,939	15,077	-	-	20,559	200,068
Deposits with banks and financial Institutions	217,583	163,384	36,235	45,702	-	28,779	491,683
Deposits with the parent bank, sister banks and other related banks	20,352	-	-	-	-	4,395	24,747
Loans and advances to customers and related parties	31,670	3,645	1,530	5,294	244	-	42,383
Debtors by acceptances	1,503	-	-	-	-	-	1,503
Equity securities measured at fair value through profit and loss	6,148	-	-	-	-	-	6,148
Debt securities measured at amortised cost	14,618	20,374	38,044	368,318	201,491	-	642,845
Other assets	-	-	-	-	-	1,354	1,354
Total financial assets	**446,367**	**197,342**	**90,886**	**419,314**	**201,735**	**55,087**	**1,410,731**
Liabilities							
Deposits from a central bank	-	75,390	-	-	-	18,009	93,399
Deposits from banks and financial institutions	100,577	116,183	-	-	-	26,468	243,228
Deposits from parent bank, sister banks and other related banks	274,539	208,024	-	-	-	20,051	502,614
Deposits from customers and related parties	162,284	-	26,256	51,827	24,756	50,257	315,380
Engagements by acceptances	1,503	-	-	-	-	-	1,503
Other liabilities	-	-	-	-	-	1,303	1,303
Total financial liabilities	**538,903**	**399,597**	**26,256**	**51,827**	**24,756**	**116,088**	**1,157,427**
Total interest repricing gap	**(92,536)**	**(202,255)**	**64,630**	**367,487**	**176,979**	**(61,001)**	**253,304**

	Up to 1month L.L. Million	1-3 months L.L. Million	3-12 months L.L. Million	1-5 years L.L. Million	Over 5 years L.L. Million	Not interest bearing L.L. Million	Total L.L. Million
31 December 2011							
Assets							
Cash and balances with the Central Bank	48,359	56,609	42,048	46,771	4,000	925	198,712
Deposits with banks and financial Institutions	72,852	43,741	15,081	72,615	-	84,945	289,234
Deposits with the parent bank, sister banks and other related banks	-	9,720	-	-	4,093	7,051	20,864
Loans and advances to customers and related parties	5,962	13,055	15,769	11,002	-	9,424	55,212
Equity securities measured at fair value through profit and loss	6,227	-	-	-	-	-	6,227
Debt securities measured at amortised cost	2,116	1,000	86,072	390,135	193,804	12,699	685,826
Other assets	-	-	-	-	-	944	944
Total financial assets	**135,516**	**124,125**	**158,970**	**520,523**	**201,897**	**115,988**	**1,257,019**
Liabilities							
Deposits from a central bank	68,075	-	-	-	-	4,447	72,522
Deposits from banks and financial institutions	61,864	60,839	5,277	-	-	22,675	150,655
Deposits from parent bank, sister banks and other related banks	89,951	164,541	234,032	-	-	7,694	496,218
Deposits from customers and related parties	194,620	-	15,945	-	-	84,557	295,122
Other liabilities	-	-	-	-	-	1,096	1,096
Total financial liabilities	**414,510**	**225,380**	**255,254**	**-**	**-**	**120,469**	**1,015,613**
Total interest repricing gap	**(278,994)**	**(101,255)**	**(96,284)**	**520,523**	**201,897**	**(4,481)**	**241,406**

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars number 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

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

3.3.2 Funding approach

Sources of liquidity are regularly set by the Treasury department, while the risk management department and the Assets and Liabilities Committee ("ALCO") monitor those sources to maintain a wide diversification by currency, geography, provider, product and term.

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

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

	Up to 1month L.L. Million	1-3 months L.L. Million	3-12 months L.L. Million	1-5 years L.L. Million	Over 5 years L.L. Million	Total L.L. Million
At 31 December 2012						
Liabilities						
Deposits from a central bank	18,009	75,390	-	-	-	93,399
Deposits from banks and financial institutions	127,045	116,183	-	-	-	243,228
Deposits from parent bank, sister banks and other related banks	294,590	208,024	-	-	-	502,614
Deposits from customers and related parties	212,541	-	26,256	51,827	24,756	315,380
Engagements by acceptances	1,503	-	-	-	-	1,503
Other liabilities	1,303	-	-	-	-	1,303
Total liabilities (contractual maturity dates)	**654,991**	**399,597**	**26,256**	**51,827**	**24,756**	**1,157,427**
Assets held for managing liquidity risk (contractual maturity dates)	**501,454**	**197,342**	**90,886**	**419,314**	**201,735**	**1,410,731**
At 31 December 2011						
Liabilities						
Deposits from a central bank	72,522	-	-	-	-	72,522
Deposits from banks and financial institutions	84,539	60,839	5,277	-	-	150,655
Deposits from parent bank, sister banks and other related banks	97,645	164,541	234,032	-	-	496,218
Deposits from customers and related parties	279,177	-	15,945	-	-	295,122
Other liabilities	1,096	-	-	-	-	1,096
Total liabilities (contractual maturity dates)	**534,979**	**225,380**	**255,254**	**-**	**-**	**1,015,613**
Assets held for managing liquidity risk (contractual maturity dates)	**251,504**	**124,125**	**158,970**	**520,523**	**201,897**	**1,257,019**

3.3.4 Assets held for managing liquidity risk

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

- Cash and balances with the Central Bank;
- Deposits with banks and financial institutions;
- Deposits with the parent bank, sister banks and other related banks.

3.3.5 Off-balance sheet items

Letters of guarantee and letters of credit are all due within one year from the balance sheet date.

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

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

	Carrying Amount		Fair Value	
	2012 L.L. Million	2011 L.L. Million	2012 L.L. Million	2011 L.L. Million
Financial Assets				
Cash and balances with the Central Bank	200,068	198,712	200,068	198,712
Deposits with banks and financial institutions	491,683	289,234	491,683	289,234
Deposits with the parent bank, sister banks and other related banks	24,747	20,864	24,747	20,864
Loans and advances to customers and related parties	42,383	55,212	30,412	42,773
Debtors by acceptance	1,503	-	1,503	-
Debt securities held at amortised cost	642,845	685,826	669,992	718,370
	1,403,229	1,249,848	1,418,405	1,269,953
Financial Liabilities				
Deposits from a central bank	93,399	72,522	93,399	72,522
Deposits from banks and financial institutions	243,228	150,655	243,228	150,655
Deposits from the parent bank, sister banks and other related banks	502,614	496,218	502,614	496,218
Deposits from customers and related parties	315,380	295,122	315,380	295,122
Engagements by acceptance	1,503	-	1,503	-
	1,156,124	1,014,517	1,156,124	1,014,517
Off-balance sheet financial instruments				
Letters of guarantee	53,095	83,231	53,095	83,231
Letters of credit- import	23,883	24,652	23,883	24,652
Letters of credit export – confirmed	44,306	33,089	44,306	33,089
	121,284	140,972	121,284	140,972

(i) Deposits with banks and financial institutions

Deposits with banks include inter-bank placements.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Loans and advances to customers and related parties

The carrying amount of loans and advances to customers and related parties approximate their fair value at 31 December 2012 and 2011.

(iii) Debt securities at amortised cost

The fair value for investment held at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iv) Deposits from a central bank, banks and financial institutions, parent bank, sister banks and other related banks

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

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(b) Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.
- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).

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

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

(c) Assets and liabilities measured at fair value

Equity securities at fair value through profit or loss are categorised as follows:

	Level 1 L.L. Million	Level 3 L.L. Million	Total L.L. Million
31 December 2012			
Equity securities: - At fair value through profit and loss	5,903	245	6,148
At 31 December 2011			
Equity securities: - At fair value through profit and loss	5,944	283	6,227

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, employees, systems failure or from external events. The Bank currently adopts the basic indicator method in the calculation of operational risk in preparation for the transition to the standard method, and in line with regulatory requirements as set out in BCC circular No. 252 relating to operational risk management. In addition, the Bank has developed policies and procedures for the management of operational risk that were used to identify, assess, monitor, control and mitigate operational risk according to the self evaluation methodology of control and risk (RCSA) in addition to collecting operating losses and models applied (FORDCAM). The Bank re-evaluates and updates these policies and procedures periodically.

3.6 Capital management

The Bank's objectives when managing capital are:

- To comply with the capital requirements set by the regulators which are the Central Bank of Lebanon and the Banking Control Commission;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- To maintain a strong capital base to support the development of its business.

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

The Bank's regulatory capital is managed by the Assets and Liabilities Committees and comprises two tiers:

- Tier I capital: share capital, cash contributions, retained earnings and reserves created by appropriations of retained earnings; and
- Tier II capital: revaluation surplus which is approved by the Central Bank of Lebanon, qualifying subordinated loan capital.

The Bank manages its capital by using the internal ratings based approach (IRBA) according to requirements set out by the Basel Committee and which are adopted by the Central Bank of Lebanon and it maintains a solvency ratio which is above the minimum requirements set out by Basel II which is 8%. The Bank's capital exceeds the minimum amount required by the Central Bank of Lebanon.

The internal ratings based approach (IRBA) is used to measure the capital required to cover credit risk and market risk and the principal indicators for operational risk.

The Bank's strategy is used to safeguard the level of capital which exceeds the minimum requirements of Basel II from one side and to secure the best return on shareholders' equity from the other side.

The table below shows the capital constitution and the solvency ratio as at December 31 according to Basel II requirements:

	2012 L.L. Million	2011 L.L. Million
Tier I Capital		
Share capital and cash contributions to capital	163,489	163,489
Reserves	23,350	16,924
Retained earnings *	33,620	26,938
Less: intangible assets	(311)	(349)
Total qualifying Tier I Capital (A)	**220,148**	**207,002**
Total qualifying Tier II Capital	**220,148**	**207,002**
Risk- weighted assets		
On-and off balance sheet	1,147,418	1,076,421
Risk weighted assets (Market risk)	17,574	18,157
Risk weighted assets (Operational risk)	83,035	91,477
Total risk-weighted assets (B)	**1,248,027**	**1,186,055**
Basel ratio (%) (A/B)	**17.64%**	**17.48%**

* Retained earnings do not include the current year's profit.

4. Critical accounting estimates and judgements

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

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

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

(a) Impairment losses on loans and advances

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

(b) Classification of financial assets

Business model

The business model is a matter of fact which can be evidenced by the way business is managed and the information is provided to management. In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows, the Bank considers the following: management's objectives for the portfolio, the degree of frequency of any expected asset sales and the reason behind it.

Contractual cash flows

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

(c) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

5. Cash and balances with the Central Bank

	2012 L.L. Million	2011 L.L. Million
Cash in hand	1,055	1,414
Term placements with Central Bank of Lebanon (with original maturities not exceeding three months)	25,820	23,141
Current accounts with Central Bank of Lebanon	6,819	22,272
Included in cash and cash equivalents (note 8)	33,694	46,827
Mandatory reserve deposits with Central Bank of Lebanon	166,356	151,872
Interest receivable	18	13
Total cash and balances with the Central Bank	**200,068**	**198,712**

In compliance with the laws of Central Bank of Lebanon, the Bank is required to deposit a non-interest earning mandatory reserve in local currency at the rate of 15% and 25% of the average weekly term placements, current accounts and demand deposits denominated in local currency. In addition, the Bank is required to deposit an interest earning mandatory reserve in foreign currency at the rate of 15% of foreign currency customer deposits and non resident bank deposits.

Term placements generate fixed interest. Current accounts with Central Bank of Lebanon do not generate interest.

6. Deposits with banks and financial institutions

	2012 L.L. Million	2011 L.L. Million
Current accounts	28,777	60,813
Placements with other banks (with original maturities not exceeding three months)	348,258	228,327
Included in cash and cash equivalents (note 8)	377,035	289,140
Placements with other banks (with original maturities exceeding three months)	113,816	-
Interest receivable	832	94
	491,683	289,234
Current	446,458	289,234
Non-current	45,225	-
	491,683	289,234

7. Deposits with the parent bank, sister banks and other related banks

	2012 L.L. Million	2011 L.L. Million
Current accounts	4,396	7,296
Placements with other banks (with original maturities not exceeding three months)	20,351	13,568
Included in cash and cash equivalents (note 8)	**24,747**	**20,864**

8. Cash and cash equivalents

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

	2012 L.L. Million	2011 L.L. Million
Cash and balances with the Central Bank (note 5)	33,694	46,827
Deposits with banks and financial institutions (note 6)	377,035	289,140
Deposits with the parent bank, sister banks and other related banks (note 7)	24,747	20,864
	435,476	356,831

9. Loans and advances to customers and related parties

	2012 L.L. Million	2011 L.L. Million
Medium and long term loans	3,654	4,367
Bills to the order of the Bank	4,401	4,287
Loans to related parties (note 32)	3,031	3,031
Overdrafts	18,914	30,308
Short term loans	694	1,141
Creditors accidently debtors	5	8
Interest received in advance	(373)	(369)
Non-performing loans:		
- Substandard loans	188	249
- Doubtful and bad debts	291,889	252,157
Gross loans and advances to customers	322,403	295,179
Less:		
- unrealised interest on substandard loans	(102)	(120)
- unrealised interest on doubtful and bad debts	(253,993)	(209,242)
- specific allowance for impairment on doubtful and bad debts	(25,925)	(30,605)
Net loans and advances to customers	**42,383**	**55,212**
Current	36,845	34,786
Non-current	5,538	20,426
	42,383	55,212

Loans are divided as follows:

	Gross loans and advances L.L. Million	Impairment provision L.L. Million	Net loans and advances L.L. Million
At 31 December 2012			
Normal and special mention loans	30,326	-	30,326
Substandard	86	-	86
Doubtful and bad debts	37,896	(25,925)	11,971
	68,308	**(25,925)**	**42,383**
At 31 December 2011			
Normal and special mention loans	42,773	-	42,773
Substandard	129	-	129
Doubtful and bad debts	42,915	(30,605)	12,310
	85,817	**(30,605)**	**55,212**

The above mentioned balances were recorded at net value after deducting the suspended interests.

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

	2012 L.L. Million	2011 L.L. Million
At 1 January	239,967	203,274
Increase in impairment allowance (note 26)	-	1,972
Unrealised interest	44,731	35,791
Write-off of loans	-	(317)
Release of impairment (note 26)	(3,642)	(642)
Provision transferred from (to) off-balance sheet accounts	8	(565)
Exchange difference	(1,044)	454
At 31 December	**280,020**	**239,967**

10. Debtors by acceptances

	2012 L.L. Million	2011 L.L. Million
Customers' acceptances	1,503	-

Debtors by acceptances represent the customers' liability to the Bank in respect of documentary credits that should be settled by the Bank on their behalf. This caption corresponds to and offsets engagements by acceptances caption reflected under liabilities.

Debtors by acceptances are considered current assets.

11. Investment securities

	2012 L.L. Million	2011 L.L. Million
Equity securities at fair value through profit and loss		
- Preferred fund - listed	5,832	5,866
- Ordinary shares - listed	71	78
- Other shares - unlisted	245	283
	6,148	6,227
Debt securities held at amortised cost		
- Certificates of deposit (BDL) - unlisted	62,755	62,987
- Certificates of deposit (Banks) - listed	22,647	96,896
- Lebanese treasury bills - unlisted	102,999	80,640
- Lebanese treasury bills - listed	454,444	445,303
	642,845	685,826
Total investment securities	648,993	692,053

All debt securities have fixed coupons.

Debt securities are detailed as follows:

	Lebanese Treasury bills L.L. Million	Certificates of deposit L.L. Million	Total L.L. Million
At 31 December 2012			
Nominal amount	547,196	83,287	630,483
Unamortised premium	1,820	543	2,363
Interest receivable	8,427	1,572	9,999
	557,443	85,402	642,845
At 31 December 2011			
Nominal amount	514,139	157,155	671,294
Unamortised premium	2,756	686	3,442
Interest receivable	9,048	2,042	11,090
	525,943	159,883	685,826

The movement of the debt securities nominal value is summarised as follows:

	Lebanese Treasury bills L.L. Million	Certificates of deposit L.L. Million	Total L.L. Million
At 1 January 2011	554,884	92,332	647,216
Additions	141,775	67,838	209,613
Swap	(26,166)	-	(26,166)
Maturity	(158,734)	(3,015)	(161,749)
Difference of exchange	2,380	-	2,380
31 December 2011	**514,139**	**157,155**	**671,294**
At 1 January 2012	514,139	157,155	671,294
Additions	76,694	7,537	84,231
Swap	(30,150)	-	(30,150)
Maturity	(14,000)	(81,405)	(95,405)
Difference of exchange	513	-	513
31 December 2012	**547,196**	**83,287**	**630,483**

The Bank opted for the early adoption of IFRS 9, 'Financial instruments part 1: Classification and measurement' on 1 January 2011 in line with the Banking Control Commission circular number 265 dated 23 September 2010. Based on that, the Bank reclassified the debt securities classified as held-to-maturity to debt securities held at amortized cost. The reclassification had no impact on the Bank's balance sheet. In addition, available-for-sale equity securities were reclassified to equity securities at fair value through profit and loss. The corresponding fair value reserve of LL 68 million was reclassified in accordance with the transition provision of IFRS 9 at 1 January 2011.

Financial assets	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS9)	Original (IAS 39)	New (IFRS9)	Difference
Equity instruments	Available for sale	At fair value through profit and loss	3,440	3,440	-
Debt instruments	Held to maturity	Held at amortised cost	664,579	664,579	-
			668,019	**668,019**	-

During 2012, the Bank exchanged Lebanese treasury bills with a nominal value of LL 30.15 billion close to original maturity (12 March 2013) with other treasury bills maturing on 12 November 2018. The transaction resulted in a gain of LL 769 million.

The movement of the equity securities is summarised as follows:

	2012 L.L. Million	2011 L.L. Million
At 1 January	6,227	3,440
Additions	-	3,014
Loss on revaluation of fair value	(41)	(227)
Effect on return of capital	(38)	-
	6,148	6,227

12. Non-current assets classified as held for sale

	2012 L.L. Million	2011 L.L. Million
Properties acquired in settlement of debt	5,871	5,871

These assets represent property acquired in settlement of debt and are classified as held for sale. Management plans to liquidate these assets in the foreseeable future by actively searching for new buyers. These assets are subject to a buy back agreement at their book value by the customer within 2 years from the date of acquisition.

13. Property plant equipment

	Property and buildings LL Million	Office and Computer equipment L.L. Million	Furniture and Fixtures L.L. Million	Vehicles L.L. Million	Leasehold improvements L.L. Million	Advances on accounts L.L. Million	Total L.L. Million
At 1 January 2011							
Cost	6,864	2,283	2,088	587	5,462	122	17,406
Accumulated depreciation	(1,622)	(2,093)	(1,573)	(582)	(3,052)	-	(8,922)
Net book amount	**5,242**	**190**	**515**	**5**	**2,410**	**122**	**8,484**
Year ended 31 December 2011							
Opening net book amount	5,242	190	515	5	2,410	122	8,484
Additions	-	218	40	137	308	-	703
Transfers	-	-	24	5	(109)	(122)	(202)
Disposals	-	(1)	-	(5)	-	-	(6)
Depreciation charge (note 29)	(138)	(101)	(83)	(20)	(267)	-	(609)
Closing net book amount as at 31 December 2011	**5,104**	**306**	**496**	**122**	**2,342**	**-**	**8,370**
At 31 December 2011							
Cost	6.864	2,495	2,122	465	5,662	-	17,608
Accumulated depreciation	(1,760)	(2,189)	(1,626)	(343)	(3,320)	-	(9,238)
Net book amount	**5,104**	**306**	**496**	**122**	**2,343**	**-**	**8,370**
Year ended 31 December 2012							
Opening net book amount	5,104	306	496	122	2,342	-	8,370
Additions	-	112	145	3	190	166	616
Transfers	-	-	27	-	18	(45)	-
Depreciation charge (note 29)	(137)	(111)	(81)	(36)	(319)	-	(684)
Closing net book amount as at 31 December 2012	**4,967**	**307**	**587**	**89**	**2,231**	**121**	**8,302**
At 31 December 2012							
Cost	6,864	2,607	2,294	465	5,869	121	18,220
Accumulated depreciation	(1.897)	(2,300)	(1,707)	(376)	(3,638)	-	(9,918)
Net book amount	**4,967**	**307**	**587**	**89**	**2,231**	**121**	**8,302**

14. Intangible assets

	Computer Software L.L. Million	Key Money L.L. Million	Total L.L. Million
At 1 January 2011			
Cost	751	1	752
Accumulated amortisation	(594)	(1)	(595)
Net book amount	**157**	-	157
Year ended 31 December 2011			
Opening net book amount	157	-	157
Additions	259	-	259
Amortisation expense (note 29)	(67)	-	(67)
Closing net book amount	**349**	-	**349**
At 31 December 2011			
Cost	1,010	1	1,011
Accumulated amortisation	(661)	(1)	(662)
Net book amount	**349**	-	**349**
Year ended 31 December 2012			
Opening net book amount	349	-	349
Additions	57	-	57
Amortisation expense (note 29)	(95)	-	(95)
Closing net book amount	**311**	-	**311**
At 31 December 2012			
Cost	1,067	1	1,068
Accumulated amortisation	(756)	(1)	(757)
Net book amount	**311**	-	**311**

15. Other assets

	2012 L.L. Million	2011 L.L. Million
Amounts receivable from the National Social Security Fund	480	493
Prepaid expenses	312	140
Receivable from the Ministry of Finance	75	75
Others	487	236
	1,354	944

16. Deposits from a central bank

	2012 L.L. Million	2011 L.L. Million
Term deposits	75,375	68,066
Demand deposits	18,009	4,447
Interest payable	15	9
	93,399	72,522

Deposits from a central bank represent deposits from the Central Bank of Libya. All term deposits are fixed-interest deposits dominated in US dollars.

17. Deposits from banks and financial institutions

	2012 L.L. Million	2011 L.L. Million
Current Accounts	26,468	22,676
Term deposits	216,518	127,922
Interest payable	242	57
	243,228	150,655

All term deposits are fixed-interest deposits.

18. Deposits from the parent bank, sister banks and other related banks

	2012 L.L. Million	2011 L.L. Million
Current Accounts	20,051	11,965
Time deposits	482,292	484,144
Interest payable	271	109
	502,614	496,218

All term deposits are fixed-interest deposits.

19. Deposits from customers and related parties

	2012 L.L. Million	2011 L.L. Million
Saving accounts (a)	95,773	76,056
Sight deposits (b)	50,537	69,925
Guarantees and cash margins (c)	47,249	31,019
Due to related parties (note 32)	10,178	12,384
erm deposits	110,659	104,665
Items in course of settlement	135	192
Interest payable	849	881
	315,380	295,122

(a) Saving accounts

	2012 L.L. Million	2011 L.L. Million
Saving accounts - term	92,902	73,878
Saving accounts - sight	2,871	2,178
	95,773	76,056

(b) Sight deposits

	2012 L.L. Million	2011 L.L. Million
Current and checking accounts	50,257	69,715
Debtors accidentally creditors	280	210
	50,537	69,925

(c) Cash margins and guarantees

	2012 L.L. Million	2011 L.L. Million
Cash margins against foreign exchange speculation	20,276	19,023
Cash margin against letters of credit	25,225	10,954
Blocked accounts	1,748	1,042
	47,249	31,019
Current	238,797	295,122
Not-Current	76,583	-
	315,380	295,122

All deposits carry fixed interest rates.

20. Other liabilities

	2012 L.L. Million	2011 L.L. Million
Taxes payable	489	378
Accrued expenses	345	233
Due to the National Social Security Fund	150	151
Due to personnel	46	37
Other liabilities	273	297
	1,303	1,096

Other liabilities are expected to be settled within 12 months of the date of the balance sheet.

21. Retirement benefit obligations

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

	2012 L.L. Million	2011 L.L. Million
At the beginning of the year	3,525	2,950
Charge for the year (note 27)	1,237	1,317
Payments during the year	(359)	(742)
At the end of the year	**4,403**	**3,525**

The principal actuarial assumptions used by management were as follows:

	2012 L.L. Million	2011 L.L. Million
Discount rate	8%	7%
Salary growth rate	9%	6%
Years of future service	15	5

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

22. Shareholders’ equity

	2012 L.L. Million	2011 L.L. Million
Share capital (a)	15,000	15,000
Cash contributions to capital (b)	148,489	148,489
	163,489	163,489
Reserves not available for distribution:		
Legal reserve (c)	7,570	5,000
Reserve for unidentified banking risks (d)	15,314	11,458
Special reserve (e)	13,588	13,588
Reserve for liquidation of assets classified as held for sale (f)	2,348	1,169
	38,820	31,215
Reserve available for distribution:		
Free reserve	466	466
	39,286	31,681
Retained earnings	33,620	25,692
Profit for the year	22,644	26,938
	259,039	247,800

(a) Share capital

The Bank's share capital consists of 300,000 (2011 – 300,000 shares) fully paid up ordinary shares with a par value of LL 50,000 per share. All issued shares are fully paid.

(b) Cash contributions to capital

During 2010, cash contributions to capital increased by transferring an amount of LL 34.9 billion from other liabilities to shareholders' equity. This amount was initially deposited by the shareholders and recorded under other liabilities as a guarantee for doubtful debts for which an impairment provision was requested by the Banking Control Commission.

In accordance with the decision of the Central Bank's governor, the Bank obtained during 2011 the approval of the Banking Control Commission to transfer the shareholders' advances to cash contributions to capital.

(c) Legal reserve

In compliance with article number 132 of the Code of Money and Credit, 10% of annual net profit is transferred to legal reserve. This reserve is not available for distribution to the shareholders.

(d) Reserve for unidentified banking risks

According to the Central Bank's basic circular number 50, banks are required to appropriate from their annual net profit a minimum of 0.2 percent of total risk-weighted on and off-balance sheets assets to establish the reserve for unidentified banking risks. The ratio should not be less than 1.25 percent of the solvency denominator by the end of the tenth year starting the application date of the circular (31 December 2007) and it should not be less than 2% of the solvency denominator by the end of the twentieth year (at 31 December 2017). This reserve is considered as part of the Bank's tier I capital and is not available for distribution to the shareholders.

(e) Special reserve

In accordance with the requirement of the Central Bank basic circular number 73, banks should establish a reserve in respect of the portion of doubtful loans classified as such by the Bank at 30 June 2003 that is covered by real estate mortgages. This reserve is considered as Tier I capital and should not be used to compute the ceilings and guidelines set by supervisory authorities.

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

In compliance with BDL basic circular number 78, banks are required to appropriate from retained earnings an amount of 20% of the carrying value of its properties acquired in settlement of debt. This reserve is not considered as part of the Bank's Tier Capital when computing rates and limits as per Bank of Lebanon circulars nor is available for distribution.

(g) Distribution of dividends

The general assembly of shareholders held on 26 March 2012 decided to distribute dividends in respect of the year 2011 amounting to a total of LL 10,500 million equivalents to LL 35,000 per share. The Bank withheld and paid the corresponding income tax which amounted to LL 1,050 million and settled the dividends during 2012.

The general assembly of shareholders held on 28 April 2011 decided to distribute dividends in respect of the year 2010 amounting to a total of LL 7,500 million equivalents to LL 25,000 per share. The Bank withheld and paid the corresponding income tax which amounted to LL 750 million during 2011.

23. Net interest income

	2012 L.L. Million	2011 L.L. Million
Interest and similar income		
Loans and advances:		
- to customers	1,872	2,795
- to banks and financial institutions	11,780	12,243
- to related parties (note 32)	75	45
- to parent bank, sister banks and other related banks (note 32)	385	88
Investment securities held at amortised cost	37,853	40,812
	51,965	55,983
Interest and similar expenses		
Deposits from customers	(9,656)	(8,820)
Deposits from banks and financial institutions	(2,815)	(2,394)
Deposits from related parties (note 32)	(78)	(71)
Deposits from related bank, sister banks and other related banks (note 32)	(2,441)	(2,099)
	(14,990)	(13,384)
	36,975	42,599

24. Net fee and commission income

	2012 L.L. Million	2011 L.L. Million
Fees and commission income		
Commissions on letters of credit and guarantees	2,503	4,048
Commissions on banking operations	380	269
Commissions on fees and loans	211	328
Other commissions	35	32
	3,129	4,677
Fees and commission expenses		
Brokerage commission	(147)	(95)
Other commission expenses	(71)	(25)
	(218)	(120)
Net fee and commission income	2,911	4,557

25. Other income

	2012 L.L. Million	2011 L.L. Million
Dividends received on financial assets	289	253
Other income	34	57
	323	310

26. Net loan impairment release (charges)

	2012 L.L. Million	2011 L.L. Million
Loans and advances to customers		
Increase in specific allowance for impairment (note 9)	-	(1,972)
Release of impairment allowance (note 9)	3,642	642
Reversal of off balance sheet loans	155	961
	3,797	(369)

27. Personnel expenses

	2012 L.L. Million	2011 L.L. Million
Salaries and wages	7,894	6,655
Retirement benefit obligation charge for the year (note 21)	1,237	1,317
Social security costs	853	789
Scholarship	360	326
Transportation	297	279
Other employee benefits	1,771	2,326
	12,412	11,692

28. Administrative and Other operating expenses

	2012 L.L. Million	2011 L.L. Million
Directors' remuneration, attendance fees, and representation allowance (note 32)	760	682
Municipality and other taxes	665	805
Operating lease	640	611
Subscriptions	490	442
Repairs and maintenance	437	404
Professional fees	364	621
Telecommunication expenses	332	312
Utilities	159	137
Deposit guarantee premiums	144	198
Insurance expense	130	94
Travel expense	123	166
Office supplies and printings	88	101
Advertising expense	47	179
Donations	10	35
Other	611	538
	5,000	5,325

29. Depreciation and amortisation expense

	2012 L.L. Million	2011 L.L. Million
Depreciation expense (note 13)	684	609
Amortisation expense (note 14)	95	67
	779	676

30. Income tax expense

The income tax expense is determined based on the higher of the corporate income tax and tax deducted on interest income withheld. During the year ended 31 December 2012, the 5% tax withheld on interest received amounted to LL 586 million (647 million in 2011).

The income tax is computed based on the income tax rate in Lebanon and on the taxable income. The reconciliation between the accounting and the taxable profit is summarised as follows:

	2012 L.L. Million	2011 L.L. Million
Profit before income tax	**26,463**	**30,226**
Income tax at statutory rate of 15%	3,969	4,534
Effet of expense not deductible for tax purposes	436	647
Tax due	**4,405**	**5,181**
Less: Withholding tax on interest	586	647
Current income tax	**3,819**	**4,534**

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

	2012 L.L. Million	2011 L.L. Million
At 1 January	4,502	5,403
Charge for the year	3,819	4,534
Payments during the year	(4,144)	(5,435)
	4,177	4,502

According to Article 51 of the law 497/2003, the Bank is subject to tax withheld on interest income and to corporate income tax. If the income tax on interest exceeds the income tax on profits, the additional amount is considered as additional tax charge and cannot be claimed back.

The fiscal years 2009 till 2012 remain subject to examination by the income tax authorities.

31. Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the Bank at 31 December 2012. No provision has been made against these cases beyond the amounts provided for under provision for impairment of loans and advances to customers as professional advice indicates that it is unlikely that any significant loss will arise.

(b) Guarantee and other financial facilities

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

	2012 L.L. Million	2011 L.L. Million
Guarantees	53,095	83,231
Letters of credit import	23,883	24,652
Letters of credit export – confirmed	44,306	33,089
	121,284	140,972

32. Related-party transactions

The Foreign Libyan Bank is the largest shareholder in the Bank since it owns 99.56% of the ordinary shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and various financing transactions.

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

(a) Deposits with parent bank, sister banks and other related banks

	2012 L.L. Million	2011 L.L. Million
Parent bank	20,962	3,785
Sister banks and other related banks	3,785	17,079
	24,747	20,864
Interest income earned	385	88

(b) Loans and advances to related parties

	2012 L.L. Million	2011 L.L. Million
Related companies (associated companies and subsidiaries)	3,031	3,061
Interest income earned	75	45

(c) Deposits from the parent bank, sister banks and other related banks

	2012 L.L. Million	2011 L.L. Million
Parent bank	472,339	465,199
Sister banks and other related banks	30,275	31,019
	502,614	496,218
Interest expense	2,441	2,099

(d) Deposits from related parties

	2012 L.L. Million	2011 L.L. Million
Directors and other key management personnel (and close family members)	1,790	982
Related companies (associated companies and subsidiaries)	8,388	4,374
Dividends payable	-	6,750
Interest expense	78	71

(e) Key management compensation

	2012 L.L. Million	2011 L.L. Million
Board of directors remuneration and representation fees (note 28)	760	682

33. Earnings per ordinary share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2012 L.L. Million	2011 L.L. Million
Profit attributable to equity holders of the Bank (LL Million)	22,644	25,692
Weighted average number of ordinary shares in issue (Million)	0.3	0.3
Basic earnings per ordinary share (LL)	**75,480**	**85,640**