بنك بيروت

Bank of Beirut

Banking Beyond Borders

Annual Report 2012

ANNUAL REPORT 2012

Table of Contents

Chairman´s letter

Chairman's Letter

Sharp vision has led us to new heights.

A 2012 Retrospective

Lebanon's financial sector remains resilient. Beirut continues to glow as a financial hub in the region owing to the fully convertible Lebanese pound and the free flow of capital and earnings into and out of the Lebanese economy. The majority of Lebanese banks already exceeds the capital adequacy ratio laid out by Basel III, which cushions them against risks, thus rendering them more robust than their MENA peers. Furthermore, the strength of Lebanon's financial services is the result of conservative bank management and regulatory guidelines that promote high bank reserve requirements and a low risk tolerance to bank ventures such as structured financial products.

In this context, Bank of Beirut has exemplified again its leadership role and this reputation directly reflected tangible figures for the 2012 fiscal year. With our assets recording a remarkable growth of 16.20% (USD 1.578 billion), to reach USD 11.307 billion, we outpaced by far our Peer Group average. This increase was attributed to a rise in the deposit base, which expanded by USD 1.433 million (18.85%) to reach a level of USD 9.035 billion. Lending also grew by USD 406 million (13.04%) to USD 3.522 billion. Our trade finance registered for the fifth year in a row an undisputed number one ranking in Lebanon, with USD 6.337 billion in Letters of Credit opened in 2012, gaining a market share in excess of 30%.

Our strategy of diversification across revenue streams bore fruit, as foreign affiliates and local subsidiaries registered outstanding growth. Overall, the Group's net profit jumped 13.09% to reach USD 117 million. More importantly, the growth was shared by each and every entity within the Group: Bank of Beirut - Lebanon, 9.67%; Bank of Sydney Ltd, previously Beirut Hellenic Bank, 64.48%; Bank of Beirut (UK) Ltd, 14.23%; Bank of Beirut - Oman, 33.98%; Bank of Beirut - Cyprus, 29.67%; Beirut Life, 307.27%; BOB Finance, 227.25%; and Beirut Broker Co., 5.51%.

On the Risk Management side, liquidity levels reflected a ratio of 73.34% for total liquid assets to total liabilities, up from 71.35% the previous year while net Non-Performing Loans over Total Assets reached 0.19% by year-end 2012.

The cautious oversight of our equity has allowed us to maintain solid capitalization. Shareholders' equity rose in 2012 to USD 1.139 billion and produced a 10.07% Equity to Assets Ratio and a 13.1% Capital Adequacy Ratio.

We remain staunchly committed to our Shareholders; the figures show it: our Return on Average Common Equity was 16.67%, while the Return on Average Assets was 1.11%. Our Cost to Income Ratio was at 50.14% in spite of a growth in staff by 8.13% and the enlargement of our branch network by 6.67%. Our Common Share Market Price stands at USD 19.00, reflecting a Price to Common Earnings of 12. Dividend per Common Share is up to USD 0.475, a 10.15% rise on last year, and this reflects our confidence in the sustainability of our earnings.

We are thankful to each department: Global Markets, Commercial Banking, Retail Banking, as well as our international network who contributed to this exemplary performance New Delivery Channels and Internal Growth.

2012 saw the Bank expand its presence into the digital world. Mobile banking, consumer online banking, and corporate online banking provided new platforms whereby customers could bank conveniently and remotely. Using their smart phones, customers can now access their account balances, make transfers account-to-account and to BOB third party accounts, view checks, and order checkbooks. Online consumer users have the added functionality of transacting to third party accounts outside the Bank; making Standing Order payments; and viewing and initiating trade finance activities. Corporate online banking allows cash management and other transaction facilities with Pay Card accounts. These digital platforms are protected by robust security systems.

In the brick and mortar Bank, specifically in Lebanon, we inaugurated three branches in remote areas in an effort to offer customers in these areas quality products and services tailored to their needs. An additional branch in the Sultanate of Oman was opened, as was one at our subsidiary, Bank of Sydney Ltd, previously Beirut Hellenic Bank in New South Wales.

Numerous internal initiatives were completed, namely an organization overhaul of the Retail & Branches Division, as well as restructuring the Operations and Human Resources. The physical consolidation of these units, as well as the redefinition of the overarching goals and roles, has streamlined the flow of internal processes.

Beirut Life, our newest subsidiary, has added a life insurance option to our product suite.

Lastly, the Bank's new Learning Center has engaged several world-renowned training agencies to train our staff members in a broad variety of topics, ranging from sales and relationship management to credit and corporate risk.

Looking Forward to 2013

Domestically, we will strive to continue playing a major role in the Lebanese banking sector. We foresee healthy, risk-managed growth in the corporate sector that includes traders, entrepreneurs and corporations with cross-border appetites and presence.

On the international level, there is unendless new ground to cover. In Oman, our market is promising, and we intend to make, in the near future, the transition to a full Omani Bank. Australia represents a huge market opportunity for the Bank of Beirut Group; one ambition is to see Bank of Sydney's Ltd, previously Beirut Hellenic Bank, balance sheet exceed our local balance sheet.

Ultimately, Australia and Oman epitomize the ability of our trade finance relationships to flourish and grow in investment-grade countries, as well as our success in conforming to and operating in some of the world's most stringent financial regulatory climates. We hope to perpetuate this motif of moving beyond borders in 2013. We owe every success to our Shareholders and Board of Directors for their unwavering support; to our employees, for their firm commitment; and certainly to our customers, for their longstanding fidelity.

Salim G. Sfeir
Chairman of the Board - CEO

Bank of Beirut at a glance

Bank of Beirut at a glance

With a solid vision and perseverance being the starting points of its rich history, Bank of Beirut, recognized in 2011 as the "Highest Mover Bank" in the Middle East by "The Banker" magazine, has grown to become one of today's leading commercial banks in Lebanon.

The first milestone in Bank of Beirut journey was its establishment as a commercial bank on August 19th, 1963 under the name of "Realty Business Bank s.a.l."; however, it was not until 1970 that Bank of Beirut took on its present name.

In 1993, the Bank was acquired by a group of businessmen and bankers, headed by the present Chairman General Manager, Mr. Salim G. Sfeir. Since then, the Bank has embarked on an extensive expansion plan, to enhance its market position and leverage its expertise into local and regional markets. This expansion has been illustrated through organic growth as well as a number of transactions ranging from private placements and issuance of Preferred Shares, to entering into strategic alliances with regional Arab banking establishments, and acquiring other banking institutions.

In 1997, a major turning point marked the Bank journey when it became one of Lebanon's five banks listed on the Beirut Stock Exchange. Bank of Beirut was also the first bank in Lebanon to launch asset management services, targeting high net-worth customers in both domestic and regional markets.

In 2005, Bank of Beirut established "BOB Finance s.a.l.", a wholly owned financial institution regulated by the Central Bank of Lebanon.

In 2007, Bank of Beirut established an independent wholly owned specialized banking subsidiary, Bank of Beirut Invest s.a.l.

In 2009, international payment services company, Western Union, appointed Bank of Beirut as agent in Lebanon.

In 2011, Bank of Beirut established "Beirut Life Co." an insurance company offering a full array of insurance services with the best conditions.

Today, Bank of Beirut operates in Lebanon through its network of 58 branches, 55 on-site ATM's and 13 off-site ATM's installed either at customers' premises or in strategic non-bank locations, such as, commercial centers.

The Bank's primary activities consist of retail banking services, including consumer lending, deposits and savings plans, bancassurance products and cards; a wide range of commercial and corporate banking services, including a variety of credit facilities and lending large corporations and SMEs; correspondent banking services; trade finance services, including Letters of Credit and Letters of Guarantee as well as treasury, capital markets and asset management activities.

On the international level, Bank of Beirut provides commercial banking services in the United Kingdom and throughout Europe, through its wholly owned subsidiary, Bank of Beirut (U.K.) Ltd, regulated by the Financial Services Authority ("FSA"). The Bank also operates a branch in Germany (Frankfurt), a branch in Cyprus (Limassol) regulated by the Central Bank of Cyprus; three branches in the Sultanate of Oman (Muscat, Ghubrah and Sohar) regulated by the Central Bank of Oman; a representative office in the United Arab Emirates (Dubai) to service the Gulf region; a representative office in Nigeria (Lagos); and a representative office in Iraq (Baghdad), in addition to a subsidiary in Australia, Bank of Sydney Ltd, previously Beirut Hellenic Bank. With a network of sixteen branches located in Sydney, Melbourne, and Adelaide, Bank of Sydney Ltd is regulated by the Australian Prudential Regulatory Authority ("APRA").

Mission and Values

Integrity and trust are our guiding values. Trust is achieved by conducting stakeholders' personal and business transactions thanks to the highest ethical standards and in the strictest confidence.

We will constantly strive to recognize and satisfy evolving customers' needs and develop services and products tailored specifically to meet their requirements with a view to building long-lasting relationships. Bank of Beirut is dedicated to the continuous upgrading of services in order to offer its customers the highest level of excellence.

it is worth noting that the degree of our accomplishment depends, in large measure, on the quality and dedication of our staff, who constitute the Bank's most valuable asset. We shall ensure the satisfaction of our staff by establishing a congenial work environment and by providing them professional development opportunities.

Wherever our Bank is present, it will aspire to be a leading participant in the regional economic development of the community.

Corporate Governance Guidelines

Introduction

Given the vital role of banks in the Lebanese economy, as well as the impact of good governance on the successful standing of these institutions, the following guidelines were developed in adherence with the policies set forth by Banque du Liban, the Banking Control Commission and the Association of Banks in Lebanon.

Bank of Beirut Corporate Governance is driven by the Board of Directors' principal responsibility to act in good faith and with prudence while abiding by a set of values and standards that promote the stakeholders' interests.

Governance Framework

Bank of Beirut faithfully operates under corporate governance policies and practices designed to ensure that the Bank performance maximizes long-term shareholder value.

The Governance framework of the Bank is documented in the "Corporate Governance Guidelines" and the charters of the Board Audit Committee, the Board Risk Management Committees and the Board Credit Committee, all of which are subject to continuous review and fine-tuning when deemed necessary. These guidelines hinge on the evolving needs and expectations of depositors, regulators, investors and the market at large.

The Board of Directors has overall responsibility to Bank of Beirut; this responsibility is not limited to approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values; but it also includes enforcing adequate, effective, and independent controls. The Board authority is presently vested in nine individuals, two of whom are Managing Directors while the remaining seven, are non-executive members.

The Board Audit Committee (BAC) promotes compliance with regulatory requisites as well as integrity of financial statements and reports. The main functions of BAC are to assist the Board in fulfilling oversight responsibilities for:

- Proficiency, independence and objectivity of both external and internal auditors
- Financial reporting and disclosure processes
- Effectiveness of the internal control systems
- Review of audit reports issued by internal audit
- Ratification of recommended action plans

The Board Risk Management Committee (BRMC) evaluates and manages all key business risks by administering policies and procedures. Its tasks include:

- Formulating a strategy for the assumption of risk and the management of capital aligning with the business objectives of the Bank
- Reviewing and recommending to the Board, on a yearly basis, the Internal Capital Adequacy Assessment Process (ICAAP) document
- Developing an internal risk management framework
- Ensuring that the Bank conforms to Basel requirements

The Board Credit Committee (BCC) is the highest credit approval authority at the bank, and its main function is the Approval/Ratification of any commercial credit request exceeding USD 1,000,000.

Fifteen other management committees, each functioning according to its own charter, focus on specific day-to-day operations of the Bank:

1. Management Committee
2. Asset/Liability Management Committee
3. Credit Committee
4. Credit Committee for Financial Institutions
5. Anti-Money Laundering and Counter-Financing of Terrorism Committee
6. Asset Recovery Committee
7. Real Estate Committee
8. Foreign Affiliates Committee
9. Retail & Branches Committee
10. Marketing Committee
11. Human Resources Committee
12. Information Technology C ommittee
13. Investment Committee For Funds and Structured Products and Derivatives
14. Operational Risk management Sub-Committee
15. Information Security Sub-Committee

The Bank has established a Code of Conduct Policy divided into six major themes: General Principles, Business Ethics, Confidentiality, Conflicts of Interest, Business Relationships, and Protection of the Bank’s Assets. It is the Board’s prerogative to ensure these tenets are observed by directors, managers, and employees alike.

Corporate Governance and Business Principles

Bank of Beirut has consistently operated under corporate governance policies and practices that are designed to ensure that the Bank's performance is always geared towards maximizing long-term shareholder value.

The Governance framework of the Bank is documented through the formally adopted "Corporate Governance Guidelines" and the Board and Management committees' Charters, which are subject to continual updating and refinement as the Board may deem necessary in view of adapting to its needs and to the expectations of depositors, regulators, investors and the markets generally.
The Board of Directors has overall responsibility to Bank of Beirut, including approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values; and ensuring that adequate, effective, and independent controls are in place.
In bearing his share of the collective responsibilities of the board, each board member has a "duty of care" and a "duty of loyalty" to the Bank.

Under the direction of the Board, the Senior Management ensures that the Bank's activities are consistent with the business strategy, risk tolerance/appetite and policies approved by the Board.

In discharging its overall responsibilities, the Bank of Beirut Board of Directors:

- Approves the overall business strategy of the Bank, taking into account its long-term financial interests and safety
- Approves and oversees the implementation of the Bank's overall risk strategy and policy and approves the Bank's risk management framework
- Approves the compliance policy and the internal control systems
- Approves significant corporate actions, and recommends the General Meeting of Shareholders to pass the appropriate resolutions in this respect whenever needed
- Reviews regularly major policies and processes and controls with Senior Management and/or internal control functions
- Ensures that the control functions are properly positioned, staffed and resourced and carry out their responsibilities independently and effectively
- Ensures that related party transactions are performed at arm's length and approved by the Board and the shareholders in compliance with applicable laws and regulations
- Adopts a set of corporate values and a code of ethics
- Approves credit lines that exceed the internal lending limit

Composition of the Board of Directors

Members of the Board of Directors of Bank of Beirut s.a.l. were elected by the General Assembly of Shareholders held on June 30, 2011 for a term expiring in 2013. During 2011, two new independent Board members were elected by the General Assembly of Shareholders, Mr. Antoine Wakim and Mr. Krikor Sadikian.

The Board of Director currently comprises nine members.

The majority of the Board members consists of non-executive/independent Directors; the criteria for the selection of new Directors include unquestionable integrity and character, successful professional background, and the ability and willingness to commit adequate time to the Bank.

Compensation of Directors

The remuneration of executive management amounted to LBP1.39 billion (U.S. $922 thousand) in 2011 (LBP 632 million in 2010) in addition to incentives linked to performance representing 6% of profit before tax.
Moreover, the Group accrues to executive management on a current basis for end-of-service indemnity.

The Bank´s Committees

The Bank's day-to-day activities are managed through various Committees, which have been established with specific missions, authorities and responsibilities.
The Bank has eighteen Committees including, among others, the Board Audit Committee, the Board Risk Committee, the Management Committee, the ALCO and the Credit Committee as more fully described below. The Board is fully apprised of all important decisions governing the Bank's overall operations as submitted and recommended by the various Committees.

Board Audit Committee

The Board Audit Committee meets on a quarterly basis

Members

Four independent non-executive Board of Directors members

Main Functions

- Validate the Audit Charter developed by the Internal Audit Department, including the mission and scope of work, independence, responsibility and authority of Internal Audit function, as well as the reporting lines to the Board of Directors
- Review and agree on the annual Audit Plan (once a year)
- Agree on the appointment and remuneration of the Head of Internal Audit
- Agree on the Internal Audit budget and resources to support the necessary audit effort
- Assess the findings and recommendations brought forward by the Internal Audit Department
- Ensure the adequacy and the effectiveness of the Bank's internal control systems
- Ensure that internal control policies and procedures (including Anti-Money Laundering procedures) have been developed and revise the recommendations for their enhancement
- Assess the reliability and accuracy of the financial information reported to management and external users
- Ensure that a proper follow-up has been established to implement the Board of Directors' decisions, and that Management is monitoring the effectiveness of the internal control system
- Review, on a regular basis, the relationship between Management and Internal and External Auditors
- Discuss external auditors' findings as well as the conclusions and the recommendations raised in their reports
- Evaluate the external auditors' performance for the preceding fiscal year, and the review of their fees
- Review the Bank's compliance with legal and regulatory provisions, its articles of association, charter, and the directives established by the Board of Directors

Board Risk Management Committee

The Board Audit Committee meets on a quarterly basis.

Members

- Three independent non-executive Board of Directors members
- Deputy CEO

Main Functions

- Formulate a strategy for the assumption of risk and the management of capital in order to be in line with the business objectives of the Bank
- Review and recommend the Board the Internal Capital Adequacy Assessment Process (ICAAP) document once a year at least
- Develop an internal Risk Management Framework and ensure that sound policies are implemented for the management of the 8-risk areas which are: credit, liquidity, market, operational, legal, strategic, business and reputation risks
- Manage the risks that are not covered by the ALCO or by the Credit Committee, such as, country risk, credit portfolio risk, operational risk, legal risk, reputational risk and strategic risk
- Ensure that adequate procedures are set for implementing all the Bank's activities and that they are applied to the entire group
- Ensure that the Bank is always in conformity with the Basel requirements
- Review regularly the progress in the risk strategy implementation and submit recommendations for remedial action in the event of any weaknesses in the application
- Review the annual report set by the Chief Risk Officer and addressed to the Board

Board Credit Committee

The Committee meets on need basis depending on the number of commercial credit files exceeding USD 1,000,000.

Members

- Chairman of the Board - CEO
- Deputy CEO
- 3 non-Executive Board of Directors members

Main Functions

- Decides (for ratification) on all credit applications above USD 1,000,000 based on each customer's overview, including the existing facilities vs. proposed outstanding balances, conditions, securities, highlights on financials, account activity with BOB and briefing on customer's activities and needs for facilities in addition to Guarantors' net worth (where applicable)
- Delegates all or a part of its authorities to subcommittees (such as the Credit Committee)

Management Committee

The Management Committee meets on a quarterly basis.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Director - Global Markets

- Chief Commercial Banking Officer
- Chief Administration Officer
- Chief Credit Officer
- Chief Risk Officer
- Chief Financial Officer

Main Functions

- Sets the Bank's global strategic plan along with its corporate objectives
- Follows up on the action plans of all the Bank's Divisions and Departments
- Reviews the progress reports related to the Bank's ongoing projects
- Discusses any new projects, including mergers and acquisitions, partnership agreements, investments in companies or financial institutions, as well as the establishment of foreign banks and the opening of new branches
- Monitors the various Bank Committees and takes action, if required, in order to provide Senior Management with more effective monitoring of specific areas of operations

Asset/Liability Management Committee (ALCO)

The Asset/Liability Committee meets on a weekly basis.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Director - Global Markets
- Chief Risk Officer
- Chief Financial Officer

Main Functions

- Sets the Bank's financial objectives and follows up on the Bank's overall performance as compared to the budget and the Peer Group
- Reviews reports on liquidity risk, market risk and capital management
- Identifies balance sheet management issues such as, balance sheet gaps, interest rate gap/profiles, etc. that lead to under-performance
- Determines funding strategy and reviews deposit-pricing for the local market
- Reviews the liquidity contingency plan of the Bank
- Determines the Bank's investment strategy and the proprietary portfolio
- Monitors the compliance with approved regulatory ratios (mainly capital adequacy and liquidity)
- Manages the Bank's capital in terms of hedging (structural FX position), allocation, and level
- Reviews and evaluates the ICAAP and provides recommendations to the Board Risk Management Committee

Investment Committee for Funds and Structured Products & Derivatives

The Investment Committee meets on a monthly basis.

Members

- Director - Global Markets
- Head of Asset Management
- Chief Risk Officer
- Chief Financial Officer

Main Functions

- Launching and marketing of:
  - Structured products (whether or not capital guaranteed) the return of which is usually linked to the evolution of a given index (interest rate, equity index, basket …) linked (or not) to a deposit program or any other type of financial products
  - Structured Products or products derived from any securitization operations
  - Certificates and Securities generating returns derived from commercial papers, capital gains on (or dividends received from) stocks or coupons received on bonds
  - Funds whether closed or open-ended
- Following up on the performance of the structured products and the funds and ensuring that the Investments are in line with the Fund's own Investment Policy in terms of products, concentration, leverage, and risk/return profile
- Ensuring full transparency to the investors, providing a full detailed description of the products and financial instruments, with expected returns and returns calculation and the risks that investors are exposed to presenting a detailed term sheet with terms and conditions to be signed by the potential investors.

Credit Committee

The Credit Committee meets on need basis, however files are usually signed through circulation.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Chief Commercial Banking Officer
- Chief Credit Officer

Main Functions

- Decides on credit applications up to an aggregate limit of USD 1,000,000 based on the analysis and recommendations of the Credit Division and approves any excess over limits related to any commercial file
- Decides on the classification and rating of loans and approves the transfer of problematic accounts to the Loan Recovery Department
- Forms and delegates all or a part of its authorities to subcommittees, subject to the Board's approval, and compiles regular reports to the Board summarizing the issues reviewed and actions taken during each Committee meeting
- Approves, whenever requested, any commercial file related to foreign branches
- Oversees the administration and effectiveness of the Bank's credit policies through the review of such processes, reports and other information as it deems appropriate
- Ensures that the Bank's lending policies are adequate and that lending activities are conducted in accordance with applicable laws and regulations
- Monitors the performance and quality of the Bank's credit portfolio through the review of selected measures of creditworthiness, trend, or any other information deemed appropriate
- Approves target market(s) based on industry concentration and risk acceptance criteria and allocates lending resources among diversified activities

Credit Committee for Financial Institutions

The Committee meets regularly to approve the files.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Chief Credit Officer
- Director - Global Markets

Main Functions

- Approves on credit applications based on the study prepared by the Financial Analyst at Correspondent Banking and reviewed by the Credit Division
- Approves Bank and Financial Institutions files presented by overseas branches through the same channel
- Approves any excess over limits related to any bank limit provided it is temporary and specific to a given transaction
- Ensures the compliance with the relevant lending policies to Financial Institutions as approved by Credit Division and Risk Management as well as to applicable laws and regulations
- Monitors the performance and quality of the Bank's correspondents and the exposure of financial institutions through the review of selected measures of creditworthiness, trend or any other information deemed appropriate
- Approves target market(s) based on the quality of relationships to build business, business recurrence, geographic ties, culture, and risk acceptance criteria and allocates lending capacity among diversified activities

Retail & Branches Banking Committee

The Retail Banking Committee meets at least twice per month.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Director - Retail and Branches
- Chief Risk Officer
- Manager - Branches Network
- Head of Product Development & Customer Management
- Head of Electronic Cards Business

Main Functions

- Discusses the Retail Banking Division's annual business plan and ensures that it is in conformity with the financial objectives set by the ALCO and the strategic objectives established by the Management Committee
- Monitors the Retail Banking Division's performance as compared to the established budget and takes necessary measures to improve its performance
- Approves the launching of any new products or services or the amendment to existing products or services and approves the pricing of products
- Approves the targeting of customers with respect to corporate sales

Human Resources Committee

The Human Resources Committee meets twice per month.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Chief Administration Officer
- Chief Risk Officer
- Manager - Human Resources
- Manager - Branches Network
- Head of Learning

Main Functions

- Follows up on the implementation of the human resources strategic plan as approved by the Management Committee
- Reviews and approves any modifications related to employee key policies, including recruitment, training, education, time and attendance, dress code and conduct
- Reviews the Bank's HR systems on a regular basis
- Assesses and monitors any employee incentive plans and supports and facilitates the building of the Bank's culture
- Monitors the Bank's Talent Management and Succession Planning strategies of the Bank
- Monitors and orients the Bank's employee disciplining directives and policies and takes the final decisions in employee redundency cases
- Reviews and approves the Bank's annual Training and Education budget

Information Technology Committee

The Information Technology Committee meets at least once per month.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Chief Risk Officer
- Chief Financial Officer
- Chief Information Officer
- Head of Branch Operations
- Deputy Head of Administration

Main Functions

- Reviews, monitors and where appropriate approves the Information Technology Strategy and ensures that it is aligned with the business strategy
- Reviews, evaluates and approves the annual Bank Master Plan taking into account the current and future needs of the business units and the objectives to be achieved, such as, maintaining competitive advantage
- Prioritizes all strategic projects according to a project investment dashboard that assesses each IT-related investment proposal, based on business budget, outcomes and priorities. The dashboard helps track approved investments over time. The metrics for the dashboard are selected by the committee

- Controls the preparation and implementation of the Master Plan. Ensures that the transition of projects to operational status is properly planned and managed, taking into account impacts on business and operational practices as well as existing IT systems and infrastructures
- Ensures that an IT culture of good governance, in the Bank, is implemented by getting from the IT management timely information proving that they comply with IT policies and procedures and conform with the Bank IT governance
- Monitors IT performance through appropriately developed Key Performance Indicators and Scorecards, which will assure the committee that the performance is in accordance with the Master Plan, particularly with regard to the Bank business objectives
- Ensures that the Information Technology decisions conform with BDL, BCC and other external obligations including BASEL II, IFRS, Sarbanes-Oxley, Anti-Money Laundering and other legislations and laws
- Evaluates benefits and risks of applying emerging technologies that may be adopted by the Bank
- Evaluate the technology risks through Key Risk Indicators, and makes recommendations, if any, pertaining to that area to the Bank Risk Committee
- Ensures adherence to, and when necessary, recommends modifications to information technology priorities, organization, and planning
- Ensures that IT policies and procedures are written, up-dated and are well implemented
- Ensures that an Information Security Management System is implemented according to the ISO 27001 standard
- Ensures that business continuity and disaster recovery plans are implemented and followed
- Approves and monitors the IT Department organization and decides on matters concerning the skills, deployment and advancement of technology specialists
- Approves any technology expenditure write-offs and any expenses in excess of US $100,000

Asset Recovery Committee

The Asset Recovery Committee meets on a monthly basis.

Members

- Chairman of the Board - CEO
- Vice Chairman
- Deputy CEO
- Head of Loan Recovery
- Central Manager

Main Functions

- Analyzes and decides on problematic loan strategy planning (whether commercial or retail) presented by the Loan Recovery Department
- Approves the transfer of files from the Loan Recovery Department to the Legal Department, with the intention of starting legal action
- Approves write-offs upon recommendations from the Loan Recovery Department, capital cancellation and rescheduling of Non-Performing Loans
- Analyzes statistical data relating to loan recoveries and follows up the evolution of the bad debt portfolio
- Approves waiving or reducing penalty interest commissions and/or legal fees upon cash settlement of loans
- Approves the foreclosing of assets in settlement of debts provided that no other feasible settlement proposal is available

Real Estate Committee

The Real Estate Committee meets on a monthly basis.

Members

- Chairman of the Board - CEO
- Vice Chairman
- Deputy CEO
- Central Manager
- Head of Real Estate Administration

Main Functions

- Updates the foreclosed properties database and administration
- Follows up on the registration of foreclosed properties in the Bank's name
- Monitors the auction results of the foreclosed properties
- Approves the sale of foreclosed properties in terms of both pricing and credit conditions

Foreign Affiliates Committee

The Foreign Affiliates Committee meets on a quarterly basis.

Members

- Chief Financial Officer
- Manager - Internal Audit
- Head of Branch Operations
- Head of Financial Control Unit
- Business Coordinator at Chairman's office

Main Functions

- Reviews and comments the Business Plans, budgets, financial statements and documents submitted by the affiliates
- Request the affiliates to take the appropriate remedial measures, and to verify their proper implementation in case of sub-par performance or any risk issue
- Proposes, when needed, the dispatch of a team to the affiliates with the intention of on-site assessment of their strategy, performance, results and risks
- Provides the parent company's Board with summaries of minutes of its meetings, accompanied with the quarterly report (business letter) to be submitted by each affiliate
- Ascertains that regulations are appropriate and implemented by the management of each affiliate

Anti-Money Laundering (AML) & Counter Financing of Terrorism (CFT) Compliance Committee

The Committee meets on a monthly basis.

Members

- A Nominee of the Chairman of the Board - CEO - to act in his stead: Chief Credit Officer
- Chief Administration Officer
- Chief Risk Officer
- Director - Retail and Branches
- Manager - Internal Audit
- Head of AML & Compliance Department

Main Functions

- Reviews/Approves the AML Manual on implementing the provisions of the Law on Fighting Money Laundering and other applicable Central Bank of Lebanon rules and regulations
- Reviews/Approves a KYC form, containing the basic information about clients, in particular, those specified in Article 3 of BDL circular 83, for indicative purposes, but not exclusively, for customer identification by ensuring adequate financial and banking operational controls to avoid involvement in money laundering operations
- Ascertains the proper implementation and effectiveness of AML/CFT policies, procedures and regulations
- Reviews periodically policies, procedures and regulations related to combating money laundering and terrorism financing, and keeps these up-dated with modern methods and procedures
- Reviews/Approves a staff training programs on the methods of controlling financial and banking operations in accordance with the legal and regulatory laws
- Reviews the reports submitted by the AML & Compliance Department and Internal Audit on suspicious/unusual operations and high-risk accounts, regarding cash deposits/withdrawals, transfers, and assesses the link between these operations and commercial activities
- Comments on these reports and takes action by reporting suspicious cases to the Special Investigation Commission
- Monitors, when the operation exceeds ten thousand U.S. dollars or its equivalent, the adequacy of exemption procedures, whereby some-clients of high repute are exempt from completing the cash transaction statements, and determines the exemption ceiling by adapting it according to evolution of the client's financial situation

Marketing Committee

The Marketing Committee meets on a biweekly basis.

Members

- Chairman of the Board - CEO
- Deputy CEO
- Director - Retail and Branches
- Chief Commercial Banking Officer
- Manager - Marketing & Corporate Communications

Main Functions

- Discusses the Marketing & Communication department annual business plan and ensures that it is in conformity with the financial and strategic objectives established by the Management Committee
- Follows up on the Marketing and Communication Performance as compared to the established budget and takes the necessary measures to improve the latter

- Approves the launching of any new initiative (be it brand and/or retail)/activity or the amendment of an existing Marketing and Communication campaign
- Approves the pricing of Marketing and Communication campaigns, whether related to the corporate brand and product and whether it is external and/or internal communication related

Operational Risk Management Committee

The Operational Risk Management Committee meets on a quarterly basis.

Members

- Chief Administration Officer
- Chief Information Officer
- Head of Head Office Operations
- Head of Branches Operations
- Head of Risk Management

Main Functions

- Reviews and approves Operational Risk Management policies and guidelines across the Group
- Reviews and discusses Operational Risk Management incidents reports to coordinate the needed support to deal with risk occurances and implement appoprite control measures
- Supports the implementation of new systems related to Operational Risk Management function, to improve the Operational Risk Management environment
- Coordinates major initiatives to enhance Operational Risk Management environment, ensuring that all guidelines and procedures are properly implemented

Corporate Information security Committee

The Corporate Information Security Committee meets on a quarterly basis.

Members

- Chief Administration Officer
- Chief Risk officer
- Chief Information Officer
- Head of Information Security Department

Main Functions

- Defines/reviews the scope of Information Security Management System (ISMS)
- Approves and thereafter supports the implementation of Information Security throughout Bank of Beirut Group
- Reviews and approves the Information Security policies across the Group
- Reviews and approves the Information Security strategy across the Group
- Ensures that the Information Security approach is aligned with the Bank's Business Strategy and makes recommendations on how to proceed as and when conflicts arise
- Monitors significant changes in the exposure of Information Assets to major threats
- Reviews and discusses Information Security incidents giving advice and guidance on how to deal with security breaches or control overrides
- Approves major initiatives to enhance Information Security Environment making sure that all guidelines and procedures are properly executed
- Ensures that all contracts are compliant with Information Security requirements and are properly implemented

The Group

Organisational Structure

Bank of Beirut s.a.l.

Branches

- Cyprus Branch
- Muscat Branch Sultanate of Oman
- Sohar Branch Sultanate of Oman
- Ghubrah Branch Sultanate of Oman
- 58 branches in Lebanon

Representative offices

- Dubai (UAE)
- Lagos (Nigeria)
- Baghdad (Iraq)

Frankfurt Branch — 100%

Beirut Life Co. — 90%

Subsidiaries

Bank of Beirut Invest s.a.l.	100%
BOB Finance s.a.l.	100%
Beirut Brokers s.a.r.l.	100%
Bank of Beirut (UK) Ltd.	100%
Bank of Sydney Ltd., Previously Beirut Hellenic Bank	92.5%
Cofida Holding s.a.l.	100%

Board of Directors

- **Mr. Salim G. Sfeir**
  Chairman of the Board and CEO

- **Mr. Adib S. Millet**
  Vice-Chairman

- **Mr. Fawaz H. Naboulsi**
  Deputy CEO

- **Mr. Antoine A. Abdel Massih**
  Member

- **Emirates Bank P.J.S.C.**
  Represented by Mr. Khalid Bin Kalban - Member

- **H.E. Mr. Anwar M. El-Khalil**
  Member

- **Architect Rashid Al-Rashid**
  Member

- **Mr. Antoine Wakim**
  Member

- **Mr. Krikor Sadikian**
  Member

Management Abroad

Subsidiaries

- **United Kingdom**
  Bank of Beirut (UK) Ltd.
  Managing Director and CEO: Bob C. Dzeingeleski
- **Germany** (UK subsidiary branch)
  Bank of Beirut UK Ltd. – Frankfurt Branch
  General Manager: Karl-Friedrich Rieger
- **Australia** (16 branches in Sydney, Melbourne and Adelaide)
  Bank of Sydney Ltd., (Previously Beirut Hellenic Bank Ltd.)
  CEO: Julie Elliott

Branches

- **Cyprus**
  Bank of Beirut – Cyprus Branch
  Manager: Walid K. Gholmieh
- **Sultanate of Oman**
  Bank of Beirut – Sultanate of Oman Branches
  (Muscat, Ghubrah and Sohar)
  Country Manager: Remy F. Zambarakji

Representative Offices

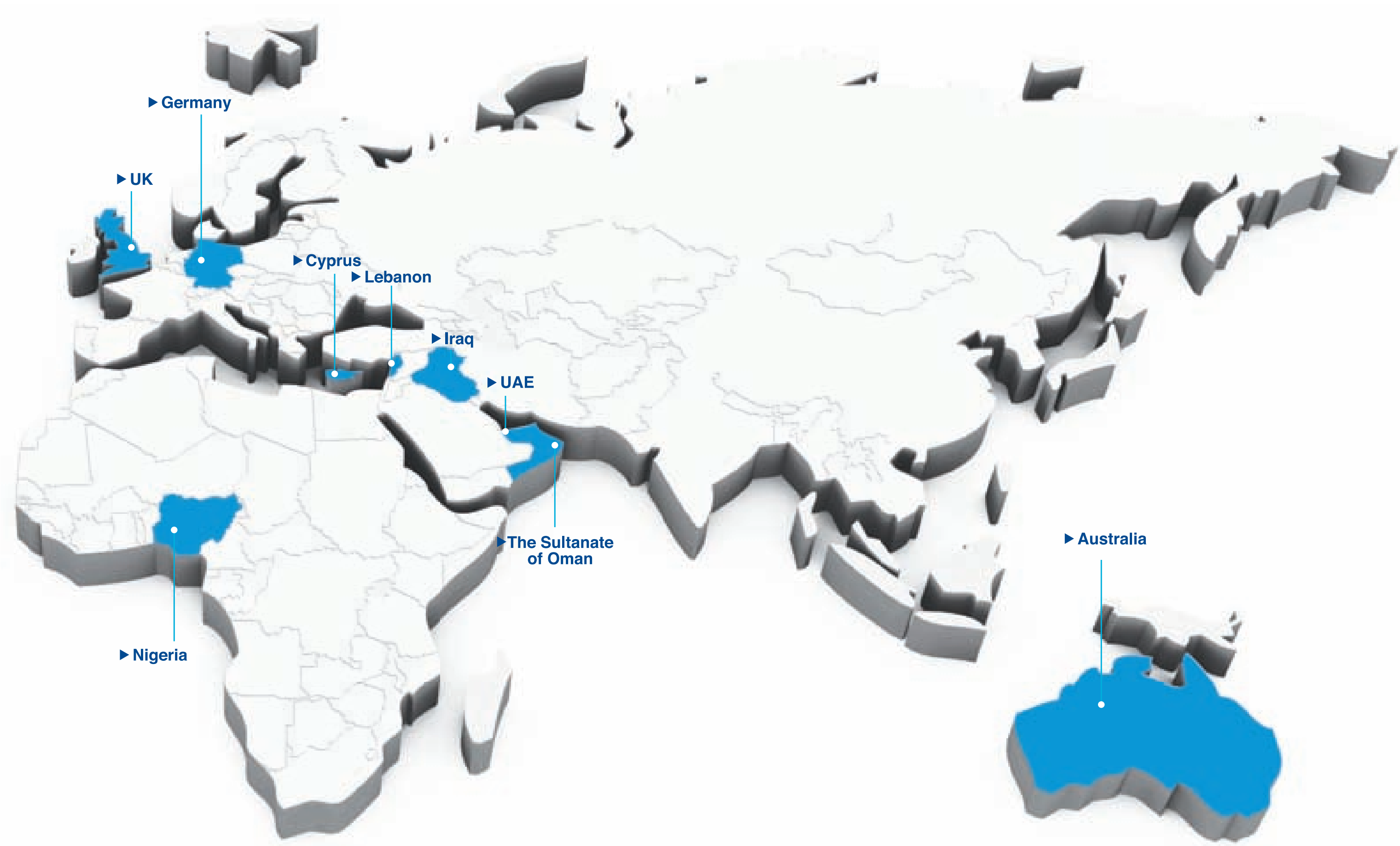
- **UAE**
  Bank of Beirut Dubai Representative Office
  Chief Representative in UAE for the Gulf Region: Balsam H. Al Khalil
- **Nigeria**
  Bank of Beirut Representative Office (Nigeria) Ltd.
  Manager: Camille R. Chidiac
- **Iraq**
  Bank of Beirut Baghdad Representative Office

- **Qatar**
  MOU Office
  Doha Bank
  Business Development Officer: Fareed El-Baba

The Network

Bank of Beirut Group Entities and Subsidiaries:

- Bank of Beirut s.a.l.
- Bank of Beirut Invest s.a.l.
- BOB Finance s.a.l.
- Beirut Brokers s.a.r.l.
- Bank of Beirut (UK) Ltd.
- Bank of Sydney Ltd., Previously Beirut Hellenic Bank.
- Cofida Holding s.a.l.
- Beirut Life Co.



Bank of Beirut Invest s.a.l.

Established in 2007, Bank of Beirut Invest is the investment arm of the Group. It is fully owned by the Bank and is enrolled in brokerage and capital market operations, asset and funds management, lending the private sector on a long term basis, thus increasing the role of the Bank as a major driver in the Lebanese economy. In addition to its long term investment strategy, the Bank is specialized in the housing loan business, making it a first of its kind private investment bank in Lebanon with a highly qualified team to serve the real estate growing needs for Lebanese residents and expatriates.

Bank of Beirut Invest s.a.l. is reachable at the following address:
Beirut - Riyad El Solh Street - Bank of Beirut Bldg. - P.O.Box: 11-5522 Beirut – Lebanon
Tel: 961 1 980222 | 333

Beirut Brokers s.a.r.l.

Beirut Brokers s.a.r.l, a private insurance brokerage firm, represents the Bank's insurance arm providing brokerage insurance services to corporate, institutional and individual customers by offering a wide range of Bancassurance products in partnership with Bank of Beirut.

Beirut Brokers s.a.r.l. is reachable at the following address:
Jdeideh - Nahr el Mot Highway - Le Boulevard bldg - 9th &10th floor – Tel: 961 1 900403 | 503 | 406 | 506

BOB Finance s.a.l.

BOB Finance s.a.l. is a financial institution governed by articles 178 to 182 of the Code of Money and Credit as well as by the regulations of the Central Bank of Lebanon. Among others, BOB Finance s.a.l. can engage in lending, brokerage activities, as well as portfolio and asset management.
In 2009, BOB Finance was appointed as a Western Union Agent in Lebanon. Western Union Money Transfer service is available at all Bank of Beirut Branches. In addition to the branch network, BOB Finance has developed a network of over 700 sub-agents spread all over Lebanon.

BOB Finance s.a.l. is reachable at the following address:
Bauchrieh, Electricité du Liban Street - P.O. Box 11-7354 - Tel/fax: 961 1 879360 | 1 | 2

Beirut Life Co.

Launched in April 2012, "Beirut Life" is Bank of Beirut life insurance company offering a full array of the best conditions in life insurance services. Beirut Life's services provides the Bank key opportunities to access the Lebanese market still under-exploited in terms of insurance products. Beirut Life offers securities covering products, such as, retirement plans and life insurance plans, aimed at protecting Bank of Beirut Customers and their families against the financial impacts of life, death or disability.
Bank of Beirut is committed to innovation in products, services and technology. Beirut Life's software platform allows direct solutions at the Bank's counters as well as the possibility for Customers to purchase most of their insurance online. At Beirut Life, our objective is to build and sustain supreme financial capabilities allowing us to pay our claims promptly, to accumulate healthy reserves and to generate benchmark profits for our shareholders. We bear calculated risks, deal with renowned reliable reinsurers and price our products fairly and competitively. But above all, we bond with our customers through transparent products, providing value for their money and outstanding service to better their own lives and those of their families.

Beirut Life Co. is reachable at the following address:
Jdeideh - Nahr el Mot Highway - Le Boulevard bldg. - 9th &10th floor – Tel: 961 1 900403 | 503 | 406 | 506

Bank of Beirut (UK) Ltd.

Bank of Beirut (UK) Ltd was incorporated in the United Kingdom in 2002 with a paid-up share capital of GBP 34.2 Million. Bank of Beirut s.a.l. owns 100 % of the share capital of Bank of Beirut (UK) Ltd.
Bank of Beirut (UK) Ltd is authorized and regulated by the Financial Services Authority (FSA) under authorization number 219523. The Bank is a member of the Financial Services Compensation Scheme and is subject to the jurisdiction of the Financial Ombudsman Service. Bank of Beirut (UK) Ltd is the only Lebanese owned bank with a full deposit taking licence to operate in the UK.

Bank of Beirut (U.K.) Ltd commenced its operations on December 9th, 2002 upon acquiring the entire business activities, assets and liabilities of the United Kingdom branch of Beirut Riyadh Bank S.A.L. The Bank had originally established a presence in London in 1981 as the London Branch of the former Beirut Riyad Bank (subsequently acquired by Bank of Beirut s.a.l.).

In October 2009, a full service office was opened in Frankfurt. Operating as a branch of Bank of Beirut (UK) Ltd, Frankfurt office is the only branch of a Lebanese - owned bank in Germany. It holds a full banking license granted by the FSA in UK and the BaFin in Germany and primarily focuses on corporate trade finance and correspondent banking services.

Bank of Sydney Ltd.

Bank of Sydney, formerly known as Beirut Hellenic Bank, launched on May 6th, 2013. The Board considered the Bank's future direction for over 18 months concluding with the rebranding of Bank of Sydney to reflect the vision of becoming the bank of choice to multi-cultural Australia. The Bank has customers and distribution channels across Australia as well as 16 branches in Sydney, Melbourne and Adelaide, offering customers relationship banking based on personal, flexible and competitively-priced services. Our team works closely with its customers in an effort to understand and meet their individual needs.
Bank of Sydney maintains a healthy loan-to-deposit ratio, a strong capital position and an enviable track record of outstanding credit quality allowing our customers added assurance and peace of mind. As an Australian deposit taking institution, the Bank is eligible for the Australian Government Deposit Guarantee. It boasts a highly experienced Trade Finance Division with an in-depth understanding of the Middle East and Mediterranean regions.

Management discussion and analysis

Introduction

Bank of Beirut s.a.l. ("BOB") is a full-fledged bank offering universal banking products and services covering Corporate, Commercial, Individual and Private Banking services to a diversified client base. The Bank has operations in Lebanon, Europe, Australia, the Middle East and Africa. The Bank was incorporated as a commercial bank on August 19th, 1963, under the name of "Realty Business Bank s.a.l.". The Bank is registered in the Beirut Commercial Register as No. 13187 and on the Banks' List at the Central Bank of Lebanon, as No. 75. The Bank's head office is located in Foch Street, Bank of Beirut Building, Beirut Central District, Lebanon.

The Bank is one of the leading banks in Lebanon. At the end of 2012, the Bank ranked sixth among Lebanese banks as per major banking aggregates, namely in Assets, Equity, Loans and Net profit.
The Bank, together with its banking and other subsidiaries, is engaged in a wide range of banking and financial activities in Lebanon and other Middle East countries, the United Kingdom, Germany, Cyprus, the United Arab Emirates, the Sultanate of Oman, Australia, Iraq and Nigeria. Through its operations in other countries, the Bank has been able to expand and diversify its income, assets and loan portfolio outside Lebanon and to widen the sources of its deposit base.

The Bank maintains one of the largest branch networks in Lebanon, with currently 58 branches, as well as one branch in Cyprus and three branches in the Sultanate of Oman ("Oman"). Bank of Beirut (U.K.) Ltd. the Bank's wholly owned subsidiary based in the United Kingdom has one branch in London and another in Frankfurt. Bank of Sydney Ltd., previously Beirut Hellenic Bank in Australia, the Bank's wholly owned subsidiary was acquired in early 2011 and currently operates 16 branches. The Bank also operates a representative office located in Dubai, United Arab Emirates, to service the Gulf region; a representative office located in Lagos, Nigeria to cater for West Africa; and a representative office located in Baghdad, Iraq. The Bank has currently four wholly owned subsidiaries in Lebanon, BOB Finance s.a.l., Bank of Beirut Invest s.a.l., Beirut Broker Company s.a.r.l., Cofida Holding s.a.l., the latter owning 90% of Beirut Life s.a.l.

Basis of presentation

The following analysis highlights the Bank of Beirut consolidated performance for the year ended 31 December 2012, as compared to year 2011.
Financial information included in this annual report has, unless otherwise indicated, been derived from the Bank's audited consolidated financial statements as at and for the year ended December 31, 2012.
The Bank's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations issued by the International Financial Reporting Interpretations Committee and the regulations of the Central Bank of Lebanon ("CBL") and the Banking Control Commission ("BCC"), and include the results of the Bank and its consolidated subsidiaries. Deloitte & Touche and DFK Fiduciare du Moyen-Orient have audited the Bank's consolidated financial statements for the year ended December 31, 2012.
The consolidated financial statements of Bank of Beirut s.a.l. include the Bank's financial statements, its foreign branches (Oman & Cyprus) and enterprises controlled by the Bank (its subsidiaries).

The consolidated subsidiaries consist of the following:

Subsidiary	Country of incorporation	Year of acquisition or incorporation	Percentage of Ownership	Business Activity
Beirut Brokers Co. SARL	Lebanon	1999	100.00%	Insurance brokerage
Bank of Beirut (UK) Ltd	United Kingdom	2002	100.00%	Banking
BOB Finance SAL	Lebanon	2006	100.00%	Financial institution
Bank of Beirut invest SAL	Lebanon	2007	100.00%	Investment Banking
Cofida Holding SAL	Lebanon	2008	100.00%	Holding
Beirut Life SAL	Lebanon	2010	90.00%	Insurance
Bank of Sydney Ltd., previuosly Beirut Hellenic Bank	Australia	2011	92.50%	Banking

Unless otherwise indicated, all figures are expressed in LBP.

References to the Bank's peer group are to the Alpha Bank Group consisting of the 13 banks with total deposits in excess of USD 2.0 billion each, as determined by Bankdata Financial Services WLL (publishers of Bilanbanques).

Year 2012 performance overview

Bank of Beirut demonstrated a very good performance in 2012 despite the notable slowdown in the local economy and the political turmoil in the region. Good progress has been witnessed in both the domestic marketplace and in the countries where the Bank is represented.

The achieved growth has been in line with the long-term strategy adopted by the Bank to diversify its business activities towards a universal banking model and to expand regionally and internationally in profitable and relatively low-risk countries. It is to be noted that the Bank's long-term strategy is to attain a balanced breakdown of profits through activities in Lebanon and abroad.
The performance has been characterized by remarkable growth in all main financial indicators. Capitalizing on the large branch network and the diversified product range, the Bank has achieved gains in market shares in both commercial and retail businesses, while maintaining its position as a leader in the Trade Finance line of business.

On consolidated basis, the Bank's total assets reached as at 31, December 2012 LBP 17,045 billion (USD 11.3 billion), growing by 16.20% year-on-year. The growth in size was mainly funded by the growth in deposits and in equity.

	Balances		Growth	
Description (LBP billion)	31-Dec-11	31-Dec-12	Amount	%
Total Assets	14,668	17,045	2,377	16.20%
Customers' deposits	11,461	13,621	2,160	18.85%
Loans to Customers	4,698	5,310	612	13.04%
Shareholders' Equity	1,579	1,717	138	8.74%
Net profit	156	176	20	13.09%

Peer Group analysis

Bank of Beirut has been able to improve its peer group shares in most of the indicators and improved its ranking within the Alpha Group of Banks:

	Peer Group Share			Ranking	
Description	31-Dec-11	31-Dec-12	Variance	31-Dec-11	31-Dec-12
Total Assets	6.69%	7.17%	0.48%	8	6
Customers' deposits	6.24%	6.84%	0.60%	8	7
Loans to Customers	7.53%	7.70%	0.17%	7	6
Shareholders' Equity	8.68%	8.36%	-0.32%	5	6
Net profit	6.63%	6.96%	0.33%	6	6

On the other hand, Bank of Beirut has been able to achieve the following outstanding rankings as at 31, December 2012 within the peer group:

- Ranking 2nd in "Equity to Asset ratio", indicating the high level of capitalization
- Ranking 1st in loan portfolio quality ratios, namely "Gross doubtful loans to gross loans", "Net non-performing loans to gross loans" and "Loan loss reserves on doubtful loans", denoting the conservative management of the credit risk
- Ranking 1st in Letters of Credit exposure, with a peer group share of 28.82%, evidencing the leading position in Trade Finance business in the market

Balance sheet management

The composition and size of the balance-sheet and contingent liabilities reflect the Board of Directors overall growth objectives and the risk appetite/tolerance for the group. The group strategy targets sustainable growth and good financial standing while adopting a conservative risk management framework and adequate corporate governance guidelines.

Sources and uses of funds

Sources of Funds

Description (LBP billion)	Balances 31-Dec-11	Balances 31-Dec-12	Growth Amount	Growth %	Breakdown 31-Dec-11	Breakdown 31-Dec-12
Due from banks and financial inst.	732	1,043	311	42.49%	4.99%	6.12%
Customers' deposits	11,461	13,621	2,160	18.85%	78.14%	79.91%
Liabilities under acceptance	457	411	(47)	-10.23%	3.12%	2.41%
Other borrowings	42.62	52	10	22.73%	0.29%	0.31%
Certificates of Deposit	227	47	(180)	-79.36%	1.55%	0.27%
Other liabilities & provisions	151	153	3	1.73%	1.03%	0.90%
Subordinated Loans	18	-	(18)	-100.00%	0.12%	0.00%
Shareholders' equity	1,579	1,717	138	8.74%	10.77%	10.07%
Total	14,668	17,045	2,377	16.20%	100.00%	100.00%

The main source of funds was generated from private customers' deposits which represented, at the end of year 2012, 79.91% of the funding sources, as compared to 78.14% at the end of 2011.

The customers' deposit base grew by LBP 2,160 billion in 2012 (+18.85%) while the Equity caption increased by LBP 138 billion (+8.74%) and its share slightly declined to 10.07% at end of December 2012, as compared to 10.77% at year-end 2011. The funding from banks and financial institutions increased during the year by LBP 311 billion to offset the decrease in Certificates of Deposit and other borrowings by LBP 180 billion.

Uses of Funds

The Bank's strategy puts emphasis on the maintenance of high asset quality and a strong investment securities portfolio. While each entity of the group abides by the local regulations, and as part of the group risk management framework, the assets structure is subject to internal limits in terms of business lines, financial instruments, counter-party concentration and geographical distribution.

Description (LBP billion)	Balances 31-Dec-11	Balances 31-Dec-12	Growth Amount	Growth %	Breakdown 31-Dec-11	Breakdown 31-Dec-12
Cash and deposits at Central Banks	2,352	3,405	1,053	44.75%	16.04%	19.98%
Due to banks and financial inst.*	1,755	1,711	(45)	-2.54%	11.97%	10.04%
Loans and Advances	4,698	5,310	612	13.04%	32.03%	31.15%
Customers' acceptance liability	457	411	(47)	-10.23%	3.12%	2.41%
Investment securities	5,087	5,879	792	15.56%	34.68%	34.49%
Property and equipment	118	136	18	15.23%	0.80%	0.80%
Other assets	111	103	(9)	-7.77%	0.76%	0.60%
Goodwill	89	91	2	2.35%	0.60%	0.53%
Total	14,668	17,045	2,377	16.20%	100.00%	100.00%

* including loans to banks

The main utilization of funds was:

Loans to Customers

Growing by LBP 612 billion, a growth of 13.04%, the share of the loan portfolio represented 31.15% of total assets as at December 31, 2012, as compared to 32.03% at the end of 2011.

Cash & Central Banks

Increasing during the year by LBP 1,053 billion (+44.75%) and representing 19.98% of total assets as at December 31, 2012 as compared to 16.04% at year-end 2011.

Due to Banks and Financial Institutions

Decreasing slightly during the year by LBP 45 billion (-2.54%) and representing 10.04% of total assets as at December 31, 2012 as compared to 11.97% at year-end 2011.

Investment Securities

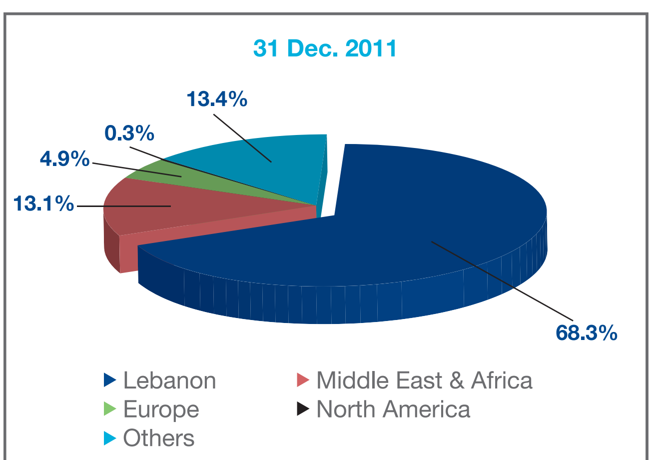
Increasing by LBP 791.6 billion (+15.56%) and representing 34.49% of total assets as at December 31, 2012 as compared to 34.68% at year-end 2011.

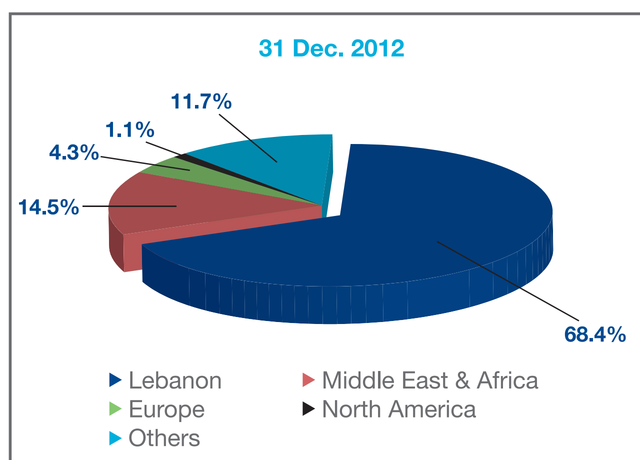
Customers´ Deposits

Constituting the main funding source,the consolidated deposits base increased during year 2012 by LBP 2,160 billion, a year-to-date growth of 18.85%.

An analysis of customers' deposits by geographical area distribution reveals that the growth was largely contributed to Lebanon with a LBP 1,487 billion (+19.00%).

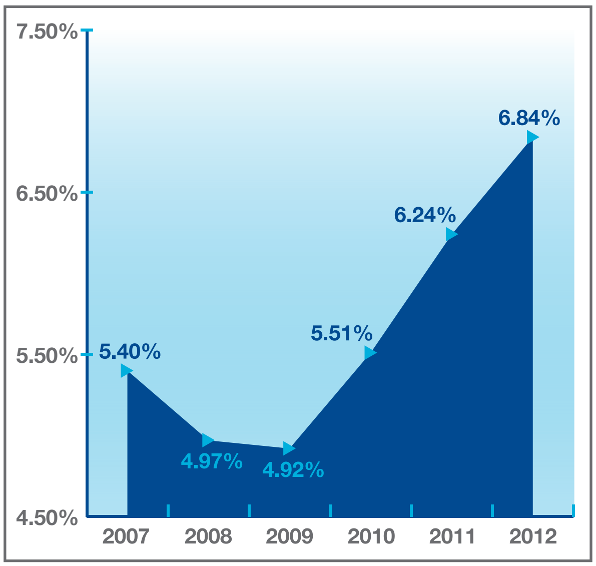
	Balances		Growth	
Entity (LBP billion)	**31-Dec-11**	**31-Dec-12**	**Amount**	**%**
Lebanon	7,829	9,316	1,487	19.00%
Middle East and Africa	1,500	1,978	478	31.87%
Europe	563	582	19	3.38%
North America	35	153	119	343.99%
Others	1,534	1,591	57	3.71%
Total	11,461	13,621	2,160	18.85%





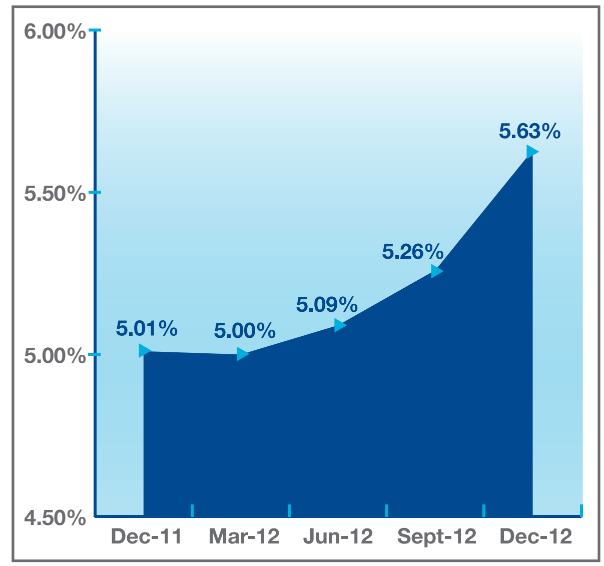
It is to be noted that the remarkable increase was reflected in Deposits booked in Bank of Beirut local branches by 21.92% for the year 2012, as compared to banking sector growth of 8.46%. On consolidated basis, the Bank has been able to increase its peer group share to 6.84% as at 31, December 2012 as compared to 6.24% as at 31, December 2011.

Peer Group Share*:



* Peer Group: Alpha Group Banks presented on consolidated basis

Local Market Share Evolution:



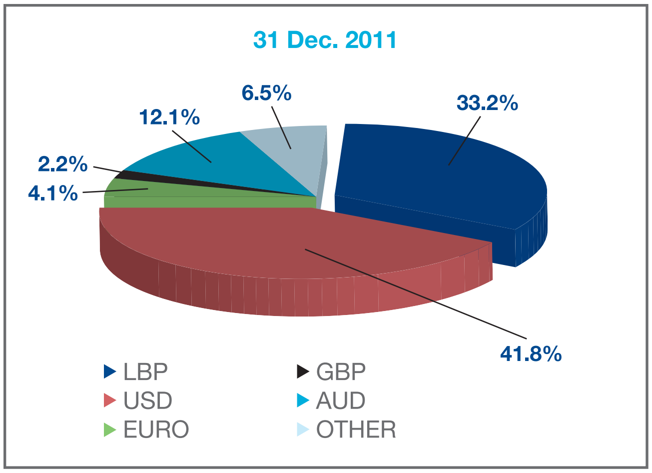
Customers´ Deposits by Type

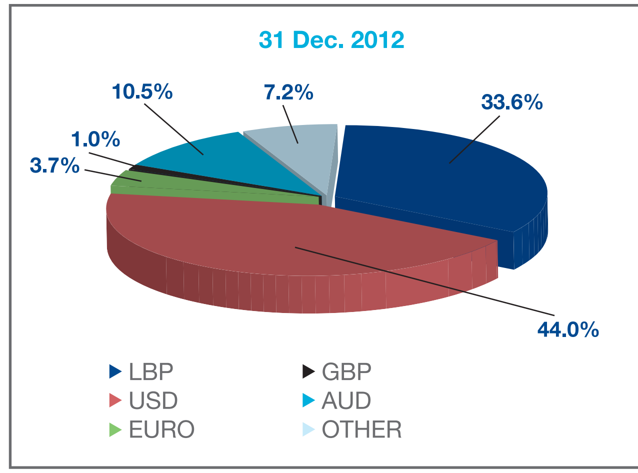
The breakdown of deposits has been relatively stable in 2012, with term deposits continuing to reflect the lion's share of 80.87% of total deposits as at December 31, 2012, as compared to 80.15% at year-end 2011.

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-11	31-Dec-12	Amount	%	31-Dec-11	31-Dec-12
Demand deposits	1,554	1,601	46	2.98%	13.56%	11.75%
Term Deposits	9,186	11,015	1,829	19.91%	80.15%	80.87%
Collateral against loans	460	679	219	47.60%	4.01%	4.99%
Margins on LC's	112	172	60	53.80%	0.98%	1.27%
Margins on LG's	39	49	10	27.07%	0.34%	0.36%
Other Margins	41	36	(4)	-10.18%	0.35%	0.27%
Accrued interest	69	68	(1)	-0.94%	0.60%	0.50%
Total	11,461	13,621	2,160	18.85%	100.00%	100.00%

Customers´ Deposits by Currency

The LBP denominated deposits augmented by LBP 774 billion in 2012, recording an annual growth rate of 20.34%, as compared to 10.91% by the peer group for the same period. On the foreign currency side, the USD continued to hold the largest share and registered a significant growth of 25.05% during 2012.
The dollarization rate stood at 66.39% at the end of year 2012, as compared to 66.81% at year-end 2011.





Loans to Customers

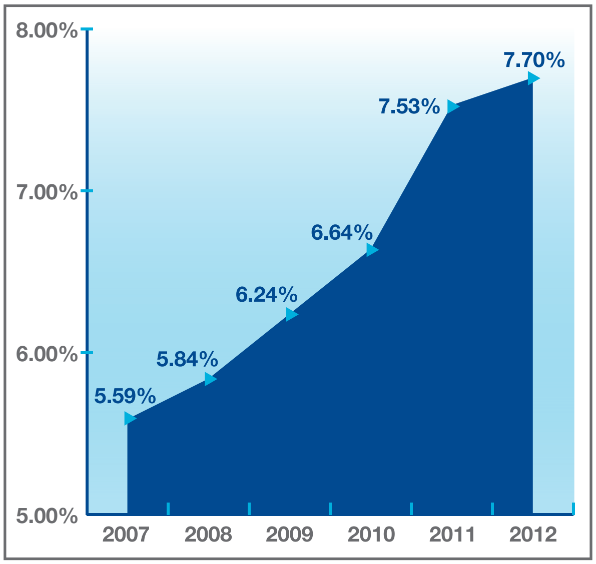
The loans to customers' portfolio increased by LBP 612 billion in 2012, reaching LBP 5,310 billion, compared to LBP 4,698 billion at the end of year 2011.

Entry (LBP billion)	Balances		Growth		Breakdown	
	31-Dec-11	31-Dec-12	Amount	%	31-Dec-11	31-Dec-12
Regular loans to customers	4,529	5,177	648	14.31%	96.42%	97.50%
Regular loans to related parties	155	123	(32)	-20.52%	3.30%	2.32%
Substandard loans (net)	15	14	(1)	-6.20%	0.31%	0.26%
Doubtful and bad loans (net)	15	19	4	29.47%	0.31%	0.36%
Allowance for collectively assessed loans	(16)	(23)	(7)	44.56%	-0.34%	-0.44%
Total	4,698	5,310	612	13.04%	100.00%	100.00%

The bank's year-on-year growth of 13.04% outperformed the 10.61% peer group growth rate achieved in 2012.

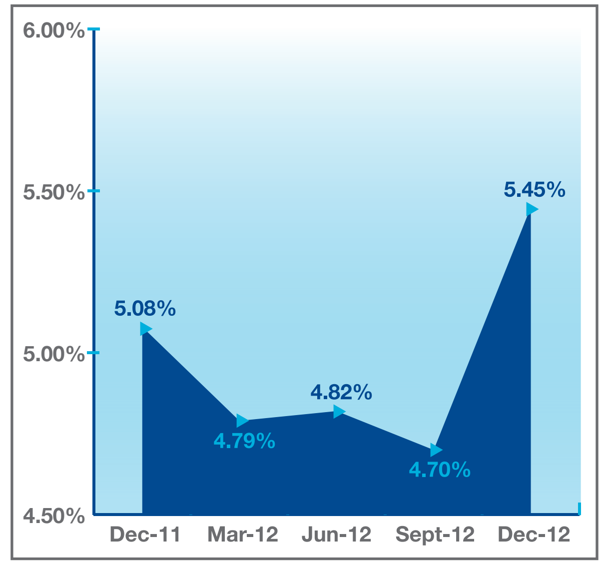
On consolidated basis, the Bank has been able to increase its peer group share to 7.70% as at 31/12/2012 as compared to 7.53% as at 31/12/2011.
Domestically, the loan book in Lebanon's branches increased by 17.45% in 2012 as compared to Lebanese banking sector growth of 9.58%; consequently, the bank has been able to increase its market share from 5.08% at year-end 2011 to 5.45% at year-end 2012.

Peer Group Share*:



* Peer Group: Alpha Group Banks presented on consolidated basis

Local Market Share Evolution:



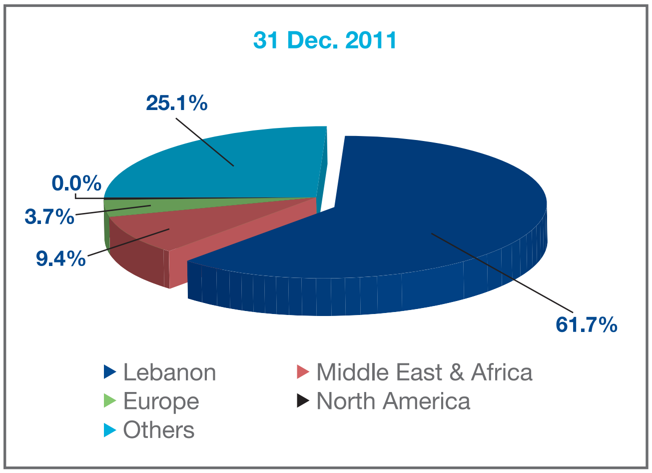
Distribution by Type

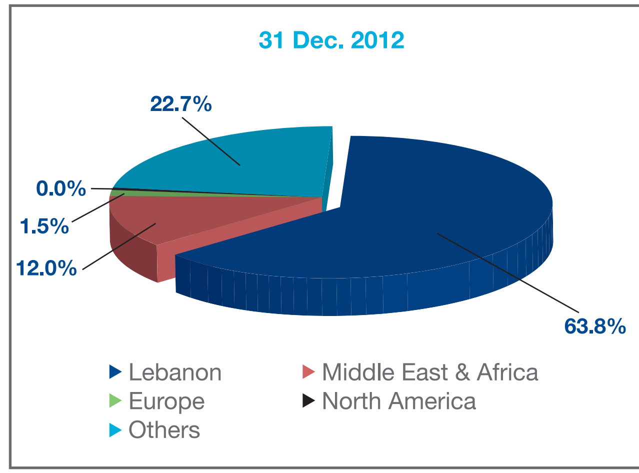
	31-Dec-11			31-Dec-11		
Description (LBP billion)	**Gross**	**LLRs**	**Net**	**Gross**	**LLRs**	**Net**
Regular loans	4,684	0	4,684	5,300	0	5,300
Retail	1,918		1,918	2,533		2,533
Corporate	2,766		2,766	2,767		2,767
Non-performing loans	110	(80)	29	119	(86)	33
Retail	8	(2)	5	15	(4)	11
Corporate	102	(78)	24	104	(82)	22
Collective Provisions		(16)	(16)		(23)	(23)
Total net loans	4,794	(96)	4,698	5,419	(110)	5,310

As reflected in the table above, the increase in the regular retail loan portfolio (including housing loans) represented the main driver of the overall growth, registering a 32.09% year-on-year growth.
This growth led the share of the net retail loans to total net loans to a healthy level 47.91% as at 31st, December 2012, as compared to 40.49% at year-end 2011.

Distribution by Geographical Area

	Balances		Growth	
Description (LBP billion)	**31-Dec-11**	**31-Dec-12**	**Amount**	**%**
Lebanon	2,898	3,390	491	16.95%
Middle East and Africa	442	637	195	44.08%
Europe	176	80	(96)	-54.50%
North America	0	0	0	458.18%
Others	1,181	1,203	22	1.85%
Total	4,698	5,310	612	13.04%





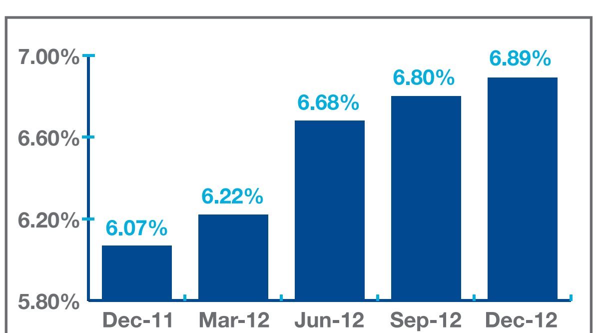
V- Investment Securities Portfolio

The Bank's securities portfolio, which consists of both fixed and variable income securities, increased by LBP 792 billion during 2012, an annual growth rate of 15.56%, to reach LBP 5,879 billion and representing 34.49% of total assets as at 31, December 2012.

	Balances		Growth	
Description (LBP billion)	31-Dec-11	31-Dec-12	Amount	%
Lebanese Government Bonds	1,206	1,753	547	45.35%
CD's issued by BDL	1,561	1,533	(28)	-1.77%
Lebanese Treasury Bills	1,489	1,600	111	7.47%
Private sector debt securities	681	815	134	19.74%
Foreign Government Treasury Bonds	28	53	25	91.22%
Unquoted equity securities	24	24	0	0.47%
Quoted equity securities and funds	16	17	1	4.87%
Accrued interest	83	84	0	0.42%
Total	5,087	5,879	792	15.56%

The share of Lebanese Treasury Bills and Government Eurobonds out of total securities increased notably from 52.97% as at December 31, 2011 to 57.03% as at December 31, 2012, while the share of fixed income securities placed with Central Banks decreased by 4.60%, to reach 27.22%.
The peer group share increased gradually during the year to reach 6.89% at the end 2012.

Peer Group Share:



Distribution by Classification

Following a conservative risk management approach, the share of Fair-Value through Profit and Loss (FVTPL) investment securities share decreased significantly to reach 9.01% as at 31, December 2012, as compared to 12.12% at year-end 2011. It is also to be noted the low level of equity instruments share out of the total investment securities portfolio, registered a low level of 0.70% as at 31, December 2012.

	Balances		Growth		Breakdown	
Description (LBP billion)	31-Dec-11	31-Dec-12	Amount	%	31-Dec-11	31-Dec-12
Debt instruments at Amortized Cost	4,468	5,345	878	19.65%	87.81%	90.92%
Debt Instruments at FVTPL	580	492	(87)	-15.05%	11.39%	8.37%
Equity instruments at FVTPL	37	38	1	2.08%	0.72%	0.64%
Equity instruments at FVTOCI	3	4	0	3.76%	0.07%	0.06%
Total	5,087	5,879	792	15.56%	100.00%	100.00%

Equity instruments / Portfolio	0.79%	0.70%
FVTPL instruments / Portfolio	12.12%	9.01%

Fair Value of Debt Instruments Classified at Amortized Cost

	31-Dec-12		
Description (LBP billion)	Cost	Fair Value	Unrealized
Lebanese Treasury Bills	1,303	1,306	3
Lebanese Government Bonds	1,693	1,736	42
Certificates of Deposit issued by BDL	1,495	1,549	55
CD's issued by private sector	514	516	2
Financial private sector debt securities	264	263	(0)
Total	5,269	5,370	102

As shown in the table above, there is a significant unrealized profit on the amortized cost debt instruments, estimated to be around LBP 102 billion as at 31, December 2012.

Property and Equipment

	Net Balances		Growth	
Description (LBP million)	31-Dec-11	31-Dec-12	Amount	%
Buildings	75,259	84,103	8,844	11.75%
Furniture	6,995	8,838	1,844	26.36%
Equipment	8,165	10,965	2,799	34.28%
Vehicles	363	286	(77)	-21.29%
Key Money	1,659	1,659	(0)	-0.01%
Installations and improvements	17,830	16,393	(1,437)	-8.06%
Advance on Capital expenditure	7,618	13,601	5,983	78.53%
Total	117,890	135,845	17,955	15.23%

As shown in the table above, the increase in "Properties and Equipment" (net of depreciation) was LBP 18 billion (+15.23%). It is to be noted that the share of "property and equipment" in total assets was around 0.80% as at 31/12/2012, as compared to 1.14% for the peer group.

Profitability

Overview

The consolidated net income (Equity holders of the Group) increased in 2012 by 12.84% to LBP 175.7 billion, as compared to LBP 155.7 billion for the year 2011.
This growth in profitability was driven by the growth in the business activities, coupled with efficient management of interest rate margins, high commission base and effective cost containment policy, with a focus on consistently increasing the non-interest base revenues.
The positive growth in the net earnings was due to the increase in "operating income" by 18.77% combined with the increase in total operating expenses by 19.30%, increase in credit risk allowances by LBP 9.1 billion, and the increase of income tax provisions by 16.79%.

Description (LBP million)	Amount		Growth	
	2011	2012	Amount	%
Interest income*	697,962	797,549	99,587	14.27%
Interest expense*	(448,878)	(502,268)	(53,391)	11.89%
Net interest income	**249,084**	**295,281**	**46,197**	**18.55%**
Net fee & commission income	95,354	112,401	17,047	17.88%
Other non-interest income	38,661	47,332	8,670	22.43%
Operating income	**383,100**	**455,014**	**71,914**	**18.77%**
Impairment losses	(3,058)	(12,140)	(9,083)	297.03%
Net operating income	**380,042**	**442,873**	**62,831**	**16.53%**
Operating expenses	(191,253)	(228,166)	(36,912)	19.30%
Profit before income taxes	**188,789**	**214,708**	**25,919**	**13.73%**
Income taxes	(32,728)	(38,222)	(5,494)	16.79%
Net profit	**156,061**	**176,486**	**20,425**	**13.09%**
Non-controlling interest	(346)	(781)	(435)	125.73%
Net profit (Equity holders)	**155,715**	**175,705**	**19,990**	**12.84%**

* including interest on financial assets & liabilities designated at FVTPL for better comparison

Distribution of Net Profit by Entity of the Group

Entity (LBP million)	Year		Growth	
	2011	2012	Amount	%
Bank of Beirut - Lebanon *	113,531	124,509	10,978	9.67%
Bank of Beirut (UK) Ltd	14,197	16,218	2,021	14.23%
Bank of Beirut - Oman	6,555	8,783	2,227	33.98%
Bank of Beirut - Cyprus	2,501	3,244	742	29.67%
Bank of Beirut Invest	5,382	5,435	53	0.98%
BOB Finance	111	363	252	227.24%
Beirut Broker Co.	7,790	8,220	430	5.51%
Beirut Life	873	3,554	2,682	307.27%
Bank of Sydney Ltd., previously Beirut Hellenic Bank	3,450	5,674	2,224	64.48%
Cofida Holding SAL	455	458	3	0.57%
Income from a foreign associate	2,698	1,783	(915)	-33.91%
Less: tax on undistributed profits	(1,483)	(1,754)	(271)	18.28%
Less: Minority Share	(346)	(781)	(435)	125.73%
Consolidated (Group Share)	**155,715**	**175,705**	**19,990**	**12.84%**

Share of foreign entities	**18.88%**	**20.32%**	**1.44%**

* after elimination of dividends received from local subsidiaries

All entities registered positive growth rates in profitability except for the share in profit of the foreign associate booked under the Equity Method. The share of net income booked in the foreign entities increased significantly from 18.88% in 2011 to 20.32% in 2012.

Net Interest Income

Description (LBP million)	Year 2011	Year 2012	Growth Amount	Growth %	Breakdown 2011	Breakdown 2012
Placements with Central Banks	14,626	64,615	49,989	341.79%	2.10%	8.10%
Placements with banks	25,431	30,913	5,482	21.56%	3.64%	3.88%
T-bills and Govn't Eurobonds	184,769	188,872	4,104	2.22%	26.47%	23.68%
CD's issued by the Central Bank of Lebanon	121,782	127,317	5,535	4.55%	17.45%	15.96%
Other fixed income securities	33,787	36,299	2,512	7.43%	4.84%	4.55%
Loans to customers	317,568	349,533	31,965	10.07%	45.50%	43.83%
Interest income	**697,962**	**797,549**	**99,587**	**14.27%**	**100.00%**	**100.00%**
Banks and Financial Institutions	8,160	10,399	2,238	27.43%	1.82%	2.07%
Customers' deposits	428,440	485,902	57,462	13.41%	95.45%	96.74%
Certificates of Deposit	10,022	5,245	(4,777)	-47.66%	2.23%	1.04%
Central Bank of Lebanon Soft Loans	1,166	-	(1,166)	-100.00%	0.26%	0.00%
Subordinated loans	1,089	722	(367)	-33.70%	0.24%	0.14%
Interest expense	**448,878**	**502,268**	**53,391**	**11.89%**	**100.00%**	**100.00%**
Net Interest Income*	**249,084**	**295,281**	**46,197**	**18.55%**		

* including interest on financial assets and liabilities designated at FVTPL

As reflected in the table above, the net interest income increased by 18.55% in year 2012. This was mainly due to the increase in interest income (+14.27%), combined with an increase in interest expenses by 11.89%.
The growth was contributed mainly by the interest from loan portfolio and from the Placements with the Central Bank of Lebanon.

Ratio	2011	2012	Variance
Interest income / average assets	5.23%	5.03%	-0.20%
Interest expense / average assets	-3.36%	-3.17%	0.19%
Interest Spread (net interest income / average assets)	1.86%	1.86%	0.00%
Interest income / average interest earning assets	5.61%	5.39%	-0.23%
Interest expense / average interest bearing liabilities	-3.98%	-3.71%	0.27%
Interest differential	1.64%	1.68%	0.04%
Yield on earning assets	5.61%	5.39%	-0.23%
Cost of earning assets	-3.61%	-3.39%	0.22%
Interest margin	2.00%	1.99%	-0.01%
Average interest earning assets / average assets	93.06%	93.39%	0.32%
Interest expense / Interest income	64.31%	62.98%	0.00%
Net interest income / Operating income	65.02%	64.89%	0.00%

Non-Interest Income

Description (LBP million)	Year 2011	Year 2012	Growth Amount	Growth %
Fee and commission income	108,406	126,832	18,426	17.00%
Fee and commission expense	(13,052)	(14,431)	(1,379)	10.56%
Dividends received	1,927	2,564	637	33.07%
Net Gain from investment securities	23,293	27,767	4,474	19.21%
Net Gain on sale of foreclosed assets	16,861	11,835	(5,026)	-29.81%
Share in profit of an associate	2,698	1,783	(915)	-33.91%
Foreign exchange gain	5,879	8,127	2,248	38.25%
Charge on Forward Contract	(12,074)	(7,234)	4,841	-40.09%
Other non-interest income	78	2,489	2,411	3091.41%
Total	134,016	159,733	25,717	19.19%

Ratio	31-Dec-11	31-Dec-12	Variance
Net non-interest income/average assets	1.00%	1.01%	0.00%
Non-interest income/Operating income	34.98%	35.11%	0.12%
Net commissions received/average deposits	0.93%	0.90%	-0.03%

Other Operating Expenses

Description (LBP million)	Year 2011	Year 2012	Growth Amount	Growth %
Staff expenses	116,362	127,888	11,526	9.90%
General operating expenses	64,516	86,651	22,134	34.31%
Depreciations and amortizations	10,375	13,627	3,252	31.35%
Total	191,253	228,166	36,912	19.30%

The main drivers behind the 19.30% year-on-year increase in the operating expenses could be summarized by the following:

- Staff count grew by 115 during the year, mainly to cater the opening of new branches in Lebanon and Oman, in addition to the official salary increase in Lebanon.
- The opening of 3 new branches in Lebanon, one in Australia and a new Head Office building in Oman, in addition to the increased IT investment (strategic new applications e.g. Core Banking, CRM, Online Banking, Mobile Banking, etc) and the advertising cost (including the re-branding and TV campaigns).

Operating Efficiency

On the operating efficiency level, cost to income ratio increased slightly to 50.14% in 2012 from 49.92% in 2011, marginally higher than the peer group average of 47.84%.

Ratio	Unit	31-Dec-11	31-Dec-12	Variance
Cost ratios				
Staff expenses / operating Income	%	30.37%	28.11%	-2.27%
General Expenses / operating income	%	16.84%	19.04%	2.20%
Depreciation / operating income	%	2.71%	2.99%	0.29%
Cost to income ratio	%	49.92%	50.14%	0.22%
Cost to average assets	%	1.43%	1.44%	0.01%
Effective tax rate	%	17.34%	17.80%	0.47%
Operating efficiency				
Number of Staff	Count	1,414	1,529	115
Number of branches and banking units	Count	75	80	5
Staff per branch	Count	18.9	19.1	0.3
Average assets per average staff	LBP million	10,371	10,776	405
Average deposits per average staff	LBP million	7,954	8,523	568
Staff expenses per average staff	LBP million	90	87	(3)
Operating Income per average staff	LBP million	295	301	6
Net income per average staff	LBP million	121	120	(1)
Staff expenses/total operating expenses	%	60.84%	56.05%	-4.79%
Assets per branch	LBP million	195,574	213,058	17,484
Total Deposits per branch	LBP million	152,813	170,262	17,449
Operating Income per branch	LBP million	5,108	5,688	580
Net income per branch	LBP million	2,081	2,206	125

As signaled in the table above, the Bank has been able to preserve most of the operating efficiency indicators within good ranges.

Profitability Indicators

Ratio	Year 31-Dec-11	Year 31-Dec-12	Year Variance
Return on Average Assets (ROAA)	1.17%	1.11%	-0.06%
Return on Average Equity (ROAE)	10.58%	10.71%	0.13%
Return on Average Common Equity (ROACE) *	16.18%	16.67%	0.49%
+Yield on earning assets	5.61%	5.39%	-0.23%
- Cost of earning assets	-3.61%	-3.39%	0.22%
= Interest margin	2.00%	1.99%	-0.01%
x Average interest earning assets / average assets	93.06%	93.39%	0.32%
= Interest Spread	1.86%	1.86%	0.00%
+ Net non-interest income / average assets	1.00%	1.01%	0.00%
= Asset Utilization Ratio	2.87%	2.87%	0.00%
x Net operating margin	40.74%	38.79%	-1.95%
o.w. Cost to income	49.92%	50.14%	0.22%
o.w. Credit Cost	0.83%	2.68%	1.85%
o.w. Other provisions	-0.03%	-0.01%	0.02%
o.w. Tax Cost	8.54%	8.40%	-0.14%
= Return on average assets (ROAA)	1.17%	1.11%	-0.06%
x Leverage (average assets/average equity)	9.62	9.62	0.56
= Return on average equity (ROAE)	10.58%	10.71%	0.13%

* calculated as common earnings / average common equity, excluding common earnings.

Return on Average Assets decreased slightly in 2012 to 1.11% from 1.17% in 2011, mainly due to the higher increase in assets; however, Bank of Beirut has been able to rank 4th among the peer group banks in this ratio as per Bankdata report as at 31 December 2012.

The return on average equity (ROAE) increased to 10.71%, while the return on average common equity stood at a comfortable level of 16.67%. Driven by a virtually stable net spread and non-interest ratio, the asset utilization ratio remained at the same level of 2.87%,

The Cost to Income ratio has been slightly increased to the level of 50.19%, from 49.92% in 2011.

Peer Group Comparison

Ratio	BOB 2011	BOB 2012	Peer 2011	Peer 2012	Rank
Return on Average Assets (ROAA)	1.17%	1.11%	1.13%	1.10%	4
Return on Average Equity (ROAE)	10.58%	10.71%	13.07%	12.92%	8
Interest Spread	1.86%	1.86%	1.93%	1.93%	7
Net non interest income/average assets	1.00%	1.01%	1.04%	1.11%	4
Asset Utilization Ratio	2.87%	2.87%	2.97%	3.04%	7
Cost to income	49.92%	50.14%	47.84%	47.58%	7

Calculation of Common Earnings

Description (LBP million)	Year 2011	Year 2012	Growth Amount	Growth %
Consolidated net profit (Group share)	155,715	175,705	19,990	12.84%
Dividends on non-cumulative pref. shares	46,271	56,809	10,538	22.77%
Preferred shares series "D"	13,568	13,568	-	0.00%
Preferred shares series "E"	7,236	7,236	-	0.00%
Preferred shares series "F"	9,045	9,045	-	0.00%
Preferred shares series "G"	12,714	12,714	-	0.00%
Preferred shares series "H"	3,708	14,246	10,538	284.21%
Common Earnings (group share)	109,444	118,896	9,452	8.64%

The common earnings (net profit attributable to common shareholders) recorded a positive growth of 8.64% after accounting for the preferred shares dividends.

Calculation of Earnings per Common Share

Description (LBP million)	Year 2011	Year 2012	Growth Amount	Growth %
Net profit for the year (group share)	155,715	175,705	19,990	12.84%
Less: Dividends preferred shares	(46,271)	(56,809)	(10,538)	22.77%
Common earnings	109,444	118,896	9,452	8.64%
Weighted average number of common shares	50,286,589	50,190,089	(96,500)	-0.19%
Effect of dilutive potential common shares	-	-	0	0.00%
Total weighted average No. of common shares	50,286,589	50,190,089	(96,500)	-0.19%
Basic Earnings per share	2,176	2,369	193	8.85%
Diluted Earnings per share	2,176	2,369	193	8.85%

The Basic Earnings per Common Share (EPS) increased to LBP 2,369 in year 2012, from LBP 2,176 for the year 2011. The increase is mainly due to the growing common earnings (+8.64%) and a slightly lower weighted average number of common shares (-0.19%). The conversion effect of series “G” Preferred Shares was excluded from the calculation of diluted earnings per share for the years 2012 and 2011 since their effect is anti-dilutive.

Capitalization

The Bank's consolidated equity grew by LBP 138 billion, reaching LBP 1,717 billion as at 31 December 2012, an increase of 8.74% compared to 2011 year-end.

	Balances		Growth	
Description (LBP million)	**31-Dec-11**	**31-Dec-12**	**Amount**	**%**
Ordinary share capital	63,589	68,131	4,542	7.14%
Shareholders' cash contribution to capital	20,978	20,978	-	0.00%
Non-cumulative preferred shares	744,328	783,825	39,497	5.31%
Issue premium	232,108	232,108	-	0.00%
Legal reserve	66,584	80,205	13,621	20.46%
Reserve for general banking risks	86,681	107,590	20,909	24.12%
Special Reserves set-up from net release of provision for credit losses	6,899	5,722	(1,177)	-17.06%
Reserves restricted for capital Increase	6,075	22,949	16,874	277.77%
Retained Earnings	176,342	195,281	18,940	10.74%
Owned buildings revaluation surplus	1,669	1,669	-	0.00%
Cumulative change in fair value of inves. securities at FVTOCI	299	348	50	16.57%
Regulatory reserves for assets acquired on satisfaction of Loans	5,196	5,244	48	0.92%
Revaluation of change in FV of forward contracts as hedging instruments	(1,440)	3,045	4,485	-311.50%
Treasury Shares	(9,304)	(11,408)	-2,104	22.61%
Net income for the year (equity holders of the group)	155,715	175,705	19,990	12.84%
Non controlling interest	24,160	25,438	1,278	5.29%
Currency translation adjustment	(716)	309	1,025	-143.19%
Total	1,579,164	1,717,140	137,976	8.74%

The growth in Equity was mainly derived from the increase in reserves and retained earnings (LBP 69 billion), the increase in preferred shares due to the issuance of USD 125 million series "I" to compensate the redemption of USD 100 million series "D".

With the achieved level of equity, Bank of Beirut was the bank that reflected one of the highest capitalization levels in its peer group, reaching the 2nd rank among the Alpha Group banks, with "equity to asset ratio" of 10.07% as compared to 8.64% for the peer group.

Capital Structure

The Bank's capital constitutes Common and Preferred Shares as follows:

	Number of Shares		Growth	
Share Type	**31-Dec-11**	**31-Dec-12**	**Amount**	**%**
Common shares	50,467,400	50,467,400	-	0.00%
Preferred Shares Series "D"	4,000,000	-	(4,000,000)	-100.00%
Preferred Shares Series "E"	2,400,000	2,400,000	-	0.00%
Preferred Shares Series "F"	3,000,000	3,000,000	-	0.00%
Preferred Shares Series "G"	3,570,000	3,570,000	-	0.00%
Preferred Shares Series "H"	5,400,000	5,400,000	-	0.00%
Preferred Shares Series "I"	-	5,000,000	5,000,000	
Total	68,837,400	69,837,400	1,000,000	1.45%

On 28^{th}, December 2012, the Preferred Shares Series "D" have been redeemed, and a new 5 million shares Series "I" were issued as approved by the General Assembly.

Preferred Shares Overview

Currently, the total issue values of the outstanding Preferred Shares stands at around USD 519.950 million, representing 45.65% of the total shareholders' equity. The main features of the outstanding Preferred Shares are as follows:

Description	Series "E"	Series "F"	Series "G"	Series "H"	Series "I"
Number of shares	2,400,000	3,000,000	3,570,000	5,400,000	5,000,000
Issue price per share	$25.00	$25.00	$35.00	$25.00	$25.00
Issue size (USD 000's)	$60,000	$75,000	$124,950	$135,000	$125,000
Dividend rate p.a.	8.00%	8.00%	6.75%	7.00%	6.75%
Non-Cumulative	Yes	Yes	Yes	Yes	Yes
Perpetual	Yes	Yes	Yes	Yes	Yes
Redeemable	Yes	Yes	Yes	Yes	Yes
Convertible to Common Shares	No	No	Yes	No	No
Redemption price per share	$25.00	$25.00	$35.00	$25.00	$25.00
Conversion exercise price	NA	NA	$35.00	NA	NA
Redemption right holder	BOB	BOB	BOB	BOB	BOB
Conversion right holder			Holder		
Issue date	13-Nov-08	8-Jul-09	29-Sep-10	30-Jun-11	19-Nov-12
Closing date	30-Dec-08	18-Sep-09	29-Dec-10	28-Sep-11	28-Dec-12
First redemption exercise date	30-Dec-13	30-Dec-14	30-Dec-16	30-Dec-16	30-Dec-17
Conversion right exercise date			30-Dec-15		

The Board of Directors has resolved during its meeting held on September 4th, 2012 the full redemption of the USD 100 million Series "D" Preferred Shares. Following the Banking Control Commission's approval on October 5th, 2012, the General Assembly-held on December 28th, 2012 approved and ascertained the redemption.

On November 19th, 2012, the Extraordinary General Meeting resolved the issuance of Perpetual, Redeemable and non-Cumulative Preferred Shares Series "I" for a total issue value of USD 125 million with a dividend rate of 6.75%. Closing date of the issuance was on December 28th, 2012.

Capital Adequacy

Maintaining its position as the bank with the highest capitalization level among the peer group banks, Bank of Beirut reflected a very healthy set of Capital ratios.

The high level of capital adequacy confirmed the Bank's strategy in strengthening the Capital base in order to fund its expansion strategy, in addition to complying comfortably with Basel II requirements; taking into consideration the increasing risk weights applied on the exposure to Lebanese sovereign risk.

Capital Adequacy Ratio under Basel II & III

Description (LBP billion)	Balances / Ratio		Variation	
	31-Dec-11	31-Dec-12	Amount	%
Common Equity (Net)	587,308	710,162	122,855	20.92%
Additional Tier 1 Capital (Net)	604,655	589,106	(15,549)	-2.57%
Net Tier 2 Capital	167,425	199,950	32,524	19.43%
Total Regulatory Capital	**1,359,388**	**1,499,218**	**139,830**	**10.29%**
RWA - Credit Risk	9,000,910	10,403,025	1,402,115	0
RWA - Market Risk	366,399	361,800	(4,599)	(0)
RWA - Operational Risk	565,771	679,856	114,085	20.16%
Total RWA	**9,933,080**	**11,444,681**	**1,511,601**	**15.22%**
Capital Adequacy Ratio	13.68%	13.10%	-0.59%	
Common Equity Ratio	5.91%	6.21%	0.29%	
Core Capital Adequacy Ratio	12.00%	11.35%	-0.65%	
Tier 2 Capital Adequacy Ratio	1.69%	1.75%	0.06%	

Under Basel II, the Capital Adequacy ratio stood at year-end 2012 at 13.10%, down from 13.68% as at 31, December 2011, as compared to the minimum required ratio of 10.00% and 10.01% as a result of the ICAAP approved by the Board Risk Committee and the Board of Directors.

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

Ratio	31-Dec-12	31-Dec-13	31-Dec-14	31-Dec-15
Common Equity Tier 1 ratio	5.00%	6.00%	7.00%	8.00%
Tier 1 ratio	8.00%	8.50%	9.50%	10.00%
Total Capital ratio	10.00%	10.50%	11.50%	12.00%

As shown in the tables below, Bank of Beirut is already compliant with Basel III capital requirements, more specifically, with a common equity ratio of 6.21% (as compared to 5.00% minimum required).

Description (LBP million)	Minimum Regulatory*	Excess Capital
Common Equity	5.00%	137,928
Tier 1 Ratio	8.00%	383,694
Total CAR	10.00%	354,750

* as at 31/12/2012

Share Information

Common Share Performance

Indicator	Unit	31-Dec-11	31-Dec-12	Variance
Common Share market price	LBP	29,246	28,643	(603)
Common Equity book value (1)	LBP billion	789	877	88
Common Share book value	LBP	15,625	17,367	1,742
Market Capitalization (end of period)	LBP billion	1,476	1,446	(30)
Market Value added	LBP billion	687	569	(118)
Market Value added/Market capitalization	%	46.57%	39.36%	-7.21%
Basic EPS / Common Share market price	%	7.44%	8.27%	0.83%
Price to common earnings - P/E Ratio (2)	Times	13.44	12.09	(1.35)
Price to common book value - M/B Ratio	Times	1.87	1.65	(0.22)
Price to assets	%	10.06%	8.48%	-1.58%

(1) Including the common earnings of the year (2) Calculated as basic earnings per share / Common Share market price

The Common Share market price decreased slightly by LBP 603 (USD 0.40) during the period, reflecting a negative growth of 2.06%. Consequently, the market capitalization stood at around LBP 1,445 billion (USD 959 million), and the “price to book value” decreased to 1.65 times as compared to 1.87 at the end of year 2011. The “price to assets” ratio stood at a very healthy level of 8.48%, one of the lowest on the market.

Dividends

The Ordinary General Meeting of Shareholders resolved, during its meeting held on 12 April 2013, a cash dividend per Common Share (DPS) at the level of LBP 716, higher by 10.15% over last year Dividend per Share. The year 2012 DPS upgraded the dividend yield to 2.50% as compared to 2.22% in 2011.

	Balance / Ratio		Variation	
Description (LBP million)	31-Dec-11	31-Dec-12	Amount	%
Dividend per Common Share (DPS)	650	716	66	10.15%
Total Dividends on Common Shares	32,804	36,135	3,331	10.15%
Total Dividends on non-Cumulative Preferred Shares	46,271	56,809	10,538	22.77%
Total Dividends (Common and non-Cumulative Preferred)	79,075	92,943	13,869	17.54%
Dividend yield per Common Share (DPS/Price)	2.22%	2.50%	0.28%	
Common Share dividend payout ratio (% on common earnings)	29.97%	30.39%	0.42%	
Common Share dividend payout ratio (% of net profit after tax)	21.02%	20.47%	-0.55%	
Total dividend payout ratio (Net Profit)	50.67%	52.66%	1.99%	

Liquidity

The conservation of adequate liquidity has invariably been the Bank’s policy to retain a high level of liquid assets and a diversified and stable funding base.
Monitored and controlled by the Asset Liability Committee (ALCO), the liquidity position of the Bank is managed on a daily basis by the Treasury Department and the liquidity risks are consistently measured, monitored, and scrutinized by the Risk Management Department.

Ensuring low liquidity risk is shown by the following factors:

- Sufficient high-quality liquid assets, including high level placements with well reputed and highly rated global banks
- Diversification in the securities portfolio
- Stability in customers' deposits
- Manageable cash flow mismatching gaps
- Non-reliance on whole-sale funding

The liquidity ratios, in both local and foreign currencies, maintained the healthy levels of 2011 while the loan to deposit ratio decreased slightly to the level of 38.98%.

Ratio	31-Dec-11	31-Dec-12	Variance
Loans in LBP to deposits in LBP ratio	22.57%	20.81%	-1.75%
Loans in FCY to deposits in FCY ratio	50.14%	48.18%	-1.96%
Loans to deposits ratio	40.99%	38.98%	-2.00%
Deposits (LBP) / Assets (LBP)	88.65%	89.09%	0.44%
Deposits (FCY) / Assets (FCY)	73.79%	75.95%	2.16%
Deposits / Assets	78.14%	79.91%	1.78%
Investment securities portfolio/Total Assets	34.68%	34.49%	-0.19%
Investment securities FVTPL/Total Invest. securities	12.12%	9.01%	-3.10%
Total Liquid Assets (LBP) / Total Liabilities (LBP)	87.52%	91.38%	3.86%
Total Liquid Assets (FCY) / Total Liabilities (FCY)	63.93%	64.78%	0.85%
Total Liquid Assets / Total Liabilities	71.35%	73.34%	2.00%

Asset Quality

The Bank's assets comprise mainly liquid assets (primary liquidity and investment securities) which represented 64.51% of total assets as at 31, December 2012, as compared to 62.69% at year-end 2011.
Loans to customers represented 29.02% as at December 31, 2012 as compared to 28.43% at the end of the previous year.

Assets Composition

	BOB		Peer	
Description (%)	31-Dec-11	31-Dec-12	31-Dec-11	31-Dec-12
Cash and deposits at Central Banks	16.04%	19.98%	16.79%	19.98%
Due to banks and financial inst.	11.97%	10.04%	12.68%	11.73%
Loans and Advances	32.03%	31.15%	28.43%	29.02%
Customers' acceptance liability	3.12%	2.41%	1.09%	0.75%
Investment securities	34.68%	34.49%	38.18%	35.88%
Property and equipment	0.80%	0.80%	1.15%	1.14%
Other assets	0.76%	0.60%	1.27%	1.15%
Goodwill	0.60%	0.53%	0.40%	0.35%
Total	100.00%	100.00%	100.00%	100.00%
Liquid assets/Assets	62.69%	64.51%	67.65%	%67.59
Loans / Assets	32.03%	31.15%	28.43%	%29.02
Fixed Assets / Assets	0.80%	0.80%	1.15%	%1.14
Goodwill / Assets	0.60%	0.53%	0.40%	%0.35

Loan Portfolio Quality

The net "Non-Performing Loans" balances recorded a moderate increase in 2012 by LBP 3.4 billion.

Description (LBP million)	Balances 31-Dec-11	Balances 31-Dec-12	Growth Amount	Growth %
Gross NPLs	109,631	119,074	9,443	8.61%
Unrealized interest	(60,149)	(54,528)	5,621	-9.34%
Specific provisions	(20,181)	(31,863)	(11,682)	57.88%
Net NPLS	29,301	32,683	3,382	11.54%

The increase was mainly derived from the growth of the gross balances (LBP 9.4 billion), which was counterbalanced by the increase in the Loan Loss Reserves by LBP 11.6 billion.

It is to be noted that Bank of Beirut has been ranked 1st among peer group banks as at 31, December 2012 in the following ratios:
- Gross doubtful loans to gross loans
- Gross non-performing loans to gross loans
- Net doubtful loans to gross loans
- Loan loss reserves on doubtful to doubtful loans

Classification of Loans

Description (LBP million)	Balances 31-Dec-11	Balances 31-Dec-12	Growth Amount	Growth %
Regular loans	4,684,287	5,300,424	616,137	13.15%
Substandard Loans	14,728	13,816	(912)	-6.20%
Gross balances	20,970	18,447	(2,523)	-12.03%
Unrealized interest	(6,242)	(4,549)	1,693	-27.12%
Impairment allowances	-	(82)	(82)	
Doubtful Loans	14,572	18,867	4,294	29.47%
Gross balances	88,661	100,627	11,966	13.50%
Unrealized interest	(53,907)	(49,979)	3,928	-7.29%
Impairment allowances	(20,181)	(31,781)	(11,600)	57.48%
Collective Provisions	(16,004)	(23,136)	(7,132)	44.56%
Total Net Loans	4,697,584	5,309,971	612,387	13.04%

Fair Value of Collateral Received Against Loans to Customers

Loans to Customers (LBP million)	Net Exposure	Fair value of Collateral Received: Pledged funds	1st Degree Mortgaged	Dept Securities	Bank Guarantees	Vehicles	Others	Total	Coverage Ratio
Regular Loans	5,177,249	320,223	3,768,084	70,914	57,853	157,644	364,999	4,739,718	91.55%
Substandard	13,816	49	7,567	-	-	1,505	1,484	10,604	76.76%
Doubtful	18,867	-	8,992	-	-	170	1,180	10,342	54.82%
Collective Provisions	(23,136)	-	-	-	-	-	-	-	0.00%
Total	5,186,796	320,272	3,784,643	70,914	57,853	159,319	367,662	4,760,664	91.78%

As shown in the table above, the fair value of collaterals received as at 31, December 2012 represent 91.78% of the net exposure.

Loan Portfolio Quality Ratios

Ratio	31-Dec-11	31-Dec-12	Variance
Regular Loans / Gross Loans	97.71%	97.80%	0.09%
Gross Substandard Loans / Gross Loans	0.44%	0.34%	-0.10%
Gross Doubtful Loans / Gross Loans	1.85%	1.86%	0.01%
Gross NPLs / Gross Loans	2.29%	2.20%	-0.09%
Net Substandard Loans / Net Loans	0.31%	0.26%	-0.05%
Net Doubtful Loans (after specific LLRs) / Net Loans	0.31%	0.36%	0.05%
Net NPLs (after specific LLRs) / Net Loans	0.62%	0.62%	-0.01%
Unrealized Interest on substandard / Gross Substandard	29.77%	24.66%	-5.11%
Specific Loan Loss Reserves on doubtful / Gross Doubtful	83.56%	81.25%	-2.31%
Specific Loan Loss Reserves on NPLs / Gross NPLs	73.27%	72.55%	-0.72%
Total LLRs / Gross NPLS	87.87%	91.98%	4.11%
Net NPLs / Total Assets	0.20%	0.19%	-0.01%
Net NPLs / Total Shareholders' Equity	1.86%	1.90%	0.05%
Collective provisions / Net Loans	0.34%	0.44%	0.10%

Sovereign Risk

The sovereign risk ratios registered a slight increase during the period. The total sovereign exposure (Treasury and Central Banks) to total assets reached 48.41% as at December 31, 2012 as compared to 44.84% as at 2011 year-end. The main driver was the increase in the exposure to Lebanese Government Eurobonds.

Ratio	31-Dec-11	31-Dec-12	Variance
Treasury Bills (LBP) / Assets (LBP)	34.70%	31.14%	-3.56%
Lebanese Government Eurobonds / Assets (FCY)	11.62%	14.72%	3.10%
Total Exposure to Lebanese Treasury / Assets	18.37%	19.67%	1.30%
Due from Central Banks (LBP) / Assets (LBP)	39.55%	45.55%	6.00%
Due from Central Banks (FCY) / Assets (FCY)	21.06%	21.49%	0.43%
Due from Central Banks / Assets	26.47%	28.74%	2.27%
Total Sovereign Exposure (LBP) / Assets (LBP)	74.25%	76.69%	2.44%
Total Sovereign Exposure (FCY) / Assets (FCY)	32.68%	36.21%	3.53%
Total Sovereign Exposure / Assets	44.84%	48.41%	3.57%

2012 Achievements

Trade Finance

Undisputed Leader in Trade Finance

Bank of Beirut in 2012 was Lebanon's undisputed leader in the provision of trade finance services for the fifth year running and earned new trade finance accolades from the International Finance Corporation (IFC).

Ranked First in Trade Credit Issuance

Opening USD 6.337 billion in Letters of Credit for commercial and trade customers in 2012, Bank of Beirut accounted for 28.82 percent of all LCs issued by Alpha banks. Being number one on the Lebanese market in issuance of Letters of Guarantee and stand-by Letters of Credit as well as Documentary and Commercial Letters of Credit demonstrates the Bank's outstanding role in serving vital needs of Lebanese trade and commerce.

IFC: Bank of Beirut is Best in Supporting Regional Trade

The World Bank Group's International Finance Corporation recognized Bank of Beirut's exceptional contribution to facilitating of regional trade in the Middle East and North Africa under the IFC's Global Trade Finance Program (GTFP) in October 2012. At its Annual Meeting, the IFC honored the Bank with the award of being the "Best GTFP Issuing Bank in Middle East and North Africa Regional Trade". The USD 5 billion GTFP, which the IFC launched in 2006, extends and complements the capacity of banks to deliver trade financing by providing risk mitigation in new or challenging markets.

Digital Innovation

Three Digital Innovations

The expansion of its Digital Banking Services is a development priority for which Bank of Beirut advanced via three important innovations in 2012. It introduced new mobile banking, new online platforms for consumer and corporate banking, and added new functionality to its core banking system. The digital innovations expand the Bank's competitiveness domestically and internationally.

Mobile Banking

The Bank in 2012 launched its iMobile banking application, or app, that provides its customers with easy access from handheld and Smartphone devices on basis of an enhanced security architecture. The app was developed to work on the iPhone, Android, and Blackberry platforms. It allows the Bank's customers to perform various banking operations from their mobile devices, such as checking account balances, transferring funds, and requesting check books. The iMobile app includes a geographic locator service displaying Bank of Beirut branches and ATMs on a map. Most importantly, the app's advanced security architecture safeguards data and prevents illicit use of data and of the app itself.

Online Banking Platforms

In parallel to the introduction of iMobile services for customers on the move, Bank of Beirut launched new Online Banking Platforms that provide retail and corporate clients with highly secure access to their personal or business accounts. Bank of Beirut Online Banking now facilitates immediate access to perform urgent banking business within minutes from office or home computers. Online Banking operations, available to corporate and retail customers, include funds transfers between a customer's accounts and other customer accounts at Bank of Beirut, local and international wire transfers, and check book ordering, among other operations.

Core Banking Expansion through BankFusion

To enhance its core banking system, Bank of Beirut in 2012 adopted the Misys BankFusion Universal Banking platform. Purchased from UK-based banking software specialist, Misys, the platform provides our financial experts with superior flexibility to continuously develop new products that serve our customers in full conformity with international regulatory standards.

Integrating the BankFusion platform with the Bank's existing applications, the Bank enables automation of operations across all its divisions. The new system facilitates larger transaction volumes while lowering transaction costs. Using the new system already helped Bank of Beirut management to capitalize on new market opportunities and optimize operational efficiency. These improvements are of great support to the Bank's operations and the BankFusion system is a strategic constituent within Bank of Beirut's program of expansion into new markets.


HR Learning

Growing Our Human Capital

Bank of Beirut's highly skilled employees represent our core competitive advantage in all the markets we serve. In 2012, the group added 115 new staff mainly in conjunction with opening four new branches in Lebanon and a new head office in Muscat for Bank of Beirut (Oman). With our employee count of 1,529 individuals at the end of 2012, Bank of Beirut has long given strategic attention to developing our human resources.

As part of the strategy to develop its human resources, Bank of Beirut established the Learning Center in 2012. The Center is designed to coach staff members in relevant fields of study for their career and skills development. It offers three core curricula of training for:

- Client-facing Roles
- Branch Management
- Commercial Banking Teams

The curricula adhere to international standards and have been approved by the Bank's Senior Management. Participation in the Learning Center's training programs is mandatory for all employees and successful participants receive certificates.

With the creation of the Learning Center in 2012, Bank of Beirut reinforced its strategic emphasis on developing our talent with in-depth knowledge and skills. Special attention in the initial programs was given to investing in sales teams at all levels of the organization. This investment was reflected in enhanced performance of sales teams from the get go and is an example for the Bank's meticulous focus on continuous development of superior service quality.

Consolidated Financial Statements and Independent Auditor´s Report

Table of Contents

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INDEPENDENT AUDITOR'S REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Beirut, Lebanon
March 28, 2013

DFK Fiduciaire du Moyen Orient

Deloitte & Touche

Consolidated statement of financial position

ASSETS

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

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

LIABILITIES

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

SHAREHOLDERS´ EQUITY

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

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

Consolidated income statement

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

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

Consolidated statement of commprehensive income

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

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

Consolidated statement of changes in equity

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

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

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

Consolidated statement of cash flows

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

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

Notes to the consolidated financial statements

1. General information

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

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

2.1 Standards and Interpretations effective for the current period

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

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

2.2 New and Revised Standards in issue but not yet effective

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

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

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

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

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

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

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

Annual Improvements May 2012

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

3. Significant account policies

Statement of Compliance

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

Basis of Preparation

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

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

The principal accounting policies applied are set out below:

A. Basis of Consolidation:

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

The consolidated subsidiaries consist of the following:

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

Notes to the consolidated financial statements

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

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

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

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

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

B. Business Combinations:

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

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

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

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

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

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

C. Goodwill:

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

Notes to the consolidated financial statements

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

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

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

D. Foreign Currencies:

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

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

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

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

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

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

E. Recognition and Derecognition of Financial Assets and Liabilities:

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

F. Classification of Financial Assets:

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

Debt Instruments:

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

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

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

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

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

Equity Instruments:

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

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

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

Notes to the consolidated financial statements

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

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

A financial asset is held for trading if:

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

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

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

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

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

G. Financial Liabilities and Equity Instruments:

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

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

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

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

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

A financial liability is classified as held for trading if:

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

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

H. Offsetting:

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

I. Fair Value Measurement of Financial Instruments:

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

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

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

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

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

J. Impairment of Financial Assets:

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

Hedges of net investments in foreign operations:

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

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

L. Loans and Advances

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

M. Financial Guarantees:

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

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

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

N. Investments in Associates

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

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

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

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

O. Property and Equipment:

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

Notes to the consolidated financial statements

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

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

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

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

P. Intangible Assets Other than Goodwill:

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

Q. Assets acquired in satisfaction of loans:

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

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

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

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

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

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

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

The impairment loss is charged to the consolidated income statement.

Notes to the consolidated financial statements

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

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

Policy applicable to other Jurisdictions:

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

T. Provisions:

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

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

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

U. Revenue and Expense Recognition:

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

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

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

Net trading income presented in the income statement includes:

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

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

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

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

Notes to the consolidated financial statements

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

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

V. Income Tax:

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

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

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

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

W. Fiduciary Accounts:

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

X. Operating lease agreements:

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

Y.Cash and Cash Equivalents:

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

Z. Earnings per Share:

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

A.A. Dividends on ordinary shares

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

Notes to the consolidated financial statements

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

4. Critical accounting judgments and key sources of estimation uncertainty

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

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

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

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

B. Key Sources of Estimation Uncertainty:

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

Allowances for Credit Losses - Loans and Advances to Customers:

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

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

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

Determining Fair Values:

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

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

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

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

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

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

Impairment of goodwill:

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

Notes to the consolidated financial statements

5. Cash and deposits at Central Banks

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

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

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

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

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

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

6. Deposits with banks and financial institutions

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

Notes to the consolidated financial statements

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

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

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

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

7. Trading assets at fair value through profit or loss

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

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

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

Notes to the consolidated financial statements

8. Loans to banks

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

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

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

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

These loans are broken down as follows:

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

Notes to the consolidated financial statements

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

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

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

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

Rescheduled loans represent loans with renegotiated terms.

Notes to the consolidated financial statements

9. Loans and advances to customers

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

Notes to the consolidated financial statements

2011

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

Notes to the consolidated financial statements

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

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

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

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

Notes to the consolidated financial statements

2011		
Substandard Loans	Unrealized Interest	Net Book Value
23,023,150	(7,313,416)	15,709,734
(12,720,360)	-	(12,720,360)
2,973,073	(2,973,073)	-
-	-	-
-	-	-
-	2,521,641	2,521,641
(16,038)	-	(16,038)
(164,684)	166,902	2,218
6,934,923	1,320,724	8,255,647
872,564	-	872,564
67,759	35,119	102,878
20,970,387	(6,242,103)	14,728,284

2011			
Bad and Doubtful	Unrealized Interest	Allowance for Impairment	Net Book Value
97,810,099	(46,703,201)	(35,506,860)	15,600,038
99,428	-	(68,835)	30,593
(8,998,530)	305,909	3,230,481	(5,462,140)
7,835,222	(7,835,222)	-	-
3,453,548	-	-	3,453,548
-	-	(5,077,891)	(5,077,891)
-	-	1,165,325	1,165,325
-	826,295	-	826,295
(3,886,037)	876,197	3,009,840	-
-	-	-	-
(255)	-	-	(255)
-	-	-	-
4,329,994	(1,320,723)	-	3,009,271
4,490,316	-	(4,490,316)	-
-	-	827,323	827,323
-	-	186,930	186,930
55,713	(56,411)	13,996	13,298
105,189,498	(53,907,156)	(36,710,007)	14,572,335
(16,528,775)	-	16,528,775	-
88,660,723	(53,907,156)	(20,181,232)	14,572,335

Notes to the consolidated financial statements

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

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

10. Loans and advances to related parties

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

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

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

11. Investment securities

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

Notes to the consolidated financial statements

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

Financial assets at amortized cost:

2012

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

2011

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

Notes to the consolidated financial statements

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

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

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

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

12. Customers´ liability under acceptances

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

13. Investments in an associate

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

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

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

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

Notes to the consolidated financial statements

14. Assets acquired in satisfaction of loans

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

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

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

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

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

Notes to the consolidated financial statements

15. Property and equipment

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

Notes to the consolidated financial statements

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

Notes to the consolidated financial statements

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

Notes to the consolidated financial statements

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

Notes to the consolidated financial statements

16. Goodwill

This section comprises the following:

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

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

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

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

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

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

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

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

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

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

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

Notes to the consolidated financial statements

17. Other assets

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

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

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

The fair value of derivative assets consists of the following:

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

Deferred tax asset consists of the following:

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

18. Deposits and from banks and financial institutions

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

This section consists of the following:

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

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

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

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

Notes to the consolidated financial statements

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

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

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

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

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

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

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

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

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

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

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

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

21. Other Borrowings

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

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

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

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

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

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

22. Certificates of deposit

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

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

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

23. Other liabilities

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

Fair value of derivative financial liabilities consists of the following:

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

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

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

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

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

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

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

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

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

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

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

24. Provisions

This caption consists of the following:

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

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

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

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

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

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

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

25. Share capital

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

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

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

26. Non-cumulative preffered shares

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

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

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

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

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

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

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

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

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

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

29. Treasury shares

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

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

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

▶ 30. Net income for the year

The consolidated net income is allocated as follows:

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

31. Non-controlling interests

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

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

32. Dividends paid

The following dividends were declared and paid by the Group:

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

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

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

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

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

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

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

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

33. Interest income

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

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

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

34. Interest expense

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

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

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

36. Fee and commission income

This caption consists of the following:

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

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

37. Fee and commission expense

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

38. Net interest and other gains on trading securities

This caption consists of the following:

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

39. Other operating income

This caption consists of the following:

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

40. Provision for credit losses

This caption consists of the following:

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

41. Staff Costs

This caption consists of the following:

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

42. General and administrative expenses

This caption is composed of the following:

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

43. Depreciation and amortization

This caption consists of the following:

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

44. Earnings per share

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

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

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

45. Financial instruments with off-balance sheet risks

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

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

46. Fiduciary accounts

This caption consists of the following:

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

47. Balances / transactions with related parties

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

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

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

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

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

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

48. Cash and cash equivalents

A. cash and cash equivalents

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

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

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

B. Obtaining control of a subsidiary

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

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

C. Non-cash transactions

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

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

49. Contingencies

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

50. Collateral given

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

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

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

51. Capital management

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

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

The Group's capital is split as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

52. segment information

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

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

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

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

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

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

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

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

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

53. Financial instruments and risk management

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

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

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

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

A – Credit Risk

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

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

1- Management of credit risk

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

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

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

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

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

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

2- Measurement of credit risk

a) Loans and advances

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

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

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

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

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

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

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

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

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

3- Risk mitigation policies

Collateral:

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

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

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

Other specific risk mitigation policies include:

Netting arrangements:

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

a) Exposure to credit risk and concentration by counterparty:

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

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

b) Concentration of loans by industry or sector:

	2012						
As at December 31st - LBP'000	Agriculture	Manufacturing and Industry	Financial Services	Real Estate and Construction	Trade Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	460,523,121	-	-	-	460,523,121
Loans and advances to customers	92,466,767	916,021,887	229,139,645	1,042,208,086	1,648,242,725	1,258,716,770	5,186,795,880
Loans and advances to related parties	-	1,502,149	-	3,602,778	94,046,799	24,023,390	123,175,116
Total	92,466,767	917,524,036	689,662,766	1,045,810,864	1,742,289,524	1,282,740,160	5,770,494,117

	2011						
As at December 31st - LBP'000	Agriculture	Manufacturing and Industry	Financial Services	Real Estate and Construction	Trade Services	Others	Total
BALANCE SHEET EXPOSURE							
Loans to banks	-	-	365,626,387	-	-	-	365,626,387
Loans and advances to customers	47,807,498	1,027,445,793	175,813,719	431,586,603	1,341,323,972	1,518,625,291	4,542,602,876
Loans and advances to related parties	-	5,116,493	36,018,893	4,415,539	96,091,324	13,338,705	154,980,954
Total	47,807,498	1,032,562,286	577,458,999	436,002,142	1,437,415,296	1,531,963,996	5,063,210,217

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

	December 31, 2012									
				Fair Value of Collateral Received						
LBP'000	Gross Exposure Net of Unrealized Interest	Allownce for Impairment	Net Exposure	Pledged Funds	First Degree Mortage on Property	Debt Securities	Bank Guarantees	Vehicles	Other	Total
Performing loans	5,177,248,937	-	5,177,248,937	320,222,842	3,768,084,372	70,914,459	57,853,229	157,643,824	364,998,915	4,739,717,641
Substandard	13,898,051	(82,227)	13,815,824	49,355	7,566,558	-	-	1,504,829	1,483,672	10,604,414
Doubtful	50,647,581	(31,780,835)	18,866,746	-	8,992,401	-	-	170,302	1,179,585	10,342,288
Collective provision	-	(23,135,627)	(23,135,627)	-	-	-	-	-	-	-
Total	5,241,794,569	(54,998,689)	5,186,795,880	320,272,197	3,784,643,331	70,914,459	57,853,229	159,318,955	367,662,172	4,760,664,343

December 31, 2011

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

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

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

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

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

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

B – Liquidity Risk

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

1- Management of liquidity risk

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

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

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

Liquidity Measurement

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

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

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

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

The Contingency Funding Plan

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

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

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

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

Residual contractual maturities of financial assets and liabilities:

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

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

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

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

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

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

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

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

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

C – Market Risks

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

1- Management of market risks

Interest Rate Risk

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

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

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

Interest Rate Risk Measurement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Exchange Risk

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

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

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

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

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

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

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

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

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

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

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

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

54. Fair value of financial assets and liabilities

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

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

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

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

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

55. Subsequent events

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

56. Approval of the financial statements

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

Directory

Local Directory

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Beirut, Riyad El Solh Street,
Bank of Beirut Bldg.
P.O.Box: 11-7354 Beirut - Lebanon
Tel: 961 1 980222 | 333

Local Branches

Achrafieh, ABC
ABC Mall, Al-Salam Street
Tel: 961 1 204668 | 9 - 323536 - 328772
Fax: 961 1 204671

Achrafieh, Sioufi
Ghazalieh Street, Samaha Bldg.
Tel/Fax: 961 1 204606 | 7 | 8
Ain El-Remmaneh

Camille Chamoun Blvd.,
Ghannoum Street,
Bank of Beirut s.a.l. Bldg.
Tel: 961 1 385342 | 3 | 4
Fax: 961 1 385341

Aley
Aley Main Road, Mahmoud Bldg.
Tel: 961 5 556125 | 6
Fax: 961 5 555924

Al- Nahr
Al-Nahr Street,
Mar Mikhael Area,
Khatchadourian Bldg.
Tel/Fax: 961 1 562342 | 3 | 4
961 1 587226

Amchit
President Sleiman Street,
Tony Michel Issa Bldg.
Tel/Fax: 961 9 622734 | 5 | 6 | 8 | 9

Antelias
Antelias Square,
Antelias Main Road,
Tohme Bldg.
Tel/Fax: 961 4 525637 | 8 | 9

Ballouneh
Ballouneh Main Internal Road,
Adel Geryes El-Haddad Bldg.,
Kesrouan, Mount Lebanon
Temporary Mobile: 961 3 278646 - 345983
961 70 186386

Baouchrieh
Electricité du Liban Street,
Yazbek & Madi Bldg.
Tel: 961 1 871415 | 6 | 7
Fax: 961 1 871417

Baouchrieh, Jdeideh
Serail Street, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 897750 | 1 | 2
Fax: 961 1 897753

Baskinta
Baskinta Main Road,
Georges Hobeika Bldg.
Tel/Fax: 961 4 250881 | 2 | 3 | 4

Beit El Chaar - Aoukar
Champville Roundabout,
Tony Khoury Bldg.
Tel/Fax: 961 4 923181 | 2 | 3 | 4 | 5

Bourj Hammoud
Dora Blvd., Tchaghlassian Bldg.
Tel: 961 1 262480 - 263599
Fax: 961 1 269401

Broumana
Broumana Main Road, Lodge Bldg.
Tel: 961 4 960806 | 949 - 963029
Fax: 961 4 960806 – 963029

Chehabieh
Darb El Souk - Mtoll,
Chehabieh Main Road,
Khalil & Kassem Rkein Bldg.
Tel/Fax: 961 7 412022 | 3 | 4 | 5 | 6

Chiyah
Mar Mikhael Blvd.,
Tohme & Barrage Bldg.
Tel/Fax: 961 1 274555 – 276042

Chtaura
Chtaura - Masnaa' Main Road
Tel/Fax: 961 8 540421 | 431 | 438

Corniche El Mazraa
Saeb Salam Avenue, Moumneh Bldg.
Tel/Fax: 961 1 318801 | 806 | 810 | 812 | 814

Deir El Zahrani
Deir El Zahrani Highway,
Ashraf Ahmad Jamoul Bldg.
Nabatiyeh, South Lebanon
Tel/Fax: 961 7 531094 | 529

Dekwaneh
Slaf Street, Jean Mikhael Bldg.
Tel: 961 1 694510 | 20 | 30 | 40 | 60
Fax: 961 1 694570

Dhour El Choueir
Dhour El Choueir Main Street,
Elie Kassir Bldg.
Tel/Fax: 961 4 391051 | 2 | 3 | 4 | 6

Dora
Dora Square, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 256020 | 1
Fax: 961 1 256022

Foch, Main Branch
Foch Street, Beirut Central District,
Bank of Beirut s.a.l. Bldg.
Tel/Fax: 961 1 985327 - 985418 | 9

Ghazir
Ghazir Square, near Convent St Francis
Tel/Fax: 961 9 925740 | 840 - 926240 | 340 | 540

Ghobeiry
Ghobeiry Main Road, Bdeir & Co. Bldg.
Tel: 961 1 278717 | 9 - 552480 | 1
Fax: 961 1 543874

Hamra, Gefinor
Clemenceau Street,
Gefinor Center, Block A, Ground Floor
Tel: 961 1 738767
Fax: 961 1 746563

Hamra, Ras Beirut
Mme. Curie Street, Minkara Center,
near Bristol Hotel
Tel: 961 1 350168 | 9 - 354458
Fax: 961 1 349935

Hamra, Saroulla
Hamra Main Road, facing Saroulla
Tel: 961 1 352992 - 740570 - 742182 - 750683
Fax: 961 1 342840

Hamra, Sidani
138 Sidani Street, near AUH entrance,
Nawfal Bldg., Ground Floor
Tel/Fax: 961 1 746724 | 8

Hazmieh
Hazmieh Main Road, Accaoui Center
Tel: 961 5 459221 - 951168 | 9
Fax: 961 5 457272

Jal El-Dib
Jal El-Dib Main Road,
Abou Jaoude & Hachem Bldg.
Tel: 961 4 711399 - 711517 | 8 | 9
Fax: 961 4 711396 – 711399

Jal El-Dib Square
Jal El-Dib Main Road,
Bank of Beirut s.a.l. Bldg.
Tel: 961 4 523624 | 626
Fax: 961 4 523625

Jbeil
Jbeil Main Road, Cordahi & Matta Center
Tel: 961 9 546530 | 534
Fax: 961 9 546534

Jounieh
Jounieh Square, A. & F. Al-Adem Bldg.
Tel: 961 9 637586 | 913955 | 990
Fax: 961 9 637586 | 913990

Jounieh, Ghadir
Bkerkeh Main Road, Boueri Bldg.
Tel: 961 9 639006 | 7 | 8 | 9
Fax: 961 9 639010

Kaslik
Kaslik, University Saint Esprit Bldg.,
Ground Floor
Tel: 961 9 911302 | 306 | 308 | 336
Fax: 961 9 911302 | 306

Kfardebian
Kfardebian Main Street, facing municipality,
Mehanna bldg.
Tel/Fax: 961 9 711301 | 2 | 3 | 4 | 5

Kfarsaroun
Koura, Bank of Beirut s.a.l. Bldg.
Tel: 961 6 651516 | 7 - 952727 | 8 | 9
Fax: 961 6 651517

Koraytem
Takieddine Solh Street,
Hicham Nour Eldine Itani Bldg.
Tel/Fax: 961 1 797140 | 1 | 2 | 3

Mansourieh
Mansourieh Main Road, Salamil Bldg.
Tel: 961 4 409693 | 4 | 5
Fax: 961 4 409695

Mar Elias
Mar Elias Street, Kanafani Bldg.
Tel/Fax: 961 1 305571 – 818148

Mazraa, Barbir
Corniche El-Mazraa,
Saeb Salam Blvd., Moussa Bldg.
Tel/Fax: 961 1 663915 | 6 | 7 | 8

Mazraa, Saeb Salam Boulevard
Corniche El-Mazraa, Saeb Salam Blvd.,
Sharikat El-Maskan Bldg.
Tel: 961 1 313276 - 318852
Fax: 961 1 312340

Mazraat Yachouh - Elyssar
Mazraat Yachouh, Bikfaya Main Road,
Bank of Beirut s.a.l. Bldg.
Tel: 961 4 920106 | 8 - 928190 | 1 | 2
Fax: 961 4 920105

Palais de Justice
Adlieh Cross Point,
Al-Ghazal Development Bldg.,
facing The House of Lawyers
Tel: 961 1 425842 - 426201 - 612922 | 3
Fax: 961 1 425842

Port of Beirut
Saifi Area, Compagnie de Gestion et d'Exploitation
du Port de Beyrouth Bldg.
Tel/Fax: 961 1 563514 | 537 | 570 | 577

Rabieh
Rabiya Center, Chucri Chammas Street, Zone 1
Tel/Fax: 961 4 521739 | 40 | 41 | 42 | 43

Riyad El-Solh
Riyad El-Solh Street, Bank of Beirut s.a.l. Bldg.
Tel: 961 1 980222 | 333
Fax: 961 1 980350

Sidon
Riyad El-Solh Street,
Rizkallah Bldg., Ground Floor
Tel/Fax: 961 7 752502 | 3 | 4 | 5

Sin El-Fil, Horsh Tabet
Marc 1 Center,
Emile Gerges Lahoud Square
Tel: 961 1 481773 | 874
Fax: 961 1 500352

Sin El-Fil, Saydeh
Saydeh Street,
Joseph & Michel Kahaleh Bldg.
Tel/Fax: 961 1 480616 – 482324

Tariq El-Jdideh
Mufti Khaled Street,
Jamal Al Hariri & Fouad Toufik El Khawli Bldg.,
Ground Floor, Mazraa
Tel/Fax: 961 1 843605 | 49 | 52 | 54 | 57

Tripoli, Abou Samra
Al-Haddadine Area, near Al-Kalaa,
Jamal Eddine Bldg., Ground Floor
Tel/Fax: 961 6 429500 | 1 | 2 | 3 | 4

Tripoli, Banks' Street
Abdel Hamid Karameh Street,
Abdel Rahman Alameddine Bldg.
Tel: 961 6 445209 | 210
Fax: 961 6 445210

Tyre, Al-Ramel
Hay Al-Ramel,
Bank of Beirut s.a.l. Bldg.
Tel: 961 7 740051 - 742149
Fax: 961 7 740051

Tyre, Sour
Tyre Main Road, Jal El-Bahr,
Bank of Beirut s.a.l. Bldg.
Tel: 961 7 348232 | 3 | 4
Fax: 961 7 348235

Zouk Mikael
Zouk Mikael Main Road,
Bsoussi Bldg.
Tel/Fax: 961 9 224812 | 3 – 225813 | 4 | 6

Zouk Mosbeh
Jeita Highway
Tel/Fax: 961 9 223012 | 3 | 4

International Directory

Subsidiaries

United Kingdom
Bank of Beirut (UK) Ltd.
17 A Curzon Street,
London (West End) W1J 5HS,
England (UK)
Tel: +44 20 74938342 | 6
Fax: +44 20 74080053
www.bankofbeirut.co.uk

Germany (UK subsidiary branch)
Bank of Beirut (UK) Ltd. - Frankfurt Branch
Grueneburgweg 2, 60322 Frankfurt
Tel: +49 69 915067710
Fax: +49 69 915067799
www.bankofbeirut.de

Australia (16 branches)
Bank of Sydney
(Previously Known as Beirut Hellenic Bank Ltd.)
Australian Head Office,
Sydney City Branch, Laiki Bank House,
Level 4, 219-223 Castlereagh Street,
2000 Australia, Sydney
Tel: +61 2 8262 9000
Fax: +61 2 9283 7723
www.beiruthellenic.com.au

Branches

Cyprus
Bank of Beirut - Cyprus Branch
Griva Digheni Street, Maximos Plaza,
Block E, 3rd Floor, Office No.3
P.O. Box: 59662 - 4011, Limassol, Cyprus
Tel: +357 25 814202 | 3 | 4 | 5 | 6 | 7 | 8
Fax: +357 25 814209

Sultanate of Oman - Ghubrah
Bank of Beirut - Ghubrah Branch and Head Office
Sultanate of Oman Head Office,
North Ghubrah, Way No.3815,
Bank of Beirut Bldg. No.A10251, 1st Floor,
Muscat, Sultanate of Oman
Tel: +968 24492380 - 24493818
Fax: +968 24495066

Sultanate of Oman - Muscat
Bank of Beirut - Muscat Branch
Way No. 3009, Shatti Al Qurum,
Al Jawhara Bldg. 576, Block 3,
P.O. Box: 221, Postal Code 114, Muscat,
Sultanate of Oman
Tel: +968 24696281 - 24696294
Fax: +968 24698769

Sultanate of Oman - Sohar
Bank of Beirut - Sohar Branch
Falaj Al Qabail
P.O. Box: 487, Postal Code: 322,
Sohar, Sultanate of Oman
Tel: + 968 26750636 | 86
Fax: + 968 26750676

Representative Offices

United Arab Emirates
Bank of Beirut Dubai Representative Office
Emirates NBD premises, Al Wasl Road, Jumeirah,
Learning & Development Entrance, 1st Floor
P.O. Box: 93800 Dubai, United Arab Emirates
Tel: +971 4 4053292 | 3 | 4 | 5
Fax: +971 4 3445976

Nigeria
Bank of Beirut Representative Office (Nigeria) Ltd.
5 Alfred Rewane Street (formerly Kingsway Road)
Ikoyi, Lagos, Nigeria
Tel: +234 1 4612688 | 9, +234 1 4622589
Mobile: +234 803 3671134
Fax: + 234 1 4612689

Iraq
Bank of Beirut Baghdad Representative Office
Baghdad, Iraq - P.O. Box: 3284

Qatar
MOU Office
Doha Bank - Grand Hamad Avenue
Tel/Fax: + 974 44257584
Mobile (office): + 974 55767135

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