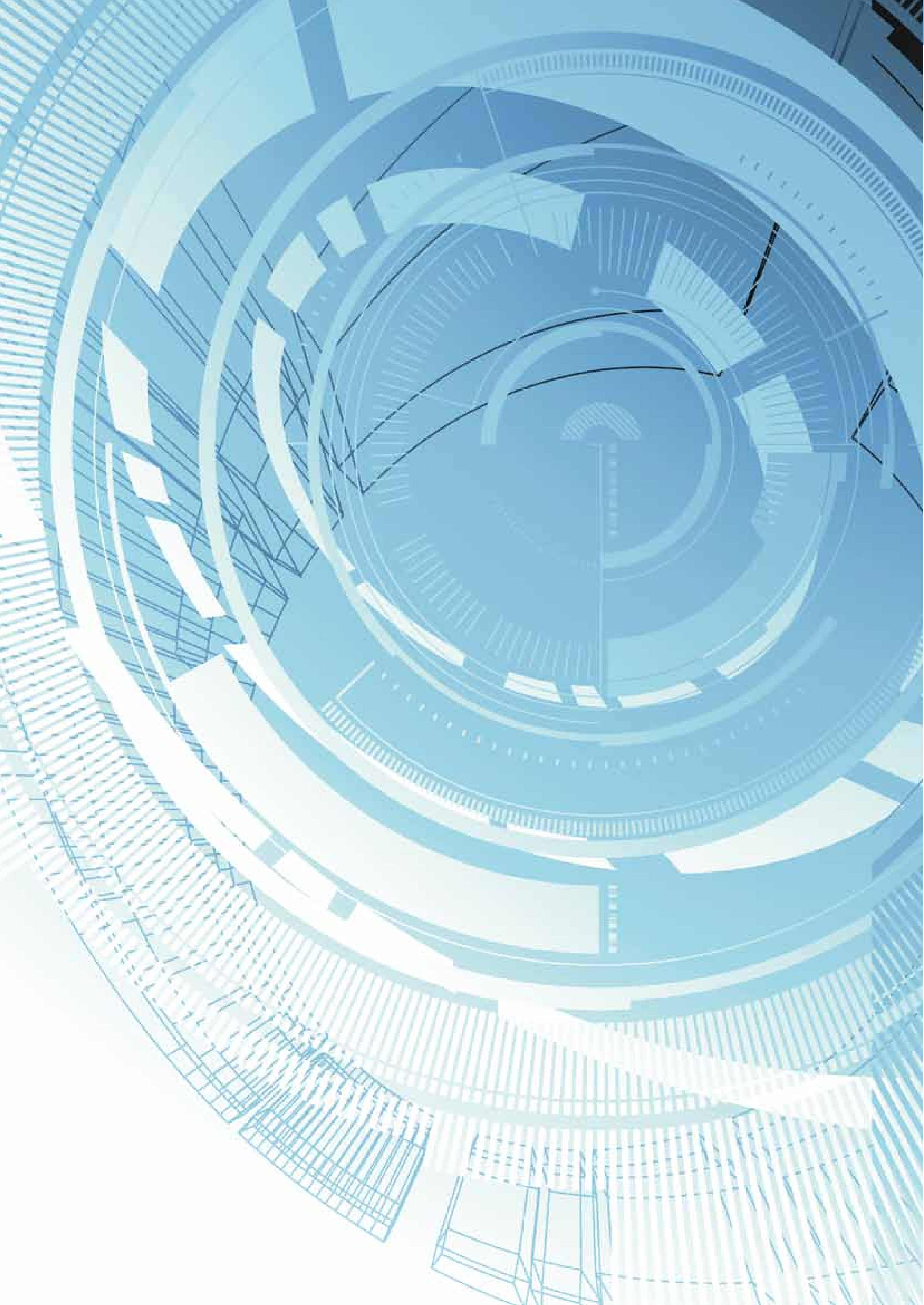
Annual Report
2011

LGB BANK
بنك لبنان والخليج ش.م.ل

Annual Report 2011
Contents

بنك لبنان والخليج
Lebanon & Gulf Bank



Financial Highlights

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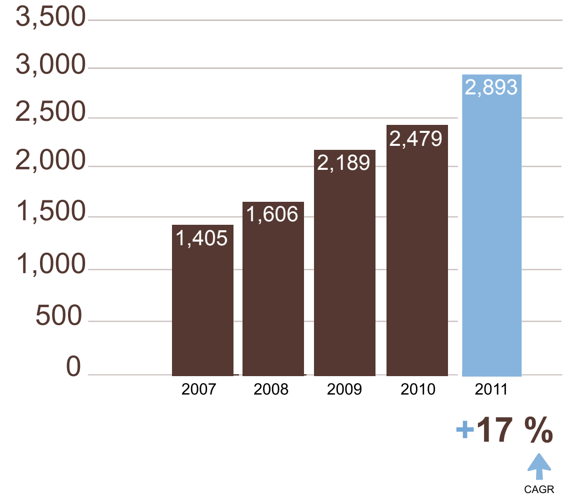
بنك لبنان والخليج
Lebanon & Gulf Bank

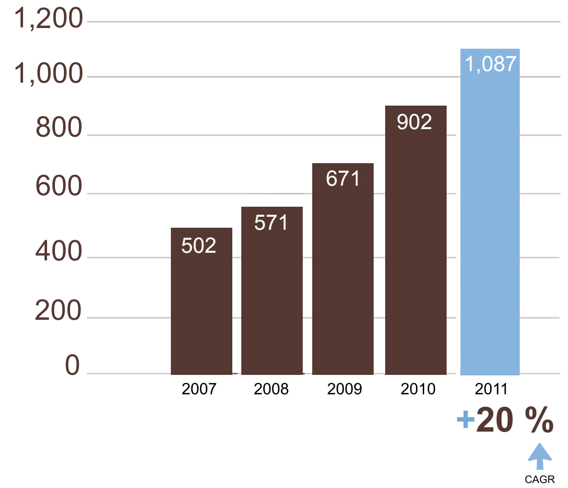
As at December 31

In million of Lebanese Pounds	2011	2010	2009	2008	2007
Balance Sheet					
Total Assets	3,257,439	2,789,052	2,408,058	1,778,998	1,552,079
Customers' Deposits	2,892,778	2,478,701	2,189,826	1,606,349	1,404,753
Loans & Advances	1,087,001	902,259	671,150	570,971	502,469
Equity	263,037	221,608	155,684	118,778	95,224
Financial Results					
Net Operating Income	61,263	59,591	50,420	35,869	30,058
Net Interest Income	28,867	29,331	19,849	23,712	18,015
Net Non-interest Income	36,946	43,814	33,669	11,863	12,077
Net Income	26,337	24,706	21,315	12,812	7,210

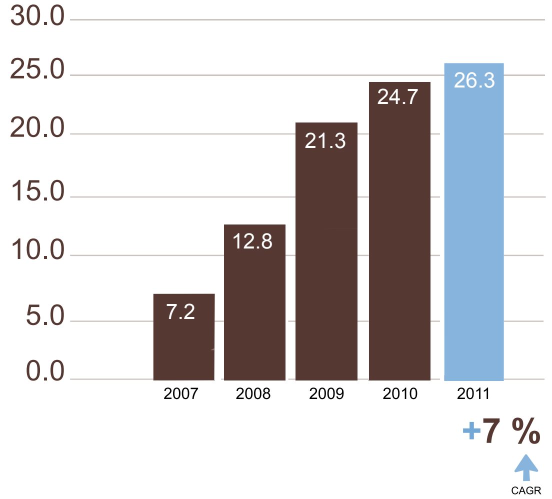
Total Customers' Deposits
In billions of LBP



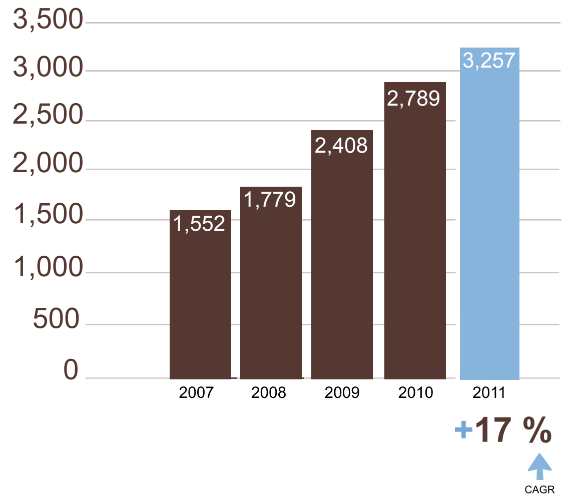
Total Loans & Advances
In billions of LBP



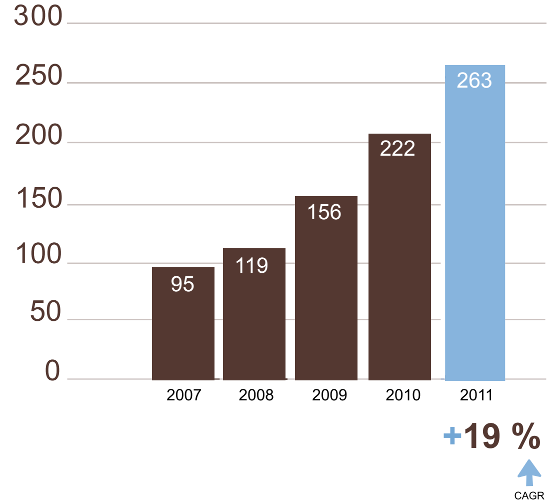
Net Income
In billions of LBP



Total Assets
In billions of LBP



Total Equity
In billions of LBP



CAGR: Compounded Annual Growth Rate

Chairman & Vice Chairman's Letter

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Dear Stakeholders,

It gives me great pleasure to present the 49th annual report and closing accounts of LGB BANK for the year ended December 31, 2011. The Bank continued to achieve double digit growth and solid performance despite a challenging global market and political instability in parts of the Middle Eastern Region.

The Bank's results were marked by a double digit growth in all key indicators exceeding the sector's average growth rate. Total Assets grew by 17% exceeding LBP 3,257 billion in 2011 while Total Customers' Deposits increased by 17% reaching LBP 2,893 billion. The Bank's Loan Portfolio amounted to LBP 1,087 billion, growing by 20% in 2011. The Bank recorded a solid profit growth of 7% to reach LBP 26.3 billion, up from LBP 24.7 billion in 2010. In line with its strategy to continuously strengthen its equity base, the Bank follows a policy of retaining full earning to support its continuous growth and expansion; as such, our shareholders' equity increased by 19% to reach LBP 263 Billion.

Return on Average Asset (ROAA) and Return on Average Equity (ROAE) stood at 1.0% and 11.3% respectively while Cost-to-Income improved to reach 48% in 2011. The Capital Adequacy Ratio stood at 10.1% in 2011, a percentage well above the minimum capital requirements of 8% set by Basel II and the Central Bank of Lebanon.

We are constantly launching new products, and expanding our retail , corporate and private banking services; in order to better address our customers needs and provide them with complete financial solutions.

During the year, new products were developed and revealed, targeting various segments such as the Public Sector Loan which proposes attractive benefits to public employees as well as the LBP Card facilitating customers' purchases in the local currency. In addition, the Bank also initiated the LGB Loyalty Program with a unique rewarding scheme to loyal clients. We have introduced a highly secured e-channel with the relaunching of our online banking and redesigning our corporate website to include all our corporate and retail banking services. Moreover the Bank continues to upgrade its IT structure to meet up with a faster, more demanding and riskier financial market.

With our continuous efforts towards the expansion of our domestic branches network to strategically cover the Lebanese territory, in 2011 we have opened a new branch in Saida; the Bank is also opening two new branches in Achrafieh and Makdessi during 2012. We are planning to reinforce our presence in other regions of the country, in addition to strengthening our international network in the Middle East and Africa. The Bank keeps relying on the development of its international trade activities and operations through its business collaboration with premium correspondent banks, all of which have served as reliable partners.

Asset quality remained at the center of our attention, with the help of our risk management and control measures; we continue to be selective in building our asset book with a focus on striking a balance between growth and risk taking. This was reflected in the reduction of the level of non-performing loans. We have exerted efforts towards applying International Financial Reporting Standards while continuing to reinforce our Anti-Money Laundering Unit.

As we firmly believe that our human capital is an important pillar for growth and a key element for the Bank's success; we are constantly developing and training our people as well as attracting and retaining qualified talents.

The Bank's social initiatives remain an important part of its efforts to build a more sustainable business environment. Throughout the year, we were involved in supporting many civic society and empowerment projects.

Finally, on behalf of the Board of Directors, we express our sincere appreciation for the ongoing support and loyalty of our shareholders and clients, for the professionalism and dedication of the Bank's management and staff, whose commitment, and contribution over the years are the driving force behind our continued growth and success.

Sincerely,

Abdul Hafiz M. Itani
Chairman- General Manager

Samer A.H Itani
Vice Chairman- Chief Executive Officer

Our Bank

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Lebanon & Gulf Bank
بنك لبنان والخليج

Historical Foundation

With over 49 years of banking tradition, trust and excellence in customer service, Lebanon & Gulf Bank s.a.l. stands today as one of Lebanon's deeply rooted banks.

Established in 1963 under the name of Banque de Credit Agricole s.a.l., Lebanon & Gulf Bank s.a.l. adopted its current name and shareholders form in 1980 when a group of businessmen (led by the current Chairman) acquired the majority of its shares. The Bank currently operates from its head office located in Beirut Central District, backed by a powerful network of 14 branches spread across the country, and a branch in Cyprus since 1986. In 2012, the total number of branches in operation is projected to increase to 16 in Lebanon, and a representative office in Dubai UAE.

Today, being one of the most dynamic and vibrant institutions in the country, the Bank is committed to a systematic expansion strategy. In 2011, the latter has translated into an enhancement of the Bank's operational and information technology infrastructure, a substantial growth in profits and deposits, and most importantly into a concentrated modernization and development of the human capital.

The Bank's expansion strategy runs in parallel within Lebanon and the Middle East, as Lebanon & Gulf Bank s.a.l. is tapping into potential markets. By early 2010, the Bank had embarked on a new branding effort that promises to propel it to new heights aligned with its business strategy.

With its dedication and clear vision, Lebanon & Gulf Bank s.a.l. continues to build strong relationships with its clients through a personalized approach coupled with sophisticated services and "out of the box products" that meet the customers' financial needs.

Vision

Based on its ongoing pursuit of excellence and optimized customer satisfaction, Lebanon & Gulf Bank s.a.l. aims to become the bank of choice for Lebanese and regional customers. Through a consolidated and growing network of branches and affiliates, we aim to establish lasting relationships with our customers and continuously improve our performance to gradually become a cornerstone in the banking industry.

Mission

At Lebanon & Gulf Bank s.a.l., we thrive to provide our customers with best in line products and services that adapt to their evolving short and long term needs. Our mission is to establish trustful and personalized relations with each and every one of our clients; while giving them access to a team of reliable professionals, who are committed to a high quality financial performance. We value excellence over quantity and settle for nothing less than outstanding results that surpass our clients' expectations.

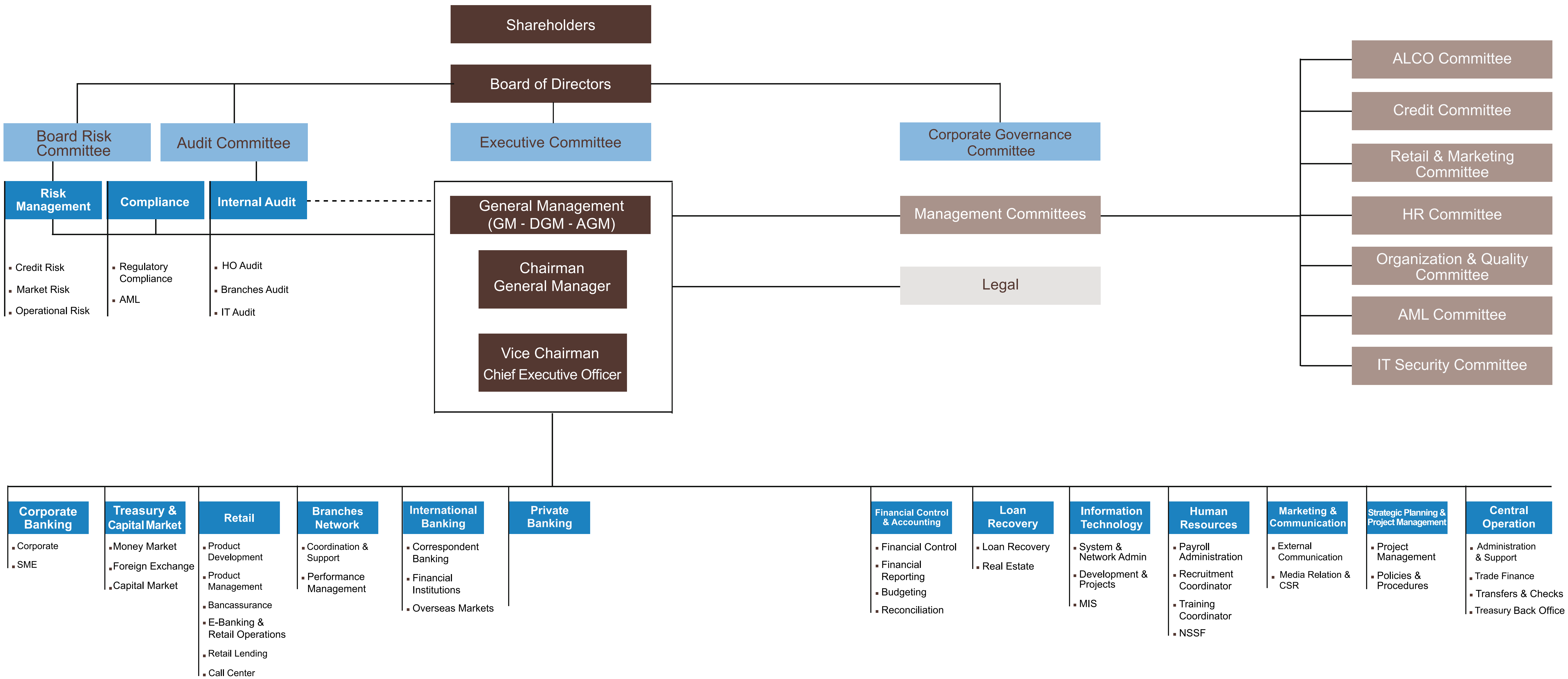
Values

Legacy
From one generation to another, the Bank has cumulated a valuable experience thus building a successful and proven track record. Lebanon & Gulf Bank s.a.l. firmly believes in the consistency and continuity that a valuable banking legacy can offer.

Integrity
At Lebanon & Gulf Bank s.a.l. we put our customers' best interests at the forefront of our operations. We believe that delivering genuinely good services will undoubtedly lead us to achieve success. This is why we adopt a widely transparent strategy while dealing with our clients.

Quality
Lebanon & Gulf Bank s.a.l. has a long and proven track record in the Lebanese market; one that is marked by the delivery of high quality products and services. Indeed, premium quality remains at the heart of our business strategy which aims at preserving high levels of customer satisfaction by offering impeccable services.

Accountability
Lebanon & Gulf Bank s.a.l. presents itself as a reliable banking partner for Lebanese customers. We provide them with a diversified portfolio of products and services, all based on thorough analysis of the market and customers' needs. We also put at the disposition of our clients a pool of industry experts who offer wise consultancy and reliable financial schemes.


Shareholders
Board of Directors
Board Risk Committee
Audit Committee
Executive Committee
Corporate Governance Committee
Risk Management
Compliance
Internal Audit
General Management (GM - DGM - AGM)
Chairman General Manager
Vice Chairman Chief Executive Officer
Management Committees
Legal
ALCO Committee
Credit Committee
Retail & Marketing Committee
HR Committee
Organization & Quality Committee
AML Committee
IT Security Committee
Credit Risk
Market Risk
Operational Risk
Regulatory Compliance
AML
HO Audit
Branches Audit
IT Audit
Corporate Banking
Corporate
SME
Treasury & Capital Market
Money Market
Foreign Exchange
Capital Market
Retail
Product Development
Product Management
Bancassurance
E-Banking & Retail Operations
Retail Lending
Call Center
Branches Network
Coordination & Support
Performance Management
International Banking
Correspondent Banking
Financial Institutions
Overseas Markets
Private Banking
Financial Control & Accounting
Financial Control
Financial Reporting
Budgeting
Reconciliation
Loan Recovery
Loan Recovery
Real Estate
Information Technology
System & Network Admin
Development & Projects
MIS
Human Resources
Payroll Administration
Recruitment Coordinator
Training Coordinator
NSSF
Marketing & Communication
External Communication
Media Relation & CSR
Strategic Planning & Project Management
Project Management
Policies & Procedures
Central Operation
Administration & Support
Trade Finance
Transfers & Checks
Treasury Back Office

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Corporate Governance

بنك لبنان والخليج
Lebanon & Gulf Bank

Governance

The Board and the Management of Lebanon & Gulf Bank s.a.l are continuously committed to complying with local and international corporate governance best practices. The Bank has designed and approved all corporate governance policies and practices including the Code of Corporate Governance, Board Charter, Code of Conduct and Code of Ethics to ensure that they are focused on its responsibilities towards its stakeholders. The fundamental aim behind our bank's Corporate Governance practices is creating long term values to our shareholders, and satisfying regulatory authority and global standards.

These policies lay a solid foundation for management oversight, promote ethical and responsible decision making. They also safeguard integrity in financial reporting, make timely and balanced disclosures, recognize and manage risks.

Sound corporate governance is a fundamental part of the culture and the business practices of the Bank. Accordingly, the Bank continuously monitors all proposed new rules and periodically updates and modify its policies and practices to meet any new requirements.

Corporate Governance Framework

The Board's adherence to best governance practices is underlined by various principles such as integrity, transparency, independence, accountability, responsibility and fairness.

Shareholders elect the Board to oversee management and to assure that the shareholders rights are protected. The Bank's managers and employees execute the Bank's strategy under the direction of the General Manager and the oversight of the Board of Directors. They seek to earn the trust of stakeholders including our shareholders, customers, employees and communities.

Corporate Governance Structure

The corporate governance structure shown in this diagram provides an efficient framework for decision making and assignment of responsibility and accountability with the shareholders.

Board's Responsibilities

The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction of the Bank. They also monitor business performance, operations and the integrity of internal controls while conducting corporate governance in a transparent manner.

Through establishing clear lines of responsibility, accountability and communication throughout the Bank, the Board is able to further oversee the Bank's conduct and the implementation of the set strategy.

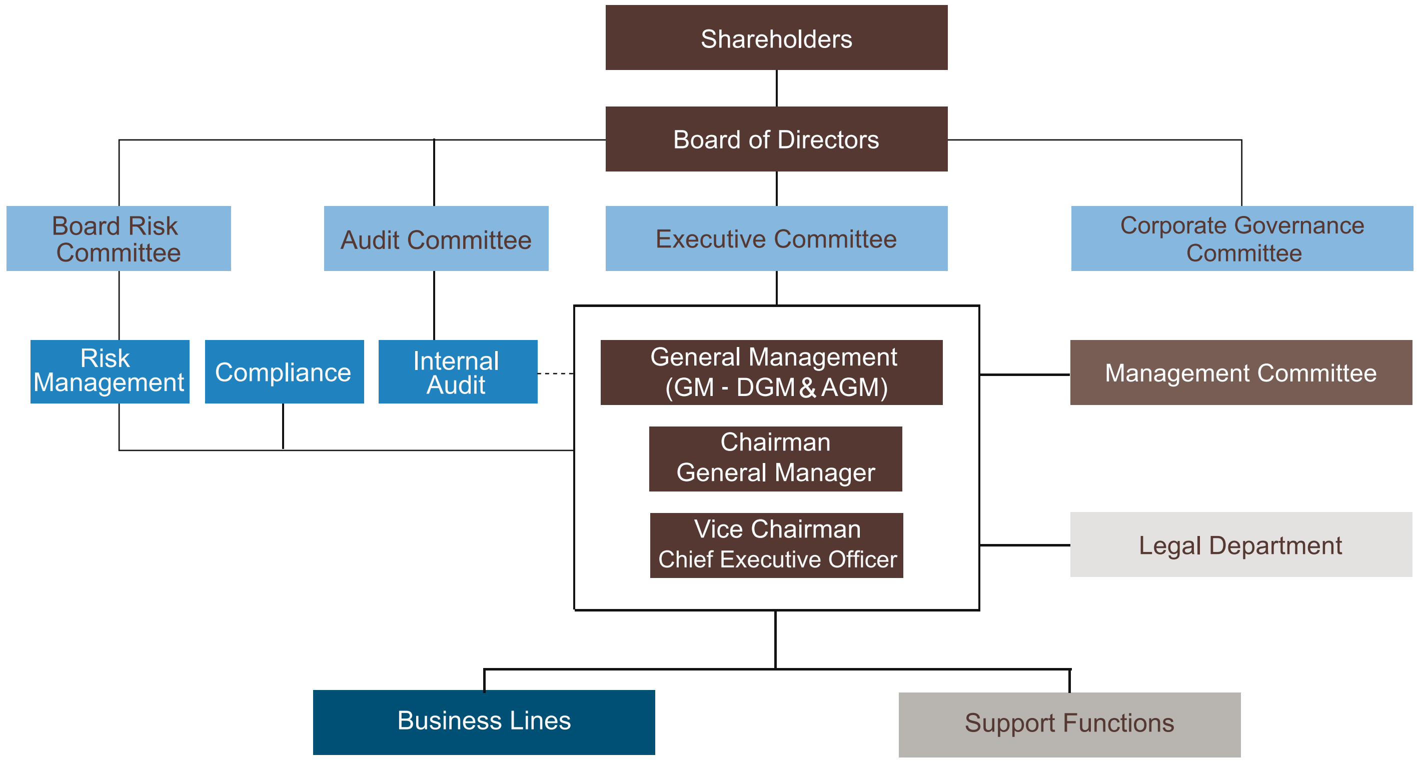
The Board performs its responsibilities as a supervisory entity while delegating to management the responsibility of implementing the policies, guidelines and parameters set by them.

Composition and Terms of the Board of Directors

The Bank's Board of Directors consists of seven members including four non-executive members. The Board members are prominent and veteran bankers and financial experts who bring a wide range of skills and experience to the Board.

They are elected for a three year-term by the shareholders at the shareholders' general assembly.

The criteria for the selection of new directors include integrity and character, successful professional background and the ability and willingness to commit adequate time and effort to the Bank in order to bring a wide range of skills and experience of added value to the Board.



Mr. Abdul Hafiz M. Itani

Chairman - General Manager

Mr. Abdul Hafiz Itani was appointed to his current position in 1980 upon acquiring the majority of the Bank's shares along with a group of local and Gulf investors.
With more than 50 years of experience in the banking and finance industry, Mr. Itani's professional career crowned with his successful management of a long-lasting established family business, impelled him to lead Lebanon & Gulf Bank s.a.l. through affluent and challenging times to be one of the leading banks in Lebanon.
During his career timeline, Mr. Itani has occupied several key positions in the Lebanese banking sector.

Mr. Samer A.H Itani

Vice Chairman - Chief Executive Officer

Mr. Samer Itani started his Banking career at Lebanon & Gulf Bank s.a.l. by occupying several managerial positions in different divisions at the Bank prior to being selected in 1995 as a member on the Board of Directors.
Mr. Itani was appointed to his current position in 2007; he is responsible for leading the restructuring and expansion strategies of the Bank, thus positioning it as one of the best performing Lebanese banks.
Mr. Itani holds a degree in finance and international management from Georgetown University in Washington DC. He attended advanced management programs at both INSEAD and London Business School and intensive management training program at Chemical Bank.

Mr. Joseph M. Hakim

Deputy General Manager - Board Member

Mr. Hakim joined Lebanon & Gulf Bank s.a.l. in 1980 and assumed several key positions before being appointed as Deputy General Manager and Head of the International banking Division.
Mr. Hakim enjoys 45 years of banking experience having formerly worked in different local commercial banks and has held several managerial positions.
Mr. Hakim holds a degree in general commerce from the American University of Beirut.

Me. Antoine Chader

Board Member

Me. Chader is currently the Legal Advisor of Lebanon & Gulf Bank s.a.l. and member on the Board of Directors at CSC Bank s.a.l.
Me. Chader's professional career is marked with key positions; being Chairman and General Manager of many local Banks and President of Association of Banks in Lebanon.
He was also elected Member of the Lebanese Parliament.
Me. Chader is a prominent Lebanese lawyer, holding a Law Degree from the Saint Joseph University's Law School.

Mr. Emile H. Baroud

Board Member

Mr. Baroud is a non-executive member on the Board of Directors since 2009.
Mr. Baroud's professional career is marked with a 45 years of banking experience and a strong network of International and Arab relations having formerly worked abroad as General Manager at "Qatar National Bank" in Paris, Executive Vice President at the "Saudi European Bank" in Paris, and Assistant Director at "Banque du Benelux". Mr. Baroud holds a degree in Economics from the "Université de Paris".

Mr. Mounib M. Hammoud

Board Member

Mr. Hammoud is a non-executive member on the Board of Directors.He concurrently acts as an executive member of the Board of Directors and Chief Operating Officer (COO) of Solidere International Limited since inception in June 2007.
Mr. Hammoud joined Solidere in 1995, where he occupied the post of Deputy General Manager until 2007. Armed with a Master's degree in business administration,he cumulates over 30 years' experience in banking, institutional finance, land development, real estate development and real estate financial architecture in the Middle East, North Africa and Europe.
Mr. Hammoud served as the Deputy General Manager for Lebanon & Gulf Bank s.a.l. in Beirut as well as the Managing Director of the International Banking Unit, in Cyprus, both until 1995. Today, he is member of the Board of Directors in a number of local and regional real estate companies.

Mr. Rabih Noueiri

Board Member

Mr. Noueiri is a non-executive member on the Board of Directors since 2009.
Mr. Noueiri enjoys more than 25 years of American, European, and local banking experience; he was the Executive Manager at American Express Bank in London, was Member of the Executive Management at "Union Bancaire Privée" in London, Senior Vice President at "Chase Manhattan Bank" and held a key position in a local commercial Bank.
Mr. Noueiri holds a Business and Commerce degree from Beirut Arab University.

Board Committees

The Board of Directors is supported by the following Board Committees in carrying out its responsibilities. These committees derive their authority and power from the Board.

Audit Committee

The Audit Committee's mission is to assist the Board with the oversight of the Bank's financial reporting, its internal control mechanism, and internal and external auditors' performance.
It also aids the Board in overseeing non-compliance issues and other problems identified by the auditors in a timely manner.
All members of the Audit Committee are independent non-executive directors. The committee meets at least quarterly or when necessary.

Board Risk Committee

The Risk Committee's mission is to assist the Board in providing oversight of Senior Management's activities in managing credit, market and operational risks. Majority members of this Committee are mainly independent non-executive directors. This committee is scheduled to meet at least quarterly or depending on necessity.

Corporate Governance Committee

The Corporate Governance Committee's mission is to assist the Board in administering the corporate governance practices within the Bank and ensures that all related local and international guidelines of corporate governance are complied with. The committee also makes recommendations on maintaining an effective governance framework, board structure and remuneration of the Board members and senior managers. Majority members of this Committee are mainly independent non-executive directors. This committee is scheduled to meet at least quarterly or depending on necessity.

Executive Committee

The Executive Committee's mission is to aid the board in developing and implementing the Bank's policies, monitoring business performance and ensuring efficient management of the Bank in line with the approved Board of Directors' guidelines and strategies.

Senior Management

In fulfilling its principal responsibility of day-to-day management of the Bank, Senior Management implements the approved policies and effective controls within the strategy and objectives set by the Board.Senior Management is headed by the General Manager who is assisted by all Heads of Departments.
The following Management Committees assist the General Manager in the management of the Bank. These committees include the Assets & Liabilities Committee (ALCO), Credit Committee, Anti-Money Laundering Committee (AML), IT Security Committee, Organizational and Quality Committee, Retail & Marketing Committee and Human Resources Committee.

Risk Management

The Bank has organized its Risk Management Division along the industry's best practices and has laid down its Risk Management Framework for managing, credit, market, operational and other risks. This framework addresses the identification, measurement and monitoring of all risk across the Bank.

The Bank's Risk Management Division is an independent function reporting to the Board Risk Committee and General Manager. The Risk Management Division works closely with Senior Management and the Internal Audit Unit throughout the Risk Management Process. The Board is primarily responsible for setting the Bank's general strategy, which includes the overall oversight and direction of the bank's risk tolerance, control and limits.

The Risk Management Division has the overall responsibility of developing and implementing risk-focused policies and procedures. The risk policies reflect our principles, capacity, and appetite related to risk. These management policies are regularly reviewed and, where necessary, modified and improved to reflect the changes in market and products. This has resulted in the strengthening of the risk management function and increased protection of our assets and income stream, while safeguarding depositors' interests and returns to shareholders.

The Board has appointed a Chief Risk Officer (CRO) who is responsible for the overall management of the Bank's risks. The CRO assists the Board and Senior Management in setting the Bank's Risk Strategy, ensuring that a qualified and professional Risk Management Team is in place, guide stress testing and risk monitoring activities, and ensures that accurate and comprehensive reports are issued to the Board for timely decision making.

In providing overall control and management of all risks across the Bank, the risk management function is supported by a number of committees.

Risk Management at the Bank is divided into four main categories:

Credit Risk

Credit Risk provides enterprise wide management of credit risk. The Credit Risk Management Department also enhances systems and procedures to improve credit risk management techniques by following a detailed credit granting process and developing specific stress testing and concentration risk reports.

Market Risk

The Market Risk Management Department ensures compliance with the international accepted market practices, fulfills capital adequacy requirements, and sets risk limits by identifying, measuring, and monitoring market and liquidity risks, in addition to evaluating interest rates in the banking and trading books, and issuing various analytic reports to ALCO and Senior Management.
It adopts international best practices to deal with the changing business activities and complexities, risk profiles, dimensions, policies and processes of the Bank.

Operational Risk

The Operational Risk Department formulates and implements appropriate policies, governance standards and operational controls as well as managing a centralized operational loss database by setting an identification process for Key Risk Indicators and carrying out Risk and Control Self-Assessment workshops, the Operational Risk Management Department has been promoting a risk culture throughout the Bank.

Other Risks

Other Risks include Reputational, Regulatory, and Legal Risks. A good reputation and positive public image is an invaluable asset to our Bank. We monitor all business activities, policies and procedures to guarantee that they are in compliance with legal requirements. Strategic Risk is also a vital component of Risk Management where proper business decisions and appropriate business planning is studied in all business units.

Currently, the Risk Management Division carries out the Internal Capital Adequacy Assessment Process (ICAAP) with the active engagement of the Board of Directors and other concerned departments to ensure comprehensiveness. The result of the ICAAP is communicated throughout the Bank.

The rationale of ICAAP is to facilitate the Board's mission of ongoing assessment of the risks to which the Bank is exposed, the techniques and means used to mitigate such risks, and the level of current and projected capital required to cover any unanticipated losses.

Internal Audit

Internal audit is totally independent of both business and line functions and reports primarily to the Chairman of the Audit Committee. It carries out independent risk-based audit and reviews of key business and support areas, provides assurance on the adequacy and effectiveness of the Bank's internal control system including policies, procedures, processes and information systems.

Compliance

The Board has put in place a Compliance framework, that reflects the principles for promoting sound compliance practices at the Bank and that demonstrates the Bank's adherence to applicable legal and regulatory requirements. This Department protects the integrity and reputation of the Bank, promotes ethical standards of behavior and strengthens the Bank's accountability and transparency.

Anti-Money Laundering

The unit monitors on a daily basis all financial transactions and ensures that they are in compliance with the instructions of the Central Bank of Lebanon and the recommendations of the Financial Action Task Force (FATF). The Bank has put in place an AML scenario to combat money laundering and a powerful data integrity module that filters suspicious names from major international checklists throughout all its divisions and branch network.

Transparency and Disclosures

In an endeavor to further strengthen its corporate governance standards and enhance transparency and disclosure in its financial reports, the Bank has adopted one of the strongest global standards of transparency in financial reporting, the International Financial Reporting Standards (IFRS) as certified by the International Accounting Standards Board.

The Board directs the process of disclosure and communication with stakeholders to ensure that they are fair, transparent, comprehensive and timely. These disclosures include the Bank profile, statements of its vision and mission, strategy and objectives as well as its financial statements.

The appropriate financial and practical information is disclosed through our main shareholders, annual report, website, brochures, newsletters and regular announcements in the appropriate media.

Social Responsibilities Programs

The Bank plays an active role in supporting its community by contributing to a number of social responsibility programs that are aligned to its overall business strategy. It demonstrates commitment to ethical standards and its appreciation of the social, environmental and economic impact of its activities on the communities in which it operates.

Our Business

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▪ Corporate & Commercial Banking

Lebanon & Gulf Bank s.a.l. enjoys a well established standing in the field of commercial lending with particular concentration on corporate banking services through a distinctive approach for quality planning and trustworthy financial consultancy. After years of success in the local financial market and with the unshakable reliability of its clientele, the Bank has been acknowledged as a highly reliable business partner rather than a service provider.

With the support of its skilled personnel, its solid financial and logistic resources, Lebanon & Gulf Bank s.a.l. keeps a close track of its customers' businesses and projects granting them financial counseling and proper orientation enabling them to achieve all their business goals.

Customer portfolio at Lebanon & Gulf Bank s.a.l. comprises small, medium and large scaled enterprises all of which benefit from a variety of products and services tailored to meet their specific financial needs. Our offerings include the classical overdraft facilities, project financing, loan syndication and structured business solutions. This is in addition to the trade finance products such as Letters of Credit (LCs) and Letters of Guarantee (LGs).

Finally, it's worth mentioning that Lebanon & Gulf Bank s.a.l. aims to expand its clientele portfolio of corporate and commercial business while maintaining adequate collateralized debt obligations and full compliance with the regulations of the Central Bank of Lebanon.

▪ Investment & Private Banking

Backed by a solid track record and a proven know-how in customer handling and servicing, Lebanon & Gulf Bank s.a.l. has established a robust private banking practice to provide customers with a premium range of financial advisory, brokerage and capital markets' services.

For this purpose, the Bank has taken steps to constitute a specialized cell of professionals trained in private banking. Whose objective is to offer the banks' clients reliable consultancy and personalized solutions with access to a broad spectrum of markets.

Products and Services

The bank offers its clients access to an array of personalized products engineered to meet their modern banking needs.
These offerings include:

- Equities, fixed income and foreign exchange
- Money markets
- Multi-asset class funds
- Alternative investment and hedge funds
- Structured products with various underlying instruments
- Capital protected products
- Brokerage services
- Safekeeping of all types of financial instruments

Private Banking

In a highly competitive market, Lebanon & Gulf Bank s.a.l. has managed to accustom a niche segment of high net worth customers by offering them impeccable services. To maintain such strong bonds, the Bank's Private Banking teams have been able to provide their customers with investment products based on a clear understanding of their business objectives. Backed by a high sense of resourcefulness, in-depth business knowledge and solid commitment towards the Bank, the teams' performance has been commendable from all angles.

In parallel, the Bank's private banking services include the provision of investment consultancy in both domestic and international markets in equities, fixed income, mutual funds and foreign exchange. Skilled team members provide the Bank's clients with informed advices and an eclectic range of investment products including stocks, bonds, funds and structured products.

Treasury

The Treasury Department at Lebanon & Gulf Bank s.a.l. is the clients' key to access World Money and Capital Markets, as well as Foreign Exchange. Whether the client's interest lies in investment banking, equities, fixed income or foreign exchange, Lebanon & Gulf Bank s.a.l. has the global network and industry expertise to meet his expectations.

The Treasury Department also plays a strategic role in the management of the Bank's assets & liabilities. It has the responsibility to recommend the financial engineering solutions that would secure optimum returns on investment and boost the Bank's profitability

▪ Retail Banking

Building on its customer centric strategy, the priority of Lebanon & Gulf Bank s.a.l. remains to provide its clients with an optimized banking experience that will allow them to consider the institution as the "Bank of choice" on the long term. The Bank's portfolio of products and services is comprehensive, combining basic offerings with more innovative services that meet the customers' changing needs without putting at risk the quality aspect.

The Retail Banking practice at Lebanon & Gulf Bank s.a.l. is guided by and aligned with the Bank's corporate strategy which aims at presenting fitted and personalized services through innovation. In fact, one of the Bank's main business objectives is to offer its customers with unmatched services while giving them a choice amongst truly advantageous banking products.

Out-of-the-box services

In light of its wider corporate strategy, Lebanon & Gulf Bank s.a.l . has been a leader in the field of retail banking. Indeed, it has registered many a scoop; it is to be remembered that the Bank was the first to introduce the SMS alert service.

"Banking by Night" is another of the Bank's pioneering initiatives; it allows customers flexible banking hours. The Bank remains one of the very few financial institutions in Lebanon that open their doors for a second shift, from 7:00PM to 10:00PM. With customer satisfaction in focus, Lebanon & Gulf Bank s.a l. is working on developing a series of new retail solutions and products. The Bank's objective is to stay ahead, to be the first to introduce premier products and services.

Payment Cards

Responding to evolving banking needs and modern lifestyles, Lebanon & Gulf Bank s.a.l. proposes an extended line-up of VISA and MasterCard to choose from : prepaid, debit, credit and charge cards.

Each of these cards offers tailor-made solutions in line with clients' diverse requirements, allowing customers flexible payment solutions around the globe.

A real pioneer in this field, Lebanon & Gulf Bank s.a.l. was the first Bank to issue MasterCard in Lebanon back in 1992. Today, the Bank offers a wide range of utility cards under both brands MasterCard and Visa with appealing payment facilities and flexible use limits constantly revised to meet the customers' increasing demand for cash backups.

In addition to the regular payment cards that come in handy at anytime and anywhere, the Bank also provides the Web Surfer card dedicated to internet users. Lebanon & Gulf Bank s.a.l. also offers a debit MasterCard with an exclusive Pin Trigger, a feature through which customers can activate their cards via the Bank's ATMs or any other ATM related to CSC Bank s.a.l to avoid fraudulent attempts.

To match its customers' personalized needs for convenient and specific-use cards, the Bank has developed the CUP, also known as the Union Pay Card, that was conceived to fit the aspirations of frequently travelling businessmen to Asia.

The Bank has also launched the LGB LBP Card, its first credit card in Lebanese Pounds which can be used locally, internationally and electronically as a regular credit card in the settlement of all due payments. The latter will spare customers – with an account in Lebanese Pounds - any inconvenient change rates as well as give them access to many additional benefits. The launching of the LGB LBP MasterCard also reflects Lebanon & Gulf Bank s.a.l.'s commitment towards the consolidation of the Lebanese Pound, encouraging customers to complete their transactions using their national currency.

Further in line with its customer centric strategy, the Bank initiated the "LGB Loyalty Program" under the "Cash is the Gift". This fidelity concept allows LGB Credit Card holders to collect the points and redeem them in Cash. As such Lebanon & Gulf Bank s.a.l. reconfirms its intent to provide an unmatched banking experience by rewarding its customers for their loyalty as well as their frequent use of its payment cards.

Consumer Loans

With the ever rising demand on Loan Products, Lebanon & Gulf Bank s.a.l. has developed services that aim to improve the life quality of its customers whether from a personal or a professional standpoint.

In addition to the usual common loans like the car, home and personal loans, the Bank has thought of a Public Sector Personal Loan allowing public employees to obtain an advantageous credit for a competitive rate and within favorable conditions. The loan also allows customers to transfer existing liabilities and centralize their loans with Lebanon & Gulf Bank s.a.l. while benefiting from additional funding with minimum formalities.

Targeting a different customer segment, Lebanon & Gulf Bank s.a.l. also offers the "Boat Loan", a unique product providing those who like to break free in the open water with the possibility of owning their own boat/yacht within appealing conditions and easy procedures.

Bancassurance Services

Bancassurance is a byproduct that has also been witnessing significant growth since the beginning of this decade. In collaboration with SNA Allianz Insurance, the leading insurance partner, Lebanon & Gulf Bank s.a.l. has been able to provide its customers with highly beneficial insurance programs covering personal accidents, health, fire, car and other matters. The Bank has set even more customized programs for its customers including "Maana Al Taaleem" and "Maana Al Takaoud", one being an educational saving plan and the other a retirement saving plan, both coupled with life insurance. In 2010, the Bank introduced the Income Compensation Plan providing customers with a cost-effective plan B that allow them to sustain their income in case of accidents.

Constantly adjusting to its customers' expectations in a changing market, Lebanon & Gulf Bank s.a.l. is offering the Safe Guaranteed Plan Plus in collaboration with Medgulf which is a 3 year guaranteed investment and free life insurance providing clients with the opportunity of increasing their revenues in a secure and lucrative way on the short term.

The e-LGB BANK platform

Over the past few years, the world has witnessed a real electronic revolution forcing most businesses to gear their operations through an online portal. In this line, Lebanon & Gulf Bank s.a.l. has launched a modern and upbeat version of its corporate website, www.lgbbank.com, with user friendly functions to meet clients' contemporary needs and expectations in a virtually controlled world. The website includes both corporate and retail banking products and services creating a comprehensive interface to browse and explore.

Digital specialists are also in the process of implementing a broad Online Banking platform, "LGB Online", allowing the Bank's customers to benefit from a number of products and services in the comfort of their homes or offices. The Bank's internet banking services will allow users to complete many of their daily banking transactions in a swift and efficient manner at their own suitable time.

International & Correspondent Banking

The International Banking Division integrates the Bank's international operations. It facilitates cross-border trade and is responsible for the relationship management with around 150 Financial Institutions globally. It plays a major role through effective communications with the Bank's correspondent banking network, careful risk assessment of business opportunities and close monitoring of the global market developments.

The core areas at International Banking activities are mainly targeted to facilitate international business with emphasis on quality service. These activities lead the Bank to succeed in accommodating its clients with special terms & conditions as well as pricing schemes in terms of payments, check clearing, trade finance, foreign exchange and other treasury services.

The Correspondent Banking Business stimulates the corporate expansion strategy for the development of its international trade activities and worldwide operations. Maintaining excellent relationships with these banks will support Lebanon & Gulf Bank s.a.l. and its goals to build reliable partnerships with an efficient business network.

Through its branch presence in Cyprus since 1986, Lebanon & Gulf Bank s.a.l. has spread its operations across the region and Europe to attract the growing community of Lebanese expatriates and local customers.

In this framework, the bank judges crucial to recruit highly professional and qualified experts to act as country/region relationship managers who would constantly travel to create opportunities in foreign markets.

Despite the current region's turmoil, Capital Intelligence (CI) has upgraded LGB's Financial Strength from BB- to BB maintaining same Long & Short Term Foreign Currency Rating at B/B with a Stable Outlook for its solid position.

Marketing & Communication

In its continuous efforts to meet the latest banking trends and provide an optimized experience to its customers, Lebanon & Gulf Bank s.a.l. has reshuffled its corporate identity by giving it a modern look and feel. This initiative aimed essentially at mirroring the Bank's core values and attributes including transparency, quality, integrity and professionalism. In addition, the rebranding operation which affected the Bank's corporate image, advertisements, premises and even ATMs aimed at providing customers with a more welcoming and friendly atmosphere where they would feel secure and comfortable.

Today, the Bank's main communication priority remains to highlight its customer centric strategy using a mix of conventional and out-of-the-box tools. Lately, Lebanon & Gulf Bank s.a.l. has redesigned its corporate website to meet contemporary users' expectations and launched the "e-LGB BANK Newsletter" to keep its customer base in the loop of the Bank's news, activities and updates. As a result, Lebanon & Gulf Bank s.a.l. has been able to make quite an entrance and impact on the Lebanese banking scene gaining in communication penetration and market share.

A key element of Lebanon & Gulf Bank s.a.l. campaigns is to factually convey its corporate values.
Lebanon & Gulf Bank s.a.l. does not build its reputation on commercial promotions but rather on actual servicing. This is how the Bank is managing to retain and sustain its customers trust with a rightfully communicated and reliable performance.

Furthermore, the Bank has adopted an "open door" communication policy whether towards the customers or between employees, aiming at safeguarding its image from all possible angles: well thought internal communication activities that enhance the synergy between the employees and promote teamwork, corporate social responsibility communication that endorse community initiatives including the constant endorsement of "Ajialouna", a Lebanese non profit association, and customer campaigns that highlight the competitive edge of the Bank's products and services.

Additionally, Lebanon & Gulf Bank s.a.l. maximized its exposure by participating in the Beirut Boat Show 2011 where it showcased its pioneering "Boat Loan" reaping great praise and success among its own customers and other visitors of the event.

Human Resources

Lebanon & Gulf Bank s.a.l. fully understands the importance of investing in the human capital perceived as a major component of its customer centric strategy aiming at delivering unmatched and highly personalized services.

In this framework, a harmonious and growing team of experts from different professional backgrounds is constantly being shaped; all embodying the values and ethical principles of the Bank while projecting its legacy.

By better understanding the Bank's strategy and objectives, the employees are able to offer a better fitted product and a more personalized approach to customers. This is exactly why prior to the enrollment, many of the employees at Lebanon & Gulf Bank s.a.l. are initiated to its culture through internships. Such trainings allow them to have an overview of the Bank as well as at its products and services while getting acquainted with its code of conduct.

From the entry level, all employees are requested to comply with a preset corporate behavior that matches the Bank's image including adherence to high standards of confidentiality, professionalism, transparency and integrity. Each and every employee needs to abide by the prescriptions of the Employee Handbook and the Code of Ethics reflecting a live image of the Bank's commitment towards its customers. Consequently, all are bound to act in an ethical, fair and transparent manner setting the example for the others to follow. In parallel, Lebanon & Gulf Bank s.a.l. adopts an equal opportunity policy that ensures an objective selection and treatment of new recruits.

We perceive the human capital as the most valuable of assets offering every staff member a motivational work environment to grow and prosper in. We give much importance to team work and synergy above all and look to retain talents by providing them with a challenging team spirited atmosphere that triggers their creativity and allows them to assume higher responsibilities while remaining multifunctional.

Lebanon & Gulf Bank s.a.l. also seeks to update and modernize its job description templates bearing in mind the changing nature of assigned tasks and activities. Not only that, but the Bank's employees are subject to talent reinforcement trainings to strengthen their skills and knowledge. These trainings include in house and external seminars and workshops covering technical and non-technical areas that will help employees acquire new abilities and advance in their professional career while ensuring a gradually more rewarding experience for the Bank's customers.

Information Technology

A technically advanced business platform provides an optimized customer experience, regardless of the line of business. In the banking sector, technology is enabling financial institutions with a competitive edge to reduce error margins, save time and speed up business procedures for a maximum customer satisfaction.

To keep up with the fast changing business trends, Banks need to integrate cutting edge technologies that ensure more flexibility and practicality to customers.

Consequently, Lebanon & Gulf Bank s.a.l. has embraced the technological revolution to ride the wave of sustainable growth in a challenging world economy. As a result, the Bank is enhancing the functionality of its core banking system and implementing new modules coupled with a comprehensive reengineering, enhancement and improvement of its human and technological resources and processes.

A real pioneer in this field, Lebanon & Gulf Bank s.a.l. was one of the very first Banks in Lebanon to adopt such technological updates in the banking sector. In fact, the technological reform stipulated the upgrade of the infrastructure to introduce better risk and security controls and improve productivity. A new security system was also implemented in order to avoid hacking and fraudulent actions.

The IT interface deployed by Lebanon & Gulf Bank s.a.l. allows great flexibility in terms of work flow and transactions' processing in addition to allowing employees to share information internally creating a solid synergy between departments. All units are linked together by a robust IT system and supported by highly qualified and skilled engineers who are ready to assist with any request.

Furthermore, the Bank adopted a new software known as "Trade Innovation Plus" which comes to replace the already existing TI software and displays highly flexible functions delivering an optimized performance in quality and speed as it widely facilitates transactions related to Transfers and Treasury.

Yet, integrating new technologies in its internal processes is not the only tactic Lebanon & Gulf Bank s.a.l. implemented to become a modern financial institution. The Bank has actually worked on developing innovative electronic banking solutions to deliver even higher performance by providing employees with special online tools that could facilitate their daily chores; and by allowing customers to access a set of online services that simplify their banking transactions. The Bank has also boosted its IT platform by increasing the number of ATMs across the Lebanese territory getting strategically closer to the Lebanese customers.

Recently, and in line with its commitment to remain among the most advanced banks in Lebanon, Lebanon & Gulf Bank s.a.l. has entirely redesigned and launched its corporate website to offer a comprehensive online experience to web visitors. Thoroughly planned and executed, the new website offers an on-the-go and user friendly platform for customers wherever they are. This will enable the Bank to remain at the forefront of banking technology and support its business development strategy.

Today, the Bank is conducting a series of new projects to exploit technological advances and ensure that the latest solutions are being implemented.

Management Discussion and Analysis

6

بنك لبنان والخليج
Lebanon & Gulf Bank

Management Discussion and Analysis

Basis of Presentation

Management Discussion and Analysis section (MD&A) enables readers to assess material changes in the financial conditions and operational results of Lebanon & Gulf Bank s.a.l. – referred to as "The Bank" - for the year ended as at December 31st, 2011 as compared to the year ended December 31, 2010. The below presented MD&A should be read in conjunction with our Financial Statements and related Notes for the year ended December 31, 2011. Unless otherwise indicated, all amounts are expressed in Lebanese Pounds and have primarily derived from the Bank's Annual Financial Statements prepared in accordance with International Financial Accounting Standards (IFRS).

Economic Environment

During 2011, the Lebanese economy recorded a positive growth of 1.5% according to the Central Bank of Lebanon and the IMF representing a considerable slowdown from the 8% recorded in the previous four years. Being in the middle of internal and external challenges which constrain growth and hinder fiscal consolidation; Lebanon has maintained local stability more than any other MENA country. However this rising instability in the neighboring countries and the unsteady political situation has negatively impacted the economy and the confidence of private investors.

The external sectors recorded an improvement in 2011, as imports increased by 12.2% due to the rise in domestic demand of foreign consumer goods; while exports increased by 0.3% as compared to 22.1% in the previous year due to a relative slow down in political unrest in the region.

The gross public debt reached USD 53.6 billion at the end of 2011, up from USD 52.6 billion at the end of 2010, representing an increase of 2%. The public debt-to-GDP ratio achieved 133% against 134% in the previous year.

The overall bank deposits witnessed an increase of USD $ 8,5 billion during 2011 mainly from foreign currency deposits as local currency deposit stagnated due to the rising local political tension during the first half of the year. This has lead to a slight increase in dollarization.

The Lebanese Capital markets suffered from the absence of investors appetite which resulted in a 20% drop in the equity market price index. A local demand was mainly observed in the Euro bond market given that foreign investors sold their holdings due to their concerns about the regional political turmoil;resulting in a decrease in CD's and bond prices.

Major Economic Indicators in Lebanon

In USD million	2010	2011	Change
GDP	38,747	40,480	1,733
Real GDP growth	7.0%	1.5%	(5.5%)
Imports	17,964	20,158	2,194
Exports	4,253	4,265	12
Trade deficit	13,711	15,893	2,182
Gross inflows of capital	17,037	13,897	(3,140)
Balance of payments	3,326	(1,996)	(5,322)

Source: Central Bank of Lebanon & Ministry of Finance and Lebanese Customs

Lebanese Banking Environment

During 2011, Lebanese banking activities registered a positive growth despite domestic political uncertainties and the current regional turmoil.

Total consolidated assets of commercial Banks expanded to LBP 211,918 billion in 2011 the equivalent of USD 141 million representing an increase of 9% compared to LBP 194,355 billion in 2010 or the equivalent of USD 129 million.

Total deposits recorded a growth of 8% during 2011 in comparison to 12% during 2010 to reach LBP 174,439 billion the equivalent of USD 116 billion.

Loan to customers witnessed a moderate growth of 12.7% during 2011 to attain LBP 59,358 billion at the end of 2011, the equivalent of USD 39.4 billion. "Loan to Deposit ratio" witnessed a slight increase reaching 34% in 2011 compared to 32.6% in 2010.

The dollarization ratio of deposit witnessed a boost from 63.2% in December 2010 to 65.9% in December 2011 while dollarization ratio of loans witnessed a drop from 80.3% in December 2010 to 78.4% in December 2011.

As at December 31

In billion of LBP	2010	2011	Growth Amount	Growth %
Total assets	194,355	211,918	17,563	9
Total deposits	161,610	174,439	12,829	7.9
o/w in LBP	59,411	59,446	35	0.06
o/w in FC	102,199	114,994	12,795	12.5
Total loans	52,656	59,358	6,702	12.7
o/w in LBP	10,389	12,829	2,440	23.5
o/w in FC	42,267	46,529	4,262	10.1
Equity	13,901	16,161	2,260	16.3
Dollarization of deposits (%)	63.2%	65.9%		2.7
Dollarization of loans (%)	80.3%	78.4%		(1.9)
Loans/Deposit Ratio (%)	32.6%	34%		1.4
Deposits/Assets (%)	83.2%	82.3%		(0.8)
Equity/Assets Ratio (%)	7.2%	7.6%		0.4

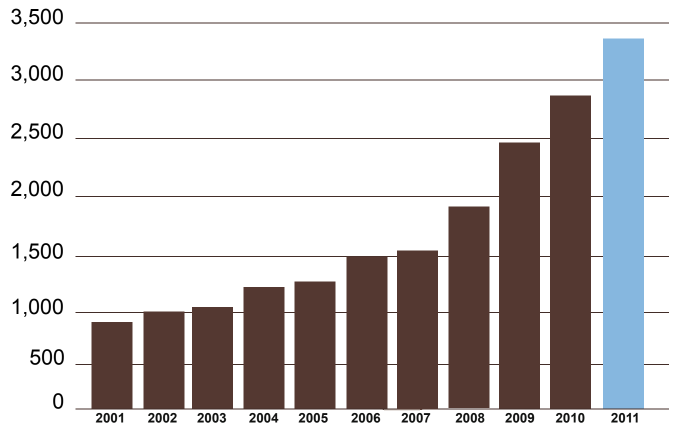
Source: Central Bank of Lebanon

The Bank's Growth

Between 2001 and 2011, Lebanon & Gulf Bank s.a.l. managed to achieve a steady and continuous growth in all main financial indicators.

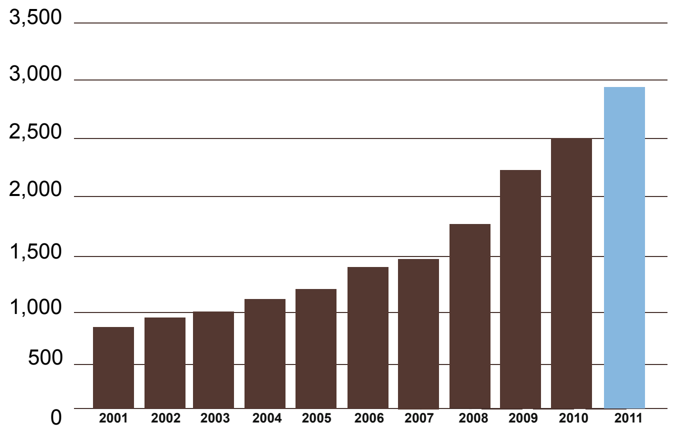
Total Assets in billion of LBP

During the period of 2001-2011, the total assets of the Bank increased from LBP 898 billion (USD 596 million) As at December 2001 to LBP 3,257 billion (USD 2,161 million) As at December 2011, reflecting a remarkable growth of 263%.



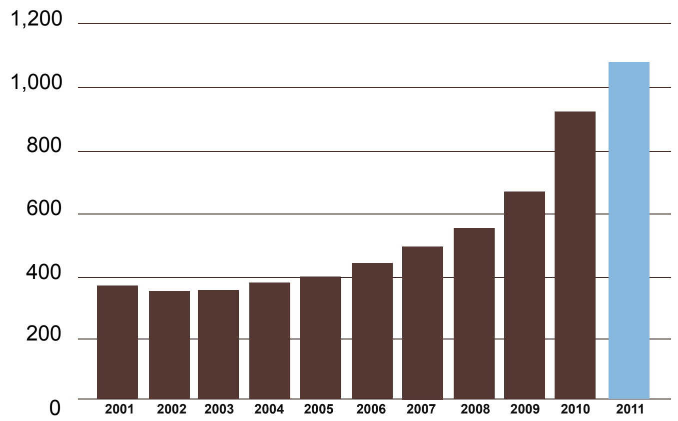
Customers' Deposits in billion of LBP

The growth in the Bank's assets during the period of 2001-2011 reflected a similar growth in Customers' Deposits, which increased by 263% from LBP 796 billion (USD 528 million) As at December 2001 to LBP 2,893 billion (USD 1,919 million) As at December 2011.



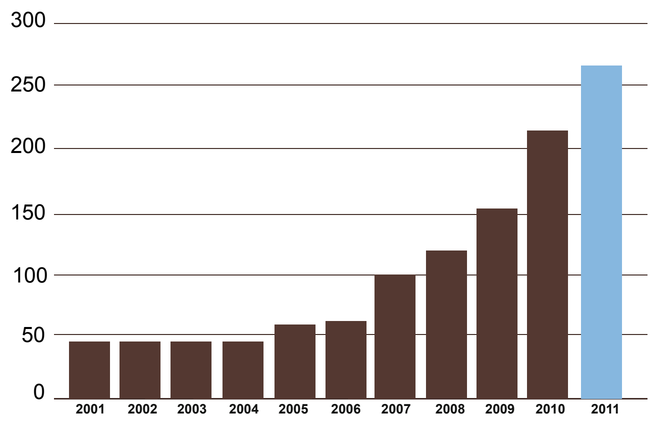
Loans & Advances in billion of LBP

The Bank successfully grew its commercial and retail lending portfolio. Accordingly, Loans & Advances to customers increased from LBP 339 billion in 2001 (USD 225 million) to reach LBP 1,087 billion (USD 721 million) as at December 2011, reflecting a growth of 220%.



Equity in billion of LBP

The increase in Equity from LBP 36 billion in 2001 (USD 24 million) to LBP 263 billion in 2011 (USD174 million) reflected a growth of 631%.



The Bank's Performance

The 2011 was another very successful year for Lebanon & Gulf Bank s.a.l. despite a difficult external environment in the aftermath of the eruption of the Global Financial Crisis; the Bank maintained a strong performance. Total assets increased by 16.8% to reach LBP 3,257 billion and customers' deposits increased by 16.7% to reach LBP 2,893 billion.

The Bank's Loan portfolio increased by 21% to reach LBP 1,087 billion during 2011 and Shareholders' Equity increased by 18.7% to reach LBP 263 billion. Net Income witnessed an increase of 6.6% to reach LBP 26 billion with a stable ratio for Return on Average Assets (ROAA) around 1.0% in 2010 & 2011 and slight decrease for Return on Average Equity (ROAE) from 13.10% in 2010 to 11.29% in 2011.

1. Profitability

Profitability for the period ending on 31 December 2011 and 2010 was as follows:

As at December 31

In million of LBP	2010	2011	Growth Amount	Growth %
Net Income	24,706	26,337	1,631	6.6
Net Interest Income	29,331	28,867	(464)	(1.6)
Net Fees and Commission Income	11,118	11,737	619	5.6
Total Net Non Interest Income	43,814	36,946	(6,868)	(15.7)
Net Operating Income	59,591	61,243	1,652	2.8
Total Operating Expenses	32,544	32,299	(245)	(0.75)

Net Income

Net Income grew by 6.6% during 2011 reaching LBP 26.3 billion compared to LBP 24.7 billion in 2010.

Net Interest Income

Net Interest Income decreased by 1.6 % between 2010 & 2011, from LBP 29.3 billion in 2010 to LBP 28.9 billion in 2011. This is attributed to a reduction in interest spreads amidst a moderate increase in balance sheet growth and in interest income and interest paid mainly from loans and advances and deposits to customers.

Breakdown of Interest Received

In million of LBP	2010	2011
Interest received from investments securities	83,543	79,892
Interest received from loans and advances	42,199	60,980
Interest received from banks and financial institutions	6,626	7,093
TOTAL	**132,368**	**147,965**

Breakdown of Interest Paid

In million of LBP	2010	2011
Interest paid on deposits from customers	(102,815)	(117,787)
Interest paid on banks and financial institutions	(222)	(1,311)
TOTAL	**(103,307)**	**(119,098)**

Net Fees & Commissions Income

A slight increase in loan services and Trade finance business during 2011 resulted in a 6% increase in net fees and commission income.

Breakdown of Net Fees & Commission Paid

In million of LBP	2010	2011
Fee and commission received		
Trade finance	2,768	3,380
Customers' deposits accounts	2,262	1,824
Credit related fees and commissions	5,668	6,080
Asset management	596	350
Other services	440	495
	11,734	**12,129**
Fee and commission paid		
Correspondents' accounts	(616)	(392)
NET FEE AND COMMISSION INCOME	**11,118**	**11,737**

Total Net Non Interest Income

Non-interest income decreased by 15.7% in 2011 from LBP 43.8 million in 2010 down to LBP 36.9 million in 2011. This is mainly due to a decrease in net gain on financial investments where the Bank was selling CD's classified as Loans and Receivables during 2010 and the Bank realized a profit.

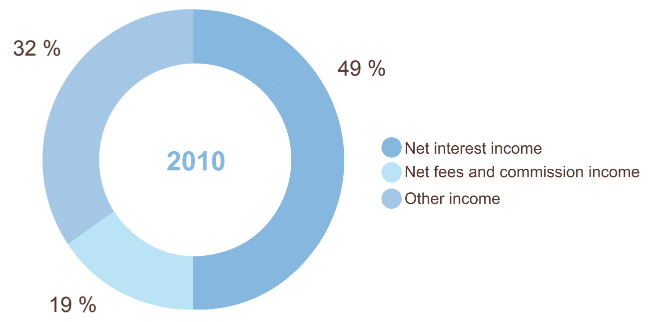
In 2011 these were classified as Amortized Cost as per IFRS 9 implementation and the gain was substituted by switching for a higher yield investments.

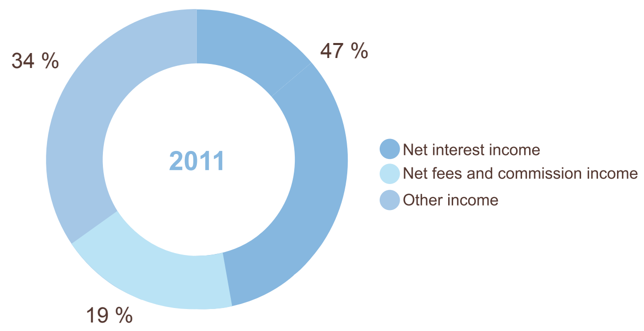
In million of LBP	2010	2011
Net fees and commission	11,118	11,737
Net trading income	13,685	14,738
Net gain on financial investments	16,395	8,043
Other operating income	2,616	2,428
TOTAL	**43,814**	**36,946**

Net Operating Income

Net Operating Income registered an increase of 2.8% from LBP 59.6 billion in 2010 to LBP 61.3 billion in 2011.

Breakdown of Total Net Operating Income





Total Operating Expenses

Total operating expenses registered a decrease of 0.75% going down from LBP 32.5 billion in 2010 to LBP 32.3 billion in 2011.

In million of LBP	2010	2011
Personnel expenses	(19,263)	(18,447)
Depreciation of property and equipment	(3,267)	(3,569)
Amortization of intangible assets	(165)	(174)
Other operating expenses	(9,849)	(10,109)
TOTAL	**32,544**	**32,299**

Cost to Income

Cost to income increased from 44% in 2010 to 48% in 2011, reflecting a more efficient and cost optimization undertaken by the Bank.

Return on Assets (ROAA)

Return on Assets (ROAA) remained at 1.0% in 2010 and 2011.

Return on Equity (ROAE)

Return on Equity (ROAE) decreased from 13.1% in 2010 to 11.3% in 2011 mainly due to the increase in the bank's equity by 16.2%.

2. Total Balance Sheet

As at December 31

In million of LBP	2010	2011	Growth Amount	Growth %
Total assets	2,789,052	3,257,438	468,386	16.8
Customers' deposits	2,478,701	2,892,778	414,077	16.7
Loans and advances to customers (net)	902,259	1,087,001	184,742	20.5
Security portfolio	1,225,759	1,423,652	197,893	16.1
Total equity	221,608	263,036	41,428	18.7
Net income for the year	24,706	26,337	1,631	6.6
Dollarization of deposits	68.3%	72.5%		
Dollarization of loans	80.1%	85.7%		
Return on Average Assets (ROAA)	1.0%	1.0%		-
Return on Average Equity (ROAE)	13.1%	11.3%		(1.8)

2.1. Funding Sources

Similarly to all Lebanese Banks, Lebanon & Gulf Bank s.a.l.'s main source of funds was Customers' Deposits, which accounted for 88.8% of its overall funding sources in 2011 compared to 88.9% in 2010.

Shareholders' Equity accounted for 8.1% in 2011 compared to 7.9% during 2010.

Breakdown of Funding Sources

As at December 31

In million of LBP	2010	%	2011	%	Growth Amount	Growth %
Customers' Deposits	2,478,701	88.9	2,892,778	88.8	414,077	16.7
Shareholders' Equity	221,608	7.9	263,036	8.1	41,428	18.7
Banks and Financial Institutions	47,526	1.7	50,155	1.5	2,629	5.5
Other Liabilities	41,217	1.5	51,469	1.6	10,252	24.9
TOTAL	**2,789,052**	**100.0**	**3,257,438**	**100.0**	**468,386**	**16.8**

Customers' Deposits

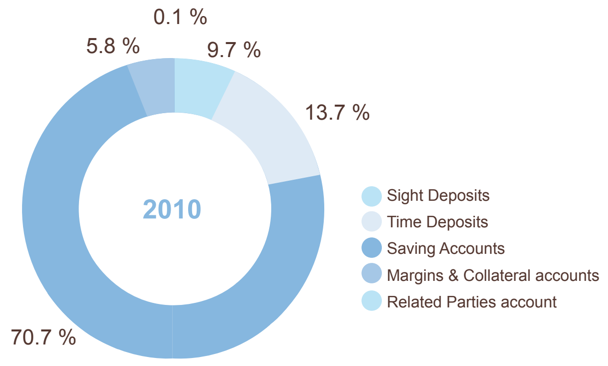
Constituting the main funding source, "Customers' Deposits" recorded a continuous growth over the years to reach LBP 2,893 billion as at December 31, 2011 representing an increase of 16.7% as compared to LBP 2,479 billion in December 31, 2010.

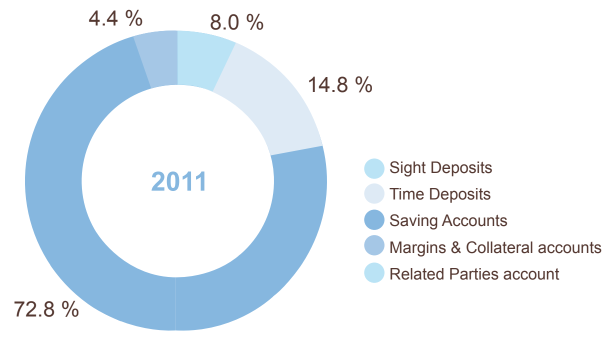
Customers' Deposits

As at December 31

In million of LBP	2010	%	2011	%	Growth Amount	Growth %
Sight Deposits	241,137	9.7	232,731	8.0	(8,406)	(3.5)
Time Deposits	339,344	13.7	427,321	14.8	87,977	25.9
Saving Accounts	1,752,172	70.7	2,105,697	72.8	353,525	20.2
Margins & collateral accounts	142,919	5.8	126,465	4.4	(16,454)	(11.5)
Related parties account	3,129	0.1	564	-	(2,565)	(81.9)
TOTAL	**2,478,701**	**100.0**	**2,892,778**	**100.0**	**414,077**	**16.7**

Deposits Distribution

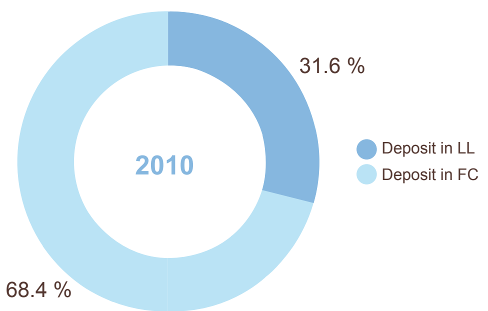


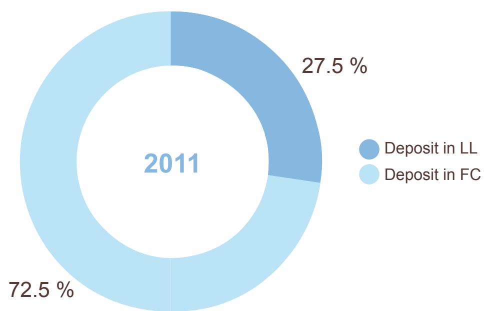


Deposit Distribution by Currency

The breakdown of deposits growth indicates that deposits denominated in LBP grew in 2011 by 7% compared to those denominated in foreign currencies which dropped off by 1.7%. The "Deposits Dollarization Rate" (measured as deposits denominated in foreign currencies to total deposits) increased from 68.3% As at December 31, 2010 (compared to 63.2% for the banking sector) to 72.5% at the end of 2011 (compared to 65.9% for the banking sector). This has lead to a rise in dollarization by around 4.2%.

Lebanon & Gulf Bank





2.2. Uses of Funds

Maintaining high asset quality and adequate liquidity remain one of the Bank's fundamental priorities.

Loans and Advances to customers accounted for 33.4% in 2011 as compared to 32.4% in 2010 while Loans to Deposit ratio increased from 36.4% in 2010 to 37.6% in 2011, reflecting once again the Bank's conservative lending policy.

The share of cash and balances with the Central Bank recorded a slight increase from 11.9% in 2010 to 12.2% in 2011. The share of Security Portfolio decreased from 43.9% in 2010 to 43.1% in 2011. This has resulted in a slight decrease in the Bank's total exposure to the Lebanese Government from 55.8% in 2010 to 55.3% in 2011.

As at December 31

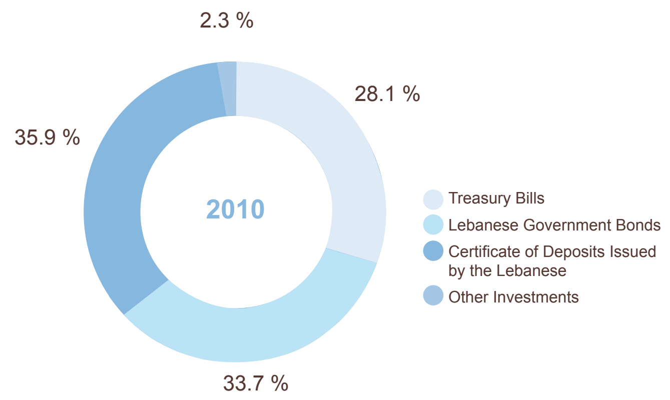
					Growth	
In million of LBP	2010	%	**2011**	%	Amount	%
Cash and Balances with Central Bank	332,957	11.9	396,601	12.2	63,644	19.1
Banks and Financial Institutions	226,134	8.1	237,487	7.6	11,353	5
Security Portfolio	1,225,759	43.9	1,423,652	43.1	197,893	16.4
Loans and Advances to Customers	902,260	32.4	1,087,001	33.4	184,741	20.5
Other Assets	101,942	3.7	112,697	3.7	10,755	10.6
TOTAL	**2,789,052**	**100.0**	**3,257,438**	**100.0**	**468,386**	**16.8**

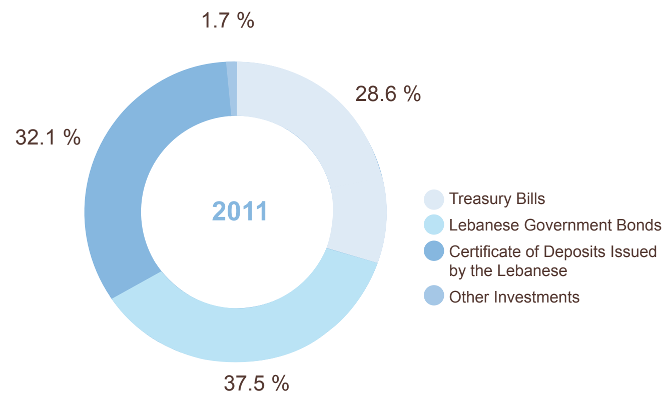
Security Portfolio

As at December 31

					Growth	
In million of LBP	2010	%	**2011**	%	Amount	%
Treasury Bills	344,764	28.1	407,753	29	62,989	18.3
Lebanese Government Bonds	413,181	33.7	534,457	38.1	121,276	29.4
Certificate of Deposits issued by the Lebanese Government	439,657	35.9	457,089	32.5	17,432	4
Other Investments	28,157	2.3	24,353	0.4	(3,804)	(13.5)
TOTAL	**1,225,759**	**100.0**	**1,423,652**	**100.0**	**197,893**	**16.1**

Distribution by Type





Distribution by Classification

As at December 31, 2010

In million of LBP	Trading	%	Available for sale	%	Loans & receivables	%	Held to maturity	%	Total	%
Treasury Bills	139,589	76.5	-		-	-	205,175	35.1	344,764	28.1
Lebanese Government Bonds	33,125	18.2	-	-	-	-	380,056	64.9	413,181	33.7
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	439,657	97.8	-	-	439,657	35.9
Others	9,670	5.3	8,701	100.0	9,786	2.2	-	-	28,157	2.3
TOTAL	**182,384**	**100.0**	**8,701**	**100.0**	**449,443**	**100.0**	**585,231**	**100.0**	**1,225,759**	**100.0**
Per Cent to Total		**14.9**		**0.7**		**36.7**		**47.7**		**100**

As at December 31, 2010

In million of LBP	FVTPL	%	Investment in association	%	Held to maturity	%	Total	%
Treasury Bills	157,906	61.1	-	-	249,847	21.6	407,753	28.7
Lebanese Government Bonds	95,410	36.9	-	-	439,047	38	534,457	37.5
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	457,089	39.6	457,089	32.1
Others	5,087	2	9,833	100	9,433	0.8	24,353	1.7
TOTAL	**258,403**	**100.0**	**9,833**	**100.0**	**1,155,416**	**100.0**	**1,423,652**	**100.0**
Per Cent to Total		**18.1**		**0.7**		**81.2**		**100.0**

Net Loans and Advances to Customers

The “Loans and Advances to Customers” portfolio witnessed a significant increase of 20.5% during the year 2011, reaching LBP 1,087,001 billion compared to LBP 902,259 billion in 2010.

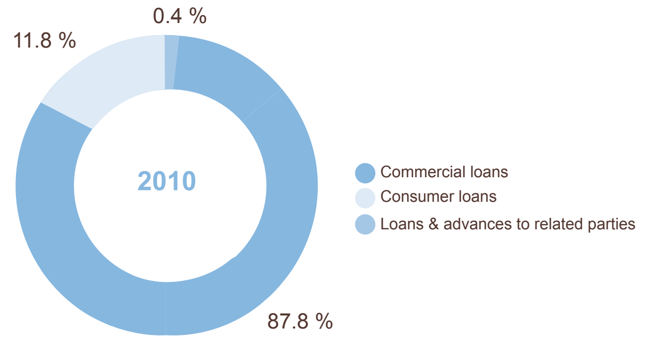
Following a conservative lending policy, the Bank maintained a relatively low “Loan to Deposit Ratio”, which stood at 37.6% at the end of 2011 compared to 36.4% at the end of 2010.

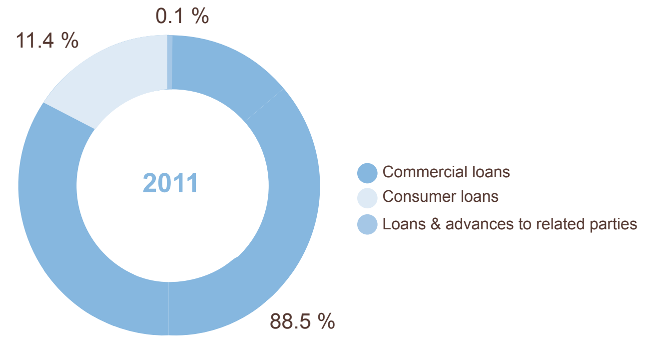
Customers’ Deposits

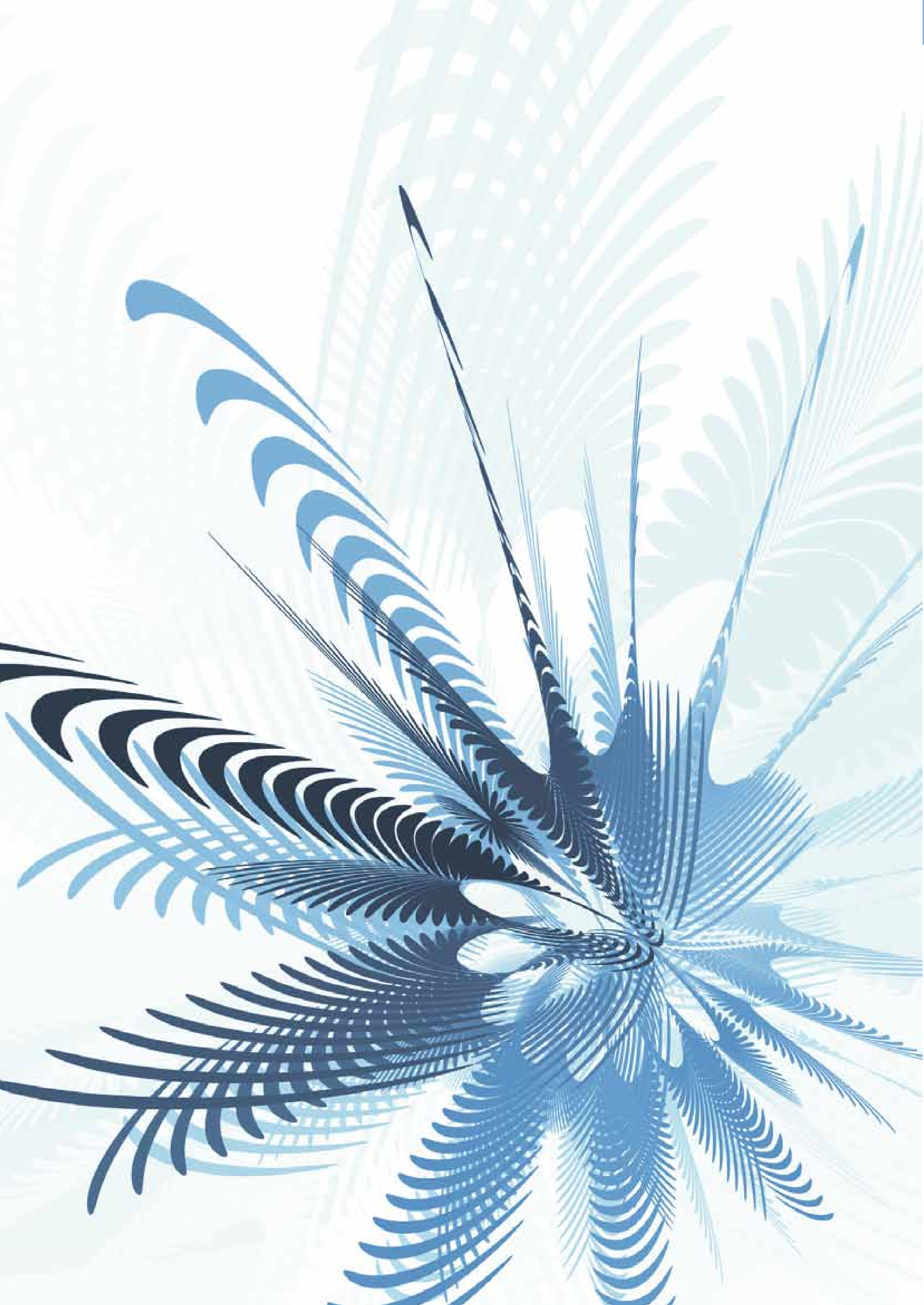
As at December 31

In million of LBP	2010	%	2011	%	Growth Amount	Growth %
Commercial loans	792,513	87.8	962,266	88.5	169,753	21.4
Consumer loans	106,203	11.8	123,350	11.4	17,147	16.1
Loans & advances to related parties	3,543	0.4	1,385	0.1	(2,158)	60.9
TOTAL	**902,259**	**100.0**	**1,087,001**	**100.0**	**184,742**	**20.5**

Loan & Advances Distribution







Auditor's Report

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بنك لبنان والخليج
Lebanon & Gulf Bank

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF LEBANON & GULF BANK SAL

We have audited the accompanying financial statements of Lebanon & Gulf Bank SAL (the "Bank"), which comprise the statement of financial position as at 31 December 2011 and the 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 about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2011, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

4 June 2012
Beirut, Lebanon

Financial Statements

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بنك لبنان والخليج
Lebanon & Gulf Bank

For the year ended 31 December 2011

In million of Lebanese Pounds	Notes	2011	2010
Interest and similar income	3	147,965	132,368
Interest and similar expense	4	(119,098)	(103,037)
Net interest income		**28,867**	**29,331**
Fee and commission income	5	12,129	11,734
Fee and commission expense	5	(392)	(616)
Net fee and commission income		**11,737**	**11,118**
Net gain on financial assets at fair value through profit and loss	6	14,738	13,685
Net gain on financial investments at amortized cost	7	8,044	12,943
Net gain on available-for-sale financial investment	7	-	3,452
Other operating income	8	2,428	2,616
Total operating income		**65,814**	**73,145**
Credit losses	9	(4,551)	(13,554)
Net operating income		**61,263**	**59,591**
Personnel expenses	10	(18,447)	(19,263)
Depreciation of property and equipment	22	(3,569)	(3,267)
Amortization of intangible assets	23	(174)	(165)
Other operating expenses	11	(10,109)	(9,850)
Total operating expenses		**(32,299)**	**(32,545)**
Share of profit of an associate under equity method	20	1,561	1,630
Net loss from sale or disposal of assets		(43)	(217)
Profit before tax		**30,482**	**28,459**
Income tax expense	12	(4,145)	(3,753)
Profit for the year		**26,337**	**24,706**

The accompanying notes 1 to 42 form part of these financial statements.

For the year ended 31 December 2011

In million of Lebanese Pounds	Notes	2011	2010
Profit for the year		**26,337**	**24,706**
Net change in available-for-sale reserve	32	(24)	(2,137)
Total comprehensive income for the year		**26,313**	**22,569**

The accompanying notes 1 to 42 form part of these financial statements.

At 31 December 2011

In million of Lebanese Pounds	Notes	2011	2010
Assets			
Cash and balances with central banks	13	396,602	332,957
Due from banks and financial institutions	14	237,487	216,759
Financial assets given as guarantee	15	-	9,375
Financial assets measured at fair value	16	258,403	182,384
Loans and advances to customers at amortized cost	17	1,085,616	898,716
Loans and advances to related parties at amortized cost	18	1,385	3,543
Debtors by acceptances	19	39,368	33,933
Investment in an associate	20	9,833	8,701
Financial assets classified at amortized cost	21	1,155,416	1,034,674
Property and equipment	22	38,959	40,254
Intangible assets	23	354	141
Fixed assets taken in recovery of bad debts	24	26,227	24,150
Other assets	25	7,789	3,465
Total assets		**3,257,439**	**2,789,052**
Liabilities and equity			
Liabilities			
Due to banks and financial institutions	26	50,155	47,526
Customers' deposits at amortized cost	27	2,892,214	2,475,572
Deposits from related parties at amortized cost	18	564	3,129
Engagements by acceptances	19	39,368	33,933
Other liabilities	28	7,835	2,932
Provisions for risks and charges	29	4,266	4,352
Total liabilities		**2,994,402**	**2,567,444**
Equity			
Share capital - common shares	30	97,200	97,200
Share capital - preferred shares	30	8,800	8,800
Share premium on preferred shares	30	57,554	57,554
Non distributable reserves	31	38,549	26,868
Reserves for revaluation variance - real estate		1,904	1,904
Available-for-sale reserve	32	-	24
Retained earnings		32,693	4,552
Results of the period – Profit		26,337	24,706
Total equity		**263,037**	**221,608**
Total liabilities and equity		**3,257,439**	**2,789,052**

The financial statements were authorized for issue in accordance with the resolution of the board of directors on 4 June 2012.

At 31 December 2011

In mllion of Lebanese Pounds	Notes	2011	2010
OFF STATEMENT OF FINANCIAL POSITION ITEMS			
Financing commitments			
Commitments issued to financial institutions	36	37,930	45,564
Commitments issued to customers	36	4,292	3,566
Undrawn commitments to lend	36	44,311	59,965
Guarantees commitments			
Guarantees issued to financial institutions	36	6,165	6,115
Guarantees received from financial institutions		25,058	26,606
Guarantees issued to customers	36	88,517	76,397
Guarantees received from customers	39	1,407,326	1,276,530
Other commitments		18,665	12,148
Foreign currency operations			
Foreign currencies to receive	35	7,302	4,716
Foreign currencies to deliver		7,302	4,716

The accompanying notes 1 to 42 form part of these financial statements.

Statement of Financial Position

At 31 December 2011

In million of Lebanese Pounds	Notes	2011	2010
OPERATING ACTIVITIES			
Profit for the year before tax		30,482	28,459
Adjustments for:			
Depreciation of property and equipment	22	3,569	3,267
Amortisation of intangible assets	23	174	165
Provision for employees' end of service benefits	29	78	1,574
Credit losses	9	4,551	13,554
Gain on disposal of assets taken in settlement of bad debts	8	(569)	(210)
Loss from sale of property and equipment		43	217
Net gain on non trading financial instruments	7	(8,044)	(12,943)
Share profit of associate under equity method	20	(1,561)	(1,630)
Gain from available-for-sale financial investment	7	-	(3,452)
Unrealized (loss) gain on financial assets at fair value through profit and loss		7,373	(140)
Provisions for risks and charges		(151)	-
		35,945	**28,861**
Changes in operating assets and liabilities			
Due from banks and financial institutions		-	88
Financial assets given as guarantee		9,375	(2,136)
Financial assets measured at fair value		59,344	(60,749)
Loans and advances to customers at amortized cost		(191,451)	(241,587)
Loans and advances to related parties at amortized cost		2,158	(3,076)
Fixed assets taken in recovery of bad debts		(1,508)	429
Other assets		(4,324)	(23)
Due to banks and financial institutions		16,069	(4,407)
Customers' deposits at amortized cost		416,642	294,730
Deposits from related parties at amortized cost		(2,565)	(5,855)
Other liabilities		1,338	315
Cash from operations		**341,023**	**6,590**
Taxes paid		(3,604)	(4,278)
End of service benefits paid	29	(13)	(381)
Net cash from operating activities		**337,406**	**1,931**
INVESTING ACTIVITIES			
Term deposits with central banks		(74,881)	(25,462)
Financial instruments at amortized cost		(235,270)	(30,715)
Purchase of property and equipment and intangible assets		(2,755)	(7,000)
Proceeds from sale of property and equipment		26	562
Dividends received		476	405
Net cash used in investing activities		**(312,404)**	**(62,210)**
FINANCING ACTIVITIES			
Issued preferred shares and premium	30	-	45,245
Dividends paid	33	(2,095)	(1,898)
Net cash (used in) from financing activities		**(2,095)**	**43,347**
Effect of exchange rate changes		25	50
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**22,932**	**(16,882)**
Cash and cash equivalents at 1 January		267,513	284,395
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	34	**290,445**	**267,513**
OPERATIONAL CASH FLOW INTEREST AND DIVIDENDS			
Interest paid		118,358	101,289
Interest received		169,099	143,334
Dividends received		532	461

The accompanying notes 1 to 42 form part of these financial statements.

For the Year Ended 31 December 2011

In million of Lebanese Pounds	Share capital-common shares	Share capital-preferred shares	Share premium on preferred shares	Non distributable reserves	Reserves for revaluation variance-real estate	Available- for-sale reserve	Retained earnings	Results of the period- Profit	Total equity
Balance at 1 January 2011	97,200	8,800	57,554	26,868	1,904	24	4,552	24,706	221,608
Effect of IFRS 9 early adoption (note 2)	-	-	-	-	-	-	17,140	-	17,140
Effect of IFRS 9 early adoption on investment in an associate	-	-	-	-	-	-	69	-	69
Adjusted balance at 1 January 2011	97,200	8,800	57,554	26,868	1,904	24	21,761	24,706	238,817
Total comprehensive income for the year 2011	-	-	-	-	-	(24)	-	26,337	26,313
Appropriation of 2010 profits	-	-	-	11,679	-	-	13,027	(24,706)	-
Dividends distributions (note 33)	-	-	-	-	-	-	(2,095)	-	(2,095)
Exchange difference	-	-	-	2	-	-	-	-	2
Balance at 31 December 2011	**97,200**	**8,800**	**57,554**	**38,549**	**1,904**	-	**32,693**	**26,337**	**263,037**
Balance at 1 January 2010	97,200	2,800	18,309	11,971	1,904	2,161	23	21,315	155,683
Total comprehensive income for the year 2010	-	-	-	-	-	(2,137)	-	24,706	22,569
Appropriation of 2009 profits	-	-	-	14,888	-	-	6,427	(21,315)	-
Dividends distributions (note 33)	-	-	-	-	-	-	(1,898)	-	(1,898)
Issuance of preferred shares (note 30)	-	6,000	39,245	-	-	-	-	-	45,245
Exchange difference	-	-	-	9	-	-	-	-	9
Balance at 31 December 2010	**97,200**	**8,800**	**57,554**	**26,868**	**1,904**	**24**	**4,552**	**24,706**	**221,608**

The accompanying notes 1 to 42 form part of these financial statements.

Notes to the Financial Statements

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بنك لبنان والخليج
Lebanon & Gulf Bank

1- Corporate Information

Lebanon & Gulf Bank s.a.l. (the "Bank") is a Lebanese joint stock company incorporated in 1963 under the name of Agricultural Credit Bank. The name of the Bank was changed to Lebanon & Gulf Bank SAL in year 1980. The Bank is registered under No 43170 in the Beirut Register of Commerce and under No 94 on the banks' list published by the Bank of Lebanon.

The Bank provides a full range of commercial banking activities through its headquarters located in Allenby Street Beirut, Central District, Lebanon as well as at its branches in Lebanon and a foreign branch in Larnaca (Cyprus).

2- Accounting Policies

2.1 Basis of preparation

The financial statements have been prepared on a historical cost basis except for: (a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and (b) the measurement at fair value of derivative financial instruments and certain financial assets as more fully disclosed in the accounting policies below.

The carrying values of recognized assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The financial statements are presented in Lebanese Pounds (LBP) and all values are rounded to the nearest million (LL million), which is the functional and presentation currency of the Bank.

Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), and the regulations of the Central Bank of Lebanon and the Banking Control Commission ("BCC").

Presentation of financial statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in the risk management note.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

2.2 Changes in accounting policy & disclosures

Early adoption of IFRS 9

In compliance with Circular 265 of the Lebanese Banking Control Commission issued on 23 September 2010, the Bank adopted, effective 1 January 2011, Phase I of IFRS 9 as issued in November 2009 and reissued in October 2010 and related consequential amendments to other International Financial Reporting Standards. The effective application date stipulated by the standard is annual periods beginning on or after 1 January 2015. The initial application date of this standard with respect to the Bank is 1 January 2011 in accordance with the transitional provisions of the standard.

Phase I of IFRS 9 addresses the classification and measurement of financial assets and liabilities. IAS 39 is still being followed for impairment of financial assets and hedge accounting, as these will be covered through phase 2 and phase 3 of IFRS 9 respectively, which have not yet been completed by the International Accounting Standards Board (IASB). As IASB completes these phases, it will discard the relevant portions of IAS 39 and create chapters in IFRS 9 that would replace the requirements in IAS 39.

IFRS 9 introduced new classification and measurement requirements for financial assets and liabilities that are within the scope of IAS 39. It also cancelled all previous categories under IAS 39, namely financial assets held for trading, available for sale financial instruments, financial assets classified as loans and receivables and financial instruments held to maturity.

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

Management revised the Bank's financial assets and liabilities as at 1 January 2011 for reclassification and measurement purposes according to the requirements of IFRS 9 and its transitional provisions. The schedule below presents all financial assets and liabilities which did not have an impact on the Banks retained earnings or other components of equity upon reclassification as at 1 January 2011:

	Initial classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash and balances with Central Banks	Loans and receivables	Amortized cost
Due from banks and financial institutions	Loans and receivables	Amortized cost
Financial assets given as collateral	Loans and receivables	Amortized cost
Financial asset given as guarantee	Loans and receivables	Amortized cost
Loans and advances to customers	Loans and receivables	Amortized cost
Loans and advances to related parties	Loans and receivables	Amortized cost
Financial liabilities		
Due to banks and financial institutions	Amortized cost	Amortized cost
Customers' deposits	Amortized cost	Amortized cost
Deposits from related parties	Amortized cost	Amortized cost

The schedule below summarizes the new classification and amendments to the Bank financial instruments as at 1 January 2011 following the early adoption of IFRS 9 which resulted in adjustment to the opening retained earnings:

In million of Lebanese Pounds	Financial assets held-for-trading	Financial assets classified at fair value through profit and loss	Other financial assets classified as loans and receivables	Financial instruments held-to-maturity	Total
Carrying value as at 31 December 2010 according to IAS 39	**173,341**	**9,043**	**449,443**	**585,231**	**1,217,058**
Reclassification following early adoption of IFRS 9:					
Financial assets reclassified at fair value through profit and loss:					
Government debt securities	140,115	-	-	175,335	315,450
Other debt securities	-	9,043	-	-	9,043
Equity instruments	627	-	-	-	627
Financial assets reclassified at amortized cost:					
Government debt securities	32,599	-	-	430,060	462,659
Central Bank's certificates of deposit	-	-	439,657	-	439,657
Loans to banks and financial institutions	-	-	9,786	-	9,786
Carrying value as at 1 January 2011 following early adoption of IFRS 9	**173,341**	**9,043**	**449,443**	**605,395**	**1,237,222**
Effect on opening balance of retained earnings	-	-	-	**20,164**	**20,164**
Less: Income tax effect	-	-	-	(3,024)	(3,024)
	-	-	-	**17,140**	**17,140**

Other new and amended standards and interpretations
In addition to the above, the accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as at 1 January 2011, the adoption of which is described below:

IAS 24 Related Party Transactions (Amendment)
The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect the related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements, for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Bank.

IAS 32 Financial Instruments: Presentation (Amendment)
The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Bank.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)
The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as pension asset. The amendment has had no effect on the financial position or performance of the Bank.

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments
In November 2009, the IASB issued IFRIC 19 Extinguishing Financial Liabilities with Equity. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are calculated at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss. The adoption of this interpretation has had no effect on the financial statements of the Bank.

Improvements to IFRSs
In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard.

The adoption of the following amendments resulted in changes to accounting policies and to the presentation and disclosures but did not impact the financial position or performance of the Bank.

IFRS 7 Financial Instruments – Disclosures:
The amendment was intended to simplify the disclosures provided, by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

Other amendments resulting from Improvements to IFRSs to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Bank:
- IAS 1 Presentation of Financial Statements (Presentation of an analysis of each component of other comprehensive income)
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008)
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements
- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)

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

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (OCI)
The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Bank's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 19 Employee Benefits (Amendment)
The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The amendment becomes effective for annual periods beginning on or after 1 January 2013. Management is currently assessing the potential effect of application on the financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 and IFRS 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. The amendment becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the Bank's financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the Bank's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Bank's financial position or performance.

IFRS 13 Fair Value Measurement
IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted. The Bank is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

2.4 Summary of significant accounting policies

Foreign currency translation

The financial statements are presented in Lebanese Pounds, which is the Bank's presentation currency. Each foreign branch in the Bank determines its own functional currency and items included in the financial statements of each foreign branch are measured using that functional currency.

I. Transactions and balances
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

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

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

Financial instruments –classification and measurement

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

II. Classification and measurement of financial instruments

A. Classification and measurement of financial instruments from 1 January 2011

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

An entity may, at initial recognition, irrevocably designate a financial asset as measured at fair value through profit or loss if doing so eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as an 'accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bass. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

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

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

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

Although the objective of an entity's business model may be to hold financial assets in order to collect contractual cash flows, the entity need not hold all of those instruments until maturity. Thus an entity's business model can be to hold financial assets to collect contractual cash flows even when sales of financial assets occur. However, if more than an infrequent number of sales are made out of a portfolio, the entity needs to assess whether and how such sales are consistent with an objective of collecting contractual cash flows. If the objective of the entity's business model for managing those financial assets changes, the entity is required to reclassify its assets. Gains and losses arising from the derecognition of financial assets measured at amortized cost are reflected under "net gain on sale of debt instruments at amortized cost" in the income statement.

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

These financial assets are recorded in the statement of financial position at fair value. Changes in fair value and interest income are recorded under "net gain on financial assets at fair value through profit or loss" in the income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value. Gains and losses arising from the derecognition of debt instruments and other financial assets at fair value through profit or loss are also reflected under "net gain on financial assets at fair value through profit or loss" in the income statement showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

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

These financial assets are recorded in the statement of financial position at fair value. Changes in fair value and dividend income are recorded under "net gain on financial assets at fair value through profit or loss" in the consolidated income statement. Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under "net gain from financial assets at fair value through profit or loss" in the income statement.

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

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

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

Due from banks and financial institutions, and loans and advances to customers and related parties – at amortized cost
After initial measurement, amounts "Due from banks and financial institutions", "Loans and advances to customers" and "Loans and advances to related parties" are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in "Net credit losses".

b. Financial liabilities
The Bank classifies all financial liabilities as subsequently measured at amortized cost using the effective interest method, except for:

- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

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

- doing so results in more relevant information, because it either eliminates or significantly reduces a measurement or recognition inconsistency (sometimes referred to as 'an accounting mismatch') that would otherwise arise from measuring assets or liabilities or recognising the gains and losses on them on different bases
- a group of financial liabilities or financial assets and liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Bank's key management personnel.

The amount of changes in fair value of a financial liability designated at fair value through profit or loss at initial recognition that is attributable to changes in credit risk of that liability is recognized in other comprehensive income, unless such recognition would create an accounting mismatch in the income statement. Changes in fair value attributable to changes in credit risk are not reclassified to income statement. Under IAS 39, the entire amount of the change in fair value of the financial liability designated at fair value through profit or loss was recognized in the income statement.

As at 31 December 2011, there are no financial liabilities designated at fair value through profit or loss by the Bank. Financial liabilities consist due to banks and financial institutions, and customers' and related parties' deposits.

Due to banks and financial institutions and customers' and related parties' deposits
After initial measurement, due to banks and financial institutions, customers' and related parties' deposits are measured at amortized cost less amounts repaid using the effective interest rate method. Amortized cost is calculated by taking into account or premium on the issue and costs that are integral part of the effective interest rate method.

c. Derivatives recorded at fair value through profit or loss
The Bank uses derivatives such as forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in "net gain on financial assets at fair value through profit and loss" in the income statement.

An embedded derivative is separated from the host and accounted for as a derivative if, and only if;
(a) the hybrid contract contains a host that is not an asset within the scope of IFRS 9;
(b) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host
(c) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
(d) the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

B. Classification and measurement of financial instruments – Before 1 January 2011

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs except, in the case of financial instruments classified at fair value through profit or loss.

a. Financial assets
Financial assets held for trading
Financial assets held for trading are recorded in the statement of financial position at fair value. Changes in fair value, interest and dividend income are recognized in "Net trading income" according to the terms of the contract, or when the right to the payment has been established.

Other financial assets classified as loans and receivables
These include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment.

After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment are recognized in the income statement in "Impairment losses on financial instruments". Gains or losses are recognized under "net gain on financial investments" in the income statement when the investments are derecognized or impaired.

Available-for-sale financial instruments
Available-for-sale instruments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial instruments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in shareholders' equity (other comprehensive income) in the "Cumulative changes in fair value" reserve. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement. Where the Bank holds more than one investment in the same security they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial instruments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial instruments are recognized in the income statement as when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in "Impairment loss on financial instruments" and removed from the "Cumulative changes in fair value" reserve.

Held-to-maturity financial instruments
Held-to-maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Bank has the intention and ability to hold to maturity. After initial measurement, held to maturity financial instruments are subsequently measured at amortized cost using the effective interest rate, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment of such investments are recognized in the income statement as "Impairment loss on financial instruments".

Due from banks and financial institutions, and loans and advances to customers and related parties
After initial measurement, amounts "Due from banks and financial institutions", "Loans and advances to customers" and "Loans and advances to related parties" are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in "Net credit losses".

b. Financial liabilities
There were no changes in the classification and measurement of financial liabilities upon adoption of IFRS 9. IAS 39 requirements in respect of financial liabilities have been carried forward into IFRS 9 except for the fact that under IAS 39, the entire amount of the change in fair value of the financial liability designated at fair value through profit or loss was recognized in the income statement.

c. Derivatives
The Bank uses derivatives such as forward foreign exchange contracts.

Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognized in "net trading income".

An embedded derivative shall be separated from the host and accounted for as a derivative if, and only if; (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid contract is not measured at fair value with changes in fair value recognized in profit or loss.

III. Day 1 profit or loss
When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Bank immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the income statement when the inputs become observable, or when the instrument is derecognized.

IV. Reclassification of financial assets
From 1 January 2011
The Bank reclassifies financial assets if the objective of the business model for managing those financial assets changes. Such changes are expected to be very infrequent. Such changes are determined by the Bank's senior management as a result of external or internal changes when significant to the Bank's operations and demonstrable to external parties.

If financial assets are reclassified, the reclassification is applied prospectively from the reclassification date, which is the first day of the first reporting period following the change in business model that results in the reclassification of financial assets. Any previously recognized gains, losses or interest are not restated.

If a financial asset is reclassified so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognized in profit or loss. If a financial asset is reclassified so that it is measured at amortized cost, its fair value at the reclassification date becomes its new carrying amount.

Before 1 January 2011
Effective from 1 July 2008, the Bank was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category and into the "Available for sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available for sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortized cost.

For a financial asset reclassified out of the "Available for sale" category, any previous gain or loss on that asset that has been recognized in equity is amortized to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the income statement.

The Bank may reclassify a non-derivative trading asset out of the "Held for trading" category and into the "Loans and receivables" category if it meets the definition of loans and receivables and it has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Bank does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

Derecognition of financial assets and financial liabilities

I. Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
- The Bank has transferred substantially all the risks and rewards of the asset, or
- The Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Bank's best estimate of the most appropriate model assumptions.

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

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

I. Financial assets classified at amortized cost
For financial assets carried at amortized cost (such as due from banks and financial institutions, debt instruments at amortized cost, loans and advances to customers and related parties, (in addition to other financial assets classified as loans and receivables and held to maturity investments, applicable prior to 1 January 2011), the Bank first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Bank. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses" in the income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

Prior to 1 January 2011, if the Bank reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Bank's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

II. Available-for-sale financial investments – Before 1 January 2011
For available-for-sale financial investments, the Bank assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available for sale, the Bank assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement, is removed from other comprehensive income and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

III. Renegotiated loans
Where possible, the Bank seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated

before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

Hedge accounting

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

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

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Bank assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

I. Fair value hedges

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognized in the income statement. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognized in "Net gain on financial assets at fair value through profit and loss" in the income statement (or "net trading income" applicable prior to 1 January 2011).

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

II. Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognized directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When a hedging instrument expires, or is sold, terminated, exercized, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

III. Hedge of a net investment

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognized directly in equity while any gains or losses relating to the ineffective portion are recognized in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognized directly in equity is transferred to the income statement.

Leasing

The determination of whether an arrangement is a lease or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of such arrangement is dependent on the use of a specific asset or assets, where the arrangement conveys a right to use the asset.

Bank as a lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable are recognized as an expense in the period in which they are incurred.

Bank as a lessor

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

Recognition of income and expenses

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

I. Interest and similar income and expense

For all financial instruments measured at amortized cost, (and interest bearing financial assets classified as available for sale: applicable prior to 1 January 2011), interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. Before 1 January 2011, for a reclassified financial asset for which the Bank subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

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

II. Fee and commission income

The Bank earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

Fee income earned from services that are provided over a certain period of time

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

Fee income from providing transaction services

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

III. Dividend income

Dividend income is recognized when the right to receive the payment is established.

IV. Net gain on financial assets at fair value through profit and loss

Results arising from financial assets at fair value through profit or loss include all gains and losses from changes in fair value and related income, or expense and dividends for financial assets at fair value through profit or loss. This includes any ineffectiveness recorded in hedging transactions. This caption also includes the results arising from trading activities including all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading.

Cash and cash equivalents

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

Property and equipment
Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the expenses of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognizes such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the income statement as incurred. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

▪ Buildings	40 years
▪ Vehicles	8.33 years
▪ General installations and improvements	4 years
▪ Furniture	13.33 years
▪ Office equipment	10 years

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in "other operating income" in the year the asset is derecognized.

The asset's residual lives and methods of depreciation are reviewed at each financial year end and adjusted prospectively if applicable.

Non-current assets held for sale
Non-current assets held for sale include assets taken in settlement of debt. These are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Gains and losses on disposal are recognized in the income statement.

Intangible assets
An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Bank. The Bank's intangible assets include the value of computer software and key money.

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortisation period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement.

Amortization is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

▪ Computer software	5 to 6 years
▪ Key money	4 years
▪ Others	4 years

Impairment of non-financial assets
The Bank assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use.

Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

Provisions for risks and charges
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

Retirement benefits obligation
For the Bank and its branches operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

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

Taxes
Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Bank and its branches operate.

I. Current tax
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.
The Bank's profits from operations in Lebanon are subject to a tax rate of 15% after deducting the 5% tax on interest received according to Law no. 497/2003 dated 30 January 2003.

Dividends are subject to a flat 10% tax, reducible to 5% provided that the Bank is listed on a regulated stock exchange.

II. Deferred tax
Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:
▪ Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
▪ In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

▪ Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
▪ In respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Fiduciary assets and assets under management
The Bank provides corporate trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or in a fiduciary capacity, are not treated as assets of the Bank and accordingly are recorded as atf statement of financial position items.

Financial guarantees
In the ordinary course of business, the Bank gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Bank's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the income statement. The premium received is recognized in the income statement on a straight line basis over the life of the guarantee.

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

2.5 Significant accounting judgements and estimates

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognized in the financial statements:

Going concern
The Bank's management has made an assessment of the Bank's ability to continue as a going concern and is satisfied that the Bank has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

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

Impairment losses on loans and advances
The Bank reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgements about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic data (including levels of unemployment, real estate price indices, country risk and the performance of different individual groups).

Impairment of available-for-sale investments – Before 1 January 2011
The Bank reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Bank also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgement. In making this judgment, the Bank evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

Deferred tax assets
Deferred tax assets are recognized in respect of tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

Business model – Applicable from 1 January 2011
In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

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

Contractual cash flows of financial assets – Applicable from 1 January 2011
The Bank exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortized cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

Classification of investments – Before 1 January 2011
Management decides on acquisition of an investment whether it should be classified as held to maturity, held for trading, carried at fair value through profit or loss account, or available for sale.

For those deemed to be held to maturity management ensures that the requirements of IAS 39 (revised) are met and in particular the Bank has the intention and ability to hold these to maturity.

The Bank classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit or loss account depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit or loss. All other investments are classified as available for sale.

3- Interest & Similar Income

In million of Lebanese Pounds	2011	2010
Financial assets classified at amortized cost	79,892	-
Other financial assets – loans and receivables	-	37,897
Financial investments – held-to-maturity	-	45,646
Deposits and similar accounts with banks and financial institutions	7,093	6,626
Loans and advances to customers at amortized cost	60,943	42,166
Loans and advances to related parties at amortized cost	37	33
	147,965	132,368

4- Interest & Similar Expense

In million of Lebanese Pounds	2011	2010
Deposits and similar accounts from banks and financial institutions	1,311	222
Deposits from customers and other credit balances	117,704	102,794
Deposits from related parties	83	21
	119,098	103,037

5- Net Fee & Commission Income

In million of Lebanese Pounds	2011	2010
Fee and commission income		
Trade finance	3,380	2,768
Customers' deposits accounts	1,824	2,262
Credit related fees and commissions	6,080	5,668
Asset management	350	596
Other services	495	440
	12,129	11,734
Fee and commission expense		
Correspondents' accounts	(392)	(616)
Net fee and commission income	11,737	11,118

6- Net Gain on Financial Assets at Fair Value Through Profit & Loss

In million of Lebanese Pounds	2011	2010
Equities	(56)	251
Debt securities	12,374	12,048
Foreign exchange	2,420	1,386
	14,738	13,685

"Equities" income includes the results of buying and selling, changes in the fair value of equity securities and dividend income. "Debt securities" income includes the results of buying and selling, changes in the fair value of debt securities as well as related interest income.

"Foreign exchange" income includes gains and losses from spot and forward contracts and other currency derivatives.

7- Net gain on Financial Investments

In million of Lebanese Pounds	2011	2010
Net gain on sale of debt instruments at amortized cost (i)	8,044	12,943
Gain from available-for-sale financial investment (note 32)	-	3,452
	8,044	16,395

(i) During 2011, the Bank derecognized some debt instruments classified at amortized cost due to the following reasons:

- Yield management; and
- Swap of certificates of deposit by the Lebanese Central Bank.

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

In million of Lebanese Pounds	2011	2010
Lebanese sovereign and Central Bank of Lebanon		
Central Bank's certificates of deposits	7,144	12,943
Treasury bills	811	-
Eurobonds	89	-
	8,044	12,943

8- Other Operating Income

In mllion of Lebanese Pounds	2011	2010
Gain from sale of assets taken in recovery of bad debts	569	210
Other income	1,859	2,406
	2,428	2,616

9- Credit Losses

In million of Lebanese Pounds	2011	2010
Charges for the year:		
Provision for doubtful loans and advances (note 17)	**(7,159)**	(18,414)
Loans directly written off	**(119)**	(128)
Recoveries for the year:		
Write-back of provisions for loans and advances (note 17)	**2,530**	3,417
Unrealized interest recovered (note 17)	**197**	1,571
	(4,551)	(13,554)

10- Personnel Expenses

In million of Lebanese Pounds	2011	2010
Salaries and related charges	**13,418**	12,867
Social security contributions	**1,853**	1,760
Provision for retirement benefits obligation (note 29)	**78**	1,574
Additional allowances paid	**3,098**	3,062
	18,447	19,263

11- Other Operating Expenses

In million of Lebanese Pounds	2011	2010
Board of directors' attendance fees	**420**	445
Taxes and fees	**492**	161
Fees for guarantee of deposits	**1,025**	926
Rent and related charges	**238**	232
Subscriptions	**385**	640
Electricity and fuel	**586**	526
Professional fees	**1,274**	1,340
Postage and telecommunications	**758**	777
Maintenance and repairs	**836**	946
Travel expenses	**773**	489
Insurance	**172**	204
Marketing and advertising	**855**	965
Stationery and printings	**390**	382
Donations	**348**	306
Others	**1,557**	1,511
	10,109	9,850

12- IncomeTax

The components of income tax expense for the years ended 31 December 2011 and 2010 are detailed as follows:

In million of Lebanese Pounds	2011	2010
Current tax		
5% tax paid on interest revenue during the year	**3,048**	2,852
Income tax on profit for the year	**1,097**	556
	4,145	3,408
Adjustment in respect of current income tax of prior years	**-**	298
	4,145	3,706
Deferred tax		
Relating to original and reversal of temporary differences	**-**	47
	4,145	3,753

A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2011 and 2010 is as follows:

In million of Lebanese Pounds	2011	2010
Accounting profit before income tax	**30,482**	28,459
Less:		
Share of profit of associate under equity method	**(1,561)**	(1,630)
Gain from available for sale financial investment	**-**	(3,452)
Dividends received and previously subject to income tax	**(56)**	(56)
Non taxable income	**(20)**	(599)
Taxable profit	**28,845**	22,722
Effective income tax rate	**13.60%**	11.98%
Income tax expense	**4,145**	3,408

During 2010, the Bank's books in Lebanon were reviewed by the tax authorities for the years 2006, 2007 and 2008 (inclusive). As a result, the Bank paid additional taxes relating to prior years amounting to LL 298 million.

13- Cash & Balances with Central Banks

In million of Lebanese Pounds	2011	2010
Cash on hand	**11,340**	10,010
Current accounts with Central Banks	**66,006**	54,371
Deposits with the Central Banks	**319,256**	268,576
	396,602	332,957

Cash and balances with the Central Banks include balances with the Central Bank in coverage of the obligatory reserve requirements for all banks operating in Lebanon on deposits in Lebanese Pounds as required by the Lebanese banking rules and regulations. This obligatory reserve is calculated on the basis of 25% of sight commitments and 15% of term commitments. Accordingly, the obligatory reserve amounted to LL 32,306 million at 31 December 2011 (2010: LL 41,113 million).

In addition to the previous, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon placements at the rate of 15% of total deposits in foreign currencies regardless of their nature. These placements amounted to USD 207,589 (equivalent to LL 312,941 million) as at 31 December 2011 (2010: USD 166,899 equivalent to LL 251,600 million).

Foreign branches are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are located.

14- Due From Banks & Financial Institutions

In million of Lebanese Pounds	2011	2010
Current accounts	**214,555**	185,781
Checks for collection	**22,932**	30,978
	237,487	216,759

15- Financial Assets Given As Guarantee

In million of Lebanese Pounds	2011	2010
Financial assets given as guarantees	**-**	9,375

As of 31 December 2010, financial assets given as guarantee consist mainly of the following:

- Pledged time deposits amounting to Euro 3,500,000 in favor of Deutsche Bank to secure any and all existing future and contingent claims in connection with issuance, confirmation, and reimbursement of standby letters of credit or letters of guarantee up to a limit of Euro 7,000,000; out of which an amount of Euro 3,500,000 was utilized as of 31 December 2010.
- Other pledged time deposits amounting to Euro 1,191,698.

16- Financial Assets Measured at Fair Value

In million of Lebanese Pounds	2011			2010		
	Held for trading	**Fair value through profit and loss**	**Total**	Held for trading	Fair value through profit and loss	Total
Government debt securities	**-**	**253,316**	**253,316**	172,714	-	172,714
Other debt securities	**-**	**3,959**	**3,959**	-	9,043	9,043
Equity instruments	**-**	**1,128**	**1,128**	627	-	627
	-	**258,403**	**258,403**	173,341	9,043	182,384

17- Loans & Advances to Customers at Amortized Cost

In million of Lebanese Pounds	2011	2010
Commercial loans	**1,018,349**	843,115
Consumer loans	**123,350**	106,203
	1,141,699	949,318
Less:		
Allowance for impairment losses	**(53,941)**	(49,379)
Allowance for unrealized interest on impaired loans	**(2,142)**	(1,223)
	1,085,616	898,716

Impairment allowance for loans and advances to customers

The movement of the allowance for impairment losses for loans and advances to customers at amortized cost during the year is as follows:

In million of Lebanese Pounds	2011	2010
Balance at 1 January	**49,379**	36,600
Add:		
Charge for the year (note 9)	**7,159**	18,414
	56,538	55,014
Less:		
Provisions written-off	**(67)**	(2,218)
Write-back of provisions (note 9)	**(2,530)**	(3,417)
Balance at 31 December	**53,941**	49,379
Individual impairment	**47,161**	43,929
Collective impairment	**6,780**	5,450
	53,941	49,379
Gross amount of commercial loans individually determined to be impaired	**75,174**	75,486

The movement of allowance for unrealized interest on impaired loans during the year was as follows:

In million of Lebanese Pounds	2011	2010
Balance at 1 January	**1,223**	3,784
Add:		
Unrealized interest for the year	**1,118**	140
	2,341	3,924
Less:		
Recoveries of unrealized interest (note 9)	**(197)**	(1,571)
Amounts written-off	**-**	(1,130)
Foreign exchange difference	**(2)**	-
	(199)	(2,701)
Balance at 31 December	**2,142**	1,223

In million of Lebanese Pounds	2011	2010
Unrealized interest on substandard loans	1,279	326
Unrealized interest on doubtful loans	769	780
Unrealized interest on bad loans	94	117
	2,142	1,223

18- Related Party Transactions

The Bank enters into transactions with major shareholders, directors, senior management, and their related concerns, and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and free of any provision for possible credit losses.

Balances with related parties included in the statement of financial position are as follows:

In million of Lebanese Pounds	Major shareholders	Board of directors and senior management	Other related parties	31 December 2011	31 December 2010
Deposits	499	-	65	564	3,129
Loans and advances	21	1,364	-	1,385	3,543
Indirect facilities	-	4	671	675	672

Transactions with related parties included in the income statement are as follows:

In million of Lebanese Pounds	2011	2010
Interest received from loans and advances	37	33
Interest paid on deposits	83	21

The board of directors and senior management remunerations are as follows:

In million of Lebanese Pounds	2011	2010
Board of directors and management remunerations	960	960

- During the year ended 31 December 2011, the Bank paid attendance fees to the members of the board of directors amounting to LBP 420 million (2010:LBP 445 million);
- During the year ended 31 December 2011, the Bank received dividends amounting to LBP 476 million (2010: LBP 405 million) from CSC Bank SAL.

19- Debtors by Acceptances / Engagements by Acceptance

In million of Lebanese Pounds	2011	2010
Acceptances as of 31 December	39,368	33,933

20- Investment in an Associate

In million of Lebanese Pounds		2011			2010		
	Country of incorporation	Ownership %	No of shares	Amount	Ownership %	No of shares	Amount
CSC Bank SAL	Lebanon	10.00	300,000	9,833	10%	159,995	8,701

The Bank's investment accounted for under the equity method is not listed on public exchanges. The following table illustrates the summarized financial information of this investment as of 31 December:

In million of Lebanese Pounds	2011	2010
Bank's share of the associate's statement of financial position:		
Assets	26,768	24,305
Liabilities	(16,935)	(15,604)
Net assets	9,833	8,701
Bank's share of the associate's revenues and profits:		
Revenues	4,219	5,327
Profits	1,561	1,630

21- Financial Assets Classified at Amortized Cost

In million of Lebanese Pounds	2011	2010
Financial assets classified as loans and receivables	-	449,443
Financial instruments held to maturity	-	585,231
Financial assets classified at amortized cost	1,155,416	-
	1,155,416	1,034,674

In million of Lebanese Pounds	2011	2010		
	At amortized cost	Loans and receivables	Held to maturity	Total
Quoted financial investments				
Central Bank's certificates of deposits	**134,859**	-	-	-
Government debt securities	**439,047**	-	380,055	380,055
	573,906	-	380,055	380,055
Unquoted financial investments				
Central Bank's certificates of deposits	**322,230**	439,657	-	439,657
Government debt securities	**249,847**	-	205,176	205,176
Loans to banks and financial institutions	**9,433**	9,786	-	9,786
	581,510	449,443	205,176	654,619
	1,155,416	449,443	585,231	1,034,674

22- Property & Equipment

In million of Lebanese Pounds	Freehold land and buildings	Vehicles	Furniture, office installations and computer equipment	Total
Cost :				
At 1 January 2011	28,872	2,085	29,155	60,112
Additions	-	37	2,272	2,309
Disposals	-	(28)	(86)	(114)
Transfers (note 23)	45	-	-	45
Write offs	-	(108)	(141)	(249)
Translation difference	(4)	(2)	(18)	(24)
At 31 December 2011	**28,913**	**1,984**	**31,182**	**62,079**
Depreciation:				
At 1 January 2011	3,060	291	16,507	19,858
Charge for the year	458	449	2,662	3,569
Relating to disposals	-	(13)	(32)	(45)
Relating to write offs	-	(102)	(147)	(249)
Translation difference	(2)	(1)	(10)	(13)
At 31 December 2011	**3,516**	**624**	**18,980**	**23,120**
Net carrying amount:				
At 31 December 2011	**25,397**	**1,360**	**12,202**	**38,959**

In million of Lebanese Pounds	Freehold land and buildings	Vehicles	Furniture, office installations and computer equipment	Total
Cost :				
At 1 January 2010	27,552	1,773	24,899	54,224
Additions	23	1,250	4,449	5,722
Disposals	-	(928)	(275)	(1,203)
Transfers (note 23)	1,310	4	144	1,458
Write offs	-	(4)	(4)	(8)
Translation difference	(13)	(10)	(58)	(81)
At 31 December 2010	**28,872**	**2,085**	**29,155**	**60,112**
Depreciation:				
At 1 January 2010	2,622	278	14,161	17,061
Charge for the year	444	183	2,640	3,267
Relating to disposals	-	(159)	(266)	(425)
Relating to write offs	-	(4)	(4)	(8)
Translation difference	(6)	(7)	(24)	(37)
At 31 December 2010	**3,060**	**291**	**16,507**	**19,858**
Net carrying amount:				
At 31 December 2010	**25,812**	**1,794**	**12,648**	**40,254**

23- Intangible Assets

In million of Lebanese Pounds	Computer license	Key money	Other intangible assets	Total
Cost:				
At 1 January 2011	545	225	862	1,632
Additions	92	-	354	446
Transfers (note 22)	-	-	(45)	(45)
Translation difference	-	-	(14)	(14)
At 31 December 2011				
	637	**225**	**1,157**	**2,019**
Amortization:				
At 1 January 2011				
Charge for the year	527	225	739	1,491
At 31 December 2011	110	-	64	174
Net carrying amount:	**637**	**225**	**803**	**1,665**
At 31 December 2011				
	-	-	**354**	**354**

In million of Lebanese Pounds	Computer license	Key money	Other intangible assets	Total
Cost:				
At 1 January 2010	436	225	1,152	1,813
Additions	109	-	1,169	1,278
Transfers (note 22)	-	-	(1,458)	(1,458)
Translation difference	-	-	(1)	(1)
At 31 December 2010	545	225	862	1,632
Amortization:				
At 1 January 2010	416	225	686	1,327
Charge for the year	111	-	54	165
Translation difference	-	-	(1)	(1)
At 31 December 2010	527	225	739	1,491
Net carrying amount:				
At 31 December 2010	18	-	123	141

24- Fixed Assets Taken in Recovery of Bad Debts

In million of Lebanese Pounds	2011	2010
Net carrying amount:		
At 1 January	**24,150**	24,369
Additions	**4,451**	2,346
Disposals	**(2,327)**	(2,410)
Translation difference	**(47)**	(155)
At 31 December	**26,227**	24,150

During the year, the Bank took possession of properties in lieu of debt with a carrying value of LBP 4,451 million (2010: LBP 2,346 million), which the Bank is in the process of selling.

25- Other Assets

In million of Lebanese Pounds	2011	2010
Incoming transfers for collection	**5**	624
Prepayments	**1,838**	1,737
Due from National Social Security Fund	**1,051**	866
Deposits for auctions to acquire fixed assets to be taken in recovery of bad debts	**4,479**	-
Others	**416**	238
	7,789	3,465

26- Due to Banks & Financial Institutions

In million of Lebanese Pounds	2011	2010
Current accounts	**20,147**	40,508
Time deposits	**30,008**	7,018
	50,155	47,526

27- Customers' Deposits at Amortized Cost

In mllion of Lebanese Pounds	2011	2010
Sight deposits	**232,588**	241,137
Time deposits	**427,322**	339,344
Saving accounts	**2,105,407**	1,752,172
Credit accounts and deposits against debit accounts	**116,301**	130,958
Margins on letters of credit	**10,596**	11,961
	2,892,214	2,475,572

Customers' deposits include coded deposit accounts amounting to LL 9,223 million as of 31 December 2011 (2010: LL 10,380 million).

28- Other Liabilities

In million of Lebanese Pounds	2011	2010
Sundry creditors	**1,291**	23
Due to National Social Security Fund	**209**	216
Accrued expenses and other regularization accounts	**289**	156
Taxes payable	**6,046**	2,537
	7,835	2,932

29- Provisions for Risks & Charges

In million of Lebanese Pounds	2011	2010
Provision for employees' end of service benefits	**4,088**	4,023
Foreign exchange difference	**75**	75
Commitments by signature	**53**	53
Loss on fixed exchange position	**50**	50
Other risks and charges	**-**	151
	4,266	4,352

The movement in the provision for employees' end of service benefits during the year is as follows:

In million of Lebanese Pounds	2011	2010
Balance at 1 January	4,023	2,830
Charge for the year (note 10)	78	1,574
Benefits paid	(13)	(381)
Balance at 31 December	4,088	4,023

30- Share Capital & Premiums

The capital of the Bank consisted of the following as of 31 December:

In million of Lebanese Pounds	2011		2010	
	Share capital	Share premium	Share capital	Share premium
Common shares – Authorized, issued and fully paid				
4,860,000 nominal shares at LL 20,000 each	97,200	-	97,200	-
Preferred shares – Authorized, issued and fully paid				
140,000 preferred shares (2007 issue) of LL 20,000 per share	2,800	18,309	2,800	18,309
300,000 preferred shares (2010 issue) of LL 20,000 per share	6,000	39,245	6,000	39,245
	8,800	57,554	8,800	57,554

▪ The Extraordinary General Assembly of Shareholders of the Bank held on 1 September 2010, resolved to increase the capital of the Bank from LBP100,000 million to LBP 106,000 million through the issuance of 300,000 new preferred shares (issue 2010) for a nominal value of LBP 20,000; in addition to a premium denominated in US Dollars, computed for each share as the difference between the amount of US Dollars 100 and the counter value in US Dollars of its nominal value, which amounted in total to LBP 39,245 million. The capital increase was approved by the Central Bank of Lebanon on 25 October 2010 and was completed through cash injection and approved by the shareholders on 10 December 2010.

▪ The preferred shares are entitled to a non cumulative annual amount equal to a percentage of the issue price (9% for the 2007 issue and 7.5% for the 2010 issue) subject to availability of distributable income for the year. Distributions to the holders of 2010 issue for the year 2010 shall be payable on a pro rata basis from the date of issuance which is 10 December 2010.

▪ The Bank is entitled to redeem the preferred shares, 2007 issue and 2010 issue:
▪ Any time in case of a regulatory event;
▪ 60 days after the Annual General Assembly of Shareholders that will discuss the accounts of the Bank for the years 2012 and 2015 for the 2007 issue and 2010 issue respectively, and any of the following years.

▪ The preferred shares shall be redeemed at a price of USD 105 and USD 104 for the 2007 issue and 2010 issue respectively, in addition to any dividends declared but not paid. The redeemed shares are not entitled to any dividend payment in the year of redemption.

▪ In the event of any liquidation, dissolution or winding-up of the Bank, the holders of the preferred shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders on a pro rata basis, before any payment shall be made to common shareholders.

31- Non Distributable Reserves

In million of Lebanese Pounds	Reserve for general banking risks	Other reserve	Legal reserve	Reserve for assets in settlement of debts, disposed off	Reserve for redemption of preferred shares	Total
At 1 January 2011	12,938	1,070	2,162	1,834	8,864	26,868
Appropriation of 2010 profits	3,797	210	2,471	769	4,432	11,679
Exchange difference	2	-	-	-	-	2
At 31 December 2011	**16,737**	**1,280**	**4,633**	**2,603**	**13,296**	**38,549**

In million of Lebanese Pounds	Reserve for general banking risks	Other reserve	Legal reserve	Reserve for assets in settlement of debts, disposed off	Reserve for redemption of preferred shares	Total
At 1 January 2010	9,669	691	30	1,581	-	11,971
Appropriation of 2009 profits	3,260	632	2,132	-	8,864	14,888
Transfer from other reserves	-	(253)	-	253	-	-
Exchange difference	9	-	-	-	-	9
At 31 December 2010	12,938	1,070	2,162	1,834	8,864	26,868

Reserves for general banking risks

According to the Central Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2 percent and a maximum of 0.3 percent of total risk weighted assets and off financial position accounts based on rates specified by the Central Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25 percent of these risks at the end of year ten (2007) and 2 percent at the end of year twenty (2017). This reserve is part of the Bank's equity and cannot be distributed as dividends.

This reserve is based on the denomination (Lebanese Pounds and US Dollars) of the risk weighted assets and off financial position accounts.

Legal reserve

According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. This reserve cannot be distributed as dividends.

Reserve for redemption of preferred shares

In accordance with the resolutions of the Ordinary General Assembly of Shareholders of the Bank, held on 12 July 2011 (2010: 24 May 2010), an amount of LL 4,432 million (2010: LL 8,864 million) should be appropriated to the reserve for the redemption of preferred shares (issue 2007 and 2010).

32- Available-for-Sale Reserve

The movement in available-for-sale reserve was as follows:

In million of Lebanese Pounds	2011	2010
Balance as of 1 January	24	2,161
Unrealized gain (loss) arising during the year	-	1,315
Reclassification adjustment for gain included in the income statement (note 7)	-	(3,452)
Other	(24)	-
Balance at 31 December	-	24

33- Dividends Declared & Paid

According to the Ordinary General Assembly of Shareholders held on 12 July 2011 (2010: 24 May 2010), dividends amounting to LBP 14,218 per preferred share totalling to LBP 2,095 million were declared and paid to the preferred shares holders (2010: LBP 13,567.50 per preferred share totalling to LBP 1,898 million).

34- Cash & Cash Equivalents

In million of Lebanese Pounds	2011	2010
Cash and balances with central banks	80,026	91,262
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	237,487	216,759
	317,513	308,021
Less:		
Due to banks and financial institutions (whose original maturities are less than 3 months)	(27,068)	(40,508)
	290,445	267,513

35- Derivative Financial Instruments

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

In million of Lebanese Pounds	2011			2010		
	Assets	Liabilities	Total notional amount	Assets	Liabilities	Total notional amount
Forward foreign exchange contracts	131	131	7,302	166	166	4,716

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Bank.

Over–the–counter derivatives may expose the Bank to the risks associated with the absence of an exchange market on which to close out an open position.

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk.

Forwards
Forwards are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market.

36- Contingent Liabilities & Commitments

Credit – related commitments
To meet the financial needs of customers, the Bank enters into various commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank.

Letters of credit and guarantees (including standby letters of credit) commit the Bank to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

The Bank has the following credit related commitments:

In million of Lebanese Pounds	2011	2010
Commitments issued to customers	4,292	3,566
Commitments issued to financial institutions	37,930	45,564
Guarantees issued to financial institutions	6,165	6,115
Guarantees issued to customers	88,517	76,397
Acceptances	39,368	33,933
	176,272	165,575
Unutilized portion of credit line commitments	44,311	59,965
	220,583	225,540

Unutilized portion of credit line commitments represents the difference between the withdrawn credit line and the credit limit on overdraft facilities provided by the Bank.

Legal claims
Due to the nature of its business, the Bank is a defendant in various legal proceedings. Management, after discussing with its legal advisors regarding these cases and proceedings raised against the Bank, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the financial position of the Bank.

Other contingencies
The Bank's books for the years 2009 till 2011 remain subject to review by the tax authorities. The ultimate outcome of any review by the tax authorities cannot be presently determined.

The Bank's books in Lebanon have not been reviewed by the National Social Security Fund (NSSF) since 1 November 2006. The ultimate outcome of any review by the NSSF on the Bank's books in Lebanon cannot be presently determined.

37- Fair Value of the Financial Instruments

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

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

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

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

31 December 2011

In million of Lebanese Pounds	Level 1	Level 2	Total
Financial assets			
Derivative financial instruments:			
Forward foreign exchange contracts	-	131	131
	-	**131**	**131**
Equity instruments at fair value through profit and loss:			
Quoted equities	856	-	856
Unquoted equities	-	272	272
	856	**272**	**1,128**
Debt instruments and other financial assets at fair value through profit and loss:			
Government debt securities	95,410	157,906	253,316
Other debt securities	-	3,959	3,959
	95,410	**161,865**	**257,275**
	96,266	**162,268**	**258,534**
Financial liabilities:			
Derivative financial instruments:			
Forward foreign exchange contracts	-	131	131
	-	**131**	**131**

31 December 2010

In million of Lebanese Pounds	Level 1	Level 2	Total
Financial assets			
Derivative financial instruments:			
Forward foreign exchange contracts	-	166	166
	-	**166**	**166**
Financial assets held-for-trading:			
Quoted equities	355	-	355
Unquoted equities	-	272	272
Government debt securities	33,125	139,589	172,714
	33,480	**139,861**	**173,341**
Financial assets at fair value through profit and loss:			
Other debt securities	2,985	6,058	9,043
	36,465	**146,085**	**182,550**
Financial liabilities:			
Derivative financial instruments:			
Forward foreign exchange contracts	-	166	166
	-	**166**	**166**

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

Derivatives
Derivative products valued using a valuation technique with market observable inputs are forward foreign exchange contracts. The most frequently applied valuation technique include forward pricing model using present value calculations. The model incorporate various inputs including foreign exchange spot and forward rates.

Financial assets at fair value through profit and loss
The Bank values the securities using discounted cash flow valuation models which incorporate observable and unobservable data. Observable inputs include assumptions regarding current interest rates and broker statements. Unobservable inputs include assumptions regarding expected future default rates, prepayments rates and market liquidity discounts. Set out below is a comparison of the carrying amounts and fair values of the Bank's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair value of non-financial assets and non-financial liabilities.

In million of Lebanese Pounds	2011		2010	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	**396,602**	**396,602**	332,957	332,957
Due from banks and financial institutions	**237,487**	**237,487**	216,759	216,759
Financial assets given as guarantee	**-**	**-**	9,375	9,375
Loans and advances to customers at amortized cost	**1,085,616**	**1,085,616**	898,716	898,716
Loans and advances to related parties at amortized cost	**1,385**	**1,385**	3,543	3,543
Financial assets classified at amortized cost	**1,155,416**	**1,222,556**	1,034,674	1,110,787
Financial liabilities				
Due to banks and financial institutions	**50,155**	**50,155**	47,526	47,526
Customers' deposits at amortized cost	**2,892,214**	**2,892,214**	2,475,572	2,475,572
Deposits from related parties at amortized cost	**564**	**564**	3,129	3,129

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

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

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money–market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognized.

38- Maturity Analysis of Assets & Liabilities

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

The maturity profile of the Bank's assets and liabilities as at 31 December 2011 is as follows:

In million of Lebanese Pounds	Less than one year	More than one year	Total
ASSETS			
Cash and balances with central banks	244,723	151,879	396,602
Due from banks and financial institutions	237,487	-	237,487
Financial assets measured at fair value	43,890	214,513	258,403
Loans and advances to customers at amortized cost	689,099	396,517	1,085,616
Loans and advances to related parties at amortized cost	1,385	-	1,385
Debtors by acceptances	39,368	-	39,368
Investment in an associate	-	9,833	9,833
Financial assets classified at amortized cost	63,479	1,091,937	1,155,416
Property and equipment	-	38,959	38,959
Intangible assets	-	354	354
Fixed assets taken in recovery of debts	-	26,227	26,227
Other assets	3,310	4,479	7,789
TOTAL ASSETS	1,322,741	1,934,698	3,257,439
LIABILITIES			
Due to banks and financial institutions	50,155	-	50,155
Customers' deposits at amortized cost	2,892,214	-	2,892,214
Deposits from related parties at amortized cost	564	-	564
Engagements by acceptances	39,368	-	39,368
Other liabilities	7,835	-	7,835
Provisions for risks and charges	-	4,266	4,266
TOTAL LIABILITIES	2,990,136	4,266	2,994,402
NET	(1,667,395)	1,930,432	263,037

The maturity profile of the Bank's assets and liabilities as at 31 December 2010 is as follows:

In million of Lebanese Pounds	Less than one year	More than one year	Total
ASSETS			
Cash and balances with central banks	109,847	223,110	332,957
Due from banks and financial institutions	216,759	-	216,759
Financial assets given as a guarantee	9,375	-	9,375
Financial assets measured at fair value	54,505	127,879	182,384
Loans and advances to customers at amortized cost	599,370	299,346	898,716
Loans and advances to related parties at amortized cost	3,543	-	3,543
Debtors by acceptances	33,933	-	33,933
Investment in an associate	-	8,701	8,701
Financial assets classified at amortized cost	47,296	987,378	1,034,674
Property and equipment	-	40,254	40,254
Intangible assets	-	141	141
Fixed assets taken in recovery of debts	-	24,150	24,150
Other assets	3,465	-	3,465
TOTAL ASSETS	1,078,093	1,710,959	2,789,052
LIABILITIES			
Due to banks and financial institutions	47,526	-	47,526
Customers' deposits at amortized cost	2,475,572	-	2,475,572
Deposits from related parties at amortized cost	3,129	-	3,129
Engagements by acceptances	33,933	-	33,933
Other liabilities	2,932	-	2,932
Provisions for risks and charges	-	4,352	4,352
TOTAL LIABILITIES	2,563,092	4,352	2,567,444
NET	(1,484,999)	1,706,607	221,608

39- Risk Management

The Bank manages its business activities within risk management guidelines as set by the Bank's "risk management policy" approved by the board of directors (the "Board"). The Bank recognizes the role of the board of directors and executive management in the risk management process as set out in the Banking Control Commission circular 242. In particular, it is recognized that ultimate responsibility for establishment of effective risk management practices and culture lies with the board of directors as does the setting up of Bank's risk appetite and tolerance levels. The board of directors delegates through its risk management committee the day–to–day responsibility for establishment and monitoring of risk management process across the Bank to the head of risk management, who is directly appointed by the board of directors, in coordination with executive management at Lebanon & Gulf Bank s.a.l.

The Bank is exposed to credit risk, liquidity risk, market risk and operational risk.

The Board's risk management committee has the mission to periodically (1) review and assess the exchange rate risk, (2) review the adequacy of the Bank's capital and its allocation within the Bank, and (3) review risk limits and reports and make recommendations to the Board.

The Risk Manager undertakes his responsibilities through the "Risk Management Department" overseeing and monitoring risk management activities throughout the Bank. The Risk Manager is responsible for establishing the function of Risk Management and its employees across the Bank.

Lebanon & Gulf Bank s.a.l. risk management department aids executive management in controlling and actively managing the Bank's overall risk. The department mainly ensures that:

- Risk policies and methodologies are consistent with the Bank's risk appetite.
- Limits and risk across banking activities are monitored throughout the Bank.

Through a comprehensive risk management framework, transactions and outstanding risk exposures are quantified and compared against authorized limits, whereas non-quantifiable risks are monitored against policy guidelines as set by the Bank's "Risk Management Policy". Any discrepancies, breaches or deviations are escalated to executive senior management in a timely manner for appropriate action.

The major objective of risk management is the implementation of sound risk management practices and the Basel II framework as well as all related regulatory requirements within the Bank. Pillar I capital adequacy calculations have been generated since December 2004, while preparations for moving on to the more advanced approaches of Pillar I have been initiated. Risk Management is progressively complying with the requirements of pillars II and III of the Basel framework.

39-1 Credit risk

Excessive risk concentration

Concentrations arise when the Bank has significant exposure to one borrower or a group of related borrowers or to a number of counter parties engaging 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 indicate the relative sensitivity of the Bank's performance developments affecting a particular industry or geographic location.

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

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank attempts to control credit risk by monitoring credit exposures, limiting transactions with specific counter parties, and continuously assessing the creditworthiness of counter parties.

The Bank manages credit risk in line with the regulatory guidelines. The Bank has set a credit risk policy which lays down norms for credit risk governance, methodologies and procedures for credit risk management and measurement. It consists of the following:

- The permissible activities, segments, programs and services that the Bank intends to deliver and the acceptable limits
- The mechanism of the approval on credit-facilities
- The mechanism for managing and following up credit-facilities
- The required actions for analyzing and organizing credit files

The Bank's Risk Management is designed to identify and to set appropriate risk limits and to monitor the risk adherence to limits. Actual exposures against limits are monitored daily, monthly and periodically. Bank Risk Management is responsible for monitoring the risk profile of the Bank's loan portfolio by producing internal reports highlighting any exposure of concern in corporate, commercial and consumer lending. The Bank examines the level of concentration whether by credit quality, client groupings or economic sector and collateral coverage. Further, the Bank monitors non-performing loans and takes the required provisions for these loans.

The Bank in the ordinary course of lending activities holds collaterals and guarantees as security to mitigate credit risk in the loans and advances. These collaterals mostly include cash collateral, quoted shares and debt securities, real estate mortgages, personal guarantees and others. In addition, the collection unit in the Bank dynamically manages and takes remedial actions for non-performing loans.

The Bank uses an internal classification system based on risk ratings for its corporate and middle market customers. The risk rating system, which is managed by an independent unit, provides a rating based on client and transaction level. The classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "OA" and special mention – watch list: risk rating "B1" and "B2"), one grade relates to substandard loans (risk rating "OC") and two grades relate to non-performing loans (risk ratings "OD" and "OE").

Credit cards, personal loans, car loans and housing loans are classified as regular as they are performing and have timely repayment with no past dues. Each individual borrower is rated based on an internally developed debt rating model that evaluates risk based on financial as well as qualitative inputs. These risk ratings are reviewed on a regular basis.

Non-performing loans are closely monitored and well provisioned as required, with remedial actions taken and managed proactively by a dedicated collection unit.

A- Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements

The Bank's concentrations of risk are managed on a client or counterparty basis. The maximum credit exposure to any client or counterparty as of 31 December 2011 was LL 49,415 million (2010: LL 39,668 million) before taking account of collateral or other credit enhancements and LL 46,755 million (2010: LL 38,073 million) net of such protection.

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

In million of Lebanese Pounds			2011
	Domestic	International	Total
Financial assets			
Balances with central banks	**383,567**	**1,695**	**385,262**
Due from banks and financial institutions	**76,660**	**160,827**	**237,487**
Financial assets measured at fair value	**253,316**	**3,959**	**257,275**
Loans and advances to customers at amortized cost	**983,436**	**102,180**	**1,085,616**
Loans and advances to related parties at amortized cost	**1,385**	**-**	**1,385**
Debtors by acceptances	**31,207**	**8,161**	**39,368**
Financial assets classified at amortized cost	**1,155,416**	**-**	**1,155,416**
Total credit exposure	**2,884,987**	**276,822**	**3,161,809**

In mllion of Lebanese Pounds			2010
	Domestic	International	Total
Financial assets			
Balances with central banks	321,367	1,580	322,947
Due from banks and financial institutions	56,245	160,514	216,759
Financial assets given as guarantee	-	9,375	9,375
Financial assets measured at fair value	172,714	9,043	181,757
Loans and advances to customers at amortized cost	811,029	87,687	898,716
Loans and advances to related parties at amortized cost	3,543	-	3,543
Debtors by acceptances	29,286	4,647	33,933
Financial assets classified at amortized cost	1,034,674	-	1,034,674
Total credit exposure	2,428,858	272,846	2,701,704

Collateral and other credit enhancements
The amount, type and valuation of collateral are based on guidelines specified in the risk management framework. The main types of collateral obtained include real estate, quoted shares, cash collateral and bank guarantees.

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

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Bank does not occupy repossessed properties for business

Guarantees received from customers are detailed as follows:

In million of Lebanese Pounds	2011	2010
Personal guarantees received from customers	**686,412**	632,881
Real estate guarantees received	**526,565**	541,101
Cash collateral received	**150,180**	92,373
Other	**44,169**	10,175
	1,407,326	1,276,530

B- Credit quality of financial assets

The credit quality of financial assets is managed by the Bank using internal credit ratings. The table below shows the credit quality of asset for all financial assets exposed to credit risk, based on the Bank's internal credit rating system and the relationship with external credit rating. The amounts presented are gross of impairment allowances.

In million of Lebanese Pounds				2011
	Neither past due nor impaired	Past due but not impaired	Individually impaired Non performing	Total
Balances with central banks	**385,262**	**-**	**-**	**385,262**
Due from banks and financial institutions	**237,487**	**-**	**-**	**237,487**
Financial assets measured at fair value	**257,275**	**-**	**-**	**257,275**
Loans and advances to customers at amortized cost	**1,039,623**	**26,902**	**75,174**	**1,141,699**
Loans and advances to related parties at amortized cost	**1,385**	**-**	**-**	**1,385**
Debtors by acceptances	**39,368**	**-**	**-**	**39,368**
Financial assets classified at amortized cost	**1,155,416**	**-**	**-**	**1,155,416**
Total	**3,115,816**	**26,902**	**75,174**	**3,217,892**

In million of Lebanese Pounds				2010
	Neither past due nor impaired	Past due but not impaired	Individually impaired Non performing	Total
Balances with central banks	322,947	-	-	322,947
Due from banks and financial institutions	216,759	-	-	216,759
Financial assets given as guarantee	9,375	-	-	9,375
Financial assets measured at fair value	181,757	-	-	181,757
Loans and advances to customers at amortized cost	841,268	32,564	75,486	949,318
Loans and advances to related parties at amortized cost	3,543	-	-	3,543
Debtors by acceptances	33,933	-	-	33,933
Financial assets classified at amortized cost	1,034,674	-	-	1,034,674
Total	2,644,256	32,564	75,486	2,752,306

See note 17 for more detailed information with respect of the allowance for impairment losses on loans and advances to customers.

Impairment allowance
For accounting purposes, the Bank uses an incurred loss model for the recognition of losses on impaired financial assets.

The main considerations for the loan impairment assessment include whether any payments of principal or interest are overdue or whether there are any known difficulties in the cash flows of counterparties, credit rating downgrades, or infringement of the original terms of the contract. The Bank addresses impairment assessment in two areas: individually assessed allowances and collectively assessed allowances.

Individually assessed allowances
The Bank determines the allowances appropriate for each individually significant loan or advance on an individual basis. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral, and the timing of the expected cash flows. The impairment losses are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

Collectively assessed allowances
Allowances are assessed collectively for losses on loans and advances and for debt investments at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Bank generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Bank would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Bank may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilization, loan to collateral ratios and expected receipts and recoveries once impaired) or economic data (such as current economic conditions, unemployment levels and local or industry-specific problems). This approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can be extended for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

39-2 Liquidity risk and funding management

Liquidity risk is the risk that the Bank will be unable to meet its liabilities when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management arrange diversified funding sources, manages assets with liquidity in mind and maintaining a healthy balance of cash and cash equivalents and readily marketable securities.

The management of liquidity risk is currently governed by the Bank's Assets and Liabilities Management policy. The main objectives converge around the following:

- Set targets and ranges for key financial position or income statement ratios to ensure that the needed liquidity capacity of the Bank is maintained at all times, while providing sufficient flexibility to enable the Bank to address short term fluctuations in liquidity pressures.
- Provide general guidance on the sequence to be followed in drawing on the Bank's funding sources to meet a liquidity drain.
- Review the current and prospective liquidity positions and monitor alternative funding sources.
- Develop parameters for the pricing and maturity distributions of deposits, loans and investments.
- Promulgate a contingency liquidity plan that identifies early indicators of stress conditions and describe actions to be taken in the event of financial difficulties arising from systemic or other crises, while minimizing adverse long-term implications on the Bank's business.

All asset and liability management issues are subject to review and monitoring by the Asset Liability Committee, which receives regular reports from the Bank Risk Management as well as treasury.

In accordance with Lebanese banking rules and regulations, the Bank is required to maintain 40% of its Tier 1 Capital in Lebanese Pounds in liquid assets. It is also required to maintain balances at the Bank of Lebanon calculated on the basis of 25% of sight commitments and 15% of term commitments in Lebanese Pounds.

Regarding foreign currencies, the Bank maintains placements at the Bank of Lebanon at the rate of 15% of total deposits in foreign currencies regardless of nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The Bank maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Pounds should not be less than 10% and 40%, respectively. The highly liquid net assets consist of cash and balances with central banks, deposits with banks and financial institutions less deposits from banks and financial institutions and deposits that mature within one year.

39-2-1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarizes the maturity profile of the Bank's financial assets and liabilities reflected in the statement of financial position at 31 December 2011 and 2010.

In million of Lebanese Pounds					31 December 2011
	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Total
Financial assets					
Cash and balances with central banks	79,347	165,377	151,878	-	396,602
Due from banks and financial institutions	237,487	-	-	-	237,487
Financial assets measured at fair value	5,208	37,554	63,953	150,560	257,275
Loans and advances to customers at amortized cost	278,665	410,434	335,144	61,373	1,085,616
Loans and advances to related parties at amortized cost	1,385	-	-	-	1,385
Debtors by acceptances	28,138	11,230	-	-	39,368
Investment in an associate	-	-	-	9,833	9,833
Financial assets classified at amortized cost	-	63,479	626,813	465,124	1,155,416
Total financial assets	**630,230**	**688,074**	**1,177,788**	**686,890**	**3,182,982**
Financial liabilities					
Due to banks and financial institutions	34,493	15,662	-	-	50,155
Customers' deposits at amortized cost	2,319,211	573,003	-	-	2,892,214
Deposits from related parties at amortized cost	564	-	-	-	564
Engagements by acceptances	28,138	11,230	-	-	39,368
Total financial liabilities	**2,382,406**	**599,895**	-	-	**2,982,301**
Net financial assets / (liabilities)	**(1,752,176)**	**88,179**	**1,177,788**	**686,890**	**200,681**

In million of Lebanese Pounds	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	31 December 2010 Total
Financial assets					
Cash and balances with central banks	101,818	8,029	223,110	-	332,957
Due from banks and financial institutions	216,759	-	-	-	216,759
Financial assets given as guarantee	9,375	-	-	-	9,375
Financial assets measured at fair value	-	54,505	89,232	38,647	182,384
Loans and advances to customers at amortized cost	226,352	373,018	260,536	38,810	898,716
Loans and advances to related parties at amortized cost	3,543	-	-	-	3,543
Debtors by acceptances	28,698	5,235	-	-	33,933
Investment in an associate	-	-	-	8,701	8,701
Financial assets classified at amortized cost	26,739	20,557	525,074	462,304	1,034,674
Total financial assets	613,284	461,344	1,097,952	548,462	2,721,042
Financial liabilities					
Due to banks and financial institutions	47,526	-	-	-	47,526
Customers' deposits at amortized cost	1,797,130	678,442	-	-	2,475,572
Deposits from related parties at amortized cost	3,129	-	-	-	3,129
Engagements by acceptances	28,698	5,235	-	-	33,933
Total financial liabilities	1,876,483	683,677	-	-	2,560,160
Net financial assets / (liabilities)	(1,263,199)	(222,333)	1,097,952	548,462	160,882

The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

39-3 Market risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market prices. Market risks arise from open positions in interest rate and currency rate, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates and foreign exchange rates.

Risk Management is responsible for generating internal reports quantifying the Bank's earnings at risk due to extreme movements in interest rates, while daily monitoring the sensitivity of the Bank's trading portfolio of fixed income securities to changes in market prices and / or market parameters. Interest rate sensitivity gaps are reported to executive management and to the Banking Control Commission on a monthly basis. The Bank's Asset and Liability Management policy assigns authority for its formulation, revision and administration to the Asset / Liability Management Committee (ALCO) of the Bank. Risk Management is responsible for monitoring compliance with all limits set in the ALM policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

39-3-1 Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of financial instruments. The Bank is exposed to interest rate risk as a result of mismatches of interest rate, repricing of assets & liabilities and off-financial position items that mature or reprice in a given period. The Bank manages this risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity

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

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at the year end, including the effect of hedging instruments.

In million of Lebanese Pounds Currency	Increase in basis points	2011 Sensitivity of net interest income
Lebanese Pounds	**200**	**(15,715)**
United States Dollar	**100**	**(8,650)**
Euro	**50**	**(249)**

In million of Lebanese Pounds Currency	Increase in basis points	2010 Sensitivity of net interest income
Lebanese Pounds	200	(10,220)
United States Dollar	100	(6,660)
Euro	50	(119)

Interest sensitivity gap
The table below analyses the Bank's interest rate risk exposure on financial assets and liabilities.

The Bank's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing maturity dates.

In million of Lebanese Pounds — **2011**

	Up to 1 month	1 to 3 months	3 months to 1 year	(1 – 2) years	(2 – 5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	2,000	-	165,072	24,120	127,383	-	78,027	396,602
Due from banks and financial institutions	-	-	-	-	-	-	237,487	237,487
Financial assets measured at fair value	5,024	-	37,071	6,998	55,555	148,470	5,285	258,403
Loans and advances to customers at amortized cost	234,052	263,411	445,600	71,792	17,537	2,291	50,933	1,085,616
Loans and advances to related parties at amortized cost	1,385	-	-	-	-	-	-	1,385
Debtors by acceptances	-	-	-	-	-	-	39,368	39,368
Investment in an associate	-	-	-	-	-	-	9,833	9,833
Financial assets classified at amortized cost	-	-	62,218	85,409	529,343	458,763	19,683	1,155,416
TOTAL	242,461	263,411	709,961	188,319	729,818	609,524	440,616	3,184,110
LIABILITIES								
Due to banks and financial institutions	8,928	3,100	15,491	-	-	-	22,636	50,155
Customers' deposits at amortized cost	1,525,374	581,301	557,543	-	-	-	227,996	2,892,214
Deposits from related parties at amortized cost	564	-	-	-	-	-	-	564
Engagements by acceptances	-	-	-	-	-	-	39,368	39,368
Other liabilities	-	-	-	-	-	-	7,835	7,835
TOTAL	1,534,866	584,401	573,034	-	-	-	297,835	2,990,136
Total interest rate sensitivity gap	(1,292,405)	(320,990)	136,927	188,319	729,818	609,524	142,781	193,974

In million of Lebanese Pounds — 2010

	Up to 1 month	1 to 3 months	3 months to 1 year	(1 – 2) years	(2 – 5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	26,386	-	98,482	143,213	-	-	64,876	332,957
Due from banks and financial institutions	26,094	-	-	-	-	-	190,665	216,759
Financial assets given as guarantee	8,988	384	-	-	-	-	3	9,375
Financial assets measured at fair value	-	-	47,390	43,198	46,035	38,521	7,240	182,384
Loans and advances to customers at amortized cost	171,048	206,623	370,434	70,862	15,456	1,396	62,897	898,716
Loans and advances to related parties at amortized cost	3,543	-	-	-	-	-	-	3,543
Debtors by acceptances	-	-	-	-	-	-	33,933	33,933
Investment in an associate	-	-	-	-	-	-	8,701	8,701
Financial assets classified at amortized cost	11,000	12,500	12,015	69,153	447,546	461,649	20,811	1,034,674
TOTAL	247,059	219,507	528,321	326,426	509,037	501,566	389,126	2,721,042
LIABILITIES								
Due to banks and financial institutions	6,650	-	7,018	-	-	-	33,858	47,526
Customers' deposits at amortized cost	1,231,800	483,472	553,481	-	-	-	206,819	2,475,572
Deposits from related parties at amortized cost	3,129	-	-	-	-	-	-	3,129
Engagements by acceptances	-	-	-	-	-	-	33,933	33,933
Other liabilities	-	-	-	-	-	-	2,932	2,932
TOTAL	1,241,579	483,472	560,499	-	-	-	277,542	2,563,092
Total interest rate sensitivity gap	(994,520)	(263,965)	(32,178)	326,426	509,037	501,566	111,584	157,950

39-3-2 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rate.
The Bank is allowed to hold a net trading position not to exceed 1 percent of its net shareholders' equity, as long as the global foreign position does not exceed, at the same time, 40 percent of its net shareholders' equity, and that the related banks are abiding in a timely and consistent manner with the required capital adequacy (Bank of Lebanon circular number 32).

The table below indicates the statement of financial position detailed by currency.

The following statement of financial position as of 31 December 2011 is detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

		Foreign currencies in Lebanese Pounds				
	LBP million	US Dollars in LBP million	Euro in LBP million	Other foreign currencies in LBP million	Total foreign currencies in LBP million	Total in LBP million
ASSETS						
Cash and balances with central banks	47,082	339,970	9,115	435	349,520	396,602
Due from banks and financial institutions	2,151	172,336	34,583	28,417	235,336	237,487
Financial assets measured at fair value	158,178	100,225	-	-	100,225	258,403
Loans and advances to customers at amortized cost	154,732	876,142	50,094	4,648	930,884	1,085,616
Loans and advances to related parties at amortized cost	456	891	38	-	929	1,385
Debtors by acceptances	-	34,060	4,947	361	39,368	39,368
Investment in an associate	9,833	-	-	-	-	9,833
Financial assets classified at amortized cost	581,510	562,158	11,748	-	573,906	1,155,416
Property and equipment	38,591	-	368	-	368	38,959
Intangible assets	354	-	-	-	-	354
Fixed assets taken in recovery of bad debts	266	24,089	1,872	-	25,961	26,227
Other assets	2,996	4,782	11	-	4,793	7,789
TOTAL ASSETS	996,149	2,114,653	112,776	33,861	2,261,290	3,257,439
LIABILITIES						
Due to banks and financial institutions	11,332	24,399	12,642	1,782	38,823	50,155
Customers' deposits at amortized cost	795,002	1,972,064	94,788	30,360	2,097,212	2,892,214
Related parties' deposits at amortized cost	143	407	11	3	421	564
Engagements by acceptances	-	34,060	4,947	361	39,368	39,368
Other liabilities	6,900	871	64	-	935	7,835
Provisions for risks and charges	4,213	53	-	-	53	4,266
Total liabilities	817,590	2,031,854	112,452	32,506	2,176,812	2,994,402
NET EXPOSURE	178,559	82,799	324	1,355	84,478	263,037

The following statement of financial position as of 31 December 2010 is detailed in Lebanese Pounds (LBP) and foreign currencies, translated into LBP.

		Foreign currencies in Lebanese Pounds				
	LBP million	US Dollars in LBP million	Euro in LBP million	Other foreign currencies in LBP million	Total foreign currencies in LBP million	Total in LBP million
ASSETS						
Cash and balances with central banks	52,756	274,870	4,811	520	280,201	332,957
Due from banks and financial institutions	1,600	169,527	31,881	13,751	215,159	216,759
Financial assets given as guarantee	-	-	9,375	-	9,375	9,375
Financial assets measured at fair value	139,860	42,524	-	-	42,524	182,384
Loans and advances to customers at amortized cost	180,476	653,668	63,669	903	718,240	898,716
Loans and advances to related parties at amortized cost	338	3,180	25	-	3,205	3,543
Debtors by acceptances	-	30,369	2,387	1,177	33,933	33,933
Investment in an associate	8,701	-	-	-	-	8,701
Financial assets classified at amortized cost	514,271	512,090	8,313	-	520,403	1,034,674
Property and equipment	39,816	-	438	-	438	40,254
Intangible assets	141	-	-	-	-	141
Fixed assets taken in recovery of bad debts	223	22,014	1,913	-	23,927	24,150
Other assets	2,702	742	-	21	763	3,465
TOTAL ASSETS	940,884	1,708,984	122,812	16,372	1,848,168	2,789,052
LIABILITIES						
Due to banks and financial institutions	854	35,287	9,594	1,791	46,672	47,526
Customers' deposits at amortized cost	781,735	1,579,775	100,767	13,295	1,693,837	2,475,572
Related parties' deposits at amortized cost	2,370	721	9	29	759	3,129
Engagements by acceptances	-	30,369	2,387	1,177	33,933	33,933
Other liabilities	2,245	623	64	-	687	2,932
Provisions for risks and charges	4,148	204	-	-	204	4,352
Total liabilities	791,352	1,646,979	112,821	16,292	1,776,092	2,567,444
NET EXPOSURE	149,532	62,005	9,991	80	72,076	221,608

39-3-3 Prepayment risk

Prepayment risk is the risk that the Bank incurs a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate housing loans when interest rates fall. The fixed rate assets of the Bank are not significant compared to the total assets. Moreover, other market conditions causing prepayment is not significant in the markets in which the Bank operates. Therefore, the Bank considers the effect of prepayment on net interest income as not material after taking into account the effect of any prepayment penalties.

40- Capital Management

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

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

Regulatory capital

At 31 December 2011 and 2010, the capital consists of the following:

In million of Lebanese Pounds	2011	2010
Tier 1 capital	**234,796**	194,834
Tier 2 capital	**1,904**	1,904
Total capital	**236,700**	196,738
Risk weighted assets		
Credit risk	**2,057,394**	1,728,056
Market risk	**193,157**	87,913
Operational risk	**99,359**	83,607
Total risk weighted assets	**2,349,910**	1,899,576
The capital adequacy ratio as of 31 December is as follows:		
Tier 1 capital ratio	**9.99%**	10.26%
Total capital ratio	**10.07%**	10.36%

39-4 Operational risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Bank cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Bank is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff awareness and assessment of processes, including the use of internal audit.

The Bank should maintain a required capital adequacy ratio (not less than 8%) based on their capital funds over the total risk weighted assets.

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

41- Suggested Appropriation of 2011 Profits

In million of Lebanese Pounds	2011
Profit for the year	26,337
Transfer to legal reserve	(4,348)
	21,989
Add: prior years retained earnings	21,761
	43,750
Appropriation of profits:	
Reserve for general banking risks	(4,700)
Capital reserve:	
Reserve for assets in settlement of debts, disposed off	(570)
Reserve for redemption of preferred shares	(13,839)
Other reserve	(1,706)
Less: unrealized gain on financial assets at fair value through profit and loss as per Banking Control Commission circular 270	(7,812)
Distributable retained earnings	15,123
Dividend distribution:	
Preferred shares (2007 issue) (9% of nominal value)	(1,899)
Preferred shares (2010 issue) (7.5% of nominal value)	(3,392)
Retained earnings	9,832

42- Comparative Information

Reclassifications in the statement of financial position
Pursuant to the early adoption of phase I of IFRS 9, the Bank reclassified comparative balances relating to its investments in financial instruments as fully described in note 2 to the financial statements.

Besides, comparative balances relating to the following line items of the statement of financial position were also reclassified as per the requirements of BDL intermediary circular 251 dated 15 April 2011:

Statement of financial position reclassification

In million of Lebanese Pounds		
Current classification	**Previous classification**	**Previous classification**
Fixed assets taken in recovery of bad debts	Non-current assets held for sale	24,150
Provisions for risks and charges	Retirement benefits obligation	4,023
Other liabilities	Current tax liabilities	556
Other liabilities	Deferred tax liability	47
Non distributable reserves	Other reserves	1,070
Non distributable reserves	Capital reserves	25,798

Income statement reclassification

In million of Lebanese Pounds		
Current classification	**Previous classification**	**Amount reclassified**
Net gain on financial assets at fair value through profit and loss	Net trading income	13,685
Net gain on financial investments at amortized cost	Net gain on financial investments	12,943
Net gain on available-for-sale financial investment	Net gain on financial investments	3,452

List of Major Correspondents

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AFRICA

Algeria
. Fransabank El Djazair SPA

Egypt
. Mashreqbank PSC

Ethiopia
. Commercial Bank of Ethiopia

Tunis
. Société Tunisienne De Banque SA

ASIA

China
. Bank of China ltd

India
. Indian Overseas Bank

Japan
. Sumitomo Mitsui Banking Corporation

Malaysia
. Malayan Banking Berhad

Philippines
. Philippine National Bank

Vietnam
. Vietnam Export-Import
Commercial Joint-Stock Bank

AUSTRALIA

Australia
. Beirut Hellenic Bank ltd

EUROPE

Austria
. Unicredit Bank Austria AG

Belgium
. KBC Bank NV

Bulgaria
. Unicredit Bulbank AD

Cyprus
. Bank of Cyprus Public Company ltd

Denmark
. Danske Bank A/S
. Saxo Bank AS

Finland
. Sampo Bank PLC

France
. Société Générale
. Al-Khaliji France SA
. BNP Paribas SA
. Union de Banque Arabes et Françaises

Germany
. Commerzbank AG
. Deutsche Bank AG

Italy
. Banca UBAE SPA
. Intesa Sanpaolo SPA
. Unicredit SPA

Netherlands
. KBC Bank Nederland NV

Spain
. CaixaBank SA
. Banco De Sabadell SA
. Banco Pastor SA

Sweden
. Svenska Handelsbanken AB (Publ)
. Skandinaviska Enskilda Banken AB (Publ)

Switzerland
. Banque de Commerce et de Placements SA
. Crédit Suisse
. Crédit Agricole (Suisse) SA

Turkey
. Turkiye Finance Katilim Bankasi AS
. A&T Bank
. Asya Katilim Bankasi AS
. Turkland Bank AS

United Kingdom
. Barclays Bank PLC
. Standard Chartered Bank

MIDDLE EAST

Bahrain
. Mashreqbank PSC
. Ahli United Bank

Iraq
. Rasheed Bank
. Babylon Bank
. North Bank for Finance & Investment

Jordan
. The Housing Bank for Trade & Finance

Kuwait
. Burgan Bank SAK

Qatar
. Doha Bank
. Qatar National Bank SAQ

Saudi Arabia
. Banque Saudi Fransi
. The National Commercial Bank

U.A.E.
. National Bank of Abu Dhabi
. Habib Bank AG Zurich
. Mashreqbank PSC

NORTH AMERICA

Canada
. Bank of Montreal

USA
. The Bank of New York Mellon
. Standard Chartered Bank

SOUTH AMERICA

Brazil
. Banco Santander (Brasil) SA

Head Office & Branches Network

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بنك لبنان والخليج
Lebanon & Gulf Bank

HEAD OFFICE

LGB HEADQUARTERS
Allenby Street, Beirut Central District
P.O. Box: 11-3600 Riad El Solh, Lebanon
Tel: +961 1 965000 / Fax: +961 1 965699
Swift : LGBALBBE
E-mail: info@lgbbank.com
Website: www.lgbbank.com

DEALING ROOM

Tel : +961 1 965 400 / 403 / 404
Fax: +961 1 965 499
E-mail: dealing@lgbbank.com

AFFILATED AND PARTICIPATIONS

- CSC Bank S.A.L
- Société Financière du Liban S.A.L
- Banque de L'Habitat S.A.L
- Société de Garantie des Prêts aux Petites et Moyennes Entreprises S.A.L

BEIRUT

Allenby – Main Branch
LGB Headquarters, Allenby Street,
Beirut Central District
Tel : +961 1 965000
Cel : +961 3 316881, Fax : +961 1 965199

Hamra Branch
585 Lyon Street, Hamra
Tel : +961 1 745500-5
Cel : +961 3 316880, Fax : +961 1 743380

Mazraa Branch
483 Saeb Salam Boulevard
Tel : +961 1 651980-4
Cel : +961 3 316884, Fax : +961 1 651985

Ramlet El Baida Branch
Naccache Avenue, M.E. Hospital Bldg.
Tel : +961 1 809440 / 861920 / 860616
Cel : +961 3 222471, Fax : +961 1 809359

Tarik El Jdideh Branch
Bustani Street, Al Jundi Bldg.,
Facing Municipal Stadium Square
Tel : +961 1 311625 / 300360
Cel : +961 3 278100, Fax : +961 1 311677

Noueiri Branch
Ouzai Street, Noueiri Tower
Tel : +961 1 658060 / 658061
Cel : +961 71 117300, Fax : +961 1 658062

Achrafieh Branch
Opening in 2012

Makdessi Branch
Opening in 2012

MOUNT LEBANON

Hazmieh Branch
International Highway, Gardenia Center
Tel : +961 5 956 450-1-2
Cel : +961 71 511300, Fax: +961 5 956453

Dora Branch
Dora Main Road, Attallah Freij Bldg.
Tel : +961 1 259930-4
Cel : +961 3 316887, Fax: +961 1 259938

Ghobeiry Branch
Boulevard Ghobeiry, M.E Commercial Center
Tel : +961 1 826190-2
Cel : +961 3 316882, Fax: +961 1 826112

NORTH

Tripoli Branch
Abdul Hamid Karame Square Center
Tel : +961 6 435076-7
Cel : +961 3 316886, Fax: +961 6 628275

SOUTH

Tyr Branch
Near al Istiraha, Facing Historical Ruins
Tel : +961 7 742140-3
Cel : +961 3 316889, Fax: +961 7 742142

Saida Branch
Al Dekerman, Hossam El Dine El Hariri Street,
Kotob Center
Tel : +961 7 754617-18-19
Cel : +961 76 091122 / 885757, Fax: +961 7 754619

BEKAA

Zahle Branch
Boulevard Street
Tel : +961 8 823813 / 823688
Cel : +961 3 316883, Fax: +961 8 801154

Chtaura Branch
Chtaura, Main Road, Eldorado Center
Tel : +961 8 544940 / 543940
Cel : +961 3 056464, Fax: +961 8 545940

CYPRUS

Larnaca Branch
Makarios Avenue, Akamia Center
P.O. Box: 40337-6303 Larnaca
Tel : 357 24 620500
Fax : 357 24 620708
Swift : LGBACY2L
E-mail: cyprus@lgbbank.com

United Arab Emitares

UAE Representative Office
Opening in 2012