LGB BANK S.A.L

LEBANON & GULF BANK

50 Years

ANNIVERSARY

Annual Report 2012

50 years of Excellence...

LGB BANK
LEBANON & GULF BANK

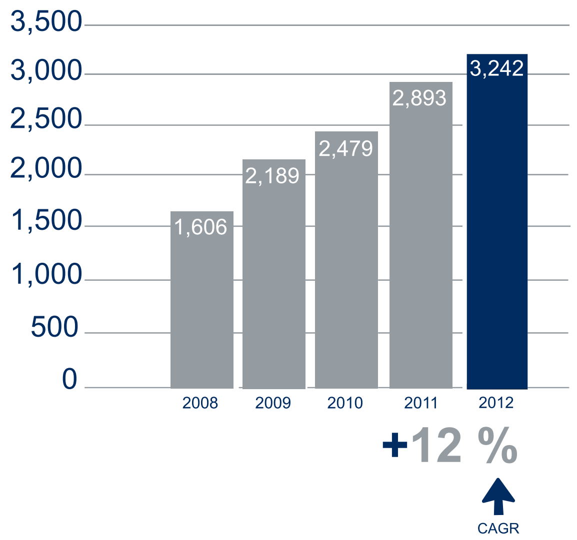
Contents

Financial Highlights

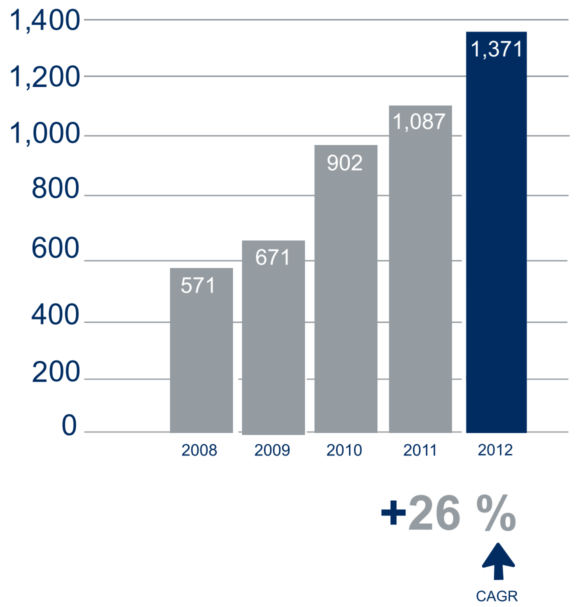
In millions of LBP

As at December 31	2012	2011	2010	2009	2008
Balance Sheet					
Total Assets	3,622,979	3,257,439	2,789,052	2,408,058	1,778,998
Customers' Deposits	3,242,413	2,892,778	2,478,701	2,189,826	1,606,349
Loans & Advances	1,371,187	1,087,001	902,259	671,150	570,971
Equity	286,102	263,037	221,608	155,684	118,778
Financial Results					
Net Operating Income	67,874	61,263	59,591	50,420	35,869
Net Interest Income	44,751	28,867	29,331	19,849	23,712
Net Non-interest Income	27,758	36,947	43,814	33,669	11,863
Net Income	28,158	26,337	24,706	21,315	12,812

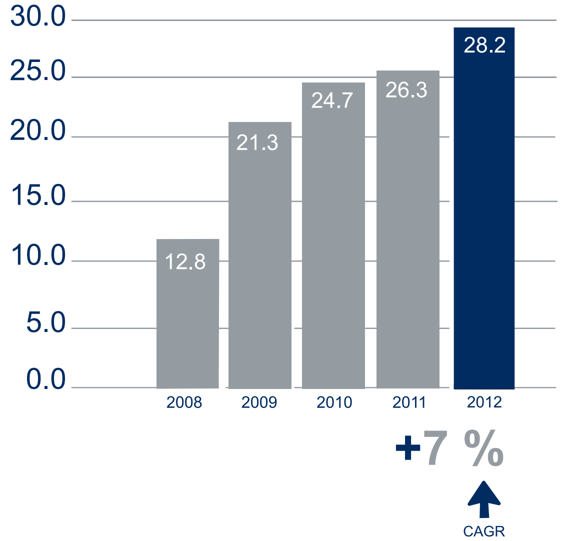
Total Customers' Deposits
In billions of LBP



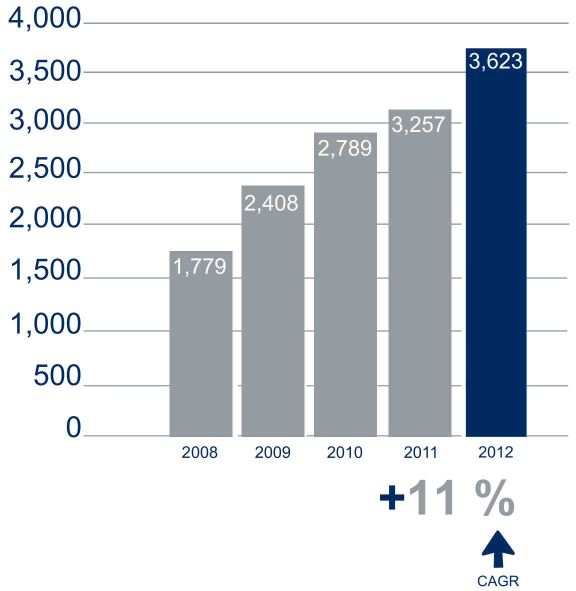
Total Loans & Advances
In billions of LBP



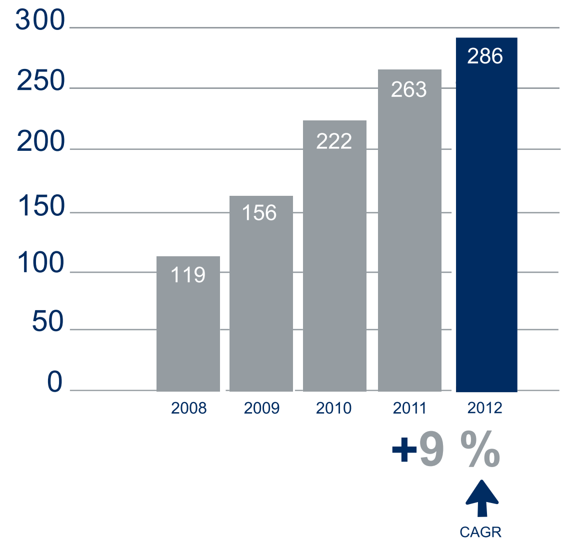
Net Income
In billions of LBP



Total Assets
In billions of LBP



Total Equity
In billions of LBP



CAGR: Compounded Annual Growth Rate

Chairman &
Vice Chairman's
Letter

Dear Stakeholders,

It gives us great pleasure to present the 50th annual report on our 50th anniversary along with the closing accounts of LGB BANK for the year that ended on December 2012. The Bank continued to achieve sustainable growth and solid performance despite a challenging global market and political instability in parts of the Middle Eastern Region. More importantly, these remarkable financial results have steadily placed the Bank in the Alpha Group of banks in Lebanon.

Throughout the year, we have strengthened the Bank to meet anticipated challenges including those of growth and risk. In 2012, the Bank continued to balance the strategic driver of growth in all key indicators exceeding the sector's average growth rate.

As a result, Total Assets grew by 11% exceeding LBP 3,623 billion in 2012 while Total Customers' Deposits increased by 12% reaching LBP 3,242 billion. The Bank's Loan Portfolio amounted to LBP 1,371 billion growing by 26% in 2012. The Bank recorded a solid profit growth to reach LBP 28.2 billion with a net interest income increase of 23% in 2012. 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, the Capital Adequacy Ratio stood at 10.9% in 2012, a percentage well above the minimum capital requirements of 10% set by Basel III and the Central Bank of Lebanon along with maintaining high liquidity ratios.

The Bank improved its position among the Alpha Group of banks and enhanced its competitiveness in the market by constantly launching superior products and services for its client base. To support the sales strategies, we have established a direct sales team focusing on acquiring new clients, growing the existing business relationships and increasing our clients' loyalty by offering comprehensive financial solutions.

The Bank invested in upgrading its Information Technology (IT) platforms by implementing new advanced systems and applications to support its banking operations and enhance its controlling measurements. The Bank's IT Department constitutes a state-of-the-art facility whereby highly secured, efficient and fast e-channels have been developed from website, internet banking and mobile banking.

With our continuous efforts to expand our domestic branches' network strategically covering the Lebanese territory, we opened a new branch in Achrafieh and a representative office in Dubai. The Bank will also be opening new branches in Makdessi – Hamra and Airport Road in 2013. We are also 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.

With the help of our risk management and control measures, asset quality remained to be the center of our attention. We have continued being selective in building our asset book with a focus on striking a balance between growth and risk taking which in turn was reflected in the reduction of the level of non-performing loans. The Bank stayed vigilantly committed to applying high standards of anti-money laundering and terrorist financing compliance (AML) rules and regulations by updating the know your customers ("KYC") system utilizing the "Risk Based Approach" to classify our customers banking transactions according to level of risk and the "Transaction Monitoring" software to monitor all banking transactions and follow up the "FATCA" Foreign Account Tax Compliance Act.

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 new 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 would like to express our sincere gratitude for the ongoing support and loyalty of our shareholders and clients. We are also grateful for the management and staff's professionalism and dedication whose commitment and contribution over the years have been the driving force behind our continued growth and success.

Abdul Hafiz M. Itani
Chairman- General Manager

Samer A.H Itani
Vice Chairman- Chief Executive Officer

50 Years
ANNIVERSARY

Our Bank

LGB BANK
LEBANON & GULF BANK

Historical Foundation

With almost 50 years of banking tradition, trust and excellence in customer service, LGB BANK stands today as one of Lebanon's deeply rooted banks.

Established in 1963 under the name of Banque de Credit Agricole s.a.l., LGB BANK 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 15 branches spread across the country, a branch in Cyprus since 1986, and a Representative Office in Dubai, UAE.

Today, being one of the most evolving and vibrant institutions in the country, the Bank is committed to a systematic expansion strategy. In 2012, the latter has translated into an enhancement of the LGB 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 simultaneously in Lebanon and the Middle East, as LGB BANK is tapping into potential markets. By early 2011, 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, LGB BANK continues to build strong relationships with its clients through a personalized approach coupled with sophisticated services and "innovative products" that match the customers' financial aspirations.

Vision

Based on its ongoing pursuit of excellence and optimized customer satisfaction, LGB BANK 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 LGB BANK, we thrive to provide our customers with best in line products and services that meet 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.

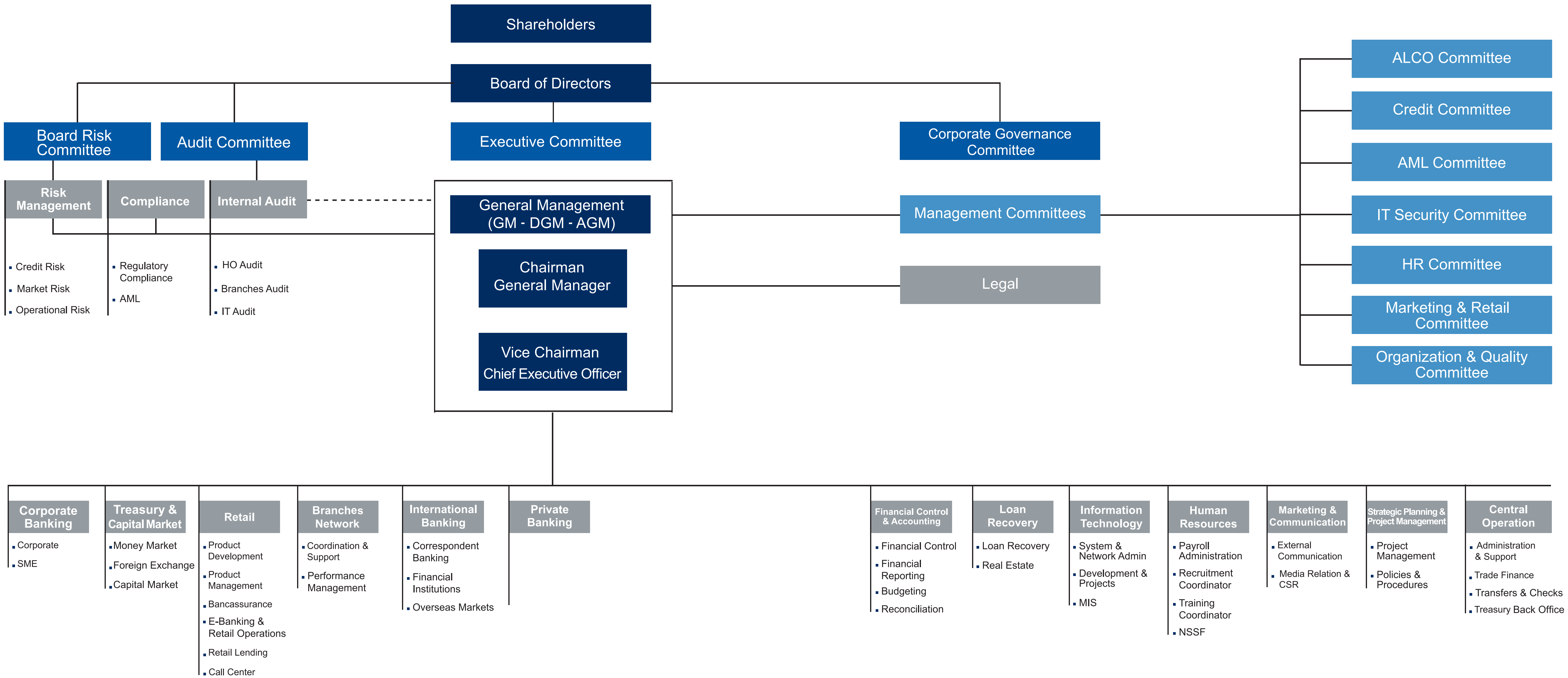
Values

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

Integrity
At LGB BANK 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
LGB BANK 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
LGB BANK is a reliable banking partner for Lebanese customers. We provide them with a diversified portfolio of offerings, based on thorough analysis of the market and the local customers' needs. We also put at the disposition of our clients the expertise of a pool of industry experts who offer professional advice and reliable solutions.


Shareholders
Board of Directors
Board Risk Committee
Audit Committee
Executive Committee
Corporate Governance Committee
Risk Management
Compliance
Internal Audit
Credit Risk
Market Risk
Operational Risk
Regulatory Compliance
AML
HO Audit
Branches Audit
IT Audit
General Management (GM - DGM - AGM)
Chairman General Manager
Vice Chairman Chief Executive Officer
Management Committees
Legal
ALCO Committee
Credit Committee
AML Committee
IT Security Committee
HR Committee
Marketing & Retail Committee
Organization & Quality Committee
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

Corporate Governance

Governance

LGB BANK has taken long strides in enhancing and ensuring complete compliance with its local and international corporate governance practices. The Bank has utilized Basel's "Principles for Enhancing Corporate Governance" that was issued in October 2010, BDL's "Circular No. 106", ABL's "Corporate Governance Guidelines for Banks Operating in Lebanon" that was issued in January 2011 in addition to other regulations in developing its Corporate Governance Framework and directing the Bank's governance practices towards creating long term values to our shareholders and stakeholders.

Sound corporate governance is a fundamental part of the Bank's culture and business practices. Accordingly, the Bank periodically updates and modifies 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, independency, accountability, responsibility and fairness.

The Bank has designed and approved all corporate governance policies 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.

These policies lay a solid foundation for management oversight, promote ethical and responsible decision making and ensure steady advancement. They also safeguard integrity in financial reporting through timely and fair disclosures as well as recognize and manage risks.

Board Selection and Election

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

Shareholders elect the Board to oversee management and to assure that the shareholders' rights are protected. They are elected for a three year term at the shareholders' general assembly.

Board Responsibilities

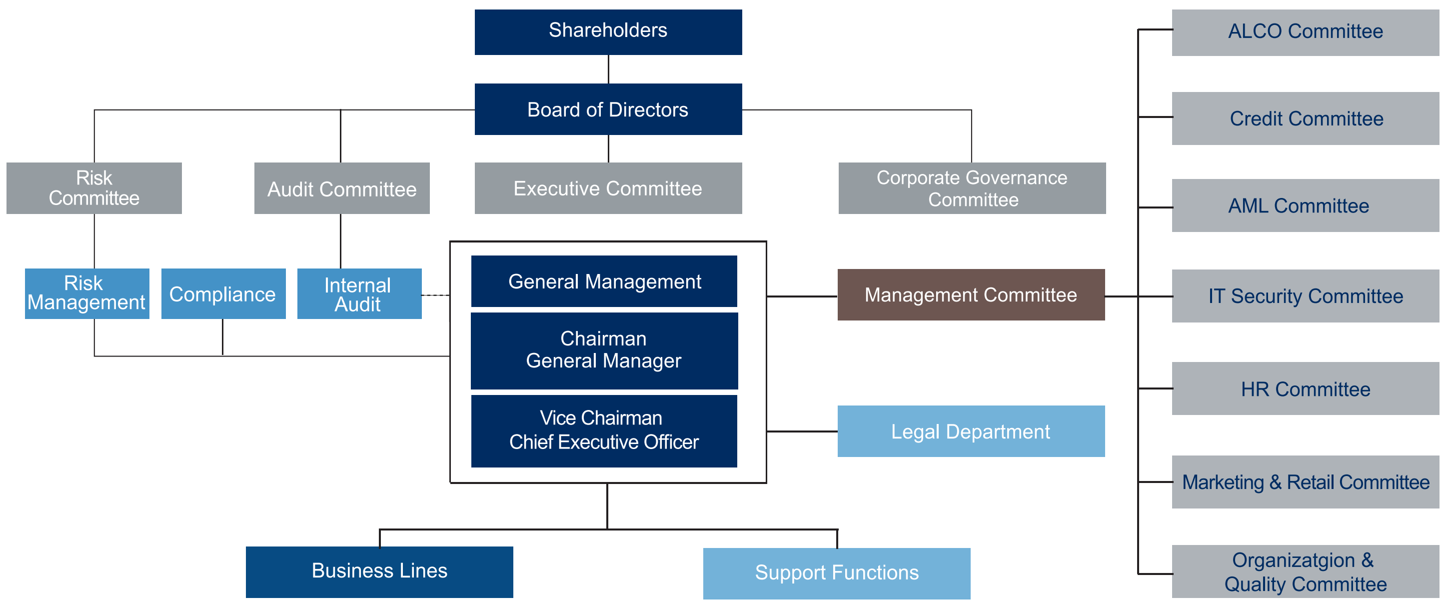
The Board of Directors is accountable to the shareholders for setting the broad policy guidelines and strategic direction of the Bank. They also govern the Bank through monitoring business performance, operations and integrity of internal controls transparently.

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 management the responsibility of implementing the policies, guidelines and parameters set by them.

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 Committees

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 in addition to the performance of its internal and external auditors.
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 needed.

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, operational and other 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 to ensure that all related local and international guidelines of corporate governance are complied with.

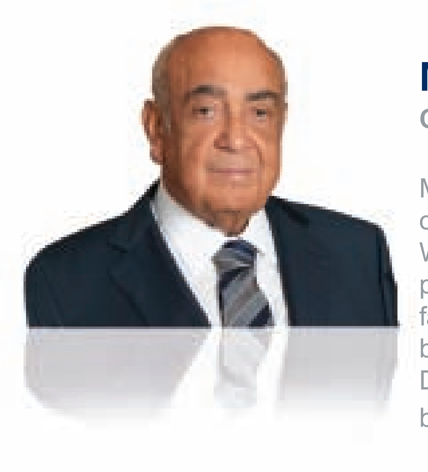
The committee also makes recommendations on maintaining an effective governance framework, board structure and remuneration of the Board members and senior managers.
Majority members of this Committee are mainly independent non-executive directors. This committee is scheduled to meet at least quarterly 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 aligned with the approved Board of Directors' guidelines and strategies.
Majority members of this Committee are mainly independent non-executive directors. This committee is scheduled to meet at least once annually or depending on necessity.

Composition of the Board of Directors

The Bank's Board of Directors consists of eight members, four of which are non-executives. The Board members are prominent bankers and financial experts who bring a wide range of skills and experience to the Board.



Mr. Abdul Hafiz M. Itani
Chairman – General Manager

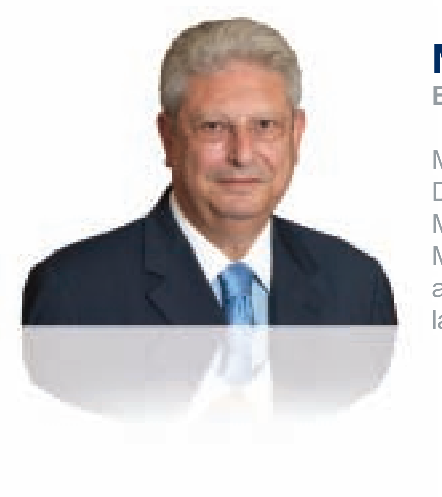
Mr. Abdul Hafiz Itani was appointed to his current position in 1980 upon acquiring the majority of the Bank's shares along with a group of local and Gulf investors.
With more than 50 years of experience in the banking and finance industry, Mr.Itani's professional career crowned with his successful management of a long-lasting established family business, impelled him to lead LGB BANK. 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 - CEO

Mr. Samer Itani started his Banking career at LGB BANK by occupying several managerial positions in different divisions at the Bank prior to being selected in 1995 as a member of the Board of Directors.
Mr. Itani was appointed to his current position in 2007 and is currently 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 programs at Chemical Bank.

Mr. Joseph M. Hakim
Deputy General Manager - Board Member

Mr. Hakim Joined LGB BANK 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 holding 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 LGB BANK and a 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 as a 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 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 LGB BANK 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, 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.

Dr. Ghaleb Mahmasani
Board Member

Dr. Mahmasani was elected as a non-executive member of the Bank's Board in 2012. Dr. Mahmasani currently holds the position of Acting President at the Beirut Stock Exchange Commission in addition to memberships in other prestigious local and international legal commissions and committees such as the Commission on Electoral Law – Lebanon, the Commission of modernization of Laws at the Lebanese Ministry of Justice, the Legal Commission at the Banker's Association of Lebanon, the International Court of Arbitration of the International Chamber of Commerce (ICC) in Paris and the National Committee of the Permanent Court of Arbitration at the Hague, the Netherlands.

Dr. Mahmasani holds a License in French and Lebanese Law from the Lebanese University, Ph.D. in Law from Lyon University in France and a B.A in Political Science from the American University of Beirut.

Our Business

Corporate & Commercial Banking

LGB BANK 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, LGB BANK 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 LGB BANK 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 LGB BANK 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, LGB BANK 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, LGB BANK 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 LGB BANK 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, LGB BANK 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

LGB BANK has at all times based its product development policy around the client's ever-changing needs and kept up with the evolving requirements of the markets. In parallel, the Bank was always keen to continuously improve the customer's banking experience by providing a totally modern and transparent service based on trust and knowledge of the client's aspirations whilst making use of new technologies.

Adopting this dynamic approach, the ultimate objective of LGB BANK is to go beyond its customers presumptions and retain their loyalty as their preferred Bank. During the last few years, the Bank has kept on developing its portfolio of targeted products and services, aligning its actions with its broad product strategy and succeeding in widening its clientele base while remaining faithful to its quality standards.

The Retail Banking practice at LGB BANK is aligned with the Bank's corporate strategy which aims at presenting 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 between truly advantageous banking products.

Innovative services

In light of its wider corporate strategy, LGB BANK has been a leader in the field of retail banking. It is to be remembered that the Bank was the first to introduce the SMS alert service.

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

Payment Cards

Responding to evolving banking needs and modern lifestyles, LGB BANK proposes an extended line-up of MasterCard and VISA to choose from: Debit, Credit and Prepaid 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, LGB BANK was one of the first banks 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 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.

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 Card also reflects LGB BANK's commitment towards the consolidation of the Lebanese Pound encouraging customers to complete their transactions using their national currency

With the LGB Black Card, an exclusive "MasterCard World Card", the luxury of a global access to a group of internationals has now been exclusively offered to the most valued customers. Black card holders can take advantage of the generous services, exclusive offers and luxurious experiences presented to the very few.

Further in line with its customer centric strategy, the Bank initiated the "LGB Loyalty Program" under
"Cash is the Gift". This fidelity concept allows LGB Credit Card holders to collect the points and redeem them in Cash. As such LGB BANK 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, LGB BANK has developed services that aim to improve the quality of life of its customers whether from a personal or a professional standpoint.

In addition to the usual common loans like the Home, Personal and Car 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 LGB BANK while benefiting from additional funding with minimum formalities along with the private offer for salary domiciliation that allows private sector employees to benefit from a wide range of free services and offers.

Targeting a different customer segment, LGB BANK 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, LGB BANK 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 allows them to sustain their income in case of accidents.

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, LGB BANK 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 have also begun implementing a broad Online Banking platform, "LGB Online Banking", allowing the Bank's customers to benefit from a number of products and services in the comfort of their homes or offices. . The mobile banking platform is underway which will provide the customers with even more flexibility allowing them to complete many of their daily banking transactions in a swift and efficient manner at their own suitable time.

The mobile banking platform is underway which will provide the customers with even more flexibility allowing them 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 LGB BANK and its goals to build reliable partnerships with an efficient business network.

Through its branch presence in Cyprus since 1986, LGB BANK 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 maintained LGB's Financial Strength at BB as well as Long & Short Term Foreign Currency Rating at B/B with a Stable Outlook for its solid position.

■ Marketing and Communication

In its continuous efforts to meet the latest banking trends and provide an optimized experience to its customers, LGB BANK 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, LGB BANK 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, LGB BANK 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 LGB BANK campaigns is to factually convey its corporate values. LGB BANK 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 profitable association; and customer campaigns that highlight the competitive edge of the Bank's products and services.

■ Human Resources

LGB BANK 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 line with this, a harmonious and growing team of experts from various professional backgrounds is constantly being mustered; the team reflects the values and ethical principles of the BANK while trying to fulfill its longstanding 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 LGB BANK 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 clear 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 guidelines of the Employee Handbook and the Code of Ethics, thus 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, LGB BANK adopts an equal-opportunity policy that ensures an objective selection and fair assessment of job candidates. We perceive the human capital as the most valuable of assets offering every staff member an inspiring working environment to grow and prosper within. We give much importance to teamwork and cooperative efforts above all, and look to retain talents by providing them with a challenging team spirited atmosphere, that triggers creativity and allows team members to assume higher responsibilities while being apt to multitasking.

LGB BANK also seeks to update and modernize its job requirements 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; this will help employees acquire new abilities and advance their professional career while ensuring a 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 to ensure the highest levels of customer satisfaction.

To keep up with the fast changing business trends, banks need to integrate cutting edge technologies that guarantee more flexibility and practicality to their clients.

Consequently, LGB BANK has embraced the technological revolution to ride the wave of sustainable growth in a challenging world economy. In line with this, 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, LGB BANK was one of the very first banks in Lebanon to adopt such technological updates in the industry. 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 LGB BANK 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 IT software and displays highly flexible functions, delivering an optimized performance in quality and speed, as it facilitates transactions related to Transfers and Treasury.

Yet, integrating new technologies in its internal processes is not the only policy LGB BANK 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, LGB BANK has entirely redesigned and launched its corporate website to offer a comprehensive online experience to its clients. Thoroughly planned and executed, the new website offers an active 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 makes sure that the latest solutions are being implemented.

Management Discussion & Analysis

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 LGB BANK – referred to as "The Bank" - for the year ended as of December 31, 2012 as compared to the year ended December 31, 2011.
The below presented MD&A should be read in conjunction with our Financial Statements and related Notes for the year ended December 31, 2012. 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

Overall, the economic growth in Lebanon witnessed a slight increase where real GDP rose by just 1.6% from a 1% in 2011. This limited growth was a result of the decline in investments and the weakening in the political situation which indirectly affected tourism and foreign direct investment.
According to the Ministry of Finance, fiscal deficit increased by 47.6% as a result of a 10.8% increase in total expenditures paralleled with a minimal rise of 3.4% of fiscal revenues. Moreover, gross public debt increased by 7.4% to reach USD 57.7 billion representing 138% of Lebanon's GDP. The external sectors recorded an improvement in 2012 where exports rose by 5.1% to stand at USD 4.5 billion; such an increase came as a result of the growing activity of Beirut's Port.

Imports also saw a moderate rise of 5.6% to reach USD 21.3 billion. Trade deficit expanded by 5.7% to account for USD 16.8 billion and balance of payment faced a net deficit of USD 1,537 million in 2012.
As for the monetary situation, the Lebanese banking sector proved its strong stability, even in hard times. An expansion of the LBP money supply was triggered following a contraction in 2011. Moreover, the Central Bank maintained high quality foreign assets, thus strengthening its liquidity, along with its success in issuing long term LBP instruments.

Major Economic Indicators in Lebanon

In USD million	2011	2012	Change
GDP	40,480	41,770	1,290
Real GDP growth	1.5%	2%	0.5%
Imports	20,158	21,280	1,122
Exports	4,265	4,483	218
Trade deficit	15,893	16,797	904
Gross inflows of capital	13,897	11,200	(2,697)
Balance of payments	(1,996)	(1,537)	459

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

Lebanese Banking Environment

Despite the domestic political uncertainties and the current regional turmoil, Lebanese banking activities witnessed a positive growth in 2012.

A significant expansion of total consolidated assets for commercial banks were noted in 2012 where they increased by 8.1% to account for LBP 229,963 billion – equivalent of USD 151 million up from LBP 211,918 billion – equivalent of USD 141 million in 2011.

An 8.5% increase in total deposits were recorded in 2012 compared to the 8% increase during 2011 where deposits reached LBP 192,443 billion – equivalent of USD 128 billion.

Loans to customers witnessed a moderate growth of 10.4% to reach LBP 65,504 billion at the end of 2012; the equivalent of USD 43.5 billion. Moreover, loans to deposits ratio in 2012 increased slightly reaching 34%, up from 33.5% in 2011.

The dollarization ratio of deposits decreased slightly in December 2012 to reach 64.8% compared to a 65.9% ratio in December 2011. Moreover, the dollarization ratio of loans dropped from 82.3% in 2011 to reach 77.6% in 2012.

As at December 31

			Growth	
In billion of LBP	2011	2012	Amount	%
Total assets	211,918	228,963	17,045	8.1
Total deposits	177,438	192,443	15,005	8.5
o/w in LBP	62,445	70,304	7,859	12.6
o/w in FC	114,993	122,139	7,146	6.2
Total loans	59,358	65,504	6,146	10.4
o/w in LBP	12,829	14,653	1,824	14.2
o/w in FC	46,529	50,851	4,322	9.3
Equity	16,162	19,058	2,896	17.9
Dollarization of deposits (%)	65.9%	64.8%	-	(1.1)
Dollarization of loans (%)	78.4%	77.6%	-	(0.8)
Loans/Deposit Ratio (%)	33.5%	34%	-	-
Deposits/Assets (%)	82.3%	84.1%	-	1.8
Equity/Assets Ratio (%)	7.6%	8.3%	-	0.7

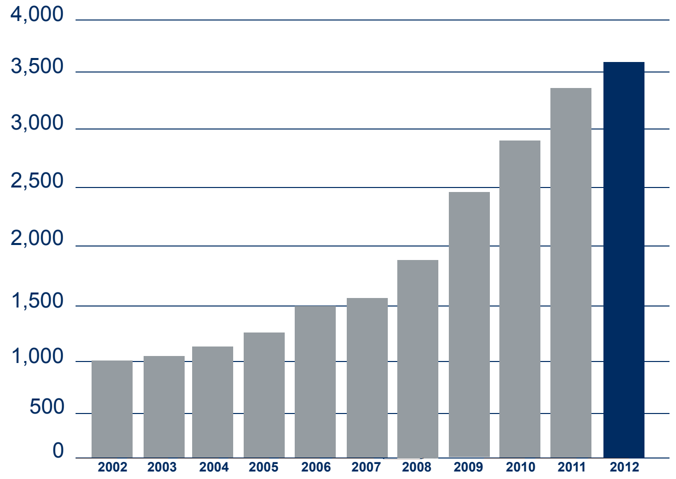
Source: Central Bank of Lebanon

The Bank's Growth

Between 2002 and 2012, LGB BANK managed to achieve a steady and continuous growth in all main financial indicators.

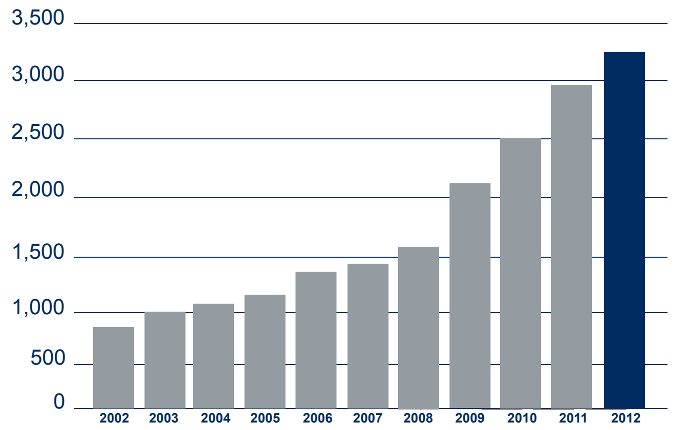
Total Assets in billion of LBP

During the period of 2002-2012, the total assets of the Bank increased from LBP 994 billion (USD 659 million) as of December 2002 to LBP 3,622 billion (USD 2,403 million) as of December 2012, reflecting a remarkable growth of 265%.



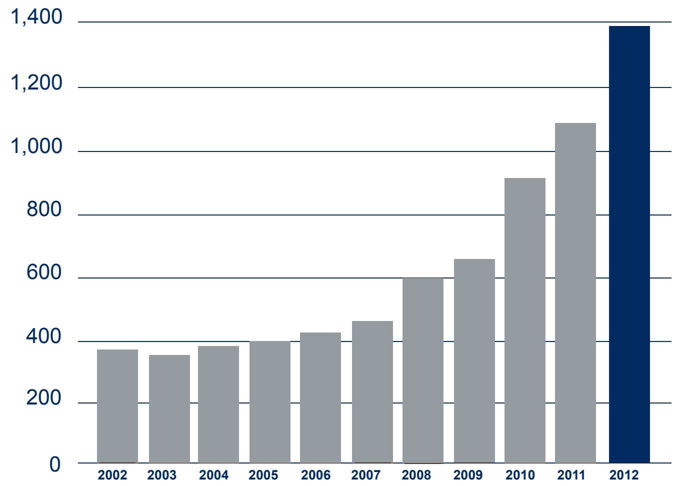
Customers' Deposits in billion of LBP

The growth in the Bank's assets during the period of 2002-2012 reflected a similar growth in Customers' Deposits, which increased by 281%; from LBP 852 billion (USD 565 million) as of December 2002 to LBP 3,242 billion (USD 2,151 million) as of December 2012.



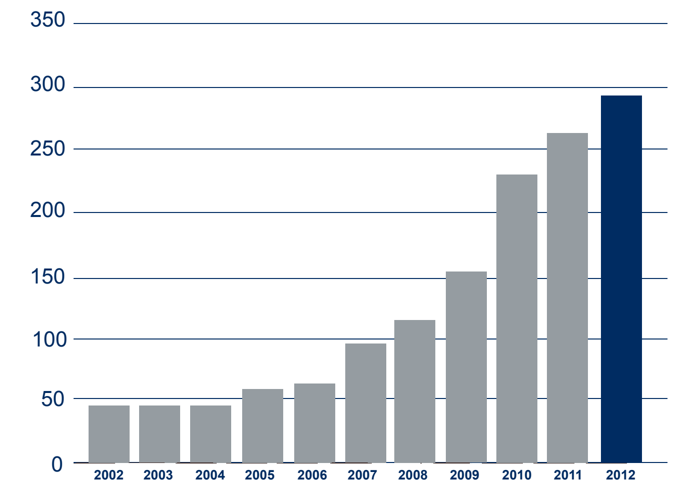
Loans & Advances in billion of LBP

The Bank successfully grew its commercial and retail lending portfolio. Accordingly, Loans & Advances to customers increased from LBP 320 billion in 2002 (USD 212 million) to reach LBP 1,371 billion (USD 909 million as of December 2012, reflecting a growth of 328%).



Equity in billion of LBP

The increase in Equity from LBP 36 billion in 2002 (USD 24 million) to LBP 286 billion in 2012 (USD189 million) reflected a growth of 688%.



The Bank's Performance

Despite a difficult external environment due to the aftermath of the recent turmoil, 2012 was another successful year for LGB BANK. It maintained strong performance where total assets increased by 11.2% to reach LBP 3,623 billion and customers' deposits rose by 12.1% to stand at LBP 3,242 billion.

The Bank's loan portfolio increased by 26.1% to reach LBP 1,371 billion in 2012. Moreover, shareholders' equity rose by 8.8% to stand at LBP 286 billion. While Net income witnessed an increase of 6.9% to reach LBP 28 billion with a stable ratio for Return on Average Assets (ROAA) accounting for 1.0% in 2011 & 2012 and a slight decrease for Return on Average Equity (ROAE) from 10.87% in 2011 to 10.26% in 2012.

1. Profitability

Profitability for the period ending on December 31^{st}, 2012 and 2011 was as follows:

As at December 31

			Growth	
In million of LBP	2011	2012	Amount	%
Net Income	26,337	28,159	1,822	6.92
Net Interest Income	28,867	44,751	15,884	55.03
Net Fees and Commission Income	11,737	12,474	737	6.28
Total Net Non Interest Income	36,947	27,758	(9,189)	(24.87)
Net Operating Income	61,263	67,874	6,611	10.80
Total Operating Expenses	32,299	36,395	4,096	12.68

1.1 Net Interest Income

Net Interest Income increased by 55% between 2011 & 2012, from LBP 28.9 billion in 2011 to LBP 44.7 billion in 2012, due to an increase in interest income in 2012 by 24% compared to 11% in 2011, mainly from a balance sheet increase of 26% in loans (2011-2012) compared to 20% (2010-2011) and other increase in balances with Central Bank and other banks.

Breakdown of Interest Received

In million of LBP	2011	2012
Interest received from investments securities	79,892	87,964
Interest received from loans and advances	60,980	79,978
Interest received from banks and financial institutions	7,093	15,549
TOTAL	**147,965**	**183,491**

LGB BANK
LEBANON & GULF BANK

Breakdown of Interest Paid

In million of LBP	2011	2012
Interest paid on deposits from customers	(117,787)	(136,838)
Interest paid on banks and financial institutions	(1,311)	(1,902)
TOTAL	**(119,098)**	**(138,740)**

1.2 Net Fees and Commissions Income

A slight increase in loan services and Trade finance business during 2012 resulted in a 6% increase in net fees and commission income.

In million of LBP	2011	2012
Fee and commission received		
Trade finance	3,380	2,921
Customers' deposit Accounts	1,824	1,528
Credit related fees and commissions	6,080	7,952
Asset Management	350	152
Other services	495	494
	12,129	**13,047**
Fee and commission paid		
Correspondents' accounts	(392)	(573)
NET FEE AND COMMISSION INCOME	**11,737**	**12,474**

1.3 Total Net Non Interest Income

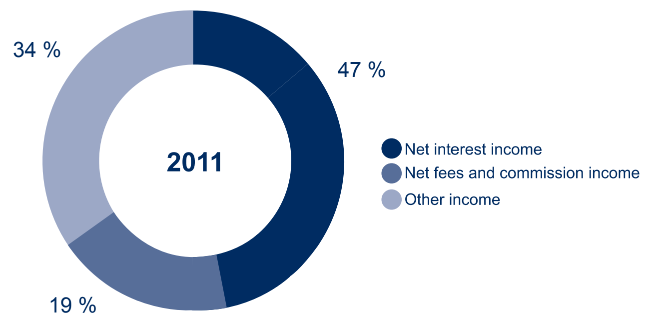
Non-interest income decreased by 24.9% in 2012 from LBP 36.9 million in 2011 down to LBP 27.8 million in 2012.
This is mainly due to the decrease in profit from trading operations.

In million of LBP	2011	2012
Net fees and commission	11,737	12,474
Net trading income	14,738	10,472
Net gain on financial investments	8,043	3,163
Other operating income	2,428	1,650
TOTAL	**36,946**	**27,758**

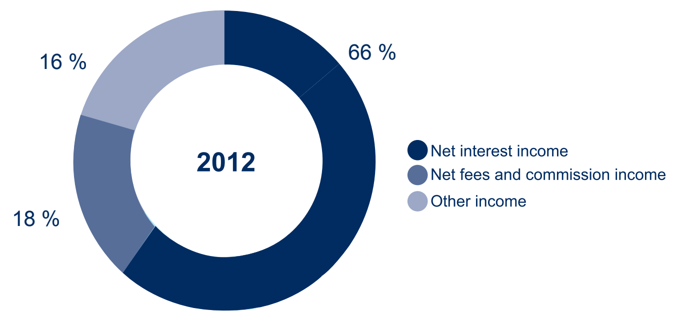
1.4 Net Operating Income

Net Operating Income registered an increase of 10.8% from LBP 61.3 billion in 2011, to LBP 67.9 billion in 2012. Where the total operating expenses registered an increase of 12.7% going up from LBP 32.3 billion in 2011, to LBP 36.4 billion in 2012.

Breakdown of Total Net Operating Income 2011



Breakdown of Total Net Operating Income 2012



Breakdown of Total Operating Expenses

In million of LBP	2011	2012
Personnel expenses	(18,447)	(21,847)
Depreciation of property and equipment	(3,569)	(3,251)
Amortization of intangible assets	(174)	0
Other operating expenses	(10,109)	(11,297)
TOTAL	**(32,299)**	**(36,395)**

LGB BANK
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2. Sources and Uses of Funds

As at December 31

In million of LBP	2011	2012	Growth Amount	%
Total assets	3,257,438	3,622,979	365,541	11.22
Customers' deposits	2,892,778	3,242,414	349,636	12.09
Loans and advances to customers (net)	1,087,001	1,371,187	284,186	26.14
Security portfolio	1,423,652	1,303,803	(119,849)	(8.42)
Total equity	263,036	286,102	23,066	8.77
Net income for the year	26,337	28,158	1,821	6.92
Dollarization of deposits	72.5%	70.4%	-	(2.1)
Dollarization of loans	85.7%	82.3%	-	(3.4)

2.1 Sources of funds

Similar to all Lebanese Banks, LGB BANK's main source of funds is Customers' Deposits, which accounted for 89.5% of its overall funding sources in 2012 compared to 88.8% in 2011.

Shareholders' Equity accounted for 7.9% in 2012 compared to 8.1% during 2011.

Breakdown of Funding Sources

As at December 31

In million of LBP	2011	%	2012	%	Growth Amount	%
Customers' Deposits	2,892,778	88.8	3,242,414	89.5	349,635	12.1
Shareholders' Equity	263,036	8.1	286,102	7.9	23,066	8.8
Banks and Financial Institutions	50,155	1.5	55,831	1.5	5,676	11.3
Other Liabilities	51,469	1.6	38,632	1.1	(12,837)	(24.9)
TOTAL	**3,257,438**	**100.0**	**3,622,979**	**100**	**365,540**	**11.2**

2.1.1 Customers' Deposits

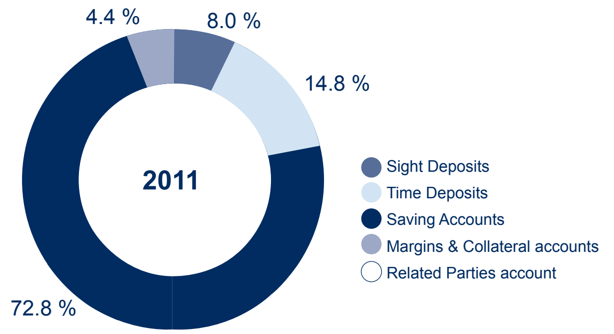
Constituting the main funding source, "Customers' Deposits" recorded a continuous growth over the years to reach LBP 3,242 billion as of December 31, 2012 representing an increase of 12.1% as compared to LBP 2,893 billion in December 31, 2011.

Deposit Distribution by Type

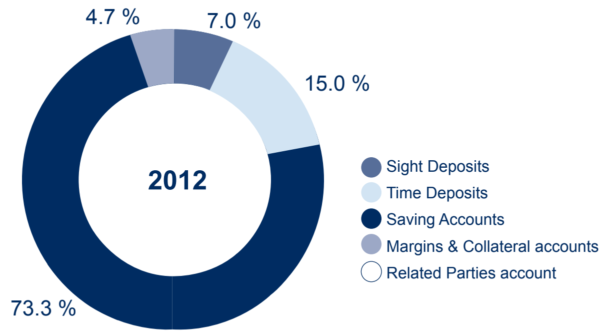
As at December 31

In million of LBP	2011	%	2012	%	Growth Amount	%
Sight Deposits	232,731	8.0	228,299	7.0	(4,432)	(1.9)
Time Deposits	427,321	14.8	486,404	15.0	59,083	13.8
Saving Accounts	2,105,697	72.8	2,375,916	73.3	270,219	12.8
Margins & collateral accounts	126,465	4.4	151,581	4.7	25,116	19.9
Related parties account	564	-	214	-	(350)	(62.1)
TOTAL	**2,892,778**	**100.0**	**3,242,414**	**100**	**349,636**	**12.1**

Deposits Distribution 2011



Deposits Distribution 2012

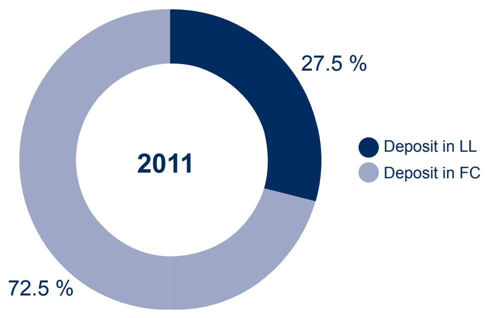


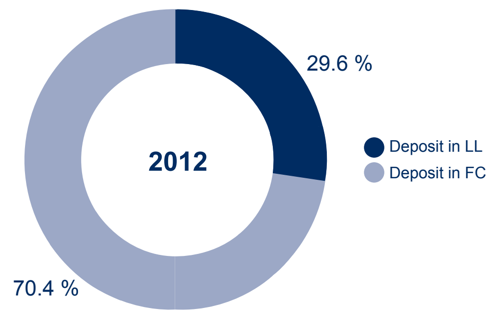
Deposit Distribution by Currency

The breakdown of deposits growth indicates that deposits denominated in LBP grew in 2012, by 21% compared to those denominated in foreign currencies which increased by 8.8%.

The "Deposits Dollarization Rate" (measured as deposits denominated in foreign currencies to total deposits) decreased from 72.5% as of December 31st, 2011 (compared to 65.9% for the banking sector) to 70.4% at the end of 2012 (compared to 64.8% for the banking sector). This has led to a fall in dollarization by around 2.1%.

Deposit distribution by currency for the years 2011 and 2012 was as follows:





2.1.2 Capitalization

The Composition of the Bank's current equity is mainly of supportive core shareholders, where they helped in maintaining our policy of retaining full earnings. These served to reinforce the capital base over the last five years.

Total capital funds increased by 8.8% year on year to USD 189.78 million at the end of 2012, maintaining its contribution to total funds to nearly 8%in 2012 and 2011.

Tier I capital alone increased by 7.8% to USD 182.92 millions at end of 2012 compared to USD 169.46 millions in 2011.
Tier I increase was mainly attributed to retained profits of the year 2012 amounting to USD 15.17 million after dividend distribution. This measure falls in line with the bank's strategy of growing organically and at a steady pace.

2.2 Uses of Funds

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

Loans and Advances to customers accounted for 37.9% from total assets in 2012 as compared to 33.4% in 2011 while Loans to Deposit ratio increased from 37.6% in 2011 to 42.3% in 2012, as per the Bank's lending policy.

The share of cash and balances with the Central Bank recorded an increase from 12.2% in 2011 to 15.6% in 2012. The share of Security Portfolio decreased from 43.1% in 2011 to 36.0% in 2012. This has resulted in a slight decrease in the Bank's total exposure to the Lebanese Government from 55.3% in 2011 to 53.5% in 2012.

As at December 31

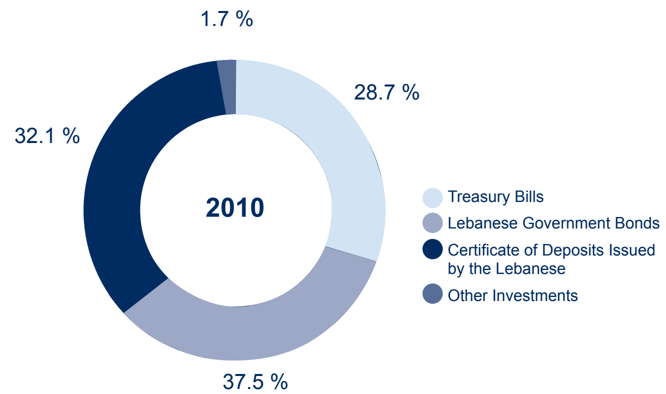
In million of LBP	2011	%	2012	%	Growth Amount	Growth %
Cash and Balances with Central Bank	396,601	12.2	567,690	15.6	171,089	43.1
Banks and Financial Institutions	237,487	7.6	268,352	7.4	30,865	13.0
Security Portfolio	1,423,652	43.1	1,303,803	36.0	(119,849)	(8.4)
Loans and Advances to Customers	1,087,001	33.4	1,371,187	37.9	284,186	26.1
Other Assets	112,697	3.7	111,947	3.1	(750)	(0.7)
TOTAL	**3,257,438**	**100.0**	**3,622,979**	**100**	**365,541**	**11.2**

2.2.1 Security Portfolio

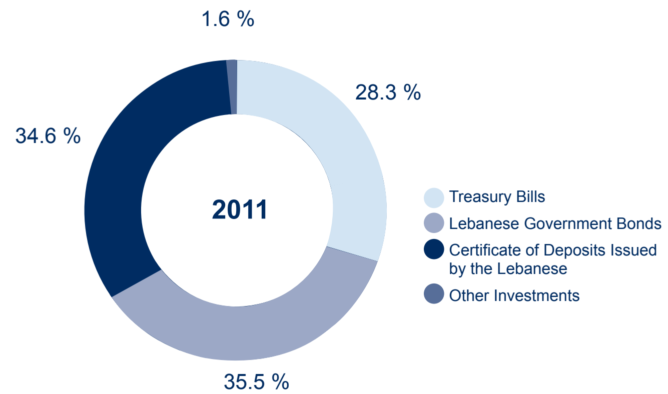
As at December 31

In million of LBP	2011	%	2012	%	Growth Amount	Growth %
Treasury Bills	407,753	28.7	368,498	28.3	(39,255)	(9.6)
Lebanese Government Bonds	534,457	37.5	462,393	35.5	(72,064)	(13.5)
Certificate of Deposits issued by the Lebanese Government	457,089	32.1	451,096	34.6	(5,993)	(1.3)
Other Investments	24,353	1.7	21,816	1.6	(2,537)	(10.4)
TOTAL	**1,423,652**	**100**	**1,303,803**	**100**	**(119,849)**	**(8.4)**

Distribution by Type 2011



Distribution by Type 2012



Distribution by Classification

As at December 31, 2011

In million of LBP	FVTPL	%	Investment in associate	%	Amortized Cost	%	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	100.0	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**

As at December 31, 2012

In million of LBP	FVTPL	%	FVTOCI	%	Amortized Cost	%	Total	%
Treasury Bills	45,880	64.9	-	-	322,618	26.4	368,498	28.3
Lebanese Government Bonds	22,933	32.5	-	-	439,460	36.0	462,393	35.4
Certificate of Deposits issued by the Lebanese Government	-	-	-	-	451,096	36.9	451,096	34.6
Others	1,799	2.6	10,936	100	9,081	0.7	21,816	1.7
TOTAL	**70,612**	**100.0**	**10,936**	**100.0**	**1,222,255**	**100.0**	**1,303,803**	**100.0**
Per Cent to Total		**5.4**		**0.8**		**93.8**		**100.0**

2.2.2 Net Loans and Advances to Customers

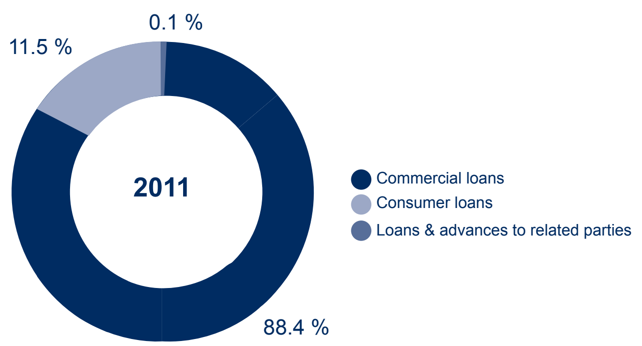
The "Loans and Advances to Customers" portfolio witnessed a significant increase of 26% during the year 2012, reaching LBP 1,371 billion compared to LBP 1,087 billion in 2011.

Following the bank's lending policy, the Bank increased its "Loan to Deposit Ratio", which stood at 42.3% at the end of 2012 compared to 37.6% at the end of 2011.

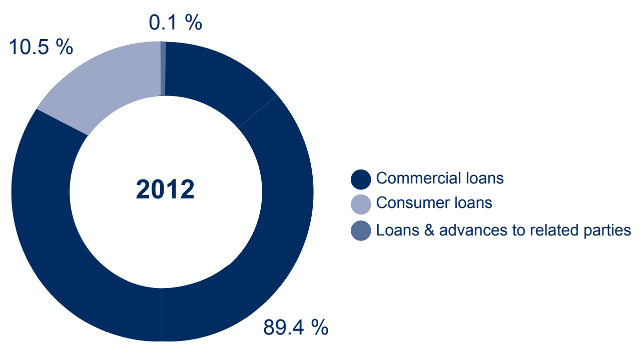
As at December 31

In million of LBP	2011	%	**2012**	%	Growth Amount	Growth %
Commercial loans	960,537	88.4	1,226,101	89.4	265,564	27.6
Consumer loans	125,079	11.5	144,084	10.5	19,005	15.2
Loans & advances to related parties	1,385	0.1	1,002	0.1	(383)	(27.7)
TOTAL	**1,087,001**	**100**	**1,371,187**	**100.0**	**284,186**	**26.1**

Loans & Advances Distribution 2011



Loans & Advances Distribution 2012



3. Risk management

The Bank's Risk Management Framework was set to ensure that credit, market, operational and other risks are managed along the lines of the industry's best practices. This framework addresses the identification, measurement and monitoring of all risks across the Bank's departments. The Bank's Chief Risk Officer assists the Board and Senior Management in setting the Bank's Risk Strategy, ensures that a qualified and professional Risk Management Team is dedicated for this task; guides stress testing and risk monitoring activities, and facilitates accurate and comprehensive reporting for timely decision making.

The Bank's Risk Management Division is an independent control function reporting directly to the Board Risk Committee and General Manager. The Risk Management Division is generally guided by the Board who sets the Bank's general strategy, which includes the overall oversight and direction of the bank's risk tolerance, controls, and limits.

The Risk Management Division has the overall responsibility of developing and implementing risk-focused policies and procedures. These management policies are regularly reviewed and, where necessary, modified 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 Risk Management Division coordinates closely with senior management and control functions, such as the Internal Audit Unit and the Compliance Unit throughout the Risk Management Process; this ensures that the Bank's primary business activities and operations are well within tolerable limits and regulatory requirements.

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

Credit Risk

The Credit Risk Management Department ensures full compliance with the board approved policies and procedures. The Department practically manages the bank's credit risk exposures by following a sound credit granting process and developing specific techniques in managing concentration risks and placing controls to mitigate these risks.

Credit risk assessment is increasingly becoming a crucial element in today's banking operations. From the basic credit review process, reliant on individualistic beliefs and perspectives, credit risk assessment is shifting towards a more systematic process, based on objective inputs and understood internal rating models that best predict default events. Driven by the need for more accurate and timely risk assessments, this upgrade is critically dependent on standardized quantitative and qualitative risk inputs.
This improvement was addressed by Moody's Risk Analyst application, a critical component of effective credit risk management, which is expected to aid LGB BANK in measuring, managing and validating obligor risk.

LGB BANK Risk Division has been working successfully on the implementation of Moody's Risk Analyst Application into LGB Bank's system by putting effective policies and business processes in place.

Market Risk

The Bank has a comprehensive and proactive market risk management approach that combines the experience and specialized knowledge of risk professionals as well as the corporate oversight functions. Our approach is designed to support a strong market risk management culture and ensure alignment with the Bank's strategic objectives.

The Market Risk Management Department (MRMD) ensures compliance with internationally accepted market practices, fulfills capital adequacy requirements, and sets risk limits by identifying, measuring, as well as monitoring market and liquidity risks. The set limits and controls have been put in place to mitigate financial and non financial risks to an acceptable level within the bank's risk appetite and are placed through our Market Risk policies and procedures, taking into consideration all BDL and BCC circulars and Basel requirements.

MRMD communicates key elements of the Bank's risk profile, both quantitatively and qualitatively, to senior management and the Board of Directors through periodic reports; it also issues investment reports that tackle the impact of interest rate and liquidity risks on individual investment opportunities, while addressing their effect on the bank's financial status.

MRMD enhances market risk measurement methodologies that support risk quantification, scenario analysis and stress testing, for its interest rate and foreign exchange rate risks. Various scenarios are performed to take into account changes in the operating environment in Lebanon and the region. The methodologies used in stress testing range from single factor to multi-factor stress tests.

The Bank places high importance on maintaining high liquidity to meet its short term needs as well as strong base of core deposits. MRMD continuously updates its Contingency Funding Plan which encompasses the stress-testing of the adequacy of the Bank's sources of funding.

Operational Risk

The Operational Risk Department is responsible for ensuring the proper formulation and implementation of the Bank's Operational Policies & Procedures and controls. It also possesses a "centralized operational loss" database by setting an identification process for Key Risk Indicators, this process was further facilitated after the installation and implementation of the Bank's archiving system.

The Operational Risk Department also carries out Risk and Control Self-Assessment workshops to better monitor each department's risk exposure, applied controls, in addition to the department's awareness of proper risk mitigation practices during daily activities.

This department also manages the Bank's Information Security and Business Continuity practices by monitoring the Bank's Information Security function and participating in the development, testing, and implementation of the Bank's Business Continuity Plan.

The Operational Risk Department also ensures that the Bank's major and unforeseen risks are properly mitigated through insurance contracts and policies.

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 are addressed in all business units.

Capital funds as per Basel III

The consolidated Basel III Capital Adequacy for the year-ending December 31st, 2012 reached 10.91% in comparison to 10.89% in 2011.

Those ratios are calculated in accordance with the Standardized Approach for Credit Risk, the Basic Indicator Approach for Operational Risk and the Standardized Measurement for Market Risk.

In Light of Basel III and the Banking Control Commission intermediate circular no.282, dated December 7th, 2011, the Bank amended its CAR calculation to include the new requirements and gradually planned to increase its Capital Adequacy Ratio "CAR" to reach 12.00% in 2015.

This is done through a greater focus on banks' own estimates of capital demand through more formalized assessment of key risks and the use of enterprise stress testing, as a complement to economic and regulatory capital.
The adequacy of capital is actively managed and monitored where the primary objective of the bank's capital management, is to ensure that the bank maintains a sufficient level of capital to exceed all regulatory requirements and to achieve a strong credit rating, while optimizing shareholder's value.

The current bank's adequate capital ratios are the result of the Bank's internal capital generation, management of the balance sheet and periodic cash injection by existing shareholders and issuance of preferred shares.

Internal Capital Adequacy Assessment Process (ICAAP)

The Risk Management Division continuously carries out updates of the Internal Capital Adequacy Assessment Process (ICAAP), along with the active engagement of the Board of Directors and other concerned entities to ensure comprehensiveness. The result of the ICAAP is communicated throughout the Bank's divisions.

The rationale of ICAAP is to facilitate the Board's mission in its 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.
To assess the overall capital adequacy, the bank considers not only quantitative techniques but also includes elements of qualitative assessment or management judgment.

The Bank has put in place a strategic plan that clearly delineates its near and longer term capital needs, capital expenditures required for the foreseeable future, target capital levels and external capital sources. It also performed rigorous and forward looking stress tests that identify plausible severe events or adverse changes in market conditions and assess their impact on the bank's capital adequacy.
The ICAAP exercise showed that the Bank has an adequate capital base to support its operations and to finance its growth in line with its strategic objectives.

4. Internal Audit

The Internal Audit Unit is a totally independent control function, 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.

5. Compliance

The Board in compliance with BDL circular 128 has put in place a Compliance framework, that reflects the principles applied to promote sound compliance practices within the Bank's different departments. These principles also demonstrate 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.

6. Anti-Money Laundering

The AML Department 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 abide by 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, which filters suspicious names from major international checklists throughout all its divisions and branches network.

7. 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 communications 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 as well as regular announcements in the media.

8. 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 with its overall business strategy. These initiatives embody the Bank's commitment to ethical standards and its appreciation of the social, environmental and economic impact of its activities on the communities in which it operates.

Auditor's Report

LGB BANK
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 2012 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 2012, 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.

25 April 2013
Beirut, Lebanon

50 Years
ANNIVERSARY

Financial Statements

LGB BANK
LEBANON & GULF BANK

For the year ended 31 December 2012

In million of Lebanese Pounds	Notes	2012	2011
Interest and similar income	3	183,491	147,965
Interest and similar expense	4	(138,740)	(119,098)
NET INTEREST INCOME		**44,751**	**28,867**
Fee and commission income	5	13,047	12,129
Fee and commission expense	5	(573)	(392)
NET FEE AND COMMISSION INCOME		**12,474**	**11,737**
Net gain from financial assets at fair value through profit or loss	6	10,471	14,738
Net gain from sale of financial assets at amortized cost	7	3,163	8,044
Other operating income	8	1,650	2,428
TOTAL OPERATING INCOME		**72,509**	**65,814**
Net Credit losses	9	(4,635)	(4,551)
NET OPERATING INCOME		**67,874**	**61,263**
Personnel expenses	10	(21,847)	(18,447)
Depreciation of property and equipment	21	(3,251)	(3,569)
Amortization of intangible assets	22	-	(174)
Other operating expenses	11	(11,297)	(10,109)
TOTAL OPERATING EXPENSES		**(36,395)**	**(32,299)**
Share of profit of an associate under equity method	19	1,136	1,561
Net loss on disposal of property and equipment		(1)	(43)
PROFIT BEFORE TAX		**32,614**	**30,482**
Income tax expense	12	(4,456)	(4,145)
PROFIT FOR THE YEAR		**28,158**	**26,337**

The attached notes 1 to 39 form part of these financial statements.

For the year ended 31 December 2012

In million of Lebanese Pounds	Notes	2012	2011
PROFIT FOR THE YEAR		**28,158**	**26,337**
Other comprehensive income (loss):			
Net unrealized income from financial assets at fair value through other comprehensive income	19	**198**	-
Share of other comprehensive loss of an associate		**-**	(24)
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX		**198**	**(24)**
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**28,356**	**26,313**

The attached notes 1 to 39 form part of these financial statements.

At 31 December 2012

In million of Lebanese Pounds	Notes	2012	2011
ASSETS			
Cash and balances with central banks	13	567,690	396,602
Due from banks and financial institutions	14	268,352	237,487
Financial assets at fair value through profit or loss	15	70,612	258,403
Net loans and advances to customers at amortized cost	16	1,370,185	1,085,616
Net loans and advances to related parties at amortized cost	17	1,002	1,385
Debtors by acceptances		29,229	39,368
Investment in an associate	18	-	9,833
Loans to banks and financial institutions		9,081	9,433
Financial assets at amortized cost	20	1,213,174	1,145,983
Financial assets at fair value through other comprehensive income	19	10,936	-
Property and equipment	21	49,579	38,959
Intangible assets	22	-	354
Assets obtained in settlement of debt	23	24,847	26,227
Other assets	24	8,292	7,789
TOTAL ASSETS		**3,622,979**	**3,257,439**
LIABILITIES AND EQUITY			
Liabilities			
Due to banks and financial institutions	25	55,832	50,155
Customers' deposits at amortized cost	26	3,242,199	2,892,214
Deposits from related parties at amortized cost	17	214	564
Engagements by acceptances		29,229	39,368
Other liabilities	27	4,223	7,835
Provisions for risks and charges	28	5,180	4,266
TOTAL LIABILITIES		**3,336,877**	**2,994,402**
Equity			
Share capital - common shares	29	97,200	97,200
Share capital - preferred shares	29	8,800	8,800
Share premium - preferred shares	29	57,554	57,554
Non distributable reserves	30	63,711	38,549
Reserves for revaluation variance - real estate		1,904	1,904
Change in fair value of financial assets at fair value through other comprehensive income	19	198	-
Retained earnings		28,577	32,693
Net results of the financial period – Profit		28,158	26,337
TOTAL EQUITY		**286,102**	**263,037**
TOTAL LIABILITIES AND EQUITY		**3,622,979**	**3,257,439**

The financial statements were authorized for issue in accordance with the resolution of the board of directors on 25 April 2013.

For the year ended 31 December 2012

In million of Lebanese Pounds	Notes	2012	2011
OPERATING ACTIVITIES			
Profit for the year before tax		32,614	30,482
Adjustments for:			
Depreciation of property and equipment	21	3,251	3,569
Amortization of intangible assets	22	-	174
Provision for employees' end of service benefits	28	1,182	78
Net credit losses	9	4,635	4,551
Loss (gain) on disposal of assets obtain in settlement of debts	8 & 11	432	(569)
Loss on disposal of property and equipment		1	43
Net gain from sale of financial assets at amortized cost	7	(3,163)	(8,044)
Share profit of associate under equity method	18	(1,136)	(1,561)
Unrealized fair value losses on financial assets at fair value through profit or loss		1,793	7,373
Provisions for risks and charges		-	(151)
Operating profit before working capital changes		39,609	35,945
Changes in operating assets and liabilities			
Financial assets given as collateral		-	9,375
Financial assets at fair value through profit or loss		185,998	59,344
Net loans and advances to customers at amortized cost		(289,204)	(191,451)
Net loans and advances to related parties at amortized cost		383	2,158
Assets obtained in settlement of debt		948	(1,508)
Other assets		(503)	(4,324)
Due to banks and financial institutions		2,178	16,069
Customers' deposits at amortized cost		349,985	416,642
Deposits from related parties at amortized cost		(350)	(2,565)
Other liabilities		(3,753)	1,338
Cash from operations		285,291	341,023
Taxes paid		(4,315)	(3,604)
Provision for risks and charges	28	(268)	(13)
Net cash from operating activities		280,708	337,406
INVESTING ACTIVITIES			
Term deposits with central banks		(151,449)	(74,881)
Financial assets at amortized cost		(64,080)	(235,623)
Loans to banks and financial institutions		352	353
Purchase of property and equipment and intangible assets		(13,706)	(2,755)
Financial assets at fair value through other comprehensive income		105	-
Proceeds from sale of property and equipment		193	26
Dividends received		126	476
Net cash used in investing activities		(228,407)	(312,404)
FINANCING ACTIVITIES			
Dividends paid	31	(5,291)	(2,095)
Net cash used in financing activities		(5,291)	(2,095)
Net effect of foreign exchange		5	25
INCREASE IN CASH AND CASH EQUIVALENTS		47,005	22,932
Cash and cash equivalents at 1 January		290,445	267,513
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	32	337,450	290,445
Operational cash flow interest and dividends			
Interest paid		136,613	118,358
Interest received		190,546	169,099
Dividends received		144	532

The attached notes 1 to 39 form part of these financial statements.

For the Year Ended 31 December 2012

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	Change in fair value of financial assets at fair value through other comprehensive income	Available- for-sale reserve	Retained earnings	Net Results of the financial period- Profit	Total equity
Balance at 1 January 2012	97,200	8,800	57,554	38,549	1,904	-	-	32,693	26,337	263,037
Appropriation of 2011 profits	-	-	-	25,162	-	-	-	1,175	(26,337)	-
Dividends distributions (note 31)	-	-	-	-	-	-	-	(5,291)	-	(5,291)
Total comprehensive income for the year 2012	-	-	-	-	-	198	-	-	28,158	28,356
Balance at 31 December 2012	**97,200**	**8,800**	**57,554**	**63,711**	**1,904**	**198**	-	**28,577**	**28,158**	**286,102**
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	-	-	-	-	-	-	-	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
Appropriation of 2010 profits	-	-	-	11,679	-	-	-	13,027	(24,706)	-
Dividends distributions (note 31)	-	-	-	-	-	-	-	(2,095)	-	(2,095)
Total comprehensive income for the year 2011	-	-	-	-	-	-	(24)	-	26,337	26,313
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

The attached notes 1 to 39 form part of these financial statements.

LGB BANK
LEBANON & GULF BANK

Notes to the Financial Statements

LGB BANK
LEBANON & GULF BANK

1- Corporate Information

Lebanon & Gulf Bank SAL (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 headquarter located in Beirut Central District, Allenby street, Beirut, Lebanon, and its branches in Lebanon, a foreign branch in Larnaca (Cyprus).

On 14 March 2013, the Central Bank of the United Arab Emirates licensed the Bank to open a representative office in Dubai. This license is valid for 5 years. The representative office conducted its business starting from the above date.

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 financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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

The financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest million (LL million) except when otherwise indicated, 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 notes.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. This is not generally the case with master netting agreements, therefore the related assets and liabilities are presented gross in the statement of financial position. 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 policies and disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS effective as of 1 January 2012:

IFRS 7 Financial Instruments: Disclosures — Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Bank’s financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about the entity’s continuing involvement in derecognised assets to enable the users to evaluate the nature of, and risks associated with, such involvement. The amendment is effective for annual periods beginning on or after 1 July 2011. The Bank does not have any assets with these characteristics so there has been no effect on the presentation of its financial statements.

2.3 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 financial 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.

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

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**

2.4 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 net gain on hedge of net investment, exchange differences on translation of foreign operations and net movement on cash flow hedges) would be presented separately from items that will never be reclassified (for example actuarial gains and losses on defined benefit plans, revaluation of land and buildings and net loss or gain on financial assets at fair value through OCI). 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 (Revised)
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 Bank is currently assessing the impact that this standard will have on its financial position and performance, but based on the preliminary analysis, no material impact is expected. These amendments become effective for annual periods beginning on or after 1 January 2013.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)
As a consequence of the new IFRS 11 Joint Arrangements and IFRS 12 Disclosure of Interests in Other Entities, IAS 28 Investments in Associates 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 Bank is currently assessing the impact that this standard will have on its financial position and performance but based on the preliminary analysis, no material impact are expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32
These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2014.

IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7
These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. These amendments will not impact the Bank's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements
IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-Controlled Entities — Non-monetary Contributions by Venturers. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. IFRS 11 is not expected to impact the Bank financial position or performance and becomes effective for annual periods beginning on or after 1 January 2013.

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. This standard will require the Bank to review its fair value measurement policies across all assets and liabilities classes. The Bank is currently assessing the impact that this standard will have on its financial position and performance, but based on the preliminary analysis, no material impact is expected. This standard becomes effective for annual periods beginning on or after 1 January 2013.

Annual Improvements May 2012
These improvements will not have an impact on the Bank, but include:

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

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

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

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

2.5 Summary of significant accounting policies

Foreign currency translation
The financial statements are presented in Lebanese Lira, 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 spot 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 from 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 recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss respectively).

(ii) Overseas branches
As at the reporting date, the assets and liabilities of overseas branches are translated into the Bank's presentation currency at the rate of exchange as at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

Financial instruments – classification and measurement
(i) Date of recognition
All financial assets and liabilities are initially recognised 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. 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 amortised 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 bases. An entity is required to disclose such financial assets separately from those mandatorily measured at fair value.

Financial assets at amortised cost

Debt instruments are subsequently measured at amortised 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; and
- 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 recognised 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, these financial assets are measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or 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 recognised 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 financial assets.

Gains and losses arising from the derecognition of financial assets measured at amortised cost are reflected under “Net gain from sale of financial assets at amortised cost” in the income statement.

Balances with central banks, due from banks and financial institutions, net loans and advances to customers and related parties and loans to banks and financial institutions– at amortised cost

After initial measurement, “Balances with central banks”, “Due from banks and financial institutions”, “Net loans and advances to customers”, “Net loans and advances to related parties” and “Loans to banks and financial institutions” are subsequently measured at amortised cost using the Effective Interest Rate (EIR), less allowance for impairment. Amortised 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 amortisation is included in ‘Interest and similar income’ in the income statement. The losses arising from impairment are recognised in the income statement in “Net credit losses”.

Financial assets at fair value through profit or loss

Included in this category are those debt instruments that do not meet the conditions in “Amortised cost” above, and debt instruments designated at fair value through profit or loss upon initial recognition and equity instruments at fair value through profit or loss.

i. Debit instruments at fair value through profit or loss

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 from 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 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 showing separately, those related to financial assets designated at fair value upon initial recognition from those mandatorily measured at fair value.

ii. 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 from financial assets at fair value through profit or loss” in the 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.

Financial assets 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 transaction costs. Subsequently, they are measured at fair value, with gains and losses arising from changes in fair value recognised 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 recognised under “Revenues from financial assets 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.

b. Financial liabilities

Liabilities are initially measured at fair value plus, in the case of a financial liability not at fair value through profit or loss, particular transaction costs. Liabilities are subsequently measured at amortised cost or fair value.

The Bank classifies all financial liabilities as subsequently measured at amortised 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 recognised less, when appropriate, cumulative amortisation recognised in accordance with IAS 18 Revenue.

Fair value option

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; or

- a group of financial liabilities or financial assets and financial 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 recognised 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.

As at 31 December 2012 and 2011, there are no financial liabilities designated at fair value through profit or loss by the Bank except for derivative financial instruments. Financial liabilities measured at amortized cost consist of 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 amortised cost less amounts repaid using the effective interest rate method. Amortised cost is calculated by taking into account any discount 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 recognised in “Net gain from financial assets at fair value through profit or loss” in the income statement.

The Bank uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities.

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 recognised in “Net gain from financial assets at fair value through profit or 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 recognised 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 recognised in the income statement when the inputs become observable, or when the instrument is derecognised.

(iv) Reclassification of financial assets

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 recognised 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 recognised in profit or loss. If a financial asset is reclassified so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

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 derecognised 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 recognised 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 derecognised 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 recognised in the income statement.

Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position 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 costs.

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. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models, credit models and other relevant valuation models. Also, profit or loss calculated when such financial instruments are first recorded ("Day 1" profit or loss) is deferred and recognized only when the inputs become observable or on derecognition of the instrument.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in the notes.

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 at amortised cost

For financial assets at amortised cost, 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, recognised 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 recognised 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 realised 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 recognised; the previously recognised 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. 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 of obtaining and selling the collateral, whether or not the 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) 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.

(iii) Collateral valuation
The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and periodically updated based on the Bank's policies and type of collateral.

To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market value are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties, such as independent accredited experts and other independent sources.

(iv) Collateral repossessed
The Bank occasionally acquires properties in settlement of loans and advances. Upon initial recognition, those assets are measured at fair value as approved by the regulatory authorities. Subsequently these properties are measured at the lower of carrying value or net realisable value.

Upon sale of repossessed assets, any gain or loss realized is recognized in the income statement under "Other operating income" or "Other operating expenses". Gains resulting from the sale of repossessed assets are transferred to "Reserves for capital increase" in the following financial year.

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.

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. 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, both at inception and at each quarter end on an ongoing basis. 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% and are expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in "Net gain from financial assets at fair value through profit or loss". 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 recognised in the income statement in "Net gain from financial assets at fair value through profit or loss". 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 in the statement of financial position and is also recognised in "Net gain from financial assets at fair value through profit or loss" in the income statement.

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 discontinued prospectively. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate (EIR) method. If the hedged item is derecognised, the unamortised fair value adjustment is recognised 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 recognised directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised 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, exercised, 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 recognised when the hedged forecast transaction is ultimately recognised 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.

Leasing
The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and 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 recognised as an expense in the income statement on a straight line basis over the lease term. Contingent rental payable are recognised 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 recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Recognition of income and expenses
Revenue is recognised 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 recognised.

(i) Interest and similar income and expense
For all financial instruments measured at amortised cost, 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 and the change in the carrying amount is recorded as "Interest and similar income" for financial assets and "Interest and similar expense" for financial liabilities.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continue to be recognised using the rate of interest used to discount the future cash flows for 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 recognised as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognised 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 recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

(iii) Dividend income
Dividend income is recognised when the right to receive the payment is established.

(iv) Net gain from financial assets at fair value through profit or 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.

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 cost of replacing part of the property and equipment. When significant parts of property and equipment are required to be replaced at intervals, the Bank recognises such parts as individual assets with specific useful lives and depreciates them accordingly. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised 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 derecognised 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 recognised in "Net loss on disposal of property and equipment" in the year the asset is derecognised.

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

Intangible assets
An intangible asset is recognised 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 amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation 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 amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement.

Amortisation 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 recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. 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 recognised for the asset in prior years. Such reversal is recognised in the income statement.

Provisions for risks and charges
Provisions are recognised when the Bank 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 income statement net of any reimbursement.

Employees' end of service benefits
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.

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 entity 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 recognised 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 recognised 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 recognised 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 utilised.

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. Unrecognised deferred tax assets are reassessed at each statement of financial position date and are recognised 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 realised 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 recognised directly in equity are also recognised 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.

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 recognised 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 recognised less, when appropriate, cumulative amortization recognised 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 in "Net credit losses". The premium received is recognised in the income statement on a straight line basis over the life of the guarantee in "Net fees and commission income".

Assets held in custody and under administration
The Bank provides custody and administration services that result in the holding or investing of assets on behalf of its clients. Assets held in custody or under administration, are not treated as assets of the Bank and accordingly are recorded as off financial position items.

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

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

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.

2.6 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 recognised 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. The valuation of financial instruments is described in more details in the notes.

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 judgments 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).

Deferred tax assets
Deferred tax assets are recognised 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 recognised, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

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

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

Contractual cash flows of financial assets
The Bank exercises judgment in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortised cost measurement. In making 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.

3- Interest & Similar Income

In million of Lebanese Pounds	2012	2011
Financial assets at amortized cost	**87,964**	79,892
Deposits and similar accounts with banks and financial institutions	**15,549**	7,093
Net loans and advances to customers at amortized cost	**79,911**	60,943
Net loans and advances to related parties at amortized cost	**67**	37
	183,491	147,965

4- Interest & Similar Expense

In million of Lebanese Pounds	2012	2011
Deposits and similar accounts from banks and financial institutions	**1,902**	1311
Deposits from customers and other credit balances	**136,744**	117,704
Deposits from related parties	**94**	83
	138,740	119,098

5- Net Fee & Commission Income

In million of Lebanese Pounds	2012	2011
Fee and commission income:		
Credit related fees and commission	**7,952**	6,080
Trade finance	**2,921**	3,380
General banking income	**1,633**	1,665
Electronic banking	**513**	951
Other services	**28**	53
	13,047	12,129
Fee and commission expense:		
Correspondents' accounts	**(573)**	(392)
Net fee and commission income	**12,474**	11,737

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

In million of Lebanese Pounds	2012	2011
Equities	**1,791**	(56)
Debt securities	**6,594**	12,374
Foreign exchange	**2,086**	2,420
	10,471	14,738

"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 and the revaluation of the daily open trading position.

7- Net Gain From Sale Of Financial Assets At Amortized Cost

In million of Lebanese Pounds	2012	2011
Net gain from sale of debt instruments at amortized cost	**3,163**	8,044

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	2012	
	Gains	Net
Lebanese sovereign and Central Bank of Lebanon		
Eurobonds	**3,163**	3,3,163

In million of Lebanese Pounds	2011	
	Gains	Net
Lebanese sovereign and Central Bank of Lebanon		
Central Bank's certificates of deposits	**7,144**	7,144
Treasury bills	**811**	811
Eurobonds	**89**	89
	8,044	8,044

8- Other Operating Income

In million of Lebanese Pounds	2012	2011
Gain from sale of assets taken in recovery of bad debts	**-**	569
Other income	**1,650**	1,859
	1,650	2,428

9- Credit Losses

In million of Lebanese Pounds	2012	2011
Charges for the year:		
Provision for doubtful loans and advances (note 16)	(5,975)	(7,159)
Bad debts written-off	-	(119)
Recoveries during the year:		
Write-back of provisions for loans and advances (note 16)	1,167	2,530
Unrealized interest on loans and advances to customers (note 16)	173	197
	(4,635)	(4,551)

10- Personnel Expenses

In million of Lebanese Pounds	2012	2011
Salaries and related charges	15,154	13,418
Social security contributions	2,049	1,853
Provision for end of service indemnity (note 28)	1,182	78
Additional allowances paid	3,462	3,098
	21,847	18,447

11- Other Operating Expenses

In million of Lebanese Pounds	2012	2011
Fees for guarantee of deposits	1,186	1,025
Professional fees	1,173	1,274
Maintenance and repairs	1,123	836
Marketing and advertising	813	855
Postage and telecommunications	789	758
Travel expenses	615	773
Electricity and fuel	561	586
Rent and related charges	473	238
Board of directors' attendance fees	468	420
Net loss on disposal of assets obtained in settlement of debt	432	-
Stationary and printings	393	390
Donations	350	348
Taxes and fees	158	207
Insurance	181	172
Subscriptions & fees	740	670
Others	1,842	1,557
	11,297	10,109

12- IncomeTax

The components of income tax expense for the years ended 31 December 2012 and 2011 are detailed as follows:

In million of Lebanese Pounds	2012	2011
Current tax		
5% tax paid on interest revenue during the year	3,218	3,048
Income tax on profit for the year	1,238	1,097
	4,456	4,145

A reconciliation between the tax expense and the accounting profit for the years ended 31 December 2012 and 2011 is as follows:

In million of Lebanese Pounds	2012	2011
Accounting profit before income tax	32,614	30,482
Less:		
Share of profit of associate under equity method	(1,186)	(1,56130)
Dividends received and previously subject to income tax	(126)	(56)
Non taxable income	(1,595)	(20)
Taxable profit	29,707	28,845
Effective income tax rate	13.66%	13.60%
Income tax expense	4,456	4,145

13- Cash & Balances with Central Banks

In million of Lebanese Pounds	2012	2011
Cash on hand	14,821	11,340
Current accounts with Central Banks	61,486	66,006
Deposits with the Central Banks	491,383	319,256
	567,690	396,602

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 Lira 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 50,584 million at 31 December 2012 (2011: LL 32,306 million).

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon placements equivalents to 15% of total deposits in foreign currencies regardless of their nature. These placements amounted to US$ 227,075 (equivalent to LL 342 million) as at 31 December 2012 (2011: US$ 207,589 equivalent to LL 313 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	2012	2011
Checks for collection	**21,272**	22,932
Current accounts	**100,727**	214,555
Term accounts	**146,353**	-
	268,352	237,487

15- Financial Assets at Fair Value throuh profit or loss

In million of Lebanese Pounds	2012	2011
Government debt securities	**68,813**	253,316
Other debt securities	**-**	3,959
Equity instruments	**1,799**	1,128
	70,612	258,403

16- Net Loans and Advances to Customers at amortized cost

In million of Lebanese Pounds	2012	2011
Commercial loans	**1,286,909**	1,016,620
Consumer loans	**145,267**	125,079
	1,432,176	1,141,699
Less:		
Allowance for impairment losses	**(56,657)**	(53,941)
Allowance for unrealized interest on impaired loans	**(5,334)**	(2,142)
	(1,370,185)	1,085,616

In accordance with the Banking Control Commission Circular No. 240, impaired loans fulfilling certain conditions have been transferred to off financial position, together with the related allowance for impairment losses provisions and allowance for unrealized interest. The gross balance of these loans amounted to LL 2,028 million as of 31 December 2012 (2011: nil).

Impairment allowance for loans and advances to customers at amortized cost

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	2012	2011
Balance at 1 January	**53,941**	49,379
Add:		
Charge for the year (note 9)	**5,975**	7,159
Foreign exchange difference	**15**	-
	59,931	56,538
Less:		
Provisions written-off	**(2,107)**	(67)
Write-back of provisions (note 9)	**(1,167)**	(2,530)
Balance at 31 December	**56,657**	53,941
Individual impairment	**48,857**	47,161
Collective impairment	**7,800**	6,780
	56,657	53,941
Gross amount of loans individually determined to be impaired	**82,650**	75,174

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

In million of Lebanese Pounds	2012	2011
Balance at 1 January	**2,142**	1,223
Add:		
Unrealized interest for the year	**3,455**	1,118
Foreign exchange difference	**17**	(2)
	5,614	2,339
Less:		
Recoveries of unrealized interest (note 9)	**(173)**	(197)
Amounts written-off	**(107)**	-
	(280)	(197)
Balance at 31 December	**5,334**	2,142

In million of Lebanese Pounds	2012	2011
Unrealized interest on substandard loans	**2,126**	1,279
Unrealized interest on doubtful loans	**2,206**	769
Unrealized interest on bad loans	**1,002**	94
	5,334	2,142

17- Related Party Transactions

Related parties of the Bank include Key Management Personnel of the Bank, close family members of Key Management Personnel and entities controlled or jointly controlled by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including the Directors of the Bank.

Entities under common directorships are defined as those entities for which members of the Bank's board or Key Management Personnel also serve as directors.

Terms and conditions of transactions with related parties
The Bank enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates.

The following table provides the total amount of transactions and the amount of outstanding balances (including commitments) with related parties for the relevant financial year

In million of Lebanese Pounds	2012		2011	
	Oustanding Banlance	Income (expense)	Oustanding Banlance	Income (expense)
Key Management Personnel				
Net loans and advances	**921**	**38**	1,385	37
Deposits	**133**	**(94)**	499	(83)
Guarantees given	**-**	**-**	4	-
Entities under common directorships				
Net loans and advances	**81**	**29**	-	-
Deposits	**81**	**-**	65	-
Guarantees given	**657**	**-**	671	-

Compensation of the Key Management Personnel of the Bank

In million of Lebanese Pounds	2012	2011
Short-term benefits[1]	**991**	960

[1] Short-term benefits comprise of salaries, bonuses, attendance fees and other short-term benefits to Key Management Personnel.

- During the year ended 31 December 2012, the Bank paid attendance fees to the members of the board of directors amounting to LL 468 million (2011: LL 420 million);
- During the year ended 31 December 2012, the Bank received dividends amounting to LL 126 million (2011: LL 476 million) from CSC Bank SAL.

18- Investment in an Associate

In million of Lebanese Pounds		2012			2011		
	Country of incorporation	Ownership %	No of shares	Amount	Ownership %	No of shares	Amount
CSC Bank SAL	**Lebanon**	-	-	-	10.00	300,000	9,833

During 2012, the Bank had ceased to have significant influence due to a change in circumstances. The Bank discontinued using the equity method on the date when it had lost that influence.

The following table illustrates the summarized financial information of this investment as of the date when it ceased to be an investment in an associate (2011: 31 December):

In million of Lebanese Pounds	2012	2011
Bank's share of the associate's statement of financial position:		
Assets	**29,321**	26,768
Liabilities	**(18,583)**	(16,935)
Net assets	**10,738**	9,833
Bank's share of the associate's revenues and profits:		
Revenues	**3,356**	4,219
Profits	**1,136**	1,561

19- Financial assets at fair value through other comprehensive income

During 2012, the Bank lost significant influence of its investments in CSC Bank SAL due to a change in circumstances. Accordingly; the management reclassified its investment form an investment in an associate (note 18) to financial assets at fair value through other comprehensive income. During the year, an unrealized revaluation gain amounting LL 198 million was recognized in the Bank's other comprehensive income.

20- Financial Assets at Amortized Cost

In million of Lebanese Pounds	2012	2011
Quoted financial investments		
Government debt securities	**439,460**	439,047
Unquoted financial investments	**451,096**	457,089
Central Bank's certificates of deposits	**322,618**	249,847
Government debt securities	**773,714**	896,136
	1,213,174	1,145,983

21- Property & Equipment

In million of Lebanese Pounds	Freehold land and buildings	Vehicles	Furniture, office installations and computer equipment	Advances on fixed assets	Total
Cost :					
At 1 January 2012	28,913	1,984	31,182	-	62,079
Additions	-	19	3,033	10,650	13,702
Disposals	-	(45)	(64)	-	(109)
Transfers	-	-	201	-	201
Write offs	-	(9)	(110)	-	(119)
Translation difference	1	2	14	-	17
At 31 December 2012	**28,914**	**1,951**	**34,256**	**10,650**	**75,771**
Depreciation:					
At 1 January 2012	3,516	624	18,980	-	23,120
Charge for the year	456	189	2,606	-	3,251
Relating to disposals	-	(13)	(63)	-	(76)
Relating to write offs	-	(5)	(110)	-	(115)
Translation difference	3	1	8	-	12
At 31 December 2012	**3,975**	**796**	**21,421**	**-**	**26,192**
Net carrying amount:					
At 31 December 2012	**24,939**	**1,155**	**12,835**	**10,650**	**49,579**

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	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

22- Intangible Assets

In million of Lebanese Pounds	Computer license	Key money	Other intangible assets	Total
Cost:				
At 1 January 2012	637	225	1,157	2,019
Additions	-	-	4	4
Transfers	-	-	(358)	(358)
Write offs	**(637)**	**(225)**	**(783)**	**(1,645)**
At 31 December 2012	-	-	20	20
Amortization:				
At 1 January 2012	637	225	803	1,665
Write offs	(637)	(225)	(783)	(1,645)
At 31 December 2012	-	-	20	20
Net carrying amount:				
At 31 December 2012	-	-	-	-

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	-	-	(45)	(45)
Translation difference	-	-	(14)	(14)
At 31 December 2011	637	225	1,157	2,019
Amortization:				
At 1 January 2011	527	225	739	1,491
Charge for the year	110	-	64	174
At 31 December 2011	637	225	803	1,665
Net carrying amount:				
At 31 December 2011	-	-	354	354

23- Assets obtained in settlement of debt

In million of Lebanese Pounds	2012	2011
Net carrying amount:		
At 1 January	**26,227**	24,150
Additions	**1,205**	4,451
Disposals	**(2,623)**	(2,327)
Translation difference	**38**	(47)
At 31 December	**24,847**	26,227

During 2012, the Bank did not take possession of properties in lieu of debt. This balance consists of rehabilitation and formality fees.

24- Other Assets

In million of Lebanese Pounds	2012	2011
Deposits for auctions against assets to be obtained in settlement of debt	**4,479**	4,479
Prepayments	**2,093**	1,838
Due from National Social Security Fund	**1,435**	1,051
Others	**285**	421
	8,292	7,789

25- Due to Banks & Financial Institutions

In million of Lebanese Pounds	2012	2011
Current accounts	**3,825**	20,147
Time deposits	**52,007**	30,008
	55,832	50,155

26- Customers’ Deposits at Amortized Cost

In mllion of Lebanese Pounds	2012	2011
Sight deposits	**228,165**	232,588
Time deposits	**486,403**	427,322
Saving accounts	**2,375,838**	2,105,407
Credit accounts and deposits against debit accounts	**144,091**	116,301
Margins on letters of credit	**7,702**	10,596
	3,242,199	2,892,214

Customers’ deposits include coded deposit accounts amounting to LL 19,710 million as of 31 December 2012 (2011: LL 9,223 million).

27- Other Liabilities

In million of Lebanese Pounds	2012	2011
Sundry creditors	**2,155**	1,291
Due to National Social Security Fund	**255**	209
Accrued expenses and other regularization accounts	**231**	289
Taxes payable	**1,582**	6,046
	4,223	7,835

28- Provisions for Risks & Charges

In million of Lebanese Pounds	2012	2011
Provision for employees’ end of service benefits	**5,002**	4,088
Net trading foreign exchange position	**75**	75
Commitments by signature	**53**	53
Structural exchange position	**50**	50
	5,180	4,266

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

In million of Lebanese Pounds	2012	2011
Balance at 1 January	**4,088**	4,023
Charge for the year (note 10)	**1,182**	78
Benefits paid	**(268)**	(13)
Balance at 31 December	**5,002**	4,088

29- Share Capital & Premiums

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

In million of Lebanese Pounds	2012		2011	
	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 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.

- 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 US$ 105 and US$ 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.

30- 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 2012	16,737	1,280	4,633	2,603	13,296	38,549
Appropriation of 2011 profits	4,700	569	4,348	1,706	13,839	25,162
At 31 December 2012	**21,437**	**1,849**	**8,981**	**4,309**	**27,135**	**63,711**

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

Reserves for general banking risks
According to the Bank of Lebanon's 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-balance sheet 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 by the year 2017 and 2 percent by the year 2027. This reserve is part of the Bank's equity and is not available for distribution.

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 26 June 2012 (2011: 12 July 2011), an amount of LL 13,839 million (2011: LL 4,432 million) has been appropriated to the reserve for the redemption of preferred shares (issue 2007 and 2010).

31- Dividends Declared and Paid

According to the Ordinary General Assembly of Shareholders held on 26 June 2012 (2011: 12 July 2011), dividends amounting to LL 5,291 million were declared and paid to the preferred shares holders (2011: LL 2,095 million).

32- Cash & Cash Equivalents

In million of Lebanese Pounds	2012	2011
Cash and balances with central banks	**99,665**	80,026
Deposits with banks and financial institutions (whose original maturities are less than 3 months)	**268,352**	237,487
	368,017	317,513
Less:		
Due to banks and financial institutions (whose original maturities are less than 3 months)	**(30,567)**	(27,068)
	337,450	290,445

33- Derivative Financial Instruments

The following table 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	2012			2011		
	Assets	Liabilities	Total notional amount	Assets	Liabilities	Total notional amount
Held for trading						
Forward foreign exchange contracts	**69**	**69**	**5,618**	131	131	7,302

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.

Swaps
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

Derivative financial instruments held or issued for trading purposes
Most of the Bank's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties. The Bank may also take positions with the expectation of profiting from favourable movements in prices, rates or indices. Also included under this classification are any derivatives entered into for risk management purposes that do not meet the IAS 39 hedge accounting criteria.

34- Contingent Liabilities & Commitments

Credit-related commitments and contingent liabilities
To meet the financial needs of customers, the Bank enters into various commitments, guarantees and other contingent liabilities, which are mainly credit-related instruments including both financial and non-financial guarantees and commitments to extend credit. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Bank. The table below discloses the nominal principal amounts of credit-related commitments and contingent liabilities. Nominal principal amounts represent the amount at risk should the contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being withdrawn, the total of the nominal principal amount is not indicative of future liquidity requirements.

In million of Lebanese Pounds			2012
	Banks	Customers	Total
Guarantee and contingent liabilities			
Financial guarantees	6,165	50,847	**57,012**
Non-financial guarantees	-	40,208	**40,208**
	6,165	91,055	**97,220**
Commitments			
Documentary credits	8,681	22,474	**31,155**
Undrawn credit lines	-	90,159	**90,159**
	8,681	112,633	**121,314**

In million of Lebanese Pounds			2011
	Banks	Customers	Total
Guarantees and contingent liabilities			
Financial guarantees	6,165	53,903	**60,068**
Non-financial guarantees	-	45,335	**45,335**
	6,165	99,238	**105,403**
Commitments			
Documentary credits	8,860	23,608	**32,468**
Undrawn credit lines	-	44,311	**44,311**
	8,860	67,919	**76,779**

Guarantees
Guarantees are given as security to support the performance of a customer to third parties. The main types of guarantees provided are:
- Financial guarantees given to banks and financial institutions on behalf of customers to secure loans, overdrafts, and other banking facilities; and
- Other guarantees are contracts that have similar features to the financial guarantees contracts but fail to meet the strict definition of a financial guarantee contract under IFRS. These include mainly performance and tender guarantees.

Documentary credits
Documentary credits commit the Bank to make payments to third parties, on production of documents, which are usually reimbursed immediately by customers.

Undrawn credit lines and other commitments
Undrawn credit lines and other commitments to lend are agreements to lend a customer in the future, subject to certain conditions. Such commitments are either made for a fixed period, or have no specific maturity but are cancellable by the lender subject to notice requirements.

Legal claims
Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Bank has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Bank makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Bank had several unresolved legal claims. Based on advice from legal counsel, management believes that legal claims will not result in any material financial loss to the Bank.

Lease arrangements
The Bank does not have material capital expenditures and operating lease payments that were not provided for as of the statement of financial position date (2011: the same).

Other contingencies
The Bank's books for the years 2010 till 2012 remain subject to review by the tax authorities. The ultimate outcome of such review 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.

35- 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; and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

31 December 2012

In million of Lebanese Pounds	Level 1	Level 2	Total
Financial assets			
Derivative financial instruments:			
Forward foreign exchange contracts	-	69	69
	-	69	69
Equity instruments at fair value through profit or loss:			
Quoted equities	329	-	329
Unquoted equities	-	1,470	1,470
	329	1,470	1,799
Debt instruments and other financial assets at fair value through profit or loss:			
Government debt securities	22,933	45,880	68,813
	22,933	45,880	68,813
Financial assets at fair value through other comprehensive income	-	10,936	10,936
	-	10,936	10,936
	23,262	58,335	81,617
Financial liabilities:			
Derivative financial instruments:			
Forward foreign exchange contracts	-	69	69
	-	69	69

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 or loss:			
Quoted equities	856	-	856
Unquoted equities	-	272	272
	856	**272**	**1,128**
Debt instruments and other financial assets at fair value through profit or 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

There were no transfers between levels during 2012 (2011: the same).

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 or 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	2012		2011	
	Carrying value	Fair value	Carrying value	Fair value
Financial assets				
Cash and balances with central banks	**567,690**	**567,690**	396,602	396,602
Due from banks and financial institutions	**268,352**	**268,352**	237,487	237,487
Net loans and advances to customers at amortized cost	**1,370,185**	**1,370,185**	1,085,616	1,085,616
Net loans and advances to related parties at amortized cost	**1,002**	**1,002**	1,385	1,385
Loans to banks and financial institutions	**9,081**	**9,081**	9,433	9,433
Financial assets at amortized cost	**1,213,174**	**1,248,035**	1,145,983	1,203,095
Central Bank's certificates of deposits	**451,096**	**466,088**	457,089	481,502
Government debt securities	**762,078**	**781,947**	688,894	721,593
Investment in an associate	**-**	**-**	9,833	9,833
Financial liabilities				
Due to banks and financial institutions	**55,832**	**55,832**	50,155	50,155
Customers' deposits at amortized cost	**3,242,199**	**3,242,199**	2,892,214	2,892,214
Deposits from related parties at amortized cost	**214**	**214**	564	564

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 amortised cost are estimated by comparing market interest rates when they were first recognised 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, 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 recognised.

36- 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 2012 is as follows:

In million of Lebanese Pounds	Less than one year	More than one year	Total
ASSETS			
Cash and balances with central banks	208,422	359,268	**567,690**
Due from banks and financial institutions	268,352	-	**268,352**
Financial assets at fair value through profit or loss	8,763	61,849	**70,612**
Net loans and advances to customers at amortized cost	862,895	507,290	**1,370,185**
Net loans and advances to related parties at amortized cost	1,002	-	**1,002**
Debtors by acceptances	29,229	-	**29,229**
Loans to banks and financial institutions	-	9,081	**9,081**
Financial assets at amortized cost	86,686	1,126,488	**1,213,174**
Financial assets at fair value through other comprehensive income	-	10,936	**10,936**
Property and equipment	-	49,579	**49,579**
Assets obtained in settlement of debt	-	24,847	**24,847**
Other assets	3,813	4,479	**8,292**
TOTAL ASSETS	1,469,162	2,153,817	**3,622,979**
LIABILITIES			
Due to banks and financial institutions	55,832	-	**55,832**
Customers› deposits at amortized cost	3,242,122	77	**3,242,199**
Related parties' deposits	214	-	**214**
Engagements by acceptances	29,229	-	**29,229**
Other liabilities	4,223	-	**4,223**
Provision for risks and charges	-	5,180	**5,180**
TOTAL LIABILITIES	3,331,620	5,257	**3,336,877**
NET	(1,862,458)	2,148,560	**286,102**

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 at fair value through profit or loss	43,890	214,513	**258,403**
Net loans and advances to customers at amortized cost	689,099	396,517	**1,085,616**
Net 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**
Loans to banks and financial institutions	-	9,433	**9,433**
Financial assets at amortized cost	63,479	1,082,504	**1,145,983**
Property and equipment	-	38,959	**38,959**
Intangible assets	-	354	**354**
Assets obtained in settlement of debt	-	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**

37- 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 SAL.

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 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". 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.

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 include 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.

37-1 Credit Risk

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; and
- The required actions for analyzing and organizing credit files.

Credit initiation and approval
Credit granting comprises the identification of suitable business to include in the portfolio and the best approaches to capture it. The process begins at the Board level by developing the Bank strategy. Once the strategy is approved, the Senior Management executes it. The Board does not interfere with the execution process, but observes and monitors the execution of the strategy to ensure its proper implementation, as per its guidelines.
The Bank is essentially split into two parts: (1) the one that generates the business, and (2) the one that monitors and ensures that this business is in line with the strategy of the Bank. And accordingly, the credit processing stage is governed by three major steps, namely:

a) Business Origination Unit: This centralized Unit is the generator of the business and includes all the relationship officers and analysts that liaise with clients. The main function of this Unit is to identify, analyze and recommend potential clients and the suitable facilities to these clients.

In essence, the Business Origination Unit is the engine of the Bank that creates the requisite business and manages it in a manner to ensure that sufficient profitability is attained to compensate the Bank for the operating expenses and risks taken. The Business Origination Unit benefits directly from risk adjusted profits generated from clients, as such, has a vested interest in ensuring that credits are passed and processed quickly.

For internal fraud avoidance, the Client Relationship and the Transaction Processing sides of the Business Origination Unit are managed and controlled separately with sufficient Chinese walls to allow the Business Origination Unit head to function efficiently.

b) Credit Control and Review Unit: For each recommended credit, a separate independent Unit called the Control and Review Unit will examine it to ensure that the analysis and recommendations are in line with the Bank's Policies and Procedures Guidelines. This Unit acts on behalf of the Credit Committee to guarantee the sanctity of the credit granting process.

c) Credit Committee: The credit is finally passed on to the Credit Committee, which approves or disapproves the credit based on various parameters. Should the credit be approved, the Credit Administration Unit, which acts as a separate clerical control function and custodian of the credit requisite documentation and limits, enters the credit's characteristics and features into the Bank's core system.

Any amendments to the granted credits, renewals, or any excess to the approved limit need a special approval based on a predefined credit grid. The grid assigns approval levels based primarily on the riskiness of the credit, nature of credit and the credit's risk exposure. The delegation of authority involves the allocation of such limits to designated credit functionaries within the Bank. Such functionaries hold independent positions, but caution is exercised to ensure that a functionary cannot recommend, approve and/or process credits singularly.

Loan follow up and monitoring
The Bank's Risk Management is designed to identify and set appropriate risk limits and to monitor the risk adherence to these limits. Actual exposures against the 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 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 securities to mitigate credit risk from 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 recovery unit in the Bank dynamically manages and takes remedial actions for non-performing loans.

In compliance with credit best practices, and within the framework of the supervisory directives with regards to Basel implementation and more specifically the Central Bank of Lebanon Intermediary Circular 256 dated 27 April 2011, the Bank uses an Internal Risk Rating System to manage the credit risk of obligors in the Corporate and Middle market business.

For this purpose, and for the time being, the Bank will use two classification schemes; the first will be an internal rating system (that will be referred to as "The Internal Loan Grading System") purchased from Moody's and divided into ten grades, and the second will be a more subjective loan classification system (that will be referred to as "Supervisory Classification System"), divided into 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 since they are performing loans and have timely repayments with no past dues. Each individual borrower is rated based on an internally developed scoring model that evaluates risk based on financial and qualitative inputs. These scores are reviewed on an annual basis.

Non-performing loans are managed proactively by a dedicated collection unit. These loans are closely monitored and well provisioned, with appropriate corrective actions taken.

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 any 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 extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Bank's overall policy.

Analysis to maximum exposure to credit risk and collateral and other credit enhancements
The following table shows the maximum exposure to credit risk by class of financial asset. It further shows the total fair value of collateral, capped to the maximum exposure to which it relates and the net exposure to credit risk.

In million of Lebanese Pounds	Maximum exposure	Cash	Securities	Letters of credit/ guarantees	Real estate	2012 Net credit exposure
Balances with central banks	552,869	-	-	-	-	**552,869**
Due from banks and financial institutions	268,352	-	-	-	-	**268,352**
Financial assets at fair value through profit or loss	70,612	-	-	-	-	**70,612**
Net loans and advances to customers						
at amortized cost:	1,370,185	247,499	17,691	2,556	390,685	**711,754**
Commercial loans	1,224,918	235,307	15,071	2,556	327,257	**644,727**
Consumer loans	145,267	12,192	2,620	-	63,428	**67,027**
	2,262,018	**247,499**	**17,691**	**2,556**	**390,685**	**1,603,587**
Net loans and advances to related parties						
at amortized cost	1,002	-	-	-	-	**1,002**
Debtors by acceptances	29,229	3,553	-	-	-	**25,676**
Loans to banks and financial institutions	9,081	-	-	-	-	**9,081**
Financial assets at amortized cost	1,213,174	-	-	-	-	**1,213,174**
		-	-	-	-	
	3,514,504	**251,052**	**17,691**	**2,556**	**390,685**	**2,852,520**
Guarantees	97,220	25,934	-	-	-	**71,286**
Documentary credits	31,155	4,133	-	-	-	**27,022**
Undrawn credit lines	90,159	-	-	-	-	**90,159**
	3,733,038	**281,119**	**17,691**	**2,556**	**390,685**	**3,040,987**

In million of Lebanese Pounds	Maximum exposure	Cash	Securities	Letters of credit/ guarantees	Real estate	2011 Net credit exposure
Balances with central banks	385,262	-	-	-	-	**385,262**
Due from banks and financial institutions	237,487	-	-	-	-	**237,487**
Financial assets at fair value through profit or loss	258,403	-	-	-	-	**258,403**
Net loans and advances to customers						
at amortized cost:	1,085,616	211,713	18,665	25,058	330,413	**499,767**
Commercial loans	960,537	200,107	18,665	25,058	263,126	**453,581**
Consumer loans	125,079	11,606	-	-	67,287	**46,186**
	1,966,768	**211,713**	**18,665**	**25,058**	**330,413**	**1,380,919**
Net loans and advances to related parties						
at amortized cost	1,358	-	-	-	-	**1,358**
Debtors by acceptances	39,368	5,821	-	-	-	**33,547**
Loans to banks and financial institutions	9,433	-	-	-	-	**9,433**
Financial assets at amortized cost	1,145,983	-	-	-	-	**1,145,983**
		-	-	-	-	
	3,162,910	**217,534**	**18,665**	**25,058**	**330,413**	**2,571,240**
Financial guarantees	105,403	20,226	-	-	-	**85,177**
Documentary credits	32,468	4,776	-	-	-	**27,692**
Undrawn credit lines	44,311	-	-	-	-	**44,311**
	3,356,432	**242,536**	**18,665**	**25,058**	**330,413**	**2,728,420**

Collateral and other credit enhancements
The amount, type and valuation of collateral is 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.

The main types of collateral obtained are as follows;

Securities:
The balances shown above represent the fair value of the securities.

Letters of credit / guarantees:
The Bank holds in some cases guarantees, letters of credit and similar instruments from banks and financial institutions which enable it to claim settlement in the event of default on the part of the counterparty. The balances shown represent the notional amount of these types of guarantees held by the Bank.

Real estate (commercial and residential):
The Bank holds in some cases a first degree mortgage over residential property (for housing loans) and commercial property (for commercial loans). The value shown above reflects the fair value of the property limited to the related mortgaged amount.

Other:
In addition to the above, the Bank also obtains guarantees from parent companies for loans to their subsidiaries, personal guarantees for loans to companies owned by individuals and assignments of insurance proceeds and revenues, which are not reflected in the above table.

Credit quality by class of financial assets
The credit quality of financial assets is managed by the Bank using internal and external 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	Neither past due nor impaired			Individually impaired	2012
	High Grade	Standard grade	Past due but not impaired	Non performing	Total
Balances with central banks	552,869	-	-	-	**552,869**
Due from banks and financial institutions	268,352	-	-	-	**268,352**
Financial assets at fair value through profit or loss	68,813	-	-	-	**68,813**
Loans and advances to customers at amortized cost	920,449	400,063	29,014	82,650	**1,432,176**
Loans and advances to related parties at amortized cost	1,002	-	-	-	**1,002**
Debtors by acceptances	29,229	-	-	-	**29,229**
Loans to banks and financial institutions	9,081	-	-	-	**9,081**
Financial assets at amortized cost	1,213,174	-	-	-	**1,213,174**
Total	3,062,969	400,063	29,014	82,650	**3,574,696**

In million of Lebanese Pounds	Neither past due nor impaired			Individually impaired	2011
	High Grade	Standard grade	Past due but not impaired	Non performing	Total
Balances with central banks	385,262	-	-	-	**385,262**
Due from banks and financial institutions	237,487	-	-	-	**237,487**
Financial assets at fair value through profit or loss	257,275	-	-	-	**257,275**
Loans and advances to customers at amortized cost	654,972	384,651	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**
Loans to banks and financial institutions	9,433	-	-	-	**9,433**
Financial assets at amortized cost	1,145,983	-	-	-	**1,145,983**
Total	2,731,165	384,651	26,902	75,174	**3,217,892**

Aging analysis of past due but not impaired loans per class of financial assets:

In million of Lebanese Pounds	Less than 90 days	91 to 180 days	More than 181 days	2012 Total
Loans and advances to customers at amortized cost:				
- Commercial loans	1,926	5,764	21,212	**28,902**
- Consumer loans	-	22	90	**112**
	1,926	5,786	21,302	**29,014**

In million of Lebanese Pounds	Less than 90 days	91 to 180 days	More than 181 days	2011 Total
Loans and advances to customers at amortized cost:				
- Commercial loans	424	24,638	1,840	26,902
- Consumer loans	-	-	-	-
	424	24,638	1,840	26,902

The classification of loans and advances to customers and related parties at amortised cost as in accordance with the ratings of Central Bank of Lebanon circular 58 are as follows:

In million of Lebanese Pounds				2012
	Gross balance	Unrealised interest	Impairment allowences	Net balance
Regular	921,451	-	-	921,451
Follow up	366,030	-	-	366,030
Follow up and regularization	34,033	-	-	34,033
Substandard	29,014	(2,126)	-	26,888
Doubtful	72,097	(2,206)	(39,421)	30,470
Bad	10,553	(1,002)	(9,436)	115
	1,433,178	(5,334)	(48,857)	1,378,987
Collective impairment	(7,800)	-	-	(7,800)
	1,425,378	(5,334)	(48,857)	1,371,187

In million of Lebanese Pounds				2011
	Gross balance	Unrealised interest	Impairment allowences	Net balance
Regular	656,357	-	-	656,357
Follow up	337,001	-	-	337,001
Follow up and regularization	47,650	-	-	47,650
Substandard	26,902	(1,279)	-	25,623
Doubtful	64,269	(769)	(36,410)	27,090
Bad	10,905	(94)	(10,751)	60
	1,143,084	(2,142)	(47,161)	1,093,781
Collective impairment	(6,780)	-	-	(6,780)
	1,136,304	(2,142)	(47,161)	1,087,001

Renegotiated Loans
Restructuring activity aims to manage customer relationships, maximize collection opportunities and, if possible, avoid foreclosure or repossession. Such activities include extended payment arrangements, deferring foreclosure, modification, loan rewrites and/or deferral of payments pending a change in circumstances.

Restructuring policies and practices are based on indicators or criteria which, in the judgment of local management, indicate that repayment will probably continue. The application of these policies varies according to the nature of the market and the type of the facility.

As of 31 December 2012, renegotiated commercial and consumer loans amounted to LL 19,914 million and LL 664 million, respectively.

Analysis of risk concentration
The Bank's concentrations of risk are managed on a client or counterparty basis, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2012 was LL 50,479 million (2011: LL 49,415 million) before taking account of collateral or other credit enhancements and LL 46,870 million (2011: LL 46,755 million) net of such protection.

The following tables show the maximum exposure to credit risk for the components of the statement of financial position by geography of counterparty and by industry before the effect of mitigation through the use of netting and collateral agreements.

Industry analysis
An industry sector analysis of the Bank's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

In million of Lebanese Pounds										2012
	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Government	Other	Total
Balances with central banks	-	-	-	-	-	-	-	552,869	-	552,869
Due from banks and financial institutions	-	-	-	-	268,352	-	-	-	-	268,352
Current accounts	-	-	-	-	121,999	-	-	-	-	121,999
Time deposits	-	-	-	-	146,353	-	-	-	-	146,353
Financial assets at fair value through profit or loss:	-	-	-	-	-	-	-	68,813	-	68,813
Lebanese government bonds	-	-	-	-	-	-	-	68,813	-	68,813
Net loans and advances to customers at amortized cost	515,314	122,496	9,444	69,244	-	389,821	204,461	-	59,405	1,370,185
Commercial loans	513,344	122,240	9,356	58,764	-	389,560	74,619	-	57,035	1,224,918
Consumer loans	1,970	256	88	10,480	-	261	129,842	-	2,370	145,267
Net loans and advances to related parties at amortized cost	-	-	-	-	-	82	920	-	-	1,002
Debtors by acceptances	17,967	1,254	-	-	9,301	707	-	-	-	29,229
Loans to banks and financial institutions	-	-	-	-	9,081	-	-	-	-	9,081
Financial assets at amortized cost:	-	-	-	-	-	-	-	1,213,174	-	1,213,174
Lebanese government bonds	-	-	-	-	-	-	-	762,078	-	762,078
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	-	-	-	-	451,096	-	451,096
	533,281	123,750	9,444	69,244	286,734	390,610	205,381	1,834,856	59,405	3,512,705

In million of Lebanese Pounds										2011
	Commercial	Industrial	Agriculture	Services	Banks and other financial institutions	Construction	Retail	Government	Other	Total
Balances with central banks	-	-	-	-	-	-	-	385,262	-	385,262
Due from banks and financial institutions	-	-	-	-	237,487	-	-	-	-	237,487
Current accounts	-	-	-	-	237,487	-	-	-	-	237,487
Financial assets at fair value through profit or loss:	-	-	-	-	3,959	-	-	253,316	-	257,275
Lebanese government bonds	-	-	-	-	-	-	-	253,316	-	253,316
Other debt securities	-	-	-	-	3,959	-	-	-	-	3,959
Net loans and advances to customers at amortized cost	376,940	106,935	10,315	70,014	-	298,802	182,108	-	40,502	1,085,616
Commercial loans	375,946	106,847	10,286	68,471	-	298,782	59,992	-	40,213	960,537
Consumer loans	994	88	29	1,543	-	20	122,116	-	289	125,079
Net loans and advances to related parties at amortized cost	-	-	-	-		21	1,364	-	-	1,385
Debtors by acceptances	32,013	1,447	-	-	5,539	369	-	-	-	39,368
Loans to banks and financial institutions	-	-	-	-	9,433	-	-	-	-	9,433
Financial assets at amortized cost:	-	-	-	-	-	-	-	1,145,983	-	1,145,983
Lebanese government bonds	-	-	-	-	-	-	-	688,894	-	688,894
Certificates of deposit issued by the Central Bank of Lebanon	-	-	-	-	-	-	-	457,089	-	457,089
	408,953	108,382	10,315	70,014	256,418	299,192	183,472	1,784,561	40,502	3,161,809

Geographic analysis

In million of Lebanese Pounds	Lebanon	MENA	Europe	USA/Canada	Others	2012 Total
Balances with central banks	551,779	-	1,090	-	-	**552,869**
Due from banks and financial institutions	96,869	24,407	86,977	59,929	170	**268,352**
Current accounts	47,604	7,824	14,010	52,391	170	**121,999**
Time deposits	49,265	16,583	72,967	7,538	-	**146,353**
Financial assets at fair value through profit or loss:	68,813					**68,813**
Lebanese government bonds	68,813	-	-	-	-	**68,813**
Net loans and advances to customers at amortized cost	1,269,889	32,584	64,056	3,277	379	**1,370,185**
Commercial loans	1,150,296	30,023	43,513	1,086	-	**1,224,918**
Consumer loans	119,593	2,561	20,543	2,191	379	**145,267**
Net loans and advances to related parties at amortized cost	1,002	-	-	-	-	**1,002**
Debtors by acceptances	18,048	11,181	-	-	-	**29,229**
Loans to banks and financial institutions	9,081	-	-	-	-	**9,081**
Financial assets at amortized cost:	1,213,174	-	-	-	-	**1,213,174**
Lebanese government bonds	762,078	-	-	-	-	**762,078**
Certificates of deposit issued by the Central Bank of Lebanon	451,096	-	-	-	-	**451,096**
	3,228,655	68,172	152,123	63,206	549	**3,512,705**

In million of Lebanese Pounds	Lebanon	MENA	Europe	USA/Canada	Others	2011 Total
Balances with central banks	383,567	-	1,695	-	-	**385,262**
Due from banks and financial institutions	76,659	1,009	81,483	77,932	404	**237,487**
Current accounts	76,659	1,009	81,483	77,932	404	**237,487**
Financial assets at fair value through profit or loss:	253,316		3,959			**257,275**
Lebanese government bonds	253,316	-	-	-	-	**253,316**
Other debt securities	-	-	3,959	-	-	**3,959**
Net loans and advances to customers at amortized cost	983,437	70,931	27,347	3,651	250	**1,085,616**
Commercial loans	872,899	60,603	25,353	1,682	-	**960,537**
Consumer loans	110,538	10,328	1,994	1,969	250	**125,079**
Net loans and advances to related parties at amortized cost	1,385	-	-	-	-	**1,385**
Debtors by acceptances	31,207	8,161	-	-	-	**39,368**
Loans to banks and financial institutions	9,433	-	-	-	-	**9,433**
Financial assets at amortized cost:	1,145,983	-	-	-	-	**1,145,983**
Lebanese government bonds	688,894	-	-	-	-	**688,894**
Certificates of deposit issued by the Central Bank of Lebanon	457,089	-	-	-	-	**457,089**
	2,884,987	80,101	114,484	81,583	654	**3,161,809**

37-2 Liquidity risk and funding management

Liquidity risk is defined as the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Bank might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Bank has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Bank maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain obligatory reserves with the Central Bank of Lebanon calculated on the basis of 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds, in addition to interest bearing placements equivalent to 15% of all deposits in foreign currencies regardless of their 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.

Regulatory ratios and limits
In accordance with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits in foreign currencies should not be less than 10%. The net liquid assets consist of cash and all balances with the Central Bank of Lebanon (excluding reserve requirements), certificates of deposit issued by the Central Bank of Lebanon irrespective of their maturities and deposits due from other banks that mature within one year, less deposits due to the Central Bank of Lebanon and deposits due to banks that mature within one year. Deposits are composed of total customer deposits (excluding blocked accounts) and due from financial institutions irrespective of their maturities and all certificates of deposits and acceptances and other debt instruments issued by the Bank and loans from the public sector that mature within one year.

The Bank stresses the importance of customer deposits as source of funds to finance its lending activities. This is monitored by using the advances to deposits ratio, which compares loans and advances to customers as a percentage of client's deposits.

Loans to deposits	2012	2011
	%	%
Year-end	**42.29**	37.58

37-2-1 Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Bank's financial assets and liabilities as of 31 December based on contractual undiscounted cash flows. The contractual maturities have been determined based on the period remaining to reach maturity as per the statement of financial position actual commitments. Repayments which are subject to notice are treated as if notice were to be given immediately. Concerning deposits, the Bank expects that many customers will not request repayment on the earliest date the Bank could be required to pay.

The table does not reflect the expected cash flows indicated by the Bank's deposit retention history.

LGB BANK
LEBANON & GULF BANK

In million of Lebanese Pounds	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	2012 Total
Financial assets					
Cash and balances with central banks	120,815	87,607	240,862	118,406	**567,690**
Due from banks and financial institutions	268,352	-	-	-	**268,352**
Financial assets at fair value through profit or loss	-	6,964	2,761	59,088	**68,813**
Net loans and advances to customers at amortized cost	385,870	477,025	473,276	34,014	**1,370,185**
Net loans and advances to related parties at amortized cost	1,002	-	-	-	**1,002**
Debtors by acceptances	27,349	1,880	-	-	**29,229**
Investment in an associate	-	-	-	-	**-**
Loans to banks and financial institutions	-	-	304	8,777	**9,081**
Financial assets at amortized cost	21,246	65,440	685,162	441,326	**1,213,174**
Total undiscounted financial assets	**824,634**	**638,916**	**1,402,365**	**661,611**	**3,527,526**
Financial liabilities					
Due to banks and financial institutions	44,288	11,544	-	-	**55,832**
Customers' deposits at amortized cost	2,692,000	550,122	77	-	**3,242,199**
Deposits from related parties at amortized cost	214	-	-	-	**214**
Engagements by acceptances	27,349	1,880	-	-	**29,229**
Total undiscounted financial liabilities	**2,763,851**	**563,546**	**77**	**-**	**3,327,474**
Net undiscounted financial assets / (liabilities)	**(1,939,217)**	**75,370**	**1,402,288**	**661,611**	**200,052**

In million of Lebanese Pounds	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	2011 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 at fair value through profit or loss	5,208	37,554	63,953	150,560	**257,275**
Net loans and advances to customers at amortized cost	278,665	410,434	335,144	61,373	**1,085,616**
Net 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**
Loans to banks and financial institutions	-	-	406	9,027	**9,433**
Financial assets at amortized cost	-	63,479	626,407	456,097	**1,145,983**
Total undiscounted 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 undiscounted financial liabilities	**2,382,406**	**599,895**	**-**	**-**	**2,982,301**
Net undiscounted financial assets / (liabilities)	**(1,752,176)**	**88,179**	**1,177,788**	**686,890**	**200,681**

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down.

In million of Lebanese Pounds	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	2012 Total
Financial guarantees	16,317	33,067	7,628	-	**57,012**
Documentary credits	20,064	11,091	-	-	**31,155**
Undrawn credit lines	90,159	-	-	-	**90,159**
	126,540	44,158	7,628	-	**178,326**

In million of Lebanese Pounds	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	2011 Total
Financial guarantees	17,191	34,839	8,038	-	**60,068**
Documentary credits	20,909	11,559	-	-	**32,468**
Undrawn credit lines	44,311	-	-	-	**44,311**
	82,411	46,398	8,038	-	**136,847**

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

37-3 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 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 policy ranging from core foreign currency liquidity to liquidity mismatch limits to interest sensitivity gap limits.

37-3-1 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 and 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 analyses 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.

Currency	Increase in basis points	Sensitivity of net Interest income 2012
Lebanese Lira	**200**	**(9,238)**
United States Dollar	**100**	**(6,333)**
Euro	**50**	**(199)**

Currency	Increase in basis points	Sensitivity of net Interest income 2011
Lebanese Lira	200	(15,715)
United States Dollar	100	(8,650)
Euro	50	(249)

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 2012	Up to 1 month	1 to 3 months	3 months to1 year	(1-2) years	(2-5) years	More than 5 years	Non-interest sensitive	Total
ASSETS								
Cash and balances with central banks	43,370	-	-	87,435	240,447	115,000	81,438	**567,690**
Due from banks and financial institutions	77,636	68,482	-	-	-	-	122,234	**268,352**
Financial assets at fair value through profit or loss	-	-	6,950	2,705	-	58,323	2,634	**70,612**
Net loans and advances to customers at amortized cost	274,058	323,522	571,326	100,888	39,881	3,038	57,472	**1,370,185**
Net loans and advances to related parties at amortized cost	1,002	-	-	-	-	-	-	**1,002**
Debtors by acceptances	-	-	-	-	-	-	29,229	**29,229**
Investment in an associate	-	-	-	-	-	-	-	**-**
Loans to banks and financial institutions	-	-	-	-	300	8,750	31	**9,081**
Debts instruments at amortized cost	20,331	-	64,321	244,945	427,334	435,103	21,140	**1,213,174**
Financial assets at fair value though other comprehensive income	-	-	-	-	-	-	10,936	**10,936**
TOTAL	**416,397**	**392,004**	**642,597**	**435,973**	**707,962**	**620,214**	**325,114**	**3,540,261**
LIABILITIES								
Due to banks and financial institutions	25,708	14,158	11,420	-	-	-	4,546	**55,832**
Customers' deposits at amortized cost	1,791,521	673,683	552,219	570	-	-	224,206	**3,242,199**
Related parties deposits	214	-	-	-	-	-	-	**214**
Engagements by acceptances	-	-	-	-	-	-	29,229	**29,229**
Other liabilities	-	-	-	-	-	-	4,223	**4,223**
TOTAL	**1,817,443**	**687,841**	**563,639**	**570**	**-**	**-**	**262,204**	**3,331,697**
Total interest rate sensitivity gap	**(1,401,046)**	**(295,837)**	**78,958**	**435,403**	**707,962**	**620,214**	**62,910**	**208,564**

In million of Lebanese Pounds 2011	Up to 1 month	1 to 3 months	3 months to1 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 at fair value through profit or loss	5,024	-	37,071	6,998	55,555	148,470	5,285	**258,403**
Net 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**
Net 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**
Loans to banks and financial institutions	-	-	-	-	400	9,000	33	**9,433**
Financial assets at amortized cost	-	-	62,218	85,409	528,943	449,763	19,650	**1,145,983**
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**

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 2012 is detailed in Lebanese Lira (LL) and foreign currencies, translated into LL.

Foreign currencies in Lebanese Lira						2012
		US Dollars in	Euro in	Other foreign currencies	Total foreign currencies	Total
ASSETS						
Cash and balances with central banks	179,071	383,558	4,019	1,042	388,619	567,690
Due from banks and financial institutions	1,875	245,936	5,988	14,553	266,477	268,352
Financial assets at fair value through profit or loss	47,350	15,600	7,662	-	23,262	70,612
Net loans and advances to customers at amortized cost	242,579	1,067,655	54,228	5,723	1,127,606	1,370,185
Net loans and advances to related parties at amortized cost	249	672	81	-	753	1,002
Debtors by acceptances	-	28,059	962	208	29,229	29,229
Loans to banks and financial institutions	9,081	-	-	-	-	9,081
Financial assets at amortized cost	641,095	558,083	13,996	-	572,079	1,213,174
Financial assets at fair value though other comprehensive income	10,936	-	-	-	-	10,936
Property and equipment	49,262	-	317	-	317	49,579
Intangible assets	-	-	-	-	-	-
Assets obtained in settlement of debt	392	22,482	1,973	-	24,455	24,847
Other assets	3,782	4,491	19	-	4,510	8,292
TOTAL ASSETS	**1,185,672**	**2,326,536**	**89,245**	**21,526**	**2,437,307**	**3,622,979**
LIABILITIES						
Due to banks and financial institutions	18,991	35,516	996	329	36,841	55,832
Customers' deposits at amortized cost	960,234	2,174,338	86,836	20,791	2,281,965	3,242,199
Deposits from related parties at amortized cost	59	154	1	-	155	214
Engagements by acceptances	-	28,059	962	208	29,229	29,229
Other liabilities	3,294	871	58	-	929	4,223
Provisions for risks and charges	5,127	53	-	-	53	5,180
Total liabilities	**987,705**	**2,238,991**	**88,853**	**21,328**	**2,349,172**	**3,336,877**
NET EXPOSURE	**197,967**	**87,545**	**392**	**198**	**88,135**	**286,102**

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

Foreign currencies in Lebanese Lira						2011
		US Dollars in	Euro in	Other foreign currencies	Total foreign currencies	Total
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 at fair value through profit or loss	158,178	100,225	-	-	100,225	258,403
Net loans and advances to customers at amortized cost	154,732	876,142	50,094	4,648	930,884	1,085,616
Net 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
Loans to banks and financial institutions	9,433	-	-	-	-	9,433
Financial assets at amortized cost	572,077	562,158	11,748	-	573,906	1,145,983
Property and equipment	38,591	-	368	-	368	38,959
Intangible assets	354	-	-	-	-	354
Assets obtained in settlement of debt	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
Deposits from related parties 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**

Bank's sensitivity to currency exchange rates

The table below shows the currencies to which the Bank had significant exposure at 31 December 2012 and 2011 on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, on the income statement (due to the potential change in fair value of currency sensitive monetary assets and liabilities) . A negative amount reflects a potential net reduction in income while a positive amount reflects a net potential increase.

Currency		2012	2011
	change in currency rate %	Effect on profit before tax in million LL	Effect on profit before tax in million LL
US Dollar	+5	4,377	4,140
Euro	+5	20	16
Other currencies	+5	10	68

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.

37-4 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.

38 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.

In accordance with the Central Bank of Lebanon Main Circular 44, the Bank should maintain the minimum required capital adequacy ratio for the years ending 31 December 2012 and thereafter are as follows:

	Tier 1 capital ratio	Total capital ratio
Year ended 31 December 2012	8.0 %	10.0 %
Year ended 31 December 2013	8.5 %	10.5 %
Year ended 31 December 2014	9.5 %	11.5 %
Year ended 31 December 2015	10.0 %	12.0 %

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 of the Board.

Regulatory capital
At 31 December 2012 and 2011, the capital consists of the following:

In million of Lebanese Pounds	2012	2011
Tier 1 capital	275,713	253,989
Tier 2 capital	2,003	1,904
Total capital	**277,716**	**255,893**
Risk weighted assets		
Credit risk	2,376,644	2,057,394
Market risk	56,275	193,157
Operational risk	110,632	99,359
Total risk weighted assets	**2,543,551**	**2,349,910**

The capital adequacy ratio as of 31 December (including profit for the year less proposed dividends) is as follows:

Tier 1 capital ratio	**10.84%**	10.81%
Total capital ratio	**10.91%**	10.89%

Tier 1 Capital consists of share capital, share premium, reserves, retained earnings including current year profit less proposed dividends. Tier 2 capital consists mainly of preferred shares and a percentage of foreign currency translation gains. Certain adjustments are made to IFRS based results, reserves, retained earnings and preferred shares as prescribed by the Central Bank of Lebanon and the Banking Control Commission.

39- Suggested appropriation of 2012 profits

In million of Lebanese Pounds	2012	2011
Profit for the year	28,158	26,337
Transfer to legal reserve	(2,816)	(4,348)
	25,342	21,989
Add: prior years retained earnings	32,693	21,761
	58,035	43,750
Appropriation of profits:		
Reserve for general banking risks	(5,087)	(4,700)
Reserve for capital increase:		
Reserve for assets in settlement of debts, disposed off	-	(570)
Reserve for redemption of preferred shares	(2,337)	(13,839)
Other reserve	(2,251)	(1,706)
Less: unrealized gain on financial assets at fair value through profit and loss as per Banking Control Commission circular 270	(1,821)	(7,812)
Distributable retained earnings	46,539	15,123
Dividend distribution:		
Preferred shares (2007 issue) (9% of nominal value)	(1,899)	(1,899)
Preferred shares (2010 issue) (7.5% of nominal value)	(3,392)	(3,392)
Retained earnings to common shareholders	**41,248**	**9,832**

50 Years
ANNIVERSARY

List of Major Correspondents

LGB BANK
LEBANON & GULF BANK

NORTH AMERICA

United States of America
. The Bank of New York Mellon
. Standard Chartered Bank

Canada
. Bank of Montreal

SOUTH AMERICA

Brazil
. Banco Safra SA
. Banco Santander (Brasil) SA

EUROPE

Austria
. Raiffeisen Bank International AG

United Kingdom
. Barclays Bank PLC
. Standard Chartered Bank

Germany
. Commerzbank AG
. Deutsche Bank AG
. Standard Chartered Bank

France
. Natixis
. BNP Paribas SA
. Banque Fédérative du Crédit Mutuel

Switzerland
. Banque de Commerce et de Placements SA
. Credit Suisse

Belgium
. KBC Bank N.V

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

Spain
. Banco de Sabadell S.A.
. CaixaBank

Denmark
. Danske Bank A/S
. Nordea Bank A/S

Sweden
. Skandinaviska Enskilda Banken AB
. Svenska Handelsbanken

Norway
. DNB Nor Bank ASA
. Skandinaviska Enskilda Banken

Finland
. Sampo Bank PLC
. Skandinaviska Enskilda Banken AB (Publ)

Poland
. Bank Polska Kasa Opieki SA
. Powszechna Kasa Oszczednosci Bank Polski (sa)

Greece
. Piraeus Bank SA
. National Bank of Greece SA

Cyprus
. Bank of Cyprus Public Company Ltd
. National Bank of Greece SA

Turkey
. A&T Bank
. Turkiye Garanti Bankasi AS

AUSTRALIA

Australia
. Beirut Hellenic Bank LTD

ASIA

Japan
. Sumitomo Mitsui Banking Corporation

China
. Bank of China ltd
. Industrial and Commercial Bank of China LTD

Pakistan
. Habib Bank Limited

Philippines
. Philippines National Bank

Hong kong
. Shinhan Bank
. Standard Chartered Bank (Hong Kong) Limited
. The Bank of New York Mellon

Indonesia
. PT Bank Cimb Niagra TBK
. Deutsche Bank AG

Iraq
. North Bank for Finance & Investment
. Rasheed Bank
. Al Rafidain Bank

India
. Indian Overseas Bank
. Mashreqbank PSC

Korea
. Korea Exchange Bank
. Hana Bank

Sri lanka
. Bank of Ceylon

Malaysia
. Malayan Banking Berhad

Taiwan
. Mega International Commercial Bank Co Ltd

Thailand
. Export-Import Bank of Thailand

Vietnam
. Asia Commercial Joint Stock Bank
. Vietnam Export Import Commercial Joint Stock Bank

U.A.E.
. Mashreqbank PSC
. National Bank of Abu Dhabi

Bahrain
. Ahli United Bank BSC
. Mashreqbank PSC

Jordan
. The Housing Bank for Trade & Finance

Kuwait
. Burgan Bank SAK
. The Gulf Bank K.S.C.

Qatar
. Doha Bank
. Qatar National Bank SAQ

Saudi Arabia
. The National Commercial Bank
. Al Rajhi Banking And Investment Corporation

AFRICA

Ethiopia
. Commercial Bank of Ethiopia
. Dashen Bank SC

Mauritus
. The Mauritius Commercial Bank LTD

Morocco
. Banque Marocaine du Commerce Exterieur SA

South Africa
. Standard Bank of South Africa LTD

Tunis
. Banque de Tunisie SA
. Banque Internationale Arabe de Tunisie SA

Egypt
. Mashreqbank PSC
. National Bank of Egypt

Algeria
. Banque Exterieure D'algerie

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- 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

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Makdessi Branch
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