CONSOLIDATED

FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF SOCIETE GENERALE DE BANQUE AU LIBAN SAL

We have audited the accompanying consolidated financial statements of Societe Generale de Banque au Liban SAL (the "Bank") and its subsidiaries (collectively the "Group"), which comprise the consolidated statement of financial position as at 31 December 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated 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 Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated 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 consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group 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.

22 May 2013
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2012

	Notes	2012 LL million	2011 LL million
Interest and similar income	4	**834,123**	553,357
Interest and similar expense	5	**(535,258)**	(340,206)
NET INTEREST INCOME		**298,865**	213,151
Fee and commission income	6	**86,045**	78,108
Fee and commission expense		**(18,441)**	(17,683)
NET FEE AND COMMISSION INCOME		**67,604**	60,425
Net gain from financial assets at fair value through profit or loss	7	**26,707**	4,308
Revenue from financial assets at fair value through other comprehensive income	8	**8,395**	6,425
Net gain from sale of financial assets at amortized cost	23	**14,471**	2,797
Other operating income	9	**25,327**	27,188
TOTAL OPERATING INCOME		**441,369**	314,294
Net credit losses	10	**(14,796)**	(14,123)
NET OPERATING INCOME		**426,573**	300,171
Personnel expenses	11	**(111,609)**	(95,066)
Other operating expenses	12	**(96,962)**	(75,986)
Depreciation of property and equipment	25	**(7,709)**	(6,135)
Amortization of intangible assets	26	**(2,557)**	(657)
TOTAL OPERATING EXPENSES		**(218,837)**	(177,844)
OPERATING PROFIT		**207,736**	122,327
Share of profit from non-consolidated subsidiaries	22	**445**	299
Net (loss) gain from sale and write-off of other assets		**(761)**	927
PROFIT BEFORE TAX		**207,420**	123,553
Income tax expense	13	**(33,641)**	(22,670)
PROFIT FOR THE YEAR		**173,779**	100,883
Attributable to:			
▪ Equity holders of the parent		**169,985**	97,790
▪ Non-controlling interest		**3,794**	3,093
		173,779	100,883

The attached notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2012

	2012 LL million	2011 LL million
PROFIT FOR THE YEAR	173,779	100,883
Other comprehensive income		
Net movement in foreign currency reserve	2,035	(557)
Net gain (loss) from financial assets at fair value through other comprehensive income	24,775	(22,869)
Income tax effect on components of other comprehensive income	122	4,152
Other comprehensive income (loss) for the year, net of tax	26,932	(19,274)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	200,711	81,609
Attributable to:		
▪ Equity holders of the parent	196,965	78,532
▪ Non-controlling interest	3,746	3,077
	200,711	81,609

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2012

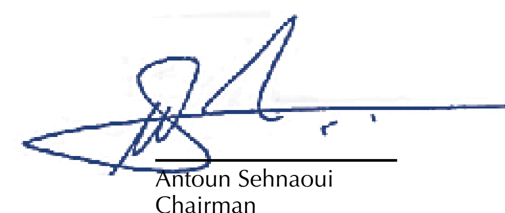
	Notes	2012 LL million	2011 LL million
ASSETS			
Cash and balances with the Central Banks	14	3,526,700	2,040,254
Deposits with banks and financial institutions	15	987,119	405,505
Amounts due from Head Office, branches and affiliates	16	743,240	1,353,784
Loans to banks and financial institutions		10,291	11,686
Derivative financial instruments	17	853	1,599
Financial assets pledged as collateral	18	198,668	27,875
Financial assets at fair value through profit or loss	19	58,228	92,300
Loans and advances to customers at amortized cost	20	4,290,331	4,322,223
Loans and advances to related parties at amortized cost	21	68,957	58,734
Debtors by acceptances		54,170	110,860
Investments in non-consolidated subsidiaries	22	3,649	63,143
Financial assets at amortized cost	23	6,248,014	6,474,941
Financial assets at fair value through other comprehensive income	24	37,599	109,566
Property and equipment	25	181,744	218,358
Intangible assets	26	28,700	10,555
Non-current assets held for sale	27	217,384	146,310
Other assets	28	98,886	80,605
Goodwill and other intangible assets	29	171,892	192,492
Total assets		16,926,425	15,720,790

The attached notes 1 to 53 form part of these consolidated financial statements.

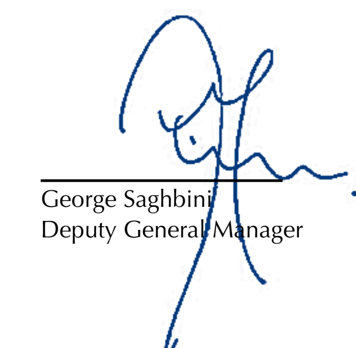
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
For the year ended 31 December 2012

	Notes	2012 LL million	2011 LL million
LIABILITIES AND EQUITY			
LIABILITIES			
Due to Central Banks	30	236,332	67,061
Loans and repurchase agreements	31	1,169,208	982,605
Due to banks and financial institutions	32	504,630	532,430
Amounts due to Head Office, branches and affiliates	33	5,979	46,692
Derivative financial instruments	17	398	7,655
Customers' deposits at amortized cost	34	13,671,792	13,006,559
Related parties' deposits at amortized cost		28,363	35,640
Engagements by acceptances		54,170	110,860
Other liabilities	35	126,321	100,628
Provision for risks and charges	36	49,885	47,444
Total liabilities		15,847,078	14,937,574
EQUITY			
Share capital – common shares	37	12,008	10,620
Share capital – preferred shares	37	4,036	4,036
Share premium – common shares	37	149,349	-
Share premium – preferred shares	37	285,282	284,015
Cash contribution by shareholders	37	106,746	106,746
Non distributable reserves	38	206,193	153,205
Distributable reserves	39	21,928	21,912
Revaluation reserve of property	40	3,934	3,934
Cumulative change in fair value of financial assets at fair value through other comprehensive income	41	(1,707)	(26,211)
Profit for the year		169,985	97,790
Foreign currency translation reserve		(1,191)	(3,275)
Retained earnings		83,109	100,048
Equity attributable to equity holders of parent		1,039,672	752,820
Non-controlling interest		39,675	30,396
Total equity		1,079,347	783,216
Total liabilities and equity		16,926,425	15,720,790

The consolidated financial statements were authorized for issue in accordance with a resolution of the Board of Directors on 22 May 2013.



Antoun Sehnaoui
Chairman



George Saghbini
Deputy General Manager

The attached notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2012

Attributable to equity holders of the parent equity holders of the parent

	Notes	Share capital – common shares LL million	Share capital – preferred shares LL million	Share premium – common shares LL million	Share premium – preferred shares LL million	Cash contribution by shareholders LL million	Non distributable reserves LL million	Distributable reserves LL million	Revaluation reserve of property LL million	Cumulative change in fair value of financial assets at fair value through other comprehensive income LL million	Foreign currency translation reserve LL million	Profit for the year LL million	Retained earnings LL million	Total LL million	Non-controlling interest LL million	Total equity LL million
Balance at 31 December 2010		10,620	4,036	-	282,748	106,746	115,670	21,912	3,934	20,204	(2,730)	121,961	37,710	722,811	28,210	751,021
Effect of adopting IFRS 9 at 1 January 2011		-	-	-	-	-	-	-	-	(26,713)	-	-	254	(26,459)	(273)	(26,732)
Restated balance at 1 January 2011		10,620	4,036	-	282,748	106,746	115,670	21,912	3,934	(6,509)	(2,730)	121,961	37,964	696,352	27,937	724,289
Profit for the year		-	-	-	-	-	-	-	-	-	-	97,790	-	97,790	3,093	100,883
Other comprehensive income		-	-	-	-	-	-	-	-	(18,713)	(545)	-	-	(19,258)	(16)	(19,274)
Total comprehensive income		-	-	-	-	-	-	-	-	(18,713)	(545)	97,790	-	78,532	3,077	81,609
Transfer to retained earnings		-	-	-	-	-	-	-	-	(989)	-	(121,961)	122,950	-	-	-
Transfer to non distributable reserves	38	-	-	-	-	-	37,538	-	-	-	-	-	(37,538)	-	-	-
Non distributable reserves written-off		-	-	-	-	-	(3)	-	-	-	-	-	-	(3)	-	(3)
Acquisition of non-controlling interest in Societe Generale de Banque - Jordanie	3	-	-	-	-	-	-	-	-	-	-	-	147	147	(501)	(354)
Other transactions with owners and non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	(682)	(682)	(117)	(799)
Transfer to share premium	37	-	-	-	1,267	-	-	-	-	-	-	-	(1,267)	-	-	-
Dividends paid to equity holders of the parent	42	-	-	-	-	-	-	-	-	-	-	-	(21,526)	(21,526)	-	(21,526)
Balance at 31 December 2011		10,620	4,036	-	284,015	106,746	153,205	21,912	3,934	(26,211)	(3,275)	97,790	100,048	752,820	30,396	783,216
Profit for the year		-	-	-	-	-	-	-	-	-	-	169,985	-	169,985	3,794	173,779
Other comprehensive income		-	-	-	-	-	-	-	-	24,896	2,084	-	-	26,980	(48)	26,932
Total comprehensive income		-	-	-	-	-	-	-	-	24,896	2,084	169,985	-	196,965	3,746	200,711
Issuance of common shares		1,388	-	149,349	-	-	-	-	-	-	-	-	-	150,737	-	150,737
Transfer to retained earnings		-	-	-	-	-	-	-	-	(392)	-	(97,790)	98,182	-	-	-
Transfer to non distributable reserves	38	-	-	-	-	-	53,000	-	-	-	-	-	(53,000)	-	-	-
Transfer to distributable reserves	39	-	-	-	-	-	-	16	-	-	-	-	(16)	-	-	-
Non distributable reserves written-off		-	-	-	-	-	(12)	-	-	-	-	-	-	(12)	-	(12)
Acquisition of non-controlling interest in Societe Generale de Banque - Jordanie	3	-	-	-	-	-	-	-	-	-	-	-	741	741	(4,953)	(4,212)
Non-controlling interest resulting from capital increase in Societe Generale de Banque - Jordanie	3	-	-	-	-	-	-	-	-	-	-	-	-	-	12,562	12,562
Transfer to share premium	37	-	-	-	1,267	-	-	-	-	-	-	-	(1,267)	-	-	-
Dividends paid to equity holders of the parent	42	-	-	-	-	-	-	-	-	-	-	-	(61,579)	(61,579)	-	(61,579)
Dividends paid to non-controlling interest		-	-	-	-	-	-	-	-	-	-	-	-	-	(2,076)	(2,076)
Balance at 31 December 2012		**12,008**	**4,036**	**149,349**	**285,282**	**106,746**	**206,193**	**21,928**	**3,934**	**(1,707)**	**(1,191)**	**169,985**	**83,109**	**1,039,672**	**39,675**	**1,079,347**

The attached notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Notes	2012 LL million	2011 LL million
OPERATING ACTIVITIES			
Profit before income tax		**207,420**	123,553
Adjustments for:			
Depreciation and amortization	25 & 26	**10,266**	6,792
Share of profit from non-consolidated subsidiaries	22	**(445)**	(299)
Amortization of the deferred costs resulting from the acquisition of Inaash Bank SAL		**-**	990
Amortization of deferred employee termination benefits	28	**6,647**	-
Provision for impaired loans – customers	20	**32,780**	36,460
Provision for impaired loans – related parties	21	**6,287**	1,023
Loans written off	10	**1,196**	9,176
Provision for impaired financial assets at amortized cost	10	**-**	1,153
Provision for impaired deposits with banks and financial institutions	10	**-**	1,907
Write-back of provision for other impaired debit balances	28	**(67)**	(151)
Write-back of provision for deposits with banks and financial institutions	15	**(768)**	-
Recoveries of credit losses - customers	20	**(24,632)**	(35,445)
Provision for employees' end of service benefits	11	**4,038**	2,035
Gain from sale of property and equipment		**(755)**	(927)
Gain from sale of non-current assets held-for-sale	9	**(10,105)**	(7,749)
Write-back of provisions for impairment of non-current assets held-for-sale	9	**(1,573)**	(575)
Write-off of intangible assets		**908**	349
Net provision for risks and charges		**2,921**	2,497
Unrealized (gain) loss on derivative financial instruments		**(6,511)**	3,857
Write-off of property and equipment		**608**	71
		228,215	144,717
Working capital changes:			
Cash and balances with the Central Banks		**(2,068,807)**	16,395
Deposits with banks and financial institutions		**(109,263)**	(60,410)
Amounts due from Head Office, branches and affiliates		**(2,888)**	7,164
Due to Central Banks		**189,311**	(46,689)
Loans and repurchase agreements		**186,358**	-
Due to banks and financial institutions		**42,989**	69,164
Due to Head Office, branches and affiliates		**-**	(275,501)
Loans and advances to customers at amortized cost		**(7,647)**	222,393
Loans and advances to related parties at amortized cost		**(17,636)**	(14,156)
Loans to banks and financial institutions		**1,395**	49,200
Other assets		**(26,282)**	(4,077)
Customers' deposits at amortized cost		**665,233**	894,726
Related parties' deposits at amortized cost		**(7,277)**	22,329
Other liabilities		**19,829**	(131,804)
Cash (used in) from operations		**(906,470)**	893,451
Employees' end of service benefits paid	36	**(4,192)**	(990)
Taxation paid		**(24,285)**	(34,319)
Provision for risks and charges paid		**(1,767)**	(329)
Net cash flows (used in) from operating activities		**(936,714)**	857,813

The attached notes 1 to 53 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended 31 December 2012

	Notes	2012 LL million	2011 LL million
INVESTING ACTIVITIES			
Acquisition of assets and liabilities of the Lebanese Canadian Bank SAL, net of cash acquired	3	-	1,386,748
Purchase of investment in non-consolidated subsidiary		-	(30)
Other transactions with owners and non-controlling interest		-	(799)
Financial assets at fair value through profit or loss		34,072	10,618
Financial assets at fair value through other comprehensive income		96,742	(2,051)
Financial assets at amortized cost		228,459	(2,172,963)
Purchase of property and equipment	25	(19,569)	(62,169)
Purchase of intangible assets	26	(1,012)	(1,953)
Proceeds from sale of property and equipment		48,602	2,127
Acquisition of non-controlling interest in Societe Generale de Banque - Jordanie	3	(4,212)	{354)
Non-controlling interest resulting from capital increase in Societe Generale du Banque – Jordanie		12,562	-
Proceeds from sale of non-current assets held for sale		26,376	13,578
Financial assets pledged as collateral		(170,793)	(10,509)
Net cash flows from (used in) investing activities		251,227	(837,757)
FINANCING ACTIVITIES			
Issuance of common shares	37	1,388	-
Share premium – common shares	37	149,349	-
Dividends paid to equity holders of the parent	42	(61,579)	(21,526)
Dividends paid to non-controlling interest		(2,076)	-
Net cash flows from (used in) financing activities		87,082	(21,526)
Effect of exchange rate changes and other adjustments		1,974	(1,253)
DECREASE IN CASH AND CASH EQUIVALENTS		(596,431)	(2,723)
Cash and cash equivalents at 1 January		1,514,843	1,517,566
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	43	918,412	1,514,843
Operational cash flows from interest and dividend			
Interest paid		532,730	299,325
Interest received		826,771	488,817
Dividend received		1,287	1,500

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

1 CORPORATE INFORMATION

Societe Generale de Banque au Liban SAL (the Bank) is a shareholding company registered in Beirut, Lebanon. It was registered in 1953 under no. 3696 at the Commercial Registry of Beirut and no. 19 on the list of banks published by the Central Bank of Lebanon. The headquarters of the Bank are located at Saloumeh Square, Sin El Fil, Lebanon.

The Bank, together with its subsidiaries (collectively the "Group"), are mainly involved in insurance, banking and financial services activities (commercial, investment and private).

The Bank is 19% owned by Societe Generale SA (France), which is referred to in these financial statements as the "Head Office".

On 7 September 2011, the Bank acquired the assets, liabilities, rights and commitments of the Lebanese Canadian Bank SAL in accordance with the sale and purchase agreement signed on 22 June 2011.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The consolidated financial statements are prepared under the historical cost basis except for the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and for the measurement at fair value of derivative financial instruments, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income.

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

Statement of compliance

The consolidated 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.

Presentation of financial statements

The Group presents its consolidated statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the consolidated statement of financial position date (current) and more than 12 months after the consolidated statement of financial position date (non-current) is presented in note 49.

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liability simultaneously. This is not generally the case with master netting agreements. Therefore the related assets and liabilities are presented gross in the consolidated statement of financial position. Income and expense is not offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries as at 31 December 2012.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly by the Bank. Non-controlling interests are presented separately in the consolidated income statement, consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, but separate from parent shareholders' equity. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

The consolidated financial statements represent the financial statements of the Bank and the following subsidiaries:

			Percentage of ownership	
Name	**Country of incorporation**	**Activities**	**2012**	**2011**
Societe Generale Bank - Cyprus Ltd	Cyprus	Banking	**100.00%**	100.00%
Societe Generale de Banque - Jordanie	Jordan	Banking	**87.67%**	85.40%
Fidus SAL*	Lebanon	Financial services	**49.00%**	49.00%
Sogelease Liban SAL	Lebanon	Leasing	**99.75%**	99.75%
Sogecap Liban SAL	Lebanon	Insurance	**75.00%**	75.00%
Societe Generale Jordanie Brokerage Ltd	Jordan	Brokerage	**100.00%**	100.00%

* Effective 1 January 2004, the Bank obtained control, by virtue of agreement with other investors, over Fidus SAL, and consequently, the financial statements of Fidus SAL have been consolidated with those of the Bank.

2.2 Significant accounting judgments, estimates and assumptions

In the process of applying the Group's accounting policies, management has exercised judgment and estimates in determining the amounts recognized in the consolidated financial statements. The most significant uses of judgment and estimates are as follows:

Going concern

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the consolidated 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 consolidated 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 is 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 detail in note 48.

Impairment losses on loans and advances

The Group reviews its individually significant loans and advances at each consolidated statement of financial position date to assess whether an impairment loss should be recorded in the consolidated 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 Group 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.), and judgments to the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

The impairment loss on loans and advances is disclosed in more detail in note 10, note 20 and note 21.

Deferred tax assets

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

Business model

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Group 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 Group 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 Group 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 amortized cost measurement. In making the assessment, the Group 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.

2.3 Changes in accounting policy and disclosures

2.3.1 New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following 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 derecognized to enable the user of the Group's consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized 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 Group does not have any assets with these characteristics so there has been no effect on the presentation of its consolidated financial statements.

2.4 Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group's consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group 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 Group'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 Group is currently assessing the impact that this standard will have on its financial position and performance and believes that it won't be significant. This standard becomes 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 revised standard is not expected to impact the Group's financial position or performance and 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 Group'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 recognized financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognized 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 Group's financial position or performance and become effective for annual periods beginning on or after 1 January 2013.

IFRS 10 Consolidated Financial Statements
IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities. IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27. The Group is currently assessing the impact that this standard will have on its financial position and performance and believes it won't be significant. This standard becomes 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 Group's financial position or performance and becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 12 Disclosure of Involvement with Other Entities
IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required, but has no impact on the Group's financial position or performance. This standard 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 Group to review its fair value measurement policies across all asset and liabilities classes. The Group is currently assessing the impact that this standard will have on its financial position and performance and believes it won't be significant. This standard becomes effective for annual periods beginning on or after 1 January 2013.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
31 December 2012

Annual improvements May 2012
These improvements will not have an impact on the Group, 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 consolidated 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

1. Foreign currency translation

The consolidated financial statements are presented in Lebanese Lira. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

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

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the consolidated statement of financial position date. All differences arising on non-trading activities are taken to the consolidated 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. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

(ii) Group companies
At the reporting date, the assets and liabilities of subsidiaries are translated into the Bank's presentation currency at the rate of exchange as at the consolidated 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 recognized in equity relating to that particular foreign operation is recognized in the consolidated income statement.

2. Financial instruments – classification and measurement

(i) Date of recognition
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes 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 investments
a. Financial assets
The classification of financial assets depends on the basis of the 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 particular transaction costs in the case of a financial asset not classified at fair value through profit or loss. Assets are subsequently measured at amortized cost or at 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 recognizing 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 amortized cost
Debt instruments are subsequently measured at amortized cost less any impairment loss (except for debt instruments that are designated at fair value through profit or loss upon initial recognition) if they meet the following two conditions:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; 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 recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment. After initial measurement, these financial assets are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in “Interest and similar income” in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in “Net credit losses”.

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 amortized cost are reflected under “net (loss) gain from sale of debt instruments at amortized cost” in the consolidated income statement.

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

i Debt instruments at fair value through profit or loss
These financial assets are recorded in the consolidated statement of financial position at fair value. Changes in fair value and interest income are recorded under “Net gain (loss) from financial assets at fair value through profit or loss” in the consolidated 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 (loss) from financial assets at fair value through profit or loss” in the consolidated 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 Group 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 consolidated statement of financial position at fair value. Changes in fair value and dividend income are recorded under “Net gain (loss) from financial assets at fair value through profit or loss” in the consolidated income statement.

Gains and losses arising from the derecognition of equity instruments at fair value through profit or loss are also reflected under “Net gain (loss) from financial assets at fair value through profit or loss” in the consolidated 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 recognized in other comprehensive income and accumulated under equity. The cumulative gain or loss will not be reclassified to the consolidated income statement on disposal of the investments.

Dividends on these investments are recognized under “Revenue from financial assets at fair value through other comprehensive income” in the consolidated income statement when the entity’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.

Balances with the Central Banks, due from banks and financial institutions, loans to banks and financial institutions and loans and advances to customers and related parties – at amortized cost
After initial measurement, “Balances with the Central Banks”, “Due from banks and financial institutions”, “Loans to banks and financial institutions”, “Loans and advances to customers and to related parties” are subsequently measured at amortized cost using the effective interest rate method (EIR), less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in “Interest and similar income” in the consolidated income statement. The losses arising from impairment are recognized in the consolidated income statement in “Net credit losses”.

b. Financial liabilities
Liabilities are initially measured at fair value plus particular transaction costs in the case of a financial liability not classified at fair value through profit or loss. Liabilities are subsequently measured at amortized cost or fair value.
The Group classifies all financial liabilities as subsequently measured at amortized cost using the effective interest rate method, except for:
- financial liabilities at fair value through profit or loss (including derivatives);
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts and commitments to provide a loan at a below-market interest rate which after initial recognition are subsequently measured at the higher of the amount determined in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18 Revenue.

Fair value option
An entity 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 recognizing 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 entity's key management personnel.

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

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

c. Derivatives recorded at fair value through profit or loss
The Group uses derivatives such as forward foreign exchange contracts and interest rate swaps.

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 included in “net gain (loss) from financial assets at fair value through profit or loss” in the consolidated income statement.

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

(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 Group immediately recognizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) in the consolidated income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

(iv) Reclassification of financial assets

The Group 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 Group's senior management as a result of external or internal changes when significant to the Group's operations and demonstrable to external parties.

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

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

3. Derecognition of financial assets and financial liabilities

(i) Financial assets

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

- the rights to receive cash flows from the asset have expired;
- the Group 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:
  (a) the Group has transferred substantially all the risks and rewards of the asset, or
  (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

(ii) Financial liabilities

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

4. Repurchase and reverse repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "loans and repurchase agreements", reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the effective interest rate. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its consolidated statement of financial position to "Financial assets at fair value through profit or loss pledged as collateral".

Conversely, securities purchased under agreements to resell at a specified future date are not recognized in the consolidated statement of financial position. The consideration paid, including accrued interest, is recorded in the consolidated statement of financial position within "Due from banks and financial institutions and reverse repurchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the effective interest rate.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities at fair value through profit or loss" and measured at fair value with any gains or losses included in "net gain from financial assets at fair value through profit or loss" in the consolidated income statement.

5. Securities lending and borrowing

Securities lending and borrowing transactions are usually collateralized by securities or cash. The transfer of the securities to counterparties is only reflected on the consolidated statement of financial position if the risks and rewards of ownership are also transferred. Cash advanced or received as collateral is recorded as an asset or liability.

Securities borrowed are not recognized on the consolidated statement of financial position, unless they are then sold to third parties, in which case the obligation to return the securities is recorded as a trading liability and measured at fair value with any gains or losses included in "Net trading income".

6. Determination of fair value

The fair value for financial instruments traded in active markets at the consolidated 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, option pricing models, credit 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 Group'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 note 48.

7. Impairment of financial assets

The Group assesses at each consolidated 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 have 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 carried at amortized cost

For financial assets carried at amortized cost, the Group 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 Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement.

Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Net credit losses".

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 Group'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 group. 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 group 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 experienced.

(ii) Renegotiated loans

Where possible, the Group 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 repossessed

The Group's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets that are determined better to be sold, are immediately transferred to assets held for sale at their fair value at the repossessed date in line with the Group's policy.

8. Hedge accounting

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

At inception of the hedge relationship, the Group 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 consolidated income statement in "Net gain (loss) from financial assets at fair value through profit or loss". For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the consolidated income statement in "Net gain (loss) from financial instruments at fair value through profit or loss". Meanwhile, the cumulative 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 consolidated statement of financial position and is also recognized in "Net gain from financial assets at fair value through profit or loss" in the consolidated 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 amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate (EIR). If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the consolidated income statement.

(ii) Cash flow hedges

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

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

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 other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the consolidated income statement.

(iii) Hedge of a net investment

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

9. Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset 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 consolidated statement of financial position.

10. 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.

Group as a lessee

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

Group as a lessor

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

11. Recognition of income and expense

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

(i) Interest and similar income and expenses

For all financial instruments measured at amortized cost, interest income or expense is recorded using the effective interest rate, 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 Group 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 expenses" 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 continues to be recognized 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 Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

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

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

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

Fee income from providing transaction services

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

(iii) Dividend income

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

(iv) Net gain (loss) on financial instruments at fair value through profit or loss

Results arising from financial instruments 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.

12. Cash and cash equivalents

Cash and cash equivalents as referred to in the consolidated statement of cash flows comprise balances with original maturities of a period of three months or less including: cash and balances with the Central Banks, Treasury bills, certificates of deposit, deposits with banks and financial institutions, amounts due from Head Office, branches and affiliates, due to Central Banks, loans and repurchase agreements, due to banks and financial institutions and amounts due to Head Office, branches and affiliates.

13. Investments in non-consolidated subsidiaries

The Group's investment in its non-consolidated subsidiaries is accounted for using the equity method. Subsidiaries are entities which the Group controls, normally where it holds more than 50% of the voting power.

Under the equity method, the investments in the non-consolidated subsidiaries are carried on the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the non-consolidated subsidiaries. Goodwill relating to the non-consolidated subsidiaries is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the non-consolidated subsidiaries. When there has been a change recognized directly in the equity of the non-controlling subsidiaries, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the non-consolidated subsidiaries are eliminated to the extent of the interest in the non-consolidated subsidiaries.

The financial statements of the non-consolidated subsidiaries are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

14. Property and equipment

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Buildings acquired prior to 1 January 1994 were restated for the changes in the general purchasing power of Lebanese Lira after the approval of the Central Bank of Lebanon. Net surplus arising on restatement is credited to "Revaluation reserve of property". 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	50 years
▪ Furniture and fixtures years	5 to 12.5 years
▪ Installations	16.67 years
▪ Vehicles	10 years

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

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

15. Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the previously held equity interest in the acquiree is remeasured at fair value at the acquisition date through the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with IFRS 9 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

16. Intangible assets

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

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

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

- Computer software — 5 years
- Key money — 5 years
- Customer relationship – core deposits — 12.5 years
- Customer relationship – loans and advances — 12.5 years

17. Non-current assets held for sale

Non-current assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition, management has committed to the sale, and the sale is expected to have been completed within one year from the date of classification.

18. Impairment of non-financial assets

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use.

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

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

Impairment losses relating to goodwill cannot be reversed in the future periods.

19. Financial guarantees

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the consolidated financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated 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 consolidated income statement in "Net credit losses". The premium received is recognized in the consolidated income statement in "Net fees and commission income" on a straight line basis over the life of the guarantee.

20. Tax

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

(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 tax authorities. The tax rates and tax law 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 operation 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.

(ii) Deferred tax

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

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

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized 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, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

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

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

21. Provision

Provision are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

22. Employees' end of service benefits

The Bank's contributions for end of service benefits 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 by the NSSF (a defined contribution plan) after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last month salary multiplied by the number of years of service as stipulated in the National Social Security Law. The Group is liable to pay to the NSSF the difference between the contributions paid and the final end of service benefits due to employees by the NSSF.

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

Contributions are recorded as an expense under "personnel expenses".

23. Assets held in custody and under administration

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

24. Dividends on common and preferred shares

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

Dividends for the year that are approved after the statement of financial position date are disclosed as an event after the statement of financial position date.

25. Customer's acceptances

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

26. Equity reserves

The reserves recorded in equity (other comprehensive income) on the Group's consolidated statement of financial position include:

"Cumulative change in fair value of financial instruments at fair value through other comprehensive income" reserve which comprises changes in fair value of equity instruments at fair value through other comprehensive income.

"Distributable and non-distributable reserve" which include transfers from retained earnings in accordance with regulatory requirements.

"Revaluation reserve of property" which comprises the revaluation surplus relating to property (note 40).

3 BUSINESS COMBINATIONS

Acquisitions in 2012

Societe Generale de Banque – Jordanie (SGBJ)

During 2012, the Bank subscribed in its share of the capital increase of Societe Generale de Banque – Jordanie for LL 73,476 million after obtaining the approval of the Central Bank of Lebanon. Accordingly, minority interests share increased by LL 12,562 million.

During 2012, the Bank acquired an additional 2.27% interest of the voting shares of Societe Generale de Banque – Jordanie for LL 4,212 million. The Bank obtained the approval of the Central Bank of Lebanon accordingly.

The carrying value of the net assets of Societe Generale de Banque – Jordanie (excluding goodwill on the original acquisition) at the acquisition date was LL 217,916 million, and the carrying value of the additional interest acquired was LL 4,953 million. The difference of LL 741 million between the consideration and the carrying value of the interest acquired has been recognized in retained earnings within consolidated equity.

Acquisitions in 2011

Acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL

On 7 September 2011, the Central Council of the Central Bank of Lebanon approved the acquisition by the Bank of the assets, liabilities, rights and commitments of the Lebanese Canadian Bank SAL in accordance with the sale and purchase agreement signed on 22 June 2011 for a consideration of US$ 580 million equivalent to LL 874,350 million, which is subject to adjustment as a result of the due diligence work that is being performed by independent professional firms.

Accordingly, the Lebanese Canadian Bank's identifiable assets, liabilities and contingent liabilities as at the acquisition date, that meet the conditions for recognition under IFRS, were recognized at their fair values except for loans and advances to customers, whose fair value had been determined provisionally as of 31 December 2011 and 2012. Such assets that have been determined provisionally were subject to assessment by the independent professional firms who finalized their assessments during the first quarter of 2013. According to their results, the total value of the acquisition should be reduced by US$ 60 million equivalent to LL 90,450 million. However, the Bank believes that an additional US$ 30 million equivalent to LL 45,225 should also be deducted. The results of the professional firms was communicated but still not agreed with the shareholders of the Lebanese Canadian Bank SAL.

In connection with the sale purchase agreement, the Bank settled the balance relating to the acquisition of the assets and liabilities of the pre-mentioned bank which amounted to US$ 150 million (equivalent to LL 226,125 million) in an escrow account deposited at a local bank. Part of this amount shall be reimbursed if the fair value of the assets and liabilities acquired is less than the amount agreed upon in the sale purchase agreement.

In accordance to its letter dated 21 August 2012, the local bank informed the Bank that the deposited amount in the escrow account mentioned above was ceased by the US Attorney for the Southern District of New York (SDNY), due to claims and legal proceedings outstanding with the shareholders of the Lebanese Canadian Bank SAL.

Based on advice from its legal counsel, management believes that the ceased amounts do not belong to the Lebanese Canadian Bank SAL until the achievement of the valuation work of the professional firms. Accordingly, the decision of seizure cannot extend to any amounts belonging to the Bank, notably any amounts to be deducted from the escrow account in favor of the Bank.

Based on the above, the Bank asserted its rights in interest in the seized escrow fund by way of a "Sworn Claim Asserting Interest in Seized Property" filed in March 2013 before the SDNY who proposed to agree on a settlement to be entered into between the Lebanese Canadian Bank SAL (on receivership) and the Bank.

The Bank is in advanced negotiations with all concerned parties whereby an agreement should be reached soon, which according to management will guarantee the Bank's right to the deductions from the purchase price paid to acquire the assets and liabilities of the Lebanese Canadian Bank SAL.

Assets acquired and liabilities assumed
The preliminary fair value of the identifiable assets and liabilities acquired from the Lebanese Canadian Bank SAL as at the date of acquisition were:

	Fair value recognized on acquisition LL million
ASSETS	
Cash and balances with the Central Bank	3,741,362
Deposits with banks and financial institutions	445,370
Loans to banks and financial institutions	60,886
Loans and advances to customers	2,494,561
Debtors by acceptances	14,636
Equity securities	54,186
Debt securities	1,689,522
Investments in subsidiaries	73,412
Property and equipment	83,947
Intangible assets	6,061
Non-current assets held for sale	16,924
Other assets	41,166
	8,722,033

	Fair value recognized on acquisition LL million
LIABILITIES	
Due to Central Bank	169,502
Repurchase agreements	829,637
Due to banks and financial institutions	926,495
Customers' deposits	5,965,313
Engagements by acceptances	14,636
Other liabilities	97,826
Provision for risks and charges	12,942
	8,016,351
Total identifiable net assets at fair value	705,682
Goodwill and other intangible assets arising on acquisition (note 29)	168,668
Purchase consideration transferred	874,350

	LL million
Cash flow on acquisition	
Net cash acquired from the acquisition	2,261,098
Cash paid	(874,350)
Net cash flow on acquisition	1,386,748

Transaction costs of LL 11,759 million have been expensed during 2011 and are included in general and other operating expenses (note 12).

Societe Generale de Banque – Jordanie (SGBJ)
During 2011, the Bank acquired an additional 0.40% interest of the voting shares of Societe Generale de Banque – Jordanie for LL 354 million. The Bank obtained the approval of the Central Bank of Lebanon accordingly.

The carrying value of the net assets of Societe Generale de Banque – Jordanie (excluding goodwill on the original acquisition) at the acquisition date was LL 124,519 million, and the carrying value of the additional interest acquired was LL 501 million. The difference of LL 147 million between the consideration and the carrying value of interest acquired has been recognized in retained earnings within consolidated equity.

4 INTEREST AND SIMILAR INCOME

	2012 LL million	2011 LL million
Deposits with banks and financial institutions	6,252	5,883
Deposits with Head Office, branches and affiliates	3,713	10,271
Loans and advances to customers at amortized cost	293,247	209,037
Loans and advances to related parties at amortized cost	4,046	2,957
Deposits with the Central Banks	94,032	22,255
Financial assets at amortized cost	428,995	302,262
Financial assets at amortized cost pledged as collateral	3,838	692
	834,123	553,357

5 INTEREST AND SIMILAR EXPENSE

	2012 LL million	2011 LL million
Due to banks and financial institutions	12,117	14,669
Amounts due to Head Office, branches and affiliates	146	3,633
Customers' deposits at amortized cost	490,011	308,538
Related parties' deposits at amortized cost	4,376	3,577
Due to the Central Banks	28,608	9,789
	535,258	340,206

6 FEE AND COMMISSION INCOME

	2012 LL million	2011 LL million
Credit related fees and commissions	38,798	30,682
Trust and fiduciary fees and commissions	34,710	34,893
Other commission income	12,537	12,533
	86,045	78,108

7 NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 LL million	2011 LL million
Net gain on foreign exchange	10,558	5,638
Interest income on debt instruments at fair value through profit or loss	8,183	3,907
Dividend income from equity instruments at fair value through profit or loss	206	481
Realized and unrealized gain (loss) from financial assets at fair value through profit or loss	7,760	(5,718)
	26,707	4,308

Net gain on foreign exchange includes gains and losses from spot and forward contracts and the revaluation of the daily open trading position.

8 REVENUE FROM FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2012 LL million	2011 LL million
Interest income from financial assets at fair value through other comprehensive income	7,314	5,406
Dividend income from financial assets at fair value through other comprehensive income	1,081	1,019
	8,395	6,425

9 OTHER OPERATING INCOME

	2012 LL million	2011 LL million
Income from services rendered	727	720
Write-back of impairment losses on non-current assets held-for-sale (note 27)	1,573	575
Gain from sale of non-current assets held-for-sale (note 27)	10,105	7,749
Other operating income	12,922	18,144
	25,327	27,188

10 NET CREDIT LOSSES

	2012 LL million	2011 LL million
Provision for corporate loans (note 20)	(15,241)	(27,099)
Provision for retail loans (note 20)	(17,539)	(9,361)
Provision for corporate loans - related parties (note 21)	(6,287)	(1,023)
Provision for deposits with banks and financial institutions (note 15)	-	(1,907)
Provision for debt instruments at amortized cost	-	(1,153)
Loans written off	(1,196)	(9,176)
	(40,263)	(49,719)
Less: Write-back of provision for corporate loans (note 20)	19,358	30,034
Write-back of provision for retail loans (note 20)	5,274	5,411
Write-back of provision for other debit balances – other assets (note 28)	67	151
Write-back of provision for deposits with banks and financial institutions (note 15)	768	-
	(14,796)	(14,123)

11 PERSONNEL EXPENSES

	2012 LL million	2011 LL million
Salaries and wages	76,040	65,706
National Social Security Fund contributions	10,044	9,374
Provisions for employees' end of service benefits (note 36)	4,038	2,035
Other allowances	21,487	17,951
	111,609	95,066

12 OTHER OPERATING EXPENSES

	2012 LL million	2011 LL million
Acquisition - related costs (note 3)	-	11,759
Telecommunication and postage	10,206	8,227
Rent	8,302	6,434
Professional services	24,755	7,455
Maintenance and repairs	7,421	6,063
Taxes and fees	5,013	4,221
Premiums for guarantee of deposits	6,122	2,783
Electricity, water and fuel	4,699	3,439
Publicity and advertising	7,902	9,480
Printings and stationery	2,926	2,617
Travelling and entertainment expenses	4,201	4,597
Legal expenses	1,162	1,535
Insurance premiums	1,528	1,400
Transportation and vehicle maintenance	1,606	956
Other operating charges	11,119	5,020
	96,962	75,986

13 INCOME TAX

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

	2012 LL million	2011 LL million
CURRENT TAX		
Current income tax	32,194	20,100
Prior years	-	2,727
DEFERRED TAX		
Relating to origination and reversal of temporary differences	1,447	(157)
	33,641	22,670

Reconciliation of the total tax charge

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

	2012 LL million	2011 LL million
Accounting profit before tax	207,420	123,553
Less: Revenues previously subject to tax	(44,440)	(24,832)
Add: Non-deductible expenses	33,107	32,848
Taxable profit	196,087	131,569
Effective income tax rate	16.22%	18.35%
Income tax expense reported in the consolidated income statement	33,641	22,670

Current tax liabilities (note 35)

	2012 LL million	2011 LL million
Income tax due	33,641	22,670
Tax withheld on interest previously paid	(15,614)	(16,042)
Deferred tax amortized to the consolidated income statement	(1,447)	157
Prior years' taxes paid	(2,727)	-
Others	2,734	1,867
	16,587	8,652

Deferred tax

The following table shows deferred tax recorded on the consolidated statement of financial position and changes recorded in the income tax expense:

	2012			2011		
	Deferred tax assets LL million	*Deferred tax liabilities LL million*	*Income statement LL million*	*Deferred tax assets LL million*	*Deferred tax liabilities LL million*	*Income statement LL million*
Revaluation of financial assets at fair value through other comprehensive income	-	60	-	-	182	-
Non-current assets held for sale	-	-	131	133	-	2
Depreciation of property and equipment	4,011	-	-	3,984	-	-
Impairment allowance for loans and advances	3,143	-	306	3,432	-	(86)
Unrealized losses on financial instruments at fair value through profit or loss	-	-	1,010	1,015	-	-
Others	415	-	-	426	-	(73)
	7,569	60	1,447	8,990	182	(157)

During 2011, the Bank's books and records were reviewed by the Department of Income Tax for the years 2006 and 2007. Accordingly, the Department of Income Tax imposed additional taxes and penalties amounting to LL 2,727 million. The Bank filed an objection against this assessment and provided for estimated potential liabilities of LL 2,727 million as at 31 December 2011. This amount was subsequently settled during 2012.

14 CASH AND BALANCES WITH THE CENTRAL BANKS

	2012 LL million	2011 LL million
Cash	81,817	94,802
Current accounts with the Central Banks	255,339	321,506
Time deposits with the Central Banks	3,189,544	1,623,946
	3,526,700	2,040,254

Cash and balances with the Central Banks include non-interest bearing balances held by the Group at the Central Bank of Lebanon 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 after taking into account certain waivers related to subsidized loans denominated in Lebanese Lira. Accordingly, the obligatory reserve amounted to LL 139,179 million as at 31 December 2012 (2011: LL 236,639 million).

In addition to the above, all banks operating in Lebanon are required to deposit with the Central Bank of Lebanon interest-bearing placements at the rate of 15% of total deposits in foreign currencies regardless of its nature. These placements amounted to US$ 802,402,000 (equivalent to LL 1,209,621 million) as at 31 December 2012 (2011: US$ 716,786,700 equivalent to LL 1,080,556 million).

Societe Generale de Banque – Jordanie and Societe Generale Bank – Cyprus Ltd are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the Kingdom of Jordan and the Republic of Cyprus respectively.

Time deposits include placements at the Central Bank of Lebanon of LL 599,669 million pledged to the favor of the Central Bank of Lebanon against loans granted by the latter as at 31 December 2012 (2011: nil) (note 31).

Included under time deposits with the Central Bank of Lebanon, long term placements as follows:

- Time placement of EUR 150 million equivalent to LL 298,168 million bearing an effective interest rate of 6.75% payable every 6 months and maturing on 5 April 2022.
- Time placement of US$ 200 million equivalent to LL 301,500 million bearing an effective interest rate of 6.75% payable every 6 months and maturing on 5 April 2022.
- Time placement of LL 200,000 million bearing an effective interest rate of 8.6% payable every 6 months and maturing on 10 February 2022.

Included under current accounts with the Central Bank of Lebanon, a blocked amount of LL 1,388 million as at 31 December 2012, relating to the issuance of additional common shares of the Bank. This amount was released subsequently.

15 DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	2012 LL million	2011 LL million
Current accounts	**216,247**	121,857
Time deposits	**690,563**	210,391
Checks for collection	**67,928**	71,077
Discounted bills	**27**	111
Pledged accounts	**754**	3,976
Net debtor accounts against creditor accounts	**12,728**	-
	988,247	407,412
Less: Provision for impairment	**(1,128)**	(1,907)
	987,119	405,505

Current accounts represent balances deposited at correspondent banks and financial institutions for operating activities and do not generate interest income.

The movement of provision for impairment of deposits with banks and financial institutions as recognized in the consolidated statement of financial position is as follows:

	2012 LL million	2011 LL million
Provision at 1 January	**1,907**	-
Provision for the year (note 10)	**-**	1,907
Write-back during the year (note 10)	**(768)**	-
Difference of exchange	**(11)**	-
Provision at 31 December	**1,128**	1,907

16 AMOUNTS DUE FROM HEAD OFFICE, BRANCHES AND AFFILIATES

	2012 LL million	2011 LL million
Sight deposits	**277,230**	129,823
Time deposits	**460,213**	1,228,166
Discounted bills	**5,797**	834
	743,240	1,358,823
Less: Provision for impairment	**-**	(5,039)
	743,240	1,353,784

The movement of provision for impairment of amounts due from Head Office, branches and affiliates as recognized in the consolidated statement of financial position is as follows:

	2012 LL million	2011 LL million
Provision at 1 January	**5,039**	-
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	**-**	5,039
Transfer to investments in non-consolidated subsidiaries (note 22)	**(5,039)**	-
Provision at 31 December	**-**	5,039

Time deposits include an amount of LL 59,634 million (equivalent to Euro 30 million) as of 31 December 2012 (2011: Euro 30 million, equivalent to LL 58,457 million) pledged in favor of Societe Generale SA Paris in guarantee of documentary letters of credit and guarantees issued in favor of the Bank's clients with any of the entities under Societe Generale Group.

17 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at year-end and are indicative of neither the market risk nor the credit risk.

	2012			2011		
	Assets LL million	*Liabilities LL million*	*Notional amount LL million*	*Assets LL million*	*Liabilities LL million*	*Notional amount LL million*
Derivatives designated as fair value hedges						
Interest rate swaps	**-**	**-**	**352**	-	-	1,306
Derivatives held-for-trading						
Forward foreign exchange contracts	**853**	**(398)**	**119,018**	1,599	(7,655)	283,155
	853	**(398)**	**119,370**	1,599	(7,655)	284,461

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 Group.

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

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk (note 50.2).

Derivative financial instruments held or issued for trading purposes
Most of the Group's derivative trading activities relate to deals with customers that are normally offset by transactions with other counterparties.

The Group may also take position with the expectation of profiting from favorable movements in prices, rates or indices. Also included under this heading are any derivatives entered into for hedging purposes that do not meet the IAS 39 hedge accounting criteria.

Fair value hedges
Fair value hedges are used by the Group to protect it against changes in the fair value of financial assets and financial liabilities due to movements in exchange rates and interest rates. The financial instruments hedged for interest rate risk include loans and advances. The Group uses interest rate swaps to hedge interest rate risk.

18 FINANCIAL ASSETS PLEDGED AS COLLATERAL

	2012 LL million	2011 LL million
Treasury bills mortgaged in favor of Central Bank of Lebanon, at amortized cost	197,183	27,183
Accrued interest receivable	1,485	692
	198,668	27,875

Financial assets pledged as collateral consist of Lebanese Treasury bills at amortized cost pledged against soft loans granted by the Central Bank of Lebanon (note 30).

	Nominal amount			
Financial assets	2012 LL million	2011 LL million	Coupon rate	Maturity date
Lebanese Treasury bills	170,000	-	6.74%	1 June 2017
Lebanese Treasury bills	8,430	8,430	6.18%	25 August 2016
Lebanese Treasury bills	483	483	6.18%	30 June 2016
Lebanese Treasury bills	18,270	18,270	7.38%	12 February 2015
	197,183	27,183		

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 LL million	2011 LL million
Quoted		
Shares	15,402	14,053
Funds	13,406	11,011
Lebanese Treasury bills – Eurobonds	17,099	9,239
Debt securities issued by banks	-	24,855
	45,907	59,158
Unquoted		
Shares	11,946	12,584
Lebanese Treasury bills – denominated in LL	149	20,558
Certificates of deposit – EuroCDs	226	-
	12,321	33,142
	58,228	92,300

20 LOANS AND ADVANCES TO CUSTOMERS AT AMORTIZED COST

	2012 LL million	2011 LL million
Corporate lending	3,014,369	3,037,129
Retail lending	1,935,865	1,928,532
	4,950,234	4,965,661
Less: Allowance for impairment	(659,903)	(643,438)
	4,290,331	4,322,223

During 2012 the Group reclassified certain loans and advances from retail to corporate amounting to LL 54,326 million, with their related allowance for impairment losses amounting to LL 37,752 million. These mainly relate to loans and advances acquired from the Lebanese Canadian Bank SAL and were reclassified as such to meet the Group's classification policy.

A reconciliation of the allowance for impairment for loans and advances to customers, by class, is as follows:

2012

	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	465,771	177,667	643,438
Charge for the year (note 10)	15,241	17,539	32,780
Transfer to off-statement of financial position	(42,685)	(5,635)	(48,320)
Unrealized interest for the year	58,127	13,719	71,846
Transfers from retail loans to corporate loans	37,752	(37,752)	-
Transfers from provisions for risk and charges	-	642	642
Transfers to loans and advances to related parties (note 21)	(1,126)	-	(1,126)
Write-back of provision (note 10)	(19,358)	(5,274)	(24,632)
Provisions written off	(16,024)	(2,061)	(18,085)
Transfers from off-statement of financial position	1,832	403	2,235
Difference of exchange	770	355	1,125
Balance at 31 December	500,300	159,603	659,903
Individual impairment	497,933	153,123	651,056
Collective impairment	2,367	6,480	8,847
	500,300	159,603	659,903
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	586,724	252,008	838,732

2011

	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	429,668	118,121	547,789
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	1,182	50,924	52,106
Charge for the year (note 10)	27,099	9,361	36,460
Unrealized interest for the year	47,769	12,697	60,466
Transfers from corporate loans to retail loans	(608)	608	-
Transfers from other assets (note 28)	-	516	516
Transfers from provision for risks and charges	-	2,533	2,533
Write-back of provision (note 10)	(30,034)	(5,411)	(35,445)
Provisions written off	(16,343)	(11,941)	(28,284)
Transfers from off-statement of financial position	8,163	1,093	9,256
Difference of exchange	(1,125)	(834)	(1,959)
Balance at 31 December	465,771	177,667	643,438
Individual impairment	464,461	174,339	638,800
Collective impairment	1,310	3,328	4,638
	465,771	177,667	643,438
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	507,571	275,562	783,133

According to the Central Bank of Lebanon regulations and Banking Control Commission Circular no. 240 dated 8 January 2004, bad debts and related allowance for credit losses meeting the criteria set out in the circular have been transferred to the off-statement of financial position accounts.

21 LOANS AND ADVANCES TO RELATED PARTIES AT AMORTIZED COST

	2012 LL million	2011 LL million
Corporate lending	64,175	62,923
Retail lending	20,637	4,328
	84,812	67,251
Less: Allowance for impairment	(15,855)	(8,517)
	68,957	58,734

A reconciliation of the allowance for impairment for loans and advances to related parties, by class, is as follows:

2012

	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	8,517	-	8,517
Charge for the year (note 10)	6,287	-	6,287
Unrealized interest for the year	50	-	50
Transfers from loans and advances to customers (note 20)	1,126	-	1,126
Difference of exchange	(125)	-	(125)
Balance at 31 December	15,855	-	15,855
Individual impairment	15,610	-	15,610
Collective impairment	245	-	245
	15,855	-	15,855
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	17,761	-	17,761

	2011		
	Corporate LL million	Retail LL million	Total LL million
Balance at 1 January	7,761	-	7,761
Charge for the year (note 10)	1,023	-	1,023
Unrealized interest for the year	42	-	42
Transfers from loans and advances to customers (note 20)	(380)	-	(380)
Difference of exchange	71	-	71
Balance at 31 December	8,517	-	8,517
Individual impairment	8,517	-	8,517
Collective impairment	-	-	-
	8,517	-	8,517
Gross amount of loans individually determined to be impaired, before deducting the individually assessed impairment allowance	8,625	-	8,625

22 INVESTMENTS IN NON-CONSOLIDATED SUBSIDIARIES

Investments in non-consolidated subsidiaries represent the following:

	Ownership %				
	2012	**2011**	**Activity**	**2012 LL million**	**2011 LL million**
Societe Generale Libanaise Foncière SARL	**98.66**	98.66	Real estate	**-**	1
Societe Generale de Services d'Investissements SARL	**98.50**	98.50	Services and studies	**525**	467
SGBL Courtage Assurance SARL	**100.00**	100.00	Brokerage	**1,585**	1,262
Centre de Traitement Monetique SAL	**50.00**	50.00	Financial services	**1,620**	1,555
Societe d'investissement et de Services «SIS» SAL	**99.00**	99.00	Investment and management	**17**	17
LCB Investments Holding SAL	**100.00**	100.00	Investment and management	**-**	111,215
				3,747	114,517
Less: Provision for impairment					
▪ Societe Generale de Services d'Investissements SARL				**(98)**	(98)
▪ LCB Investments Holding SAL				**-**	(51,276)
				3,649	63,143

The movement of provision for impairment of investments in subsidiaries as recognized in the statement of financial position is as follows:

	2012 LL million	**2011 LL million**
Provision at 1 January	**51,374**	98
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	**-**	51,276
Transfer from amounts due from Head Office, branches and affiliates (note 16)	**5,039**	-
Transfers to non-current assets held for sale	**(56,315)**	-
Provision at 31 December	**98**	51,374

During 2012, the Bank decided to dispose of its investment in LCB Investments Holding SAL and has located a buyer. Management believes that this sale will be finalized during 2013. Accordingly, the investment in LCB Investments Holding SAL together with the relevant provision was transferred to non-current assets held for sale during 2012 (note 27).

During 2012, the Group's share of profits from non-consolidated subsidiaries excluding LCB Investments Holding SAL amounted to LL 445 million (2011: LL 299 million).

During 2011, the Group did not consolidate nor did it book the share of profits / losses of LCB Investments Holding SAL (a subsidiary) since the investment was subject to adjustments, along with other assets and liabilities acquired from the Lebanese Canadian Bank SAL, as a result of the due diligence work that was being performed by independent professional firms and since legal ownership was not yet transferred to the Group.

The following table illustrates summarized information of the Group's investments in non-consolidated subsidiaries excluding LCB Investments Holding SAL:

	2012 LL million	**2011 LL million**
Share of non-consolidated subsidiaries' statements of financial position:		
Current assets	**4,364**	3,760
Non-current assets	**649**	728
Current liabilities	**(1,124)**	(1,076)
Non-current liabilities	**(142)**	(110)
Net assets	**3,747**	3,302
Share of non-consolidated subsidiaries' revenues and results:		
Revenues	**3,126**	2,809
Profit for the year	**445**	299

23 FINANCIAL ASSETS AT AMORTIZED COST

	2012 LL million	2011 LL million
QUOTED		
Lebanese Treasury bills – Eurobonds	840,617	672,578
Lebanese Treasury bills – Eurobonds pledged as collateral against repurchase agreements	382,398	651,487
Debt securities issued by banks	45,845	34,526
Certificates of deposit – private sector	-	3,125
Other governmental debt securities	-	55,393
Corporate debt securities	21,842	18,360
	1,290,702	1,435,469
UNQUOTED		
Lebanese Treasury bills – denominated in LL	2,332,583	2,760,095
Lebanese Treasury bills – denominated in LL pledged as collateral against repurchase agreements	403,255	401,171
Certificates of deposit – denominated in LL	967,263	701,779
Certificates of deposit – EuroCDs	868,789	904,179
Certificates of deposit – EuroCDs pledged as collateral against repurchase agreements	46,272	-
Other governmental debt securities	325,908	258,747
Corporate debt securities	14,395	14,654
	4,958,465	5,040,625
Provision for impairment	(1,153)	(1,153)
	4,957,312	5,039,472
	6,248,014	6,474,941

During the years ended 31 December 2012 and 2011, the Group disposed of debt instruments at amortized cost before their maturities due to the following:

- The need to fund unforeseen capital expenditures represented by the acquisition of the Lebanese Canadian Bank's assets and liabilities; and
- Liquidity gap and yield management.

The total net gain from disposal amounted to LL 14,471 million for the year ended 31 December 2012 (2011: LL 2,797 million). The total fair value of these instruments at the derecognition date amounted to LL 437,877 million (2011: LL 191,239 million).

24 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2012 LL million	2011 LL million
QUOTED		
Shares	10,730	11,533
Securities issued by banks	21,375	93,534
	32,105	105,067
UNQUOTED		
Shares	5,494	4,499
	37,599	109,566

The table below shows the details of financial assets classified at "fair value through other comprehensive income as at 31 December:

	2012 LL million	2011 LL million
QUOTED		
Holcim Liban SAL	10,384	11,195
BNPI 7.195%	-	23,460
Societe Generale 5.922%	-	23,796
Societe Generale 9.375%	-	4,848
Societe Generale 4.196%	-	5,520
Societe Generale 8.75%	-	5,884
Credit Agricole 6.637%	13,274	8,838
Credit Agricole 4.13%	-	6,490
Deutsche Bank 5.33%	8,101	7,650
Deutsche Bank 5.628%	-	7,048
Jordan Mortgage Refinancing Company	212	213
Jordan loans Guarantee Company	134	125
	32,105	105,067
UNQUOTED		
Bank of Beirut preferred shares - 2009	2,261	2,261
MasterCard	219	219
Visa	746	746
S.W.I.F.T. SCRL	24	52
Metropolitan Club SAL	62	62
Banque de L'habitat	-	1
Kafalat	380	458
Societe Financière du Liban SAL	380	301
3 Angle Capital SA	407	399
Amethis Finance Luxembourg SCA SICAR	1,015	-
	5,494	4,499
	37,599	109,566

Dividend and interest income recognized in the consolidated income statement from financial assets at fair value through other comprehensive income are as follows:

	2012 LL million	2011 LL million
Interest income from financial assets held at the end of the year	2,256	3,986
Interest income from financial assets derecognized during the year	5,058	1,420
Dividend income	1,081	1,019
	8,395	6,425

During the year, the Group sold financial assets at fair value through other comprehensive income. The total fair value of these investments at the derecognition date amounted to LL 101,619 million (2011: LL 104,934 million) with cumulative gains on disposal of LL 392 million (2011: LL 989 million). These gains were reclassified from "Cumulative change in fair value of financial assets at fair value through other comprehensive income" to "Retained earnings" during the year.

25 PROPERTY AND EQUIPMENT

	Advances on purchase of fixed assets LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
COST						
At 1 January 2012	67,574	137,036	63,416	42,662	1,992	312,680
Additions	14,722	636	3,162	1,036	13	19,569
Disposals	(11,680)	(36,105)	(659)	(40)	(86)	(48,570)
Transfers	(7,217)	-	5,030	2,187	-	-
Write-off	(584)	-	(10)	(151)	(91)	(836)
Exchange differences	(40)	-	105	40	3	108
At 31 December 2012	62,775	101,567	71,044	45,734	1,831	282,951
DEPRECIATION						
At 1 January 2012	-	13,312	47,274	31,412	967	92,965
Provided during the year	-	1,757	3,901	1,782	269	7,709
Relating to disposals	-	-	(597)	(40)	(86)	(723)
Relating to write-off	-	-	(7)	(151)	(70)	(228)
Exchange differences	-	-	87	38	2	127
At 31 December 2012	-	15,069	50,658	33,041	1,082	99,850
IMPAIRMENT						
At 1 January 2012 and 31 December 2012	-	1,357	-	-	-	1,357
NET CARRYING AMOUNT						
At 31 December 2012	62,775	85,141	20,386	12,693	749	181,744

	Advances on purchase of fixed assets LL million	Land and buildings LL million	Furniture and fixtures LL million	Installations LL million	Vehicles LL million	Total LL million
COST						
At 1 January 2011	18,491	58,283	54,217	35,349	1,648	167,988
Additions	54,983	2,199	3,043	1,535	409	62,169
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	12,610	61,464	4,841	4,913	119	83,947
Disposals	(565)	(745)	(668)	(55)	(127)	(2,160)
Transfers from non current assets held-for-sale (note 27)	-	1,575	-	-	-	1,575
Transfers	(17,631)	14,260	2,218	1,153	-	-
Transfers to intangible assets (note 26)	(313)	-	-	-	-	(313)
Write-off	-	-	(109)	(171)	(55)	(335)
Exchange differences	(1)	-	(126)	(62)	(2)	(191)
At 31 December 2011	67,574	137,036	63,416	42,662	1,992	312,680
DEPRECIATION						
At 1 January 2011	-	12,163	45,138	30,195	823	88,319
Provided during the year	-	1,357	3,023	1,509	246	6,135
Relating to disposals	-	(208)	(653)	(55)	(44)	(960)
Relating to write-off	-	-	(94)	(170)	-	(264)
Exchange differences	-	-	(140)	(67)	(58)	(265)
At 31 December 2011	-	13,312	47,274	31,412	967	92,965
IMPAIRMENT						
At 1 January 2011 and 31 December 2011	-	1,357	-	-	-	1,357
NET CARRYING AMOUNT						
At 31 December 2011	67,574	122,367	16,142	11,250	1,025	218,358

According to the provisions of law no. 282 dated 31 December 1993 and the Central Bank of Lebanon circulars, the Group restated the cost of buildings acquired prior to 1 January 1994 for the changes in the general purchasing power of the Lebanese Lira. The restatement amounted to LL 3,934 million as of 31 December 2012 (2011: same) and was added to property and equipment with a corresponding entry to revaluation reserve of property included in shareholders' equity (note 40).

26 INTANGIBLE ASSETS

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
COST					
At 1 January 2012	1,965	-	7,903	9,377	19,245
Additions	106	-	-	906	1,012
Write-off	(543)	-	-	(365)	(908)
Transfers	(887)	-	-	887	-
Transfer from goodwill and other intangible assets (note 29)	-	20,600	-	-	20,600
Exchange differences	-	-	-	30	30
At 31 December 2012	**641**	**20,600**	**7,903**	**10,835**	**39,979**
AMORTIZATION					
At 1 January 2012	-	-	1,842	6,848	8,690
Provided during the year	-	1,717	-	840	2,557
Exchange differences	-	-	-	32	32
At 31 December 2012	**-**	**1,717**	**1,842**	**7,720**	**11,279**
NET CARRYING AMOUNT					
At 31 December 2012	**641**	**18,883**	**6,061**	**3,115**	**28,700**

	Advances on intangible assets LL million	Customer relationships LL million	Key money LL million	Licenses and software LL million	Total LL million
COST					
At 1 January 2011	1,106	-	1,842	8,587	11,535
Additions	1,172	-	-	781	1,953
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	-	-	6,061	-	6,061
Write-off	-	-	-	(581)	(581)
Transfers	(626)	-	-	626	-
Transfer from property and equipment (note 25)	313	-	-	-	313
Exchange differences	-	-	-	(36)	(36)
At 31 December 2011	1,965	-	7,903	9,377	19,245
AMORTIZATION					
At 1 January 2011	-	-	1,842	6,464	8,306
Provided during the year	-	-	-	657	657
Relating to write-off	-	-	-	(232)	(232)
Exchange differences	-	-	-	(41)	(41)
At 31 December 2011	-	-	1,842	6,848	8,690
NET CARRYING AMOUNT					
At 31 December 2011	1,965	-	6,061	2,529	10,555

Acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL

The Group conducted an analysis for computing the fair values of the identified material intangible assets acquired with the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL. The following intangible assets from the acquisition have been considered in the valuation analysis:

- Customer contracts and related relationships – Customer portfolio (loans and advances)
- Customer contracts and related relationships – Core deposits

These were valued using the "Multi-Period Excess Earning Method".

The values were determined as such:

	LL million
Customer portfolio	**18,196**
Core deposits	**2,404**
	20,600

27 NON-CURRENT ASSETS HELD FOR SALE

	2012 LL million	2011 LL million
Assets obtained in settlement of debt (i)	**149,011**	132,837
Subsidiaries (ii)	**68,373**	13,473
	217,384	146,310

(i) The movement of assets obtained in settlement of debt held for sale recognized in the consolidated statement of financial position is as follows:

	2012 LL million	2011 LL million
COST:		
At 1 January	**151,738**	132,796
Additions	**30,679**	9,011
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	**-**	16,924
Disposals	**(16,271)**	(5,829)
Other adjustments	**193**	411
Transfer to property and equipment (note 25)	**-**	(1,575)
At 31 December	**166,339**	151,738
IMPAIRMENT:		
At 1 January	**18,901**	19,476
Write-back during the year	**(1,573)**	(575)
At 31 December	**17,328**	18,901
NET CARRYING AMOUNT:		
At 31 December	**149,011**	132,837

Assets obtained in settlement of debt held-for-sale represent primarily land and buildings acquired by the Group in settlement of certain loans and advances.

As at 31 December 2012, the fair value of the assets obtained in settlement of debt as estimated by the Group amounted to LL 201,121 million (2011: LL 212,804 million).

During the year, the Group disposed of assets obtained in settlement of debt held for sale with carrying value of LL 14,698 million (2011: LL 5,254 million) and recognized a gain of LL 10,105 million (2011: LL 7,749 million) and a write-back of impairment losses amounting to LL 1,573 million (2011: LL 575 million) (refer to note 9), in addition to the release of reserve for non-current assets held for sale amounting to LL 2,552 million (2011: LL 1,005 million). This amount relates to appropriations previously booked on property acquired in settlement of debts (refer to note 38).

(ii) Subsidiaries held for sale include the following as at 31 December:

	2012 LL million	2011 LL million
Prime Bank (Gambia) Ltd	**8,826**	8,826
LCB Finance SAL	**4,647**	4,647
LCB Investments Holding SAL (note 22)	**54,900**	-
	68,373	13,473

These subsidiaries were acquired with the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL. However, the Group intends to dispose of or liquidate these subsidiaries.

28 OTHER ASSETS

	2012 LL million	2011 LL million
Due from the National Security Fund	**10,838**	9,457
Prepaid expenses	**7,200**	6,262
Commissions paid in advance (iii)	**4,725**	-
Stamps	**612**	696
Printed materials and stationery	**1,150**	960
Credit cards inventory	**248**	2,091
Deferred employee termination benefits (i)	**33,414**	22,548
Deferred tax assets (note 13)	**7,569**	8,990
Receivable from sale of non-current assets held for sale	**8,380**	7,984
Other debtors	**27,943**	24,986
Provision for other debtors (ii)	**(3,193)**	(3,369)
	98,886	80,605

(i) Deferred employee termination benefits
Deferred employee termination benefits amounting to LL 33,414 million as at 31 December 2012 (2011: LL 22,548 million), represent compensations paid to employees whose contracts were terminated as a result of the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL during 2011.

Also included under loans and advances to customers an amount of LL 17,955 million as at 31 December 2012 (2011: LL 28,337 million) representing additional compensations paid to employees whose contracts were not terminated and are calculated on the basis of 60% of the value of the compensation had the employees' contracts been terminated.

These compensations were calculated on the basis provided for in the staff compensation arbitrary decision dated 29 August 2011.

These benefits were deferred up to an amount of LL 60,300 million (equivalent to US$ 40 million). The Central Bank of Lebanon exempted the Bank from part of the obligatory reserves denominated in Lebanese Lira. Part of these reserves was invested in Lebanese Treasury bills whose nominal value amounted to LL 80,000 million and maturing on 1 December 2016.

During June 2012, the Central Bank of Lebanon granted the Bank a soft loan amounting to LL 170,000 million in substitute of the exemption from part of the obligatory reserves granted during 2011. The proceeds from the soft loan were invested in Lebanese Treasury bills maturing on 1 June 2017. These Treasury bills were pledged as collateral against the settlement of the soft loan. The interest income generated from these Treasury bills will be offset against these deferred compensations over the period of the future economic benefits of these Treasury bills.

During the year ended 31 December 2012, deferred employee termination benefits of LL 6,647 million were amortized to the consolidated income statement against a net spread between the interest income from the Lebanese Treasury bills and interest expense on the soft loan for the same amount.

(ii) Provision for other debtors

The movement of provision for other debtors recognized in the consolidated statement of financial position is as follows:

	2012 LL million	2011 LL million
Provision at 1 January	3,369	3,327
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	-	95
Written-back during the year (note 10)	(67)	(151)
Transfer to loans and advances to customers (note 20)	-	(516)
Other adjustments	(109)	614
Provision at 31 December	3,193	3,369

(iii) Commissions paid in advance

"Commissions paid in advance" consist mainly of commissions paid to the Central Bank of Lebanon on the term placements with the latter which amounted to LL 1,301,169 million as at 31 December 2012. These commissions are amortized to the consolidated income statement over the term of the placements.

29 GOODWILL AND OTHER INTANGIBLE ASSETS

	2012 LL million	2011 LL million
COST:		
At 1 January	195,962	27,294
Additions (note 3)	-	168,668
Transfer to intangible assets (note 26)	(20,600)	-
At 31 December	175,362	195,962
IMPAIRMENT:		
At 1 January	3,470	3,470
Impairment charge for the year	-	-
At 31 December	3,470	3,470
NET BOOK VALUE:		
At 31 December	171,892	192,492

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to five individual cash generating units for impairment testing as follows:

	2012 LL million	2011 LL million
Societe Generale de Banque – Jordanie	2,393	2,393
Fidus SAL	199	199
Sogecap Liban SAL	813	813
Societe Generale Bank – Cyprus Ltd	20,419	20,419
Assets and liabilities of the Lebanese Canadian Bank SAL (i)	148,068	168,668
	171,892	192,492

(i) Assets and liabilities of the Lebanese Canadian Bank SAL

The goodwill and other intangible assets generated from the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL comprise the value of different intangible assets relating to the Group's operations and a residual value for goodwill. A purchase price allocation was conducted during the year 2012 to estimate the value of the identified material intangible assets acquired with the acquisition and the resulting goodwill. The values were determined as such:

	LL million
Intangible assets – customer relationships (note 26)	**20,600**
Goodwill	**148,068**
	168,668

The goodwill of LL 148,068 million comprises the value of expected synergies arising from the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL.

Key assumptions used in value in use calculations

The recoverable amount of the assets and liabilities of the Lebanese Canadian Bank SAL, Societe Generale Bank – Cyprus Ltd and Societe Generale de Banque – Jordanie have been determined based on value in use calculations, using cash flow projections based on financial budgets approved by senior management. The following rates are used by the Group:

	Assets and liabilities of the Lebanese Canadian Bank SAL		Societe Generale Bank – Cyprus Ltd		Societe Generale Bank – Jordanie	
	2012	2011	2012	2011	2012	2011
Discount rate	22.30%	-	8.50%	8.35%	10.3%	10.3%
Projected terminal rate	2%	-	2.5%	2.5%	2.5%	2.5%

The calculation of value in use is most sensitive to interest margin, discount rates, projected growth rates used to extrapolate cash flows beyond the budget period and projected terminal rates.

Interest margins

Interest margins are based on current fixed interest yields.

Discount rates

Discount rates reflect the current market assessment of the risk specific to each cash generating unit. The discount rate was estimated based on the average percentage of a weighted average cost of equity for the banking industry, determined on a pre-tax basis. This rate was further adjusted to reflect the market assessment of any risks specific to the cash generating unit for which estimates of cash flows have not been adjusted.

Market share assumptions
These assumptions are important because, as well as using industry data for growth rates, management assesses how the unit's relative position to its competitors might change over the budget period. Management expects the Group's share to be stable over the budget period.

Projected growth rates
Assumptions are based on published industry research.

Sensitivity to changes in assumptions
Except for Societe Generale Bank – Cyprus Ltd (cash generating units), management believes that no reasonably possible change in any of the above assumptions would cause the carrying value of the units to exceed their recoverable amount.

30 DUE TO CENTRAL BANKS

	2012 LL million	2011 LL million
Current account	38,591	39,565
Term soft loans	197,183	27,183
Accrued interest	558	313
	236,332	67,061

Term soft loans include:

- Term loans amounting to LL 27,183 million as at 31 December 2012 (2011: LL 27,183 million) were granted by the Central Bank of Lebanon to cover 60% of the replacement costs of the Bank's damaged buildings and installations and to cover 60% of the Bank's credit losses relating to debtors directly affected by the war in July 2006. The effective interest rate for 2012 was 3% (2011: 3%).
- Term loan amounting to LL 170,000 million granted during June 2012 from the Central Bank of Lebanon after the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL for a ten years period. The effective interest rate is 2% for the first 5 years and will be revised on a later stage by the Central Bank of Lebanon for the remaining 5 years (note 28).

These loans are secured by the pledge of Lebanese Treasury bills amounting to LL 197,183 million included under financial assets pledged as collateral as of 31 December 2012 (2011: LL 27,183 million) (note 18).

31 LOANS AND REPURCHASE AGREEMENTS

	2012 LL million	2011 LL million
Due to Central Bank of Lebanon	982,850	982,605
Banks and financial institutions	186,358	-
	1,169,208	982,605

The Group has a program to sell securities under agreements to repurchase ('repos'). The securities sold under agreements to repurchase are transferred to third parties and the Group receives cash in exchange. The third parties are not allowed to sell or pledge those securities lent or sold under repurchase agreements in the absence of default by the Group and have an obligation to return the securities at the maturity of the contract. The Group has determined that it retains substantially all the risks and rewards of these securities and therefore has not derecognized them. In addition, it recognizes a financial liability for cash received as collateral.

The carrying amount and fair value of securities sold under agreements to repurchase at 31 December 2012 was LL 831,925 million and LL 851,021 million respectively (2011: LL 1,052,658 million and LL 1,096,108 million respectively). Those securities are presented in the consolidated statement of financial position under "Financial assets at amortized cost" (note 23).

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	2012 LL million	2011 LL million
Sight deposits	85,360	98,625
Time deposits	419,270	433,805
	504,630	532,430

33 AMOUNTS DUE TO HEAD OFFICE, BRANCHES AND AFFILIATES

	2012 LL million	2011 LL million
Sight deposits	5,979	29,286
Time deposits	-	17,406
	5,979	46,692

34 CUSTOMERS' DEPOSITS AT AMORTIZED COST

	2012		
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	592,341	1,223,858	1,816,199
Net creditor accounts against debtor accounts and blocked margins	70,630	169,011	239,641
	662,971	1,392,869	2,055,840
Time deposits	1,776,285	4,336,258	6,112,543
Savings accounts	191,678	5,311,731	5,503,409
	2,630,934	11,040,858	13,671,792

	2011		
	Corporate LL million	Retail LL million	Total LL million
Sight deposits	684,532	1,038,111	1,722,643
Net creditor accounts against debtor accounts and blocked margins	48,419	167,603	216,022
	732,951	1,205,714	1,938,665
Time deposits	1,366,932	3,075,590	4,442,522
Savings accounts	24,882	6,600,490	6,625,372
	2,124,765	10,881,794	13,006,559

Included in customers' deposits as at 31 December 2012, are coded accounts amounting to LL 102,487 million (2011: LL 12,936 million). These accounts are opened in accordance with article 3 of the Banking Secrecy Law dated 3 September 1956.

35 OTHER LIABILITIES

	2012 LL million	2011 LL million
Due to the National Social Security Fund	1,150	1,159
Accrued expenses	24,268	20,022
Redeemed preferred shares payable to third parties (i)	22,196	22,196
Interest and commissions received in advance	10,100	7,481
Customers' transactions between Head Office and branches	12,618	7,447
Current tax liabilities (note 13)	16,587	8,652
Deferred tax liabilities (note 13)	60	182
Other taxes payable	7,090	10,422
Other creditors (ii)	32,252	23,067
	126,321	100,628

(i) Redeemed preferred shares payable to third parties represent liabilities acquired with the acquisition of the assets and liabilities of the Lebanese Canadian Bank SAL and relating to preferred shares redeemed by the Lebanese Canadian Bank SAL and not yet claimed by the holders of those shares.

(ii) Included under other creditors an amount of LL 8,003 million as at 31 December 2012 (2011: nil), representing the partial settlement made by a debtor in settlement of his debts amounting to LL 8,356 million.

The Group will reimburse this payment during 2013 since it has received the full payment of LL 8,356 million from the shareholders of the Lebanese Canadian Bank SAL during the year 2012.

36 PROVISION FOR RISKS AND CHARGES

	2012 LL million	2011 LL million
Technical reserve for insurance contracts	12,598	9,915
Employees' end of service benefits (i)	25,803	25,823
Provision for miscellaneous risks	8,115	7,227
Provision for contingencies and charges	2,641	3,871
Other provisions	728	608
	49,885	47,444

(i) Employees' end of service benefits
Movements in the provision for end of service benefits recognized in the consolidated statement of financial position are as follows:

	2012 LL million	2011 LL million
Balance at 1 January	25,823	17,225
Provided during the year (note 11)	4,038	2,035
Acquisition of assets and liabilities of Lebanese Canadian Bank SAL	-	7,756
Paid during the year	(4,192)	(990)
Difference of exchange	134	(203)
Balance at 31 December	25,803	25,823

37 SHARE CAPITAL

a. Common shares

The authorized, issued and fully paid share capital as of 31 December 2012 comprised of 56,535 shares of nominal value of LL 212,400 each (2011: 50,000 shares of LL 212,400 each).

The Extraordinary General Assembly of shareholders held on 17 December 2012 certified the capital increase of the Bank through issuance of additional 6,535 common shares for a total consideration of LL 150,737 million divided as follows:
- Share capital – common shares of LL 1,388 million
- Share premium – common shares of LL 149,349 million

b. Preferred shares

On 22 July 2008, the Bank issued 9,000 preferred shares (Series 2008) for a nominal amount of LL 212,400 each (a total of LL 1,912 million) plus a share premium denominated in US Dollars of US$ 9,859. Accordingly, share premium of LL 133,121 million represents a premium of US$ 88,731,675 (or LL 133,763 million) less issuance costs of LL 642 million.

On 15 March 2010, the Bank issued 10,000 preferred shares (Series 2010) for a nominal amount of LL 212,400 each (a total of LL 2,124 million) plus a share premium denominated in US Dollars of US$ 9,859. Accordingly, share premium of LL 148,284 million represents a premium of US$ 98,590,000 (or LL 148,624 million) less issuance costs of LL 340 million.

The payment of dividends for preferred shareholders is dependent on:
(1) The availability of non-consolidated net income for a specific year after appropriation of legal and other regulatory reserves;
(2) The continuous compliance with regulations issued by the Central Bank of Lebanon and the Banking Control Commission; and
(3) The approval of the Ordinary General Assembly of shareholders to distribute those dividends.

During 2012, the Bank transferred LL 1,267 million (2011: LL 1,267 million) from “retained earnings” to the “share premium – preferred shares”. These represent the appropriation of transaction costs incurred on preferred shares and additional premiums of 2% relating to preferred shares – Series 2008 and 1.75% relating to preferred shares – Series 2010.

c. Cash contribution by shareholders

Cash contribution to capital of US$ 70,810,000 was paid by the shareholders in prior years. The shareholders resolved during their Ordinary General Assembly dated 21 July 2010 to convert part of their cash contribution to capital from US Dollars to Euro. The Central Bank of Lebanon approved this conversion on 8 November 2010. Accordingly, the Bank converted US$ 35,066,400 to EUR. Cash contribution to capital amounted to US$ 35,743,600 and EUR 26,229,259 as at 31 December 2012 totalling LL 106,746 million (2011: LL 106,746 million). These contributions were granted by the shareholders of the Bank in order to support and develop the activities of the Group, in accordance with the following conditions:

- Every shareholder is committed to retain the contributions during the lifetime of the Bank;
- The shareholders commit to cover any loss using their contributions according to the provisions of article 4 (A-B) of circular N° 1114 of the Central Bank of Lebanon and article 134 of the Money and Credit Act;
- The shareholders have the right to use or not to use these contributions in case of a capital increase; and
- Interest rate applied on these contributions is determined based on the latest 3-year Eurobond issue less 0.5% and payment is subject to the approval of the Banking Control Commission and the shareholders’ General Assembly resolution. The Bank did not pay any interest on the cash contribution during the year 2012 (2011: same).

Both the Central Council of the Central Bank of Lebanon and the Ordinary General Assembly of the Bank approved these contributions.

38 NON DISTRIBUTABLE RESERVES

	Legal reserve LL million	Reserve for general banking risks LL million	Reserve against doubtful and impaired loans LL million	Reserve for capital increase LL million	Reserve for non-current assets held for sale LL million	Total LL million
At 1 January 2011	42,953	46,622	666	11,142	14,287	115,670
Appropriation during the year	11,715	7,336	-	12,950	5,537	37,538
Transfers	-	-	-	1,005	(1,005)	-
Write-off	-	-	(3)	-	-	(3)
At 31 December 2011	54,668	53,958	663	25,097	18,819	153,205
Appropriation during the year	10,338	18,329	-	16,432	7,901	53,000
Transfers	-	-	-	2,552	(2,552)	-
Write-off	-	-	(12)	-	-	(12)
At 31 December 2012	65,006	72,287	651	44,081	24,168	206,193

a. Legal reserve

As required by local regulations where the Group operates, a percentage of the net profit for the year should be transferred to legal reserve. This reserve is not available for dividend distribution.

b. Reserve for general banking risks

In compliance with the Central Bank of Lebanon regulations, the Bank should appropriate from its net profit for the year, a minimum amount of 2 per thousand and a maximum of 3 per thousand from the total risk weighted assets and off-statement of financial position items based on the rates specified by the Central Bank of Lebanon as a reserve for general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of 2017 and 2% at the end of 2027.

In addition, Societe Generale de Banque – Jordanie and Societe Generale Bank – Cyprus Ltd are also required to appropriate reserves for general banking risks in accordance with local requirements.

c. Reserve against doubtful and impaired loans

In compliance with pronouncement 20/2008 of the Banking Control Commission issued on 13 September 2008, the Bank should appropriate to a special reserve an amount equal to its portfolio of doubtful and impaired loans which were not settled in accordance with the Central Bank basic circular no. 73 and its subsequent amendments.

The Bank releases this reserve to retained earnings when:

- The loan is settled and fully paid; or
- Partial settlement of the loan leading to a reserve in excess of the loan net carrying amount; or
- A provision is made in the income statement.

d. Reserve for capital increase

In compliance with the circular No. 167 issued by the Banking Control Commission, the Bank is required to appropriate the net write-back of provisions for doubtful debts in a particular year to the reserve for capital increase when the net results are positive.

In compliance with the circular No. 173 issued by the Banking Control Commission, the Bank is required to appropriate the gain realized from the sales of non-current assets held for sale to the reserve for capital increase when the net results are positive.

e. Reserve for non-current assets held for sale

In compliance with pronouncements of the Banking Control Commission, when properties acquired in settlement of debts are not sold within the timeframe required by local regulators, the Bank should appropriate an amount equal to 5% or 20% of the carrying value of such properties. The annual appropriation, which is from the net profit of the respective year after appropriations to legal reserve and reserve for general banking risks, is reported under “reserve for non-current assets held for sale”.

The Bank shall make a transfer from this reserve into “Reserve for capital increase” in the following circumstances:

- The reserve appropriated in prior years related to a property disposed of; or
- The reserve appropriated in prior years, equal or up to an impairment loss recognized in the income statement against the acquired property.

39 DISTRIBUTABLE RESERVES

	General reserves	
	2012 LL million	**2011 LL million**
Balance at 1 January	**21,912**	21,912
Appropriation during the year	**16**	-
Balance at 31 December	**21,928**	21,912

These reserves were appropriated according to resolutions by the Ordinary General Assembly of Shareholders.

40 REVALUATION RESERVE OF PROPERTY

	2012 LL million	2011 LL million
Revaluation amount	**5,499**	5,499
Book value	**(945)**	(945)
Sale of real estate	**(620)**	(620)
Revaluation variance	**3,934**	3,934

The Central Bank of Lebanon and the tax authorities approved on 29 March 1995 and on 18 April 1995 respectively, the revaluation of some of the buildings owned by the Bank and used for operating purposes in accordance with the law no. 282 dated 30 December 1993 (note 25).

41 CUMULATIVE CHANGE IN FAIR VALUE OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2012 LL million	2011 LL million
Balance at 1 January	**(26,211)**	20,204
Effect of adopting IFRS 9 at 1 January	**-**	(26,713)
Restated balance at 1 January	**(26,211)**	(6,509)
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income, net of tax	**24,896**	(18,713)
Net realized gain on financial instruments transferred to retained earnings	**(392)**	(989)
Net movement	**24,504**	(19,702)
Balance at 31 December	**(1,707)**	(26,211)

Included under net unrealized gain (loss) on financial assets at fair value through other comprehensive income, unrealized gain of LL 21,747 million (2011: LL 4,637) relating to instruments sold during the year.

42 DIVIDENDS PAID TO EQUITY HOLDERS OF THE PARENT

According to the resolution of the General Assembly meeting held on 27 April 2012, the following dividends were declared and paid, from the 2011 profits:

	2012		
	Number of shares	Dividend per share In LL	Total LL million
Dividends for ordinary shares	**50,000**	**753,740**	**37,686**
Dividends for preferred shares – 2008 issue	**9,000**	**1,356,750**	**12,211**
Dividends for preferred shares – 2010 issue	**10,000**	**1,168,313**	**11,682**
			61,579

According to the resolution of the General Assembly meeting held on 30 April 2011, the following dividends were declared and paid, from the 2010 profits.

	2011		
	Number of shares	Dividend per share In LL	Total LL million
Dividends for preferred shares – 2008 issue	9,000	1,356,750	12,211
Dividends for preferred shares – 2010 issue	10,000	931,454	9,315
			21,526

43 CASH AND CASH EQUIVALENTS

	2012 LL million	2011 LL million
Cash and balances with the Central Banks	**3,526,700**	2,040,254
Financial instruments – Treasury bills	**4,174,769**	4,543,003
Financial instruments – Certificates of deposit	**1,882,550**	1,605,958
Deposits with banks and financial institutions	**987,119**	405,505
Amounts due from Head Office, branches and affiliates	**743,240**	1,353,784
Due to Central Banks	**(236,332)**	(67,061)
Loans and repurchase agreements	**(1,169,208)**	(982,605)
Due to banks and financial institutions	**(504,630)**	(532,430)
Amounts due to Head Office, branches and affiliates	**(5,979)**	(46,692)
	9,398,229	8,319,716
Less: balances with maturities exceeding 3 months		
Cash and balances with the Central Banks	**2,711,446**	642,639
Financial instruments – Treasury bills	**4,173,237**	4,543,003
Financial instruments – Certificates of deposit	**1,882,550**	1,605,958
Deposits with banks and financial institutions	**169,981**	59,939
Amounts due from Head Office, branches and affiliates	**83,219**	75,292
Due to Central Banks	**(197,741)**	(8,430)
Loans and repurchase agreements	**(186,358)**	-
Due to banks and financial institutions	**(156,517)**	(113,528)
	8,479,817	6,804,873
Cash and cash equivalents at 31 December	**918,412**	1,514,843

44 RELATED PARTY TRANSACTIONS

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

A list of the Group's principal subsidiaries is shown in note 2. Transactions between the Bank and its subsidiaries meet the definition of related party transactions. However, where these are eliminated on consolidation, they are not disclosed in the Group's consolidated financial statements.

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

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

Terms and conditions of transactions with related parties
The Group enters into transactions with major related parties in the ordinary course of business at normal commercial interest and commission rates. For the year ended 31 December 2012, the Group has made provisions for doubtful debts relating to amounts owed by related parties amounting to LL 6,287 million (2011: LL 1,023 million) with total provisions amounting to LL 15,855 million (2011: LL 8,517 million).

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.

	2012		
	Outstanding balance LL million	**Highest balance LL million**	**Income (expense) LL million**
KEY MANAGEMENT PERSONNEL			
Net loans and advances	**55,765**	**55,817**	**402**
Deposits	**55,463**	**60,124**	**(209)**
Other credit balances	**16,675**	**48,830**	**(55)**
Guarantees given	**1,701**	**1,701**	**-**
Guarantees received	**-**	**452**	**-**
Other commitments	**188**	**188**	**-**
ENTITIES UNDER COMMON DIRECTORSHIPS			
Net loans and advances	**17,430**	**18,741**	**1,208**
Deposits	**35,076**	**35,076**	**(625)**
Other credit balances	**4,606**	**4,997**	**(13)**
Guarantees given	**188**	**188**	**-**
Guarantees received	**46,168**	**46,168**	**-**
SHAREHOLDER - BANK			
Net loans and advances	**585,933**	**585,933**	**3,736**
Guarantees given	**1,564**	**1,564**	**-**
Other commitments	**34**	**34**	**-**
NON-CONSOLIDATED SUBSIDIARIES			
Net loans and advances	**49**	**49**	**1**
Deposits	**673**	**1,403**	**(2)**
Other credit balances	**2,590**	**2,856**	**-**
Guarantees given	**25**	**25**	**-**

	2011		
	Outstanding balance LL million	**Highest balance LL million**	**Income (expense) LL million**
KEY MANAGEMENT PERSONNEL			
Net loans and advances	52,325	52,367	240
Deposits	58,118	58,118	(165)
Other credit balances	15,399	16,992	(50)
Guarantees given	1,267	1,267	-
Other commitments	165	165	-
ENTITIES UNDER COMMON DIRECTORSHIPS			
Net loans and advances	12,022	12,076	762
Deposits	19,004	19,121	(280)
Other credit balances	3,877	17,174	(13)
Guarantees given	188	188	-
Guarantees received	5,005	5,005	-
SHAREHOLDER – BANK			
Net loans and advances	1,168,623	1,168,623	8,282
Other credit balance	6,003	6,003	(3)
Guarantees given	1,984	1,984	-
NON-CONSOLIDATED SUBSIDIARIES			
Net loans and advances	13	13	-
Deposits	1,387	1,387	(3)
Other credit balances	1,842	1,959	-
Guarantees given	25	25	-

Compensation of the key management personnel is as follows:

	2012 LL million	**2011 LL million**
Short-term benefits	**6,712**	5,995
Termination benefits	**326**	237
	7,038	6,232

45 FIDUCIARY ACCOUNTS

A summary of the Group's fiduciary accounts according to law no. 520 dated 6 June 1996 relating to the development of financial markets and fiduciary contracts is as follows:

	2012 LL million	**2011 LL million**
Deposits with banks	**35,605**	146,241
Loans and advances	**19,598**	19,790
Equity instruments	**116,868**	30,241
Certificates of deposit	**31,082**	9,057
	203,153	205,329

46 ASSETS HELD IN CUSTODY AND UNDER ADMINISTRATION

	2012 LL million	2011 LL million
Treasury bills and Eurobonds	55,058	27,295
Bonds and other debt instruments	167,999	204,267
Equity instruments	376,747	357,877
Certificates of deposit	31,082	51,372
Funds	113,247	109,043
Deposits with banks	13,282	15,053
Precious metals	-	8,489
	757,415	773,396

47 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

Credit-related commitments and contingent liabilities

To meet the financial needs of customers, the Group enters into various commitments, guarantees and contingent liabilities, which are mainly credit-related instruments including both financial and other guarantees and commitments to extend credit. Even though these obligations may not be recognized on the consolidated statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group. 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.

	2012		
	Banks LL million	Customers LL million	Total LL million
GUARANTEE AND CONTINGENT LIABILITIES			
Financial guarantees	50,936	89,211	140,147
Other guarantees	20,022	240,613	260,635
	70,958	329,824	400,782
COMMITMENTS			
Documentary credits	123,942	15,153	139,095
Undrawn credit lines	-	765,689	765,689
	123,942	780,842	904,784

	2011		
	Banks LL million	Customers LL million	Total LL million
GUARANTEES AND CONTINGENT LIABILITIES			
Financial guarantees	9,770	31,979	41,749
Other guarantees	30,707	276,019	306,726
	40,477	307,998	348,475
COMMITMENTS			
Documentary credits	144,527	20,435	164,962
Undrawn credit lines	-	791,307	791,307
	144,527	811,742	956,269

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 provided include mainly performance guarantees, advance payment guarantees, tender guarantees, customs guarantees and retention 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

Undrawn credit lines 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 industries where the Group operates due to the nature of the businesses undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss is reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Based on advice from the Bank's legal counsel, management believes that legal claims will not result in any financial loss to the Group.

Capital commitments

At 31 December 2012, the Group had capital commitments in respect of premises and equipment purchases amounting to LL 5,612 million (2011: LL 8,228 million).

Operating lease commitments – Group as lessee

The Group enters into commercial leases on premises. There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancelable operating leases as at 31 December are as follow:

	2012 LL million	2011 LL million
Within one year	6,810	7,272
After one year but not more than five years	18,665	16,272
	25,475	23,544

Other contingencies
The Cyprus economy has been adversely affected over the last two years by the Euro zone credit crisis, especially with respect to Greece and the instability in the global financial markets. As a result, the Cyprus government entered into negotiations with the European Commission, the European Central Bank and the International Monetary Fund (the "Troika"), in order to receive financial assistance. On 25 March 2013, the Eurogroup has reached an agreement with the Cyprus government on the key elements for a supporting package to the country and a memorandum of understanding has been agreed between Cyprus and the Troika on 2 April 2013. The Group's management is currently unable to predict all developments which could have an impact on the Cyprus economy and consequently, what effect, if any, they could have on the future financial performance, cash flows and financial position resulting from its operations in Cyprus.

The books and records of the Bank have not been reviewed by the Department of Income Tax for the years 2008 to 2012. On 19 February 2013, the Bank received a letter from the Department of Income Tax informing it about a tax review mission that will be conducted for the years 2008, 2009, 2010 and 2011.

The Bank's contributions to the National Social Security Fund (NSSF) have not been reviewed since May 2004.

The Bank's books and records have not yet been reviewed by the department of Value Added Tax (VAT) since inception.

Sogecap Liban SAL's (a subsidiary) contributions to the National Social Security Fund (NSSF) have not been reviewed by the NSSF since 2000.

During 2011, Sogecap Liban SAL's (a subsidiary) books have been reviewed by the Department of Income Tax for the years 2006, 2007, 2008 and 2009. The subsidiary received a preliminary assessment whereby the Department of Income Tax imposed additional taxes and penalties in the amount of LL (000) 557,000. Sogecap Liban SAL provided an amount of LL (000) 603,000 for the year ended 31 December 2011 for this tax and filed an objection against this assessment. During 2012, the subsidiary received the final results and settled an amount of LL (000) 401,000.

Fidus SAL's (a subsidiary) books and records have been reviewed by the Department of Income Tax for the years from 2007 till 2010. The outcome of this review is not yet determined, however, management believes that any additional taxes and penalties will not have a material effect on the financial position of the subsidiary. Fidus SAL books for the years 2011 and 2012 remain subject to review by the Department of Income Tax.

Fidus SAL contributions to the National Social Security Funds (NSSF) from 2002 till September 2011 are being reviewed. The outcome of this review is not yet determined, however, management believes that any additional contributions and penalties will not have a material effect on the financial position of the subsidiary.

Societe Generale de Banque – Jordanie (a subsidiary) books have not been reviewed by the income tax authorities for the year 2012.

48 FAIR VALUE OF FINANCIAL INSTRUMENTS

Determination of fair value and fair value hierarchy
The Group 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, 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:

	Level 1 LL million	Level 2 LL million	Level 3 LL million	Total LL million
31 December 2012				
FINANCIAL ASSETS				
Derivative financial instruments:				
Forward foreign exchange contracts	-	853	-	853
Financial assets at fair value through other comprehensive income:				
Shares	10,730	5,494	-	16,224
Debt securities issued by banks	21,375	-	-	21,375
	32,105	5,494	-	37,599
Financial assets at fair value through profit or loss:				
Shares	15,402	11,946	-	27,348
Funds	13,406	-	-	13,406
Lebanese Treasury bills (LL)	-	149	-	149
Lebanese Treasury bills (Eurobonds)	17,099	-	-	17,099
Certificates of deposit - EuroCDs	-	226	-	226
	45,907	12,321	-	58,228
	78,012	18,668	-	96,680
FINANCIAL LIABILITIES				
Derivative financial instruments:				
Forward foreign exchange contracts	-	(398)	-	(398)

	Level 1 LL million	Level 2 LL million	Level 3 LL million	Total LL million
31 December 2012				
FINANCIAL ASSETS				
Derivative financial instruments:				
Forward foreign exchange contracts	-	1,559	-	1,559
Financial assets at fair value through other comprehensive income:				
Shares	11,533	4,499	-	16,032
Debt securities issued by banks	93,534	-	-	93,534
	105,067	4,499	-	109,566
Financial assets at fair value through profit or loss:				
Shares	14,053	12,584	-	26,637
Funds	11,011	-	-	11,011
Lebanese Treasury bills (LL)	-	20,558	-	20,558
Lebanese Treasury bills (Eurobonds)	9,239	-	-	9,239
Debt securities issued by banks	24,855	-	-	24,855
	59,158	33,142	-	92,300
	164,225	39,200	-	203,425
FINANCIAL LIABILITIES				
Derivative financial instruments:				
Forward foreign exchange contracts	-	(7,655)	-	(7,655)

Set out below is a comparison by class of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the consolidated financial statements. The table does not include the fair values of non-financial assets and non-financial liabilities.

	2012		2011	
	Carrying value LL million	Fair value LL million	Carrying value LL million	Fair value LL million
FINANCIAL ASSETS				
Cash and balances with the Central Banks	3,526,700	3,526,700	2,040,254	2,040,254
Deposits with banks and financial institutions	987,119	987,119	405,505	405,505
Amounts due from Head Office, branches and affiliates	743,240	743,240	1,353,784	1,353,784
Loans to banks and financial institutions	10,291	10,291	11,686	11,686
Financial assets pledged as collateral	198,668	199,444	27,875	28,616
Loans and advances to customers at amortized cost	4,290,331	4,290,331	4,322,223	4,322,223
Loans and advances to related parties at amortized cost	68,957	68,957	58,734	58,734
Financial assets at amortized cost	6,248,014	6,360,119	6,474,941	6,512,307
	16,073,320	16,186,201	14,695,002	14,733,109
FINANCIAL LIABILITIES				
Due to Central Banks	236,332	234,352	67,061	67,034
Loans and repurchase agreements	1,169,208	1,169,208	982,605	982,605
Due to banks and financial institutions	504,630	504,630	532,430	532,430
Amounts due to Head Office, branches and affiliates	5,979	5,979	46,692	46,692
Customers' deposits at amortized cost	13,671,792	13,671,792	13,006,559	13,006,559
Related parties' deposits at amortized cost	28,363	28,363	35,640	35,640
	15,616,304	15,614,324	14,670,987	14,670,960

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 consolidated financial statements:

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

Fixed rate financial instruments
The fair value of fixed rate financial assets and liabilities carried at amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing market interest rates for debts with similar credit risk and maturity. The fair value of quoted debt instruments is determined based on quoted market prices. For those debt instruments where quoted market prices are not available, a discounted cash flow model is used with the discount rate being the current market yield to maturity.

49 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

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

31 December 2012	Less than one year LL million	More than one year LL million	Total LL million
ASSETS			
Cash and balances with the Central Banks	1,041,014	2,485,686	3,526,700
Deposits with banks and financial institutions	943,980	43,139	987,119
Amounts due from Head Office, branches and affiliates	743,240	-	743,240
Loans to banks and financial institutions	-	10,291	10,291
Derivative financial instruments	853	-	853
Financial assets pledged as collateral	1,485	197,183	198,668
Financial assets at fair value through profit or loss	57,597	631	58,228
Loans and advances to customers at amortized cost	1,918,610	2,371,721	4,290,331
Loans and advances to related parties at amortized cost	63,742	5,215	68,957
Debtors by acceptances	54,170	-	54,170
Investments in non-consolidated subsidiaries	-	3,649	3,649
Financial assets at amortized cost	1,533,975	4,714,039	6,248,014
Financial assets at fair value through other comprehensive income	8,529	29,070	37,599
Property and equipment	5,850	175,894	181,744
Intangible assets	639	28,061	28,700
Non-current assets held for sale	203,441	13,943	217,384
Other assets	52,341	46,545	98,886
Goodwill	-	171,892	171,892
TOTAL ASSETS	6,629,466	10,296,959	16,926,425
LIABILITIES			
Due to Central Banks	47,580	188,752	236,332
Loans and repurchase agreements	984,012	185,196	1,169,208
Due to banks and financial institutions	504,630	-	504,630
Amounts due to Head Office, branches and affiliates	5,979	-	5,979
Derivative financial instruments	398	-	398
Customers' deposits at amortized cost	13,489,167	182,625	13,671,792
Related parties' deposits at amortized cost	27,636	727	28,363
Engagements by acceptances	54,170	-	54,170
Other liabilities	126,065	256	126,321
Provision for risks and charges	13,613	36,272	49,885
TOTAL LIABILITIES	15,253,250	593,828	15,847,078
NET	(8,623,784)	9,703,131	1,079,347

31 December 2011	Less than one year LL million	More than one year LL million	Total LL million
ASSETS			
Cash and balances with the Central Banks	1,249,327	790,927	2,040,254
Deposits with banks and financial institutions	405,505	-	405,505
Amounts due from Head Office, branches and affiliates	1,353,784	-	1,353,784
Loans to banks and financial institutions	1,396	10,290	11,686
Derivative financial instruments	1,599	-	1,599
Financial assets pledged as collateral	18,520	9,355	27,875
Financial assets at fair value through profit or loss	91,942	358	92,300
Loans and advances to customers at amortized cost	2,014,620	2,307,603	4,322,223
Loans and advances to related parties at amortized cost	58,646	88	58,734
Debtors by acceptances	110,860	-	110,860
Investments in non-consolidated subsidiaries	-	63,143	63,143
Financial assets at amortized cost	1,117,121	5,357,820	6,474,941
Financial assets at fair value through other comprehensive income	2,134	107,432	109,566
Property and equipment	5,016	213,342	218,358
Intangible assets	8,473	2,082	10,555
Non-current assets held for sale	133,425	12,885	146,310
Other assets	50,327	30,278	80,605
Goodwill	-	192,492	192,492
TOTAL ASSETS	6,622,695	9,098,095	15,720,790
LIABILITIES			
Due to Central Banks	39,639	27,422	67,061
Loans and repurchase agreements	982,605	-	982,605
Due to banks and financial institutions	516,653	15,777	532,430
Amounts due to Head Office, branches and affiliates	46,692	-	46,692
Derivative financial instruments	7,655	-	7,655
Customers' deposits at amortized cost	12,808,527	198,032	13,006,559
Related parties' deposits at amortized cost	35,640	-	35,640
Engagements by acceptances	110,860	-	110,860
Other liabilities	97,901	2,727	100,628
Provision for risks and charges	10,774	36,670	47,444
TOTAL LIABILITIES	14,656,946	280,628	14,937,574
NET	(8,034,251)	8,817,467	783,216

50 RISK MANAGEMENT

The Group devotes significant resources to the ongoing adaptation of its risk management framework, in order to keep pace with the increasing diversification of its activities. Risk management is implemented in compliance with the two following fundamental principles:

- risk assessment departments are completely independent from the operating divisions
- a consistent approach to risk assessment and monitoring is applied at the Group level

a. Risk management structure

The Board of Directors is ultimately responsible for identifying and controlling risks; however, there are separate independent bodies responsible for managing and monitoring risks.

Board of Directors
The Board of Directors is responsible for the overall risk management approach and for approving risk strategies and principles.

Risk Management
The Risk Management Unit is responsible for implementing and maintaining risk related procedures to ensure an independent control process.

Group Treasury
Group Treasury is responsible for managing the Group's assets and liabilities and the overall financial structure. It is also primarily responsible for the funding and liquidity risks of the Group.

Internal Audit
Risk management processes throughout the Group are audited annually by the internal audit function, that examines both the adequacy of the procedures and the Group's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Board of Directors.

b. Risk measurement and reporting systems

In 2003, the Group launched a major project to quantify its credit risks using a RAROC (Risk-Adjusted Return on Capital) approach. One of the main objectives is to establish, using quantitative methods, the level of loss expected on credit transactions over the course of the business cycle.

Taking advantage of the experience gained on this project, the Group has also begun work to upgrade its risk management procedures in line with Basel II and III standards.

Monitoring and controlling risks is primarily performed based on limits established by the Group. These limits reflect the business strategy and market environment of the Group as well as the level of risk that the Group is willing to accept, with additional emphasis on selected industries. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

c. Risk mitigation

As part of its overall risk management, the Group uses derivatives and other instruments to manage exposures resulting from changes in interest rates, foreign currencies, credit risks, and exposures arising from forecast transactions.

The Group actively uses collateral to reduce its credit risks.

d. Excessive concentration

The Group also attempts to control credit risk by regular monitoring of its credit exposures and continuous assessment of the creditworthiness of counterparties by the credit risk committee.

50.1 CREDIT RISK

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The risk rating system, which is managed by an independent unit, provides a rating based on client and transaction level. The classification

system includes ten grades, of which five grades relate to credit facilities which are neither past due nor impaired (risk rating "1", "2", "3", "4" and "5"(and credit facilities which are past due but not impaired) risk rating "6a" and "6c"), substandard individually impaired loans (risk rating 6b) and doubtful individually impaired loans (risk rating 7 and 8). The Group uses the above internal rating system for the classifications of all of its financial assets portfolio.

Derivative financial instruments
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the consolidated statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honors its obligation but the counterparty fails to deliver the counter-value.

Credit-related commitments risk
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks as loans and are mitigated by the same control processes and policies.

Analysis of 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.

		Collateral				
31 December 2012	**Maximum exposure LL million**	**Cash LL million**	**Securities LL million**	**Letters of credit / guarantees LL million**	**Real estate LL million**	**Net credit exposure LL million**
Balances with the Central Banks	3,444,883	-	-	-	-	3,444,883
Deposits with banks and financial institutions	987,119	-	-	-	-	987,119
Amounts due from Head Office, branches and affiliates	743,240	-	-	-	-	743,240
Loans to banks and financial institutions	10,291	-	-	-	-	10,291
Financial assets pledged as collateral	198,668	-	-	-	-	198,668
Derivative financial instruments	853	-	-	-	-	853
Financial assets at fair value through profit or loss	58,228	-	-	-	-	58,228
Loans and advances to customers at amortized cost:						
Retail loans	1,776,262	(151,331)	(33,392)	(1,330)	(997,729)	592,480
Corporate loans	2,514,069	(413,059)	(3,584)	(3,192)	(772,161)	1,322,073
Loans and advances to related parties at amortized cost	68,957	(14,797)	-	-	(12,361)	41,799
Debtors by acceptances	54,170	(4,497)	-	-	(3,248)	46,425
Financial assets at amortized cost	6,248,014	-	-	-	-	6,248,014
	16,104,754	(583,684)	(36,976)	(4,522)	(1,785,499)	13,694,073
Financial guarantees	140,147	(24,479)	(623)	-	(17,333)	97,712
Documentary credits	139,095	(6,206)	-	-	(9,584)	123,305
Undrawn credit lines	765,689	(29,702)	(341)	-	(51,467)	684,179
	1,044,931	(60,387)	(964)	-	(78,384)	905,196

		Collateral				
31 December 2011	Maximum exposure LL million	Cash LL million	Securities LL million	Letters of credit / guarantees LL million	Real estate LL million	Net credit exposure LL million
Balances with the Central Banks	1,945,452	-	-	-	-	1,945,452
Deposits with banks and financial institutions	405,505	-	-	-	-	405,505
Amounts due from Head Office, branches and affiliates	1,353,784	-	-	-	-	1,353,784
Loans to banks and financial institutions	11,686	-	-	-	-	11,686
Financial assets pledged as collateral	27,875	-	-	-	-	27,875
Derivative financial instruments	1,599	-	-	-	-	1,599
Financial assets at fair value through profit or loss	92,300	-	-	-	-	92,300
Loans and advances to customers at amortized cost:						
Retail loans	1,750,865	(152,339)	(82,090)	(1,888)	(937,719)	576,829
Corporate loans	2,571,358	(316,173)	(84,978)	(1,656)	(262,301)	1,906,250
Loans and advances to related parties at amortized cost	58,734	(15,820)	-	-	(5,578)	37,336
Debtors by acceptances	110,860	(165)	-	-	(3,465)	107,230
Financial assets at amortized cost	6,474,941	-	-	-	-	6,474,941
	14,804,959	(484,497)	(167,068)	(3,544)	(1,209,063)	12,940,787
Financial guarantees	41,749	(16,479)	(434)	-	(6,960)	17,876
Documentary credits	164,962	(4,555)	-	-	(4,235)	156,172
Undrawn credit lines	791,307	(22,158)	(2,274)	-	(27,561)	739,314
	998,018	(43,192)	(2,708)	-	(38,756)	913,362

Collateral and other credit enhancements
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

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 Group 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 Group.

Real estate (commercial and residential)
The Group 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 Group 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.

Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements
The Group's concentrations of risk are managed by client/counterparty and by geographical region. The maximum credit exposure to any client and counterparty as at 31 December 2012 was LL 93,254 million and LL 3,335,902 million respectively (2011: LL 56,950 million and LL 1,888,252 million respectively) before taking account of collateral or other credit enhancements and LL 32,126 million and LL 2,116,720 million respectively (2011: LL 8,530 million and LL 838,586 million respectively) net of such protection.

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

Geographic analysis

	2012			2011		
	Lebanon LL million	Outside Lebanon LL million	Total LL million	Lebanon LL million	Outside Lebanon LL million	Total LL million
FINANCIAL ASSETS						
Cash and balances with the Central Banks	3,366,219	160,481	3,526,700	1,922,469	117,785	2,040,254
Deposits with banks and financial institutions	333,117	654,002	987,119	260,779	144,726	405,505
Amounts due from Head Office, branches and affiliates	7,095	736,145	743,240	5,307	1,348,477	1,353,784
Loans to banks and financial institutions	-	10,291	10,291	623	11,063	11,686
Derivative financial instruments	65	788	853	980	619	1,599
Financial assets pledged as collateral						
▪ Lebanese Treasury bills	198,668	-	198,668	27,875	-	27,875
Financial assets at fair value through profit or loss						
▪ Shares	19,390	7,958	27,348	13,404	13,233	26,637
▪ Funds	-	13,406	13,406	-	11,011	11,011
▪ Lebanese Treasury bills	17,248	-	17,248	29,797	-	29,797
▪ Certificates of deposit	226	-	226	-	-	-
▪ Debt securities issued by banks	-	-	-	-	24,855	24,855
Loans and advances to customers at amortized cost	3,235,562	1,054,769	4,290,331	3,288,384	1,033,839	4,322,223
Loans and advances related parties at amortized cost	48,663	20,294	68,957	54,565	4,169	58,734
Financial assets at amortized cost						
▪ Lebanese Treasury bills	3,958,853	-	3,958,853	4,485,331	-	4,485,331
▪ Other governmental debt securities	-	325,908	325,908	-	314,140	314,140
▪ Certificates of deposit	1,882,324	-	1,882,324	1,609,083	-	1,609,083
▪ Other debt securities	-	80,929	80,929	-	66,387	66,387
Financial assets at fair value through other comprehensive income						
▪ Shares	13,468	2,756	16,224	14,279	1,753	16,032
▪ Debt securities issued by banks	-	21,375	21,375	-	93,534	93,534
	13,080,898	3,089,102	16,170,000	11,712,876	3,185,591	14,898,467

Credit quality per class of financial assets

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below shows the credit quality by class of asset based on the Group's internal credit rating system. The amounts presented are gross of impairment allowances.

2012	Neither past due nor impaired LL million	Past due but not impaired LL million	Individually impaired Substandard LL million	Individually impaired Doubtful LL million	Total LL million
Cash and balances with the Central Banks	3,526,700	-	-	-	3,526,700
Deposits with banks and financial institutions	985,251	-	-	2,996	988,247
Loans to banks and financial institutions	-	-	-	18,676	18,676
Amounts due from Head Office, branches and affiliates	743,240	-	-	-	743,240
Derivative financial instruments	853	-	-	-	853
Financial assets at fair value through profit or loss					
▪ Shares	27,348	-	-	22,612	49,960
▪ Funds	13,406	-	-	-	13,406
▪ Lebanese Treasury bills	17,248	-	-	-	17,248
▪ Certificates of deposit	226	-	-	-	226
Loans and advances to customers at amortized cost					
▪ Corporate	2,311,597	116,048	45,113	541,611	3,014,369
▪ Retail	1,622,169	61,688	19,639	232,369	1,935,865
Loans and advances to related parties at amortized cost					
▪ Corporate	46,414	-	-	17,761	64,175
▪ Retail	20,637	-	-	-	20,637
Financial assets pledged as collateral					
▪ Lebanese Treasury bills	198,668	-	-	-	198,668
Financial assets at amortized cost					
▪ Lebanese Treasury bills	3,958,853	-	-	-	3,958,853
▪ Other governmental debt securities	325,908	-	-	-	325,908
▪ Certificates of deposit	1,882,324	-	-	-	1,882,324
▪ Other debt securities	80,929	-	-	1,153	82,082
Financial assets at fair value through other comprehensive income					
▪ Shares	16,224	-	-	15	16,239
▪ Debt securities issued by banks	21,375	-	-	-	21,375
	15,799,370	177,736	64,752	837,193	16,879,051
Moody's equivalent	Aaa – B3*	Not rated	Not rated	Not rated	Not rated

2011	Neither past due nor impaired LL million	Past due but not impaired LL million	Individually impaired Substandard LL million	Individually impaired Doubtful LL million	Total LL million
Cash and balances with the Central Banks	2,040,254	-	-	-	2,040,254
Deposits with banks and financial institutions	403,597	-	-	3,815	407,412
Loans to banks and financial institutions	1,396	-	-	16,099	17,495
Amounts due from Head Office, branches and affiliates	1,353,784	-	-	5,039	1,358,823
Derivative financial instruments	1,599	-	-	-	1,599
Financial assets at fair value through profit or loss					
▪ Shares	26,637	-	-	22,612	49,249
▪ Funds	11,011	-	-	-	11,011
▪ Lebanese Treasury bills	29,797	-	-	-	29,797
▪ Certificates of deposit	24,855	-	-	-	24,855
Loans and advances to customers at amortized cost					
▪ Corporate	2,515,530	14,028	17,857	489,714	3,037,129
▪ Retail	1,650,894	2,076	18,300	257,262	1,928,532
Loans and advances to related parties at amortized cost					
▪ Corporate	54,298	-	-	8,625	62,923
▪ Retail	4,328	-	-	-	4,328
Financial assets pledged as collateral					
▪ Lebanese Treasury bills	27,875	-	-	-	27,875
Financial assets at amortized cost					
▪ Lebanese Treasury bills	4,485,331	-	-	-	4,485,331
▪ Other governmental debt securities	314,140	-	-	-	314,140
▪ Certificates of deposit	1,609,083	-	-	-	1,609,083
▪ Other debt securities	66,387	-	-	1,153	67,540
Financial assets at fair value through other comprehensive income					
▪ Shares	16,032	-	-	15	16,047
▪ Debt securities issued by banks	93,534	-	-	-	93,534
	14,730,362	16,104	36,157	804,334	15,586,957
Moody's equivalent	Aaa – B3*	Not rated	Not rated	Not rated	Not rated

* Due from Head Office, branches and affiliates, derivative financial instruments, loans and advances to customers, loans and advances to related parties are not rated by Moody's.

It is the Group's policy to maintain accurate and consistent risk rating across the credit portfolio. This facilitates focused management of the applicable risks and the comparison of credit exposures across all lines of business, geographic regions and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Group's rating policy. The attributable risks are assessed and updated regularly.

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

2012

	Gross balance LL million	Unrealized interest LL million	Impairment allowances LL million	Net balance LL million
Regular	4,112,838	-	-	4,112,838
Follow-up and regularization	65,715	-	-	65,715
Substandard	64,752	(11,448)	-	53,304
Doubtful	571,935	(248,026)	(188,989)	134,920
Bad	219,806	(148,544)	(69,659)	1,603
	5,035,046	(408,018)	(258,648)	4,368,380
Collective impairment	-	-	(9,092)	(9,092)
	5,035,046	(408,018)	(267,740)	4,359,288

2011

	Gross balance LL million	Unrealized interest LL million	Impairment allowances LL million	Net balance LL million
Regular	4,187,038	-	-	4,187,038
Follow-up and regularization	54,116	-	-	54,116
Substandard	36,157	(10,002)	-	26,155
Doubtful	512,005	(225,239)	(172,320)	114,446
Bad	243,596	(162,551)	(77,205)	3,840
	5,032,912	(397,792)	(249,525)	4,385,595
Collective impairment	-	-	(4,638)	(4,638)
	5,032,912	(397,792)	(254,163)	4,380,957

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.

	2012 LL million	2011 LL million
Corporate loans	65,891	26,934
Retail loans	16,732	52,332
	82,623	79,266

Impairment assessment

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer;
- A breach of contracts such as default of payment;
- Where the Group grants the customer a concession due to the customer experiencing financial difficulty;
- It becomes probable that the customer will enter bankruptcy or other financial reorganization;
- Observable data that suggests that there is a decrease in the estimated future cash flows of the loan.

Individually assessed allowances

The Group determines the allowance appropriate for each individually significant loan or advance on an individual basis, including any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. 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 risen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realizable value of collateral and the timing of the expected cash flows. Impairment allowances 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 debt securities at amortized cost that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans that have been assessed individually and found not to be impaired. Allowances are evaluated separately at each reporting date with each portfolio.

The Group generally bases its analysis on historical experience. However, when there are significant market developments, regional and / or global, the Group 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 Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

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

Credit related commitments and financial guarantees are assessed and provisions are made in a similar manner as for loans.

50.2 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 variables such as interest rates, foreign exchange rates and equity prices.

The Board has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the Asset and Liability Committee.

50.2.1 INTEREST RATE RISK

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

Interest rate sensitivity

The following table demonstrates the sensitivity to a reasonable possible change in interest rates, with all other variables held constant, of the Group's consolidated income statement.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the profit or loss for the year, based on the floating rate financial assets and financial liabilities held at 31 December, including the effect of hedging instruments.

	2012		2011	
Currency	Increase /decrease in basis points	Sensitivity of profit or loss LL million	Increase /decrease in basis points	Sensitivity of profit or loss LL million
Lebanese Lira	+ 50	4,044	+ 50	(8,427)
US Dollars	+ 50	5,026	+ 50	(7,818)
Euro	+ 50	963	+ 50	(227)
Lebanese Lira	- 50	(4,044)	- 50	8,427
US Dollars	- 50	(5,026)	- 50	7,818
Euro	- 50	(963)	- 50	227

Interest sensitivity gap
The table below analyses the Group's interest risk exposure on financial assets and liabilities. The Group's assets and liabilities are included at carrying amount and categorized by the earlier of contractual repricing or maturity dates.

2012 (LL million)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS								
Cash and balances with the Central Banks	844,513	415,915	237,687	497,475	482,400	901,169	147,541	3,526,700
Deposits with banks and financial institutions	723,878	166,055	26,678	-	-	-	70,508	987,119
Amounts due from Head Office, branches and affiliates	623,956	66,657	32,582	-	-	-	20,045	743,240
Loans to banks and financial institutions	10,291	-	-	-	-	-	-	10,291
Financial assets pledged as collateral	-	-	-	-	197,183	-	1,485	198,668
Derivative financial instruments	-	-	-	-	-	-	853	853
Financial assets at fair value through profit or loss	-	-	428	83	8,520	8,200	40,997	58,228
Loans and advances to customers at amortized cost	1,151,860	985,172	1,538,209	358,870	189,594	57,456	9,170	4,290,331
Loans and advances to related parties at amortized cost	39,799	2,102	20,587	6,256	70	-	143	68,957
Financial assets at amortized cost	42,320	375,024	1,006,895	981,157	1,436,212	2,296,655	109,751	6,248,014
Financial assets at fair value through other comprehensive income	-	-	7,951	-	-	13,190	16,458	37,599
TOTAL ASSETS	3,436,617	2,010,925	2,871,017	1,843,841	2,313,979	3,276,670	416,951	16,170,000
LIABILITIES								
Due to Central Banks	-	26,700	170,483	-	-	-	39,149	236,332
Loans and repurchase agreements	-	1,071,893	93,691	-	-	-	3,624	1,169,208
Due to banks and financial institutions	302,300	128,697	70,275	-	-	-	3,358	504,630
Amounts due to Head Office, branches and affiliates	527	5,119	-	-	-	-	333	5,979
Customers' deposits at amortized cost	9,135,663	2,852,268	1,246,423	59,368	31,965	1,272	344,833	13,671,792
Related parties' deposits at amortized cost	18,367	100	8,976	-	-	727	193	28,363
Derivative financial instruments	-	-	-	-	-	-	398	398
TOTAL LIABILITIES	9,456,857	4,084,777	1,589,848	59,368	31,965	1,999	391,888	15,616,702
Total interest sensitivity gap	(6,020,240)	(2,073,852)	1,281,169	1,784,473	2,282,014	3,274,671	25,063	553,298

2011 (LL million)

	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	2 to 5 years	Over 5 years	Non interest bearing	Total
ASSETS								
Cash and balances with the Central Banks	1,146,370	557,775	200,000	-	-	-	136,109	2,040,254
Deposits with banks and financial institutions	246,001	24,913	49,444	-	-	10,291	74,856	405,505
Amounts due from Head Office, branches and affiliates	1,264,223	65,687	15,565	-	-	-	8,309	1,353,784
Loans to banks and financial institutions	11,686	-	-	-	-	-	-	11,686
Financial assets pledged as collateral	-	18,520	-	-	9,355	-	-	27,875
Derivative financial instruments	-	-	-	-	-	-	1,599	1,599
Financial assets at fair value through profit or loss	-	8	-	1,209	13,758	39,677	37,648	92,300
Loans and advances to customers at amortized cost	1,581,699	523,578	1,069,743	374,396	446,873	294,577	31,357	4,322,223
Loans and advances to related parties at amortized cost	53,024	56	5,586	24	43	1	-	58,734
Financial assets at amortized cost	123,806	270,487	648,183	1,309,142	1,528,082	2,479,648	115,593	6,474,941
Financial assets at fair value through other comprehensive income	-	-	-	8,596	23,307	59,835	17,828	109,566
TOTAL ASSETS	4,426,809	1,461,024	1,988,521	1,693,367	2,021,418	2,884,029	423,299	14,898,467
LIABILITIES								
Due to Central Banks	-	8,430	-	-	18,753	-	39,878	67,061
Loans and repurchase agreements	-	982,605	-	-	-	-	-	982,605
Due to banks and financial institutions	302,340	74,148	138,914	4,677	8,826	2,274	1,251	532,430
Amounts due to Head Office, branches and affiliates	44,180	-	-	-	-	-	2,512	46,692
Customers' deposits at amortized cost	8,866,873	2,155,592	1,265,788	83,297	29,127	6,244	599,638	13,006,559
Related parties' deposits at amortized cost	35,457	-	-	-	-	-	183	35,640
Derivative financial instruments	-	-	-	-	-	-	7,655	7,655
TOTAL LIABILITIES	9,248,850	3,220,775	1,404,702	87,974	56,706	8,518	651,117	14,678,642
Total interest sensitivity gap	(4,822,041)	(1,759,751)	583,819	1,605,393	1,964,712	2,875,511	(227,818)	219,825

50.2.2 CURRENCY RISK

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group has set limits on positions by currency. In accordance with the Group's policy, positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained within established limits.

Sensitivity to currency exchange rates
The table below indicates the currencies to which the Group had significant exposure at 31 December on its non-trading 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 consolidated income statement (due to fair value of currency sensitive non-trading monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in consolidated income statement or equity, while a positive amount reflects a net potential increase. An equivalent decrease in each of the below currencies against the Lebanese Lira would have resulted in an equivalent but opposite impact.

	2012		2011	
Currency	Change in currency rate in %	Effect on profit before tax LL million	Change in currency rate in %	Effect on profit before tax LL million
US Dollars	+2.5	(247)	+2.5	(597)
Euro	+2.5	(40)	+2.5	259

The following consolidated statements of financial position as at 31 December 2012 and 2011 are detailed in Lebanese Lira (LL million) and foreign currencies, primarily US$, translated into LL million:

	31 December 2012			31 December 2011		
	LL million	Foreign currencies in LL million	Total LL million	LL million	Foreign currencies in LL million	Total LL million
ASSETS						
Cash and balances with the Central Banks	1,175,150	2,351,550	3,526,700	728,486	1,311,768	2,040,254
Deposits with banks and financial institutions	57,157	929,962	987,119	61,347	344,158	405,505
Loans to banks and financial institutions	-	10,291	10,291	-	11,686	11,686
Amounts due from head office, branches and affiliates	650	742,590	743,240	1,535	1,352,249	1,353,784
Derivative financial instruments	795	58	853	609	990	1,599
Financial assets at fair value through profit or loss	149	58,079	58,228	15,598	76,702	92,300
Loans and advances to customers at amortized cost	1,145,593	3,144,738	4,290,331	1,019,876	3,302,347	4,322,223
Loans and advances to related parties at amortized cost	77	68,880	68,957	112	58,622	58,734
Debtors by acceptances	-	54,170	54,170	-	110,860	110,860
Financial assets at amortized cost	3,703,102	2,544,912	6,248,014	3,863,045	2,611,896	6,474,941
Financial assets pledged as collateral	198,668	-	198,668	27,875	-	27,875
Financial assets at fair value through other comprehensive income	521	37,078	37,599	521	109,045	109,566
Investments in non-consolidated subsidiaries	3,649	-	3,649	3,204	59,939	63,143
Property and equipment	120,084	61,660	181,744	154,372	63,986	218,358
Intangible assets	8,725	19,975	28,700	9,467	1,088	10,555
Non-current assets held for sale	11,363	206,021	217,384	10,868	135,442	146,310
Other assets	53,263	45,623	98,886	53,365	27,240	80,605
Goodwill and other intangible assets	1,012	170,880	171,892	1,011	191,481	192,492
TOTAL ASSETS	6,479,958	10,446,467	16,926,425	5,951,291	9,769,499	15,720,790
LIABILITIES						
Due to Central Banks	197,741	38,591	236,332	27,496	39,565	67,061
Loans and repurchase agreements	401,829	767,379	1,169,208	401,515	581,090	982,605
Due to banks and financial institutions	12,561	492,069	504,630	19,117	513,313	532,430
Amounts due to Head Office, branches and affiliates	21	5,958	5,979	206	46,486	46,692
Derivative financial instruments	344	54	398	7,324	331	7,655
Customers' deposits at amortized cost	4,924,929	8,746,863	13,671,792	4,616,269	8,390,290	13,006,559
Related parties' deposits at amortized cost	1,904	26,459	28,363	1,759	33,881	35,640
Engagements by acceptances	-	54,170	54,170	-	110,860	110,860
Other liabilities	30,379	95,942	126,321	19,388	81,240	100,628
Provision for risks and charges	18,547	31,338	49,885	29,221	18,223	47,444
TOTAL LIABILITIES	5,588,255	10,258,823	15,847,078	5,122,295	9,815,279	14,937,574
NET EXPOSURE	891,703	187,644	1,079,347	828,996	(45,780)	783,216

50.2.3 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. Equity price risk exposure arises from equity securities classified at fair value through profit or loss and at fair value through other comprehensive income. A 10 percent increase in the value of the Group's equities at 31 December 2012 would have increased net income by LL 1,540 million and other comprehensive income by LL 1,073 million (2011: LL 1,405 million and LL 1,153 million respectively). An equivalent decrease would have resulted in an equivalent but opposite impact.

50.2.4 PREPAYMENT RISK

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier than expected, such as fixed rate mortgages when interest rate fall. Market conditions causing prepayment is not significant in the markets in which the Group operates. Therefore the Group considers the effect of prepayment risk on net profit as not material after taking into account the effect of any prepayment penalties.

50.3 LIQUIDITY RISK AND FUNDING MANAGEMENT

Liquidity risk is defined as the risk that the Group 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 Group might be unable to meet its payment obligations when they fall due under normal and stress circumstances. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management 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 Group 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 would be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The Group also has committed lines of credit that it can access to meet liquidity needs. In addition, the Group maintains a statutory deposit with the Central Banks on customer deposits. In accordance with the Group's policy, 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 Group. The Group 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 deposit and acceptances and other debt instruments issued by the Group and loans from the public sector that mature within one year.

Besides the regulatory requirements, the liquidity position is also monitored through internal limits, such as the loans-to-deposits ratio, the core funding ratio and the liquidity tolerance level of the Group, also referred to as Liquidity Coverage Ratio.

Loans to deposits	2012	2011
Year-end	32.37%	34.78%
Maximum	35.36%	36.13%
Minimum	32.37%	31.62%
Average	34.18%	34.23%

The table below summarizes the maturity profile of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December. Trading derivatives are shown at fair value in a separate column. All derivatives used for hedging purposes are shown by maturity, based on their contractual undiscounted repayment obligations.

Repayments which are subject to notice are treated as if notice were being given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

31 December 2012	Trading derivative LL million	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
FINANCIAL ASSETS							
Cash and balances with the Central Banks	-	985,839	16,637	39,211	1,251,223	2,259,846	4,552,756
Deposits with banks and financial institutions	-	794,417	142,111	7,737	1,363	52,962	998,590
Loans to banks and financial institutions	-	-	-	-	-	10,291	10,291
Amount due from Head Office, branches and affiliates	-	643,541	67,196	35,442	-	-	746,179
Derivative financial instruments	853	-	-	-	-	-	853
Financial assets at fair value through profit or loss	-	13,930	-	664	12,452	36,713	63,759
Loans and advances to customers at amortized cost	-	1,295,038	192,246	554,435	1,555,685	1,189,375	4,786,779
Loans and advances to related parties at amortized cost	-	47,876	15,755	142	634	4,634	69,041
Financial assets pledged as collateral	-	1,485	-	5,208	247,778	-	254,471
Financial assets at amortized cost	-	152,163	380,025	1,134,665	3,392,402	2,651,983	7,711,238
Financial assets at fair value through other comprehensive income	-	577	-	9,341	19,023	15,472	44,413
Total undiscounted financial assets	853	3,934,866	813,970	1,786,845	6,480,560	6,221,276	19,238,370
FINANCIAL LIABILITIES							
Due to Central Banks	-	39,150	-	8,573	205,185	-	252,908
Loans and repurchase agreements	-	3,624	-	997,733	84,133	130,811	1,216,301
Due to banks and financial institutions	-	305,742	128,761	70,952	-	-	505,455
Amounts due to Head Office, branches and affiliates	-	861	5,119	-	-	-	5,980
Derivative financial instruments	398	-	-	-	-	-	398
Customers' deposits at amortized cost	-	9,839,604	3,027,199	1,300,124	91,469	1,273	14,259,669
Related parties' deposits at amortized cost	-	20,249	101	9,265	-	727	30,342
Total undiscounted financial liabilities	398	10,209,230	3,161,180	2,386,647	380,787	132,811	16,271,053
Total net financial assets (liabilities)	455	(6,274,364)	(2,347,210)	(599,802)	6,099,773	6,088,465	2,967,317

31 December 2011	Trading derivative LL million	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
FINANCIAL ASSETS							
Cash and balances with the Central Banks	-	850,515	69,566	339,994	831,270	-	2,091,345
Deposits with banks and financial institutions	-	344,383	24,854	37,350	-	-	406,587
Loans to banks and financial institutions	-	983	413	-	-	10,290	11,686
Amount due from Head Office, branches and affiliates	-	1,272,954	66,872	18,065	-	-	1,357,891
Derivative financial instruments	1,599	-	-	-	-	-	1,599
Financial assets at fair value through profit or loss	-	38,006	8	-	6,992	88,578	133,584
Loans and advances to customers at amortized cost	-	935,958	271,460	799,286	1,395,426	1,349,945	4,752,075
Loans and advances to related parties at amortized cost	-	54,329	125	4,196	71	20	58,741
Financial assets pledged as collateral	-	692	18,429	-	11,506	-	30,627
Financial assets at amortized cost	-	194,003	276,478	744,073	3,550,383	3,467,662	8,232,599
Financial assets at fair value through other comprehensive income	-	2,134	-	-	6,261	215,630	224,025
Total undiscounted financial assets	1,599	3,693,957	728,205	1,942,964	5,801,909	5,132,125	17,300,759
FINANCIAL LIABILITIES							
Due to Central Banks	-	39,640	-	-	27,792	-	67,432
Loans and repurchase agreements	-	2,217	1,022,256	-	-	-	1,024,473
Due to banks and financial institutions	-	303,995	74,175	141,023	13,503	2,274	534,970
Amounts due to Head Office, branches and affiliates	-	47,098	-	-	-	-	47,098
Derivative financial instruments	7,655	-	-	-	-	-	7,655
Customers' deposits at amortized cost	-	9,514,185	2,174,266	1,382,099	124,877	7,916	13,203,343
Related parties' deposits at amortized cost	-	36,841	-	-	-	-	36,841
Total undiscounted financial liabilities	7,655	9,943,976	3,270,697	1,523,122	166,172	10,190	14,921,812
Total net financial assets (liabilities)	(6,056)	(6,250,019)	(2,542,492)	419,842	5,635,737	5,121,935	2,378,947

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

2012

	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial guarantees	51,585	7,587	31,450	4,665	44,860	140,147
Documentary credit	57,650	30,372	36,248	14,825	-	139,095
Other commitments	51	251	50	-	-	352
Total	109,286	38,210	67,748	19,490	44,860	279,594

2011

	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	Over 5 years LL million	Total LL million
Financial guarantees	4,478	10,456	11,238	1,680	13,897	41,749
Documentary credit	75,803	34,369	43,657	11,133	-	164,962
Other commitments	100	251	603	352	-	1,306
Total	80,381	45,076	55,498	13,165	13,897	208,017

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

50.4 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 Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff training and assessment processes, including the use of internal audit.

51 CAPITAL

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

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group 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 Group should maintain a minimum required capital adequacy ratio for the years ending 31 December 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 Group 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 Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made to the objectives, policies and processes from the previous years, however, they are under constant scrutiny of the Board.

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

	2012 LL million	2011 LL million
Tier 1 capital	**768,590**	439,961
Tier 2 capital	**25,178**	111,260
Total capital	**793,768**	551,221
Risk-weighted assets		
Credit risk	**9,099,813**	8,751,799
Market risk	**87,388**	52,986
Operational risk	**555,050**	455,339
Total risk-weighted assets	**9,742,251**	9,260,124

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

	2012	2011
Tier 1 capital ratio	**7.90%**	4.75%
Total capital ratio	**8.15%**	5.95%

Tier 1 Capital consists of share capital, share premium, reserves, retained earnings including current year profit less proposed dividends, foreign currency translation losses, gross unrealized losses from financial instruments at fair value through other comprehensive income and corresponding amounts of non-controlling interest. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordinated loans, preferred shares, a percentage of foreign currency translation gains, a percentage of gross unrealized gains from financial instruments at fair value through other comprehensive income and corresponding amounts of non-controlling interest. Certain adjustments are made to IFRS based results, reserves, retained earnings, preferred shares, subordinated loans and non-controlling interests as prescribed by the Central Bank of Lebanon and the Banking Control Commission.

In the last quarter of 2012, the Bank was in the process of issuing preferred shares for a total of US$ 125 million, already fully subscribed at the end of 2012. Subsequent to year end this increase of capital, will result in the capital ratio of the Group to become 10.08%.

Due to the acquisition of the assets, liabilities, rights and obligations of the Lebanese Canadian Bank SAL, the Central Bank of Lebanon exempted the Bank of some regulatory requirements as follows:

- Compliance with Articles 152, 153 and 154 of the Code of Money and Credit was waived for a period of 3 years.
- Compliance with some banking ratios imposed by the Central Bank of Lebanon namely the ones specified in Basel II and the foreign exchange position was waived till 31 December 2013.

52 COMPARATIVE AMOUNTS

Where necessary, comparative figures have been reclassified to conform with changes in presentation in the current year. These reclassifications are described below:

Current classification	Previous classification	Amount reclassified US$
Consolidated statement of financial position		
Other operating expense	Income tax expense	**2,727**
Consolidated statement of financial position		
Customers' deposits at amortized cost	Other liabilities	**77,280**
Provision for risk and charges	Other liabilities	**9,915**
Other liabilities	Other assets	**8,981**
Amounts due from Head Office, branches and affiliates	Amounts due to Head Office, branches and affiliates	**48,742**
Other liabilities	Provision for risk and charges	**2,727**