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As we review the past year, we are encouraged to see it filled with resounding achievements and ongoing improvements as BBAC's Management team continues to pursue the highest standards of service for our customers, and maximizes financial returns to our shareholders. Our growth as a company stems from our solid financial situation, our strong internal structure and our broader social values, as we remain dedicated to fulfilling our reputation as a 'caring bank.'

Worldwide, there were difficulties. International financial markets were tainted by the Euro Zone crisis and the continued weak performance of several economies around the globe. Higher oil prices negatively affected the non-oil producing countries and resulted in slower growth in developing countries. In Lebanon, real GDP growth dipped by1.5% in 2011 due to an escalation in regional conflicts which had a direct negative effect on the Lebanese economy.

Despite this slower economic growth domestically, our outstanding team achieved a satisfactory growth in our balance sheet and a good overall performance, as shown by the key financial indicators. We successfully navigated the stormy economic waters, growing our total assets by 5.12%, our customer deposits by 4.78%, and our loans portfolio by 24.24%. Liquidity continued to be a high priority as we continued our conservative policy of maintaining a solid safety net, investing 72.77% of our total assets in liquid and semi-liquid assets. This policy was consistently applied across the board, growing our net profits by 0.13%. Slowly but surely, we continue to deliver profits for our shareholders during the most challenging times regionally and internationally.

We have also undertaken a remarkable restructuring of our Shareholders' Equity to strengthen the primary capital of the bank. Ordinary share capital increased from LBP 72 billion to LBP 144 billion as we capitalized on retained earnings, growing our total shareholders' equity by 3.46%.

Our desire for success ensures that we are continually improving our internal structure and developing new procedures as a fundamental component in delivering exceptional results. Our commitment to best banking practices has ensured that we maintain the necessary checks and balances while seeking to internally fortify our business structure. We have enhanced the supervisory role of the Board of Directors, yet kept high level of independence from the Executive Management. Specialized Board Committees for Risk, Audit and Governance continued their active supervisory and guidance roles throughout the year.

CHAIRMAN'S LETTER

Our focus upon modernization has further transformed the business. Throughout 2011, BBAC continued to focus on automation of all systems and embarked on the upgrade of its core IT system. In addition, we acquired management information systems that covered Treasury, Branches, and other divisions of the bank. We continued to develop policies, procedures and systems that aimed at further strengthening our anti-money laundering and compliance culture, placing particular emphasis upon combating money laundering and terrorist financing.

These exceptional achievements would not have been possible without the combined cooperation and support from our shareholders, customers and employees. Our thanks and appreciation goes to all of them for their role in ensuring the ongoing success of BBAC.

Ghassan T. Assaf
Chairman – General Manager

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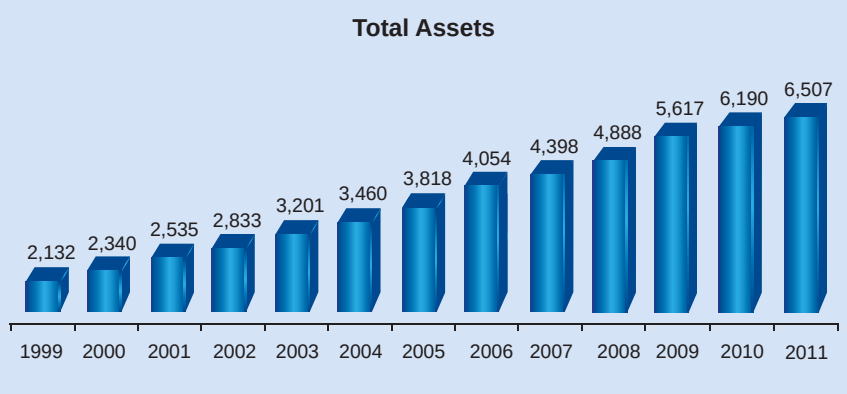
MANAGEMENT

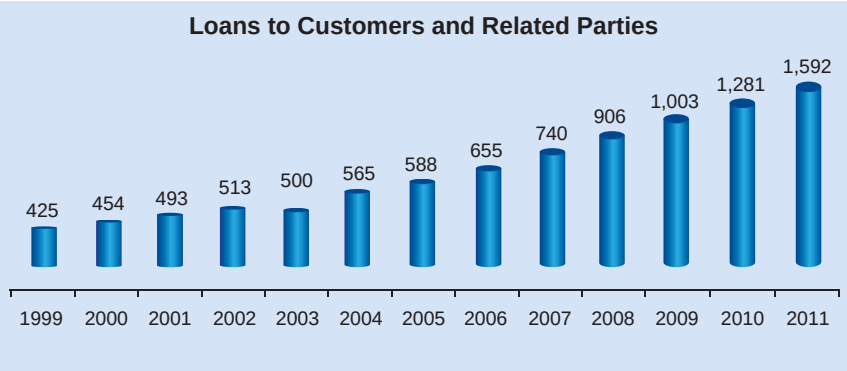
Financial Highlights

Evolution of Key Indicators (in billion LBP)

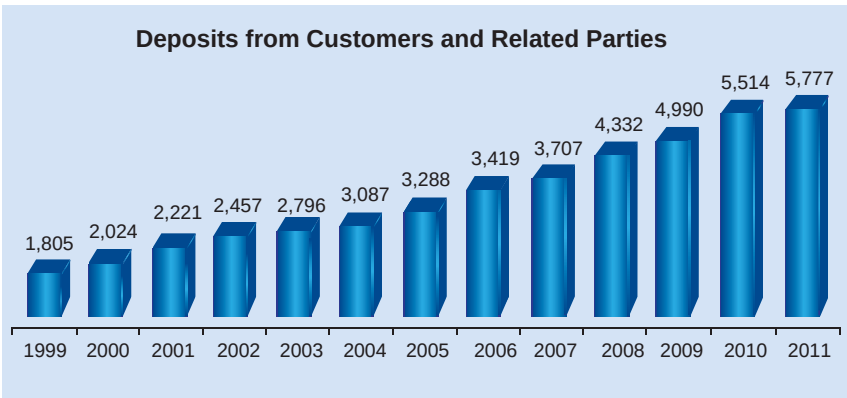
Assets



Loans

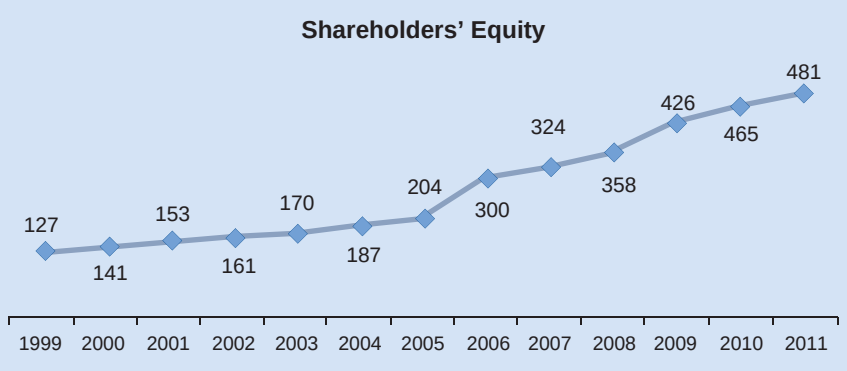


Deposits

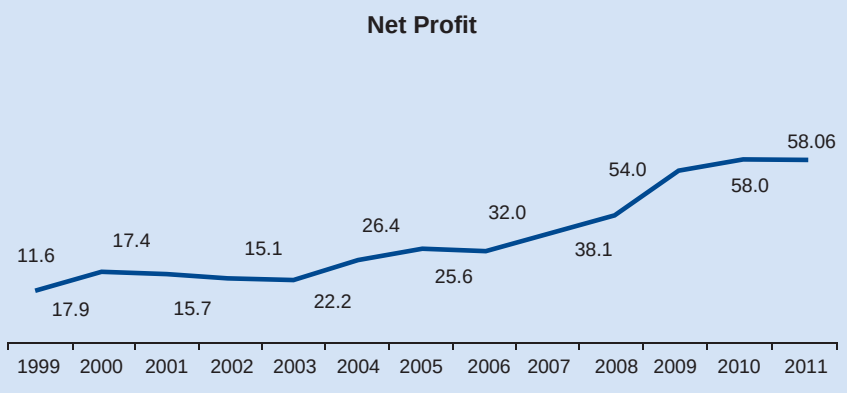


MANAGEMENT

Shareholders' Equity



Net Profit



Selected Financial Data

	(in million LBP)		Growth	(Counter-value in thousand USD)	
	2011	2010	2011-2010	2011	2010
Total assets	6,506,785	6,190,023	5.12%	4,316,275	4,106,151
Total loans	1,592,030	1,281,439	24.24%	1,056,073	850,042
Net liquid assets*	4,573,281	4,628,068	(1.18)%	3,033,686	3,070,029
Total deposits	5,777,068	5,513,681	4.78%	3,832,218	3,657,500
Shareholders' equity	481,061	464,994	3.46%	319,112	308,454
Net profits	58,060	57,987	0.13%	38,514	38,466

* "Liquid assets" less "Deposits from banks and financial institutions"

Key Ratios

Liquidity Ratios (%)	2011	2010
Net LBP liquidity	87.27%	90.99%
Net FC (foreign currency) liquidity	73.95%	78.60%
Net liquidity (Total)	79.16%	83.94%
Loans / Deposits (LBP)	21.77%	17.39%
Loans / Deposits (FC)	31.28%	27.67%
Loans / Deposits (Total)	27.56%	23.24%
Liquid assets / Total assets	72.77%	76.57%

Asset Quality Ratios[1] (%)	2011	2010
Gross doubtful loans / Gross loans	5.13%	7.62%
Gross substandard and doubtful loans / Gross loans	6.27%	8.77%
Provisions for doubtful loans / Gross doubtful loans	87.72%	81.79%
Provisions for loans / Gross loans	6.33%	8.25%
Net doubtful / Total assets	0.16%	0.31%
Net substandard and doubtful loans / Total assets	0.38%	0.50%

Capital Adequacy Ratios (%)	2011	2010
Capital adequacy ratio according to Basel II	10.36%	12.07%

Profitability Ratios (%)	2011	2010
Return on average assets ROAA after tax (%)	0.91%	0.98%
Return on average equity ROAE after tax (%)	12.27%	13.01%
Number of common shares outstanding (million)	144	72
Number of preferred shares outstanding (million)	5	5
Earnings per common share (EPS) in LBP[2]	403	805
Earnings per common share (EPS) in LBP[3]	360	719
Dividends per common share (DPS) in LBP[4]	55	110
Dividends per preferred share in LBP	1,244	1,244
Dividends payout ratio[2] (%)	15.28%	15.30%
Retention ratio[2] (%)	84.72%	84.70%
Book value per common share in LBP[5]	2,817	5,411

Management Efficiency Ratios (%)	2011	2010
Interest paid / Interest received	70.63%	70.32%
Net commissions / Income[6]	17.34%	16.56%
Cost / Income[6] (Efficiency Ratio)	53.13%	50.14%
Cost per average branch (LBP million)	2,123	1,902

[1] Unrealized interest is included in provisions
[2] Before the allocation of any dividends
[3] After allocation of dividends on the Preferred Shares
[4] An additional interest payment of about LBP 1,050 million was made on the Cash Contributions
[5] Before distribution of Common Shares' dividends
[6] Before "Operating expenses" and "Taxes"

Board of Directors

Chairman General Manager
Sheikh Ghassan T. Assaf

Vice Chairman
Judge Abbas Al Halabi

Mr. Walid T. Assaf	**Member**
Mr. Ali Assaf	**Member**
Mr. Marc Maamary	**Member**
Mr. Ali Ghandour	**Member**
Assaf Holding Company S.A.L.	**Member**
Mr. Farouk Mahfouz	**Member**
Mr. Nadim Al Kassar	**Member**
Mr. Michel Tueni	**Member**
Me. Amine Rizk	**Secretary of the Board**

Major Shareholders and General Management

Major Shareholders

Assaf Family	54.258%
Fransabank s.a.l.	37.067%
Other Shareholders	8.675%

Solicitors

Me. Chafic Khalaf	Me. Paul Morcos
Me. Amine Rizk	Me. Mazen Tajeddine
Me. Ramzi Haykal	Me. Bassam Daye
Me. Assaad Najm	Me. Adnan Jisr

Auditors

PricewaterhouseCoopers - KPMG

Executive Advisors to the Chairman

Mr. Georges Mirza	Credit and Recovery
Mr. Omar Saab	Business Development
Dr. Amalia Azoury	Economic Studies

General Management

Mr. Jean Mehanna	Deputy General Manager- Head of Retail Banking Division
Mr. Chawki Badr	Assistant General Manager for International Expansion
Mr. Walid Haddad	Support Division
Mr. Nadim Hamadeh	Assistant General Manager for Corporate Credit
Mr. Sami Saliba	Chief Financial Officer (CFO)
Ms. Wafaa Abed	Internal Audit
Mr. Jihad Njeim	Human Resources Department
Mr. Raja Makarem	Risk Management
Mr. Anwar Abou Ghaida	General Accounting Department
Mr. Marwan Tayara	Recovery and Restructuring Department
Mr. Michel Kazan	Branch Management
Mr. Talal Abou Ziki	Compliance and Internal Control Department
Ms. Lina Makarem	Treasury Department
Mr. Salim Karam	Insurance Unit
Dr. Wael Dbaisy	Organization and Methods Unit
Mr. Francois Balaa	Information Technology Department
Ms. Sabah Khatounian	Administration Department
Mr. Tarek Bilal	Marketing Department
Ms. Nahed Zeid	Plastic Cards and Electronic Banking Department
Mr. Elie Nakad	Correspondent Banking Unit
Ms. Hilda Ashkar	Operations Department
Mr. Georges Moarbes	SME Credit Department
Ms. Micheline Dib	Consumer Credit Department
Mr. Ayman Fatayri	Corporate Credit Department
Mr. Maher Rahhal	Supported and Kafalat Loans Department

Corporate Governance

BBAC recognizes that the key to its long-term success is sustaining the public's trust and confidence in the Bank. This is accomplished by ensuring that BBAC creates value for the shareholders and the other stakeholders from a financial standpoint while incorporating socially and environmentally responsible ways of doing so. Upholding the highest standards of ethical conduct requires setting strong corporate governance practices that assign rights and responsibilities to the Bank's shareholders, Board of Directors and management in a highly effective manner.

The Board of Directors oversees BBAC's affairs and is dynamically involved in setting the highest standards of corporate governance that are based on the core principles of transparency and accountability at all levels of the organization. These standards are ultimately safeguarded by a long-standing commitment to high moral values of honesty and integrity.

BBAC's management processes, structures and policies help ensure compliance with laws and regulations and provide clear lines of responsibilities for decision-making and accountability. Accordingly, the corporate governance practices are not just designed to satisfy regulatory requirements, but to provide for the effective management of the Bank.

Moreover, the Bank's current organizational structure is based on the segregation of the different functions and responsibilities between the Board of Directors, Executive Management, Operating Management, Board Committees, and Management Committees. These decision makers set clear grounds for control, segregation of duties, job specialization, responsibility and accountability in order to ensure sustained value creation for the clients and the shareholders.

Excerpts from BBAC's Ordinary General Assembly of Shareholders

Held on June 27, 2012

Resolution No. 1

The Ordinary General Assembly of BBAC Shareholders approved the activities, accounts, balance sheet and the profit and loss statements for the year ending December 31, 2011.

Resolution No. 2

The Ordinary General Assembly of BBAC Shareholders resolved the appropriation of the profits for the year 2011 as follows:

(LBP thousands)	2011
Profits for the year 2011	58,060,680
Less: Appropriation of reserves for "General Banking Risks"	7,933,102
Appropriation of reserves for "Legal Reserves"	5,806,068
Appropriation of reserves for "Property in Settlement of Debt" (PSD)	1,963,090
Unrealised gain on financial instruments held at fair value through profit or loss	2,402,917
Dividends on Preferred Shares	6,218,438
Dividends on Common Shares	7,920,000
Interest on Cash Contributions	1,050,025
Retained Earnings till Dec-10	104,234,679
Profits Carried Forward for 2011	**129,001,719**

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FINANCIAL **STATEMENTS**

Balance Sheet (in million LBP) as at December 31, 2011

Assets	2011			2010		
	LBP	FCY	Total	LBP	FCY	Total
Cash and balances with central banks	**174,291**	**756,500**	**930,791**	**212,134**	**564,519**	**776,653**
Banks and financial institutions	**10,077**	**683,023**	**693,100**	**22,367**	**964,159**	**986,526**
Loans and advances*	**492,338**	**1,099,692**	**1,592,030**	**413,308**	**868,131**	**1,281,439**
Debtors by acceptances	**-**	**47,777**	**47,777**	**-**	**54,809**	**54,809**
Investment securities:	**1,800,445**	**1,310,871**	**3,111,316**	**1,932,569**	**1,043,949**	**2,976,518**
Fair value through profit or loss (FVTPL)	1,556	168,758	***170,314***	163,483	61,760	***225,243***
Available for sale	-	-	-	652,278	252,359	***904,637***
Loans and receivables	-	-	-	686,037	441,266	***1,127,303***
Held to maturity	-	-	-	430,771	288,564	***719,335***
Amortized cost	1,798,889	1,142,113	**2,941,002**	-	-	-
Investments in subsidiaries	**3,524**	**-**	**3,524**	**3,524**	**-**	**3,524**
Investment property	**5,965**	**-**	**5,965**	**6,279**	**-**	**6,279**
Property and equipment	**61,642**	**5,709**	**67,351**	**53,472**	**5,639**	**59,111**
Intangible fixed assets	**1,454**	**158**	**1,612**	**884**	**230**	**1,114**
Assets held for sale	**1,632**	**19,831**	**21,463**	**1,435**	**17,893**	**19,328**
Other assets	**12,292**	**19,564**	**31,856**	**5,986**	**18,736**	**24,722**
Total Assets	**2,563,660**	**3,943,125**	**6,506,785**	**2,651,958**	**3,538,065**	**6,190,023**
Total Assets C/V in thousands USD			**4,316,275**			**4,106,151**

Off-Balance Sheet (in million LBP) as of December 31, 2011

	2011	2010
	Total	Total
***After deduction of:**	**71,888**	**83,283**
Provisions for doubtful loans	45,885	52,716
Unrealized interest for doubtful loans	26,003	30,567
***After deduction of:**	**7,522**	**9,403**
Payables against receivables	7,522	9,403
***Including net substandard loans:**	**14,363**	**11,520**
Substandard loans	19,394	16,061
Unrealized interest for substandard loans	5,031	4,541

FINANCIAL STATEMENTS

Balance Sheet (in million LBP) as of December 31, 2011

Liabilities and Shareholders' Equity	2011			2010		
	LBP	FCY	Total	LBP	FCY	Total
Banks and financial institutions	11,152	150,774	161,926	4,957	106,672	111,629
Financial liabilities held at FVTPL	-	14,489	14,489	-	-	-
Deposits from customers	2,261,567	3,501,012	5,762,579	2,376,322	3,137,359	5,513,681
Financial liabilities held for trading	-	-	-	1	900	901
Engagements by acceptances	-	47,777	47,777	-	54,809	54,809
Current income tax liabilities	2,353	642	2,995	1,539	172	1,711
Retirement benefit obligations	18,339	742	19,081	17,075	742	17,817
Deferred tax liability	-	-	-	6,595	-	6,595
Provision for restructuring	-	-	-	2,900	-	2,900
Other liabilities	9,807	7,070	16,877	-	14,986	14,986
Total Liabilities	2,303,218	3,722,506	6,025,724	2,409,389	3,315,640	5,725,029
Ordinary share capital	144,000	-	144,000	72,000	-	72,000
Preferred share capital	5,000	70,375	75,375	5,000	70,375	75,375
Cash contributions to capital	-	36	36	-	43,109	43,109
Other reserves	117,460	-	117,460	134,142	15,315	149,457
Brought forward results	128,105	16,085	144,190	104,524	20,529	125,053
Total Shareholders' Equity	394,565	86,496	481,061	315,666	149,328	464,994
Total Liabilities and Shareholders' Equity	2,697,783	3,809,002	6,506,785	2,725,055	3,464,968	6,190,023
Total Liabilities and Shareholders' Equity in thousands USD			4,316,275			4,106,151

Off-Balance Sheet (in million LBP) as of December 31, 2011

	2011	2010
	Total	Total
Engagements by endorsement received:	**3,708,919**	**3,022,908**
From financial intermediaries	31,818	15,829
Other engagements received	3,677,101	3,007,079
Engagements by endorsement given to:	**246,790**	**202,010**
Financial intermediaries	91,354	86,561
Clients	155,436	115,449

Income Statement for the year ended December 31, 2011

Income Statement	(in million LBP)		(Counter-value in thousands USD)	
	2011	2010	2011	2010
Interest and similar income	**341,691**	**332,674**	**226,661**	**220,680**
Deposits and similar accounts at banks and financial institutions	9,073	11,138	6,019	7,388
Loans and advances facilities to customers	98,694	86,143	65,469	57,143
Loans and advances facilities to related parties	204	34	135	23
Interest on AFS investment securities	-	72,741	-	48,253
Interest on L&R investment securities	-	91,853	-	60,931
Interest on HTM investment securities	-	52,896	-	35,089
Interest on AC investment securities	222,927	-	147,878	-
Interest on financial assets held at FVTPL	10,793	17,869	7,160	11,853
Dividend income	**2,672**	**7,774**	**1,772**	**5,157**
Interest and similar charges	**(241,333)**	**(233,926)**	**(160,088)**	**(155,175)**
Deposits and similar accounts from banks and financial institutions	(8,538)	(7,179)	(5,664)	(4,762)
Deposits and other credit balances from customers	(230,489)	(224,253)	(152,894)	(148,759)
Deposits and other credit balances from related parties	(2,306)	(2,494)	(1,530)	(1,654)
Net interest margin and similar income	**103,030**	**106,522**	**68,345**	**70,662**
Loan impairment charges	**3,864**	**(3,668)**	**2,563**	**(2,434)**
Specific provisions for loans and advances	(4,394)	(4,424)	(2,915)	(2,935)
Collective provision	(2,261)	(8,693)	(1,500)	(5,767)
Release of provisions and unrealized interest on doubtful and substandard loans	10,519	9,449	6,978	6,268
Net interest margin and similar income after loan impairment charges	**106,894**	**102,854**	**70,908**	**68,228**
Net commission	**25,983**	**22,929**	**17,236**	**15,210**
Fee and commission income	29,461	28,168	19,543	18,685
Fee and commission expense	(3,478)	(5,239)	(2,307)	(3,475)
Net trading income	**11,860**	**9,836**	**7,867**	**6,524**
Foreign exchange	4,740	3,575	3,144	2,371
Income from financial assets classified as:	-	-	-	-
- Held for trading	-	(3,518)	-	(2,334)
- Available for sale	-	8,161	-	5,414
- Loans and receivables	-	1,618	-	1,073
- Held to maturity	-	-	-	-
- Amortized cost	12,986	-	8,614	-
Income from financial instruments held at FVTPL	(5,866)	-	(3,891)	-
Other operating income	**5,099**	**2,854**	**3,382**	**1,893**
Operating expenses	**(79,603)**	**(69,432)**	**(52,804)**	**(46,057)**
Staff costs	(44,622)	(38,870)	(29,600)	(25,784)
Depreciation and amortization	(3,860)	(3,480)	(2,561)	(2,308)
Other operating expenses	(31,121)	(27,082)	(20,643)	(17,965)
Net income of the year before taxes	**70,233**	**69,041**	**46,589**	**45,798**
Taxes	**(12,173)**	**(11,054)**	**(8,075)**	**(7,333)**
Net profits for the year	**58,060**	**57,987**	**38,514**	**38,465**

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MANAGEMENT DISCUSSION AND ANALYSIS

Basis of Presentation

The discussion and analysis that follow have been prepared by the management and are based on the audited financial statements of the Bank as at December 31, 2011 and December 31, 2010. The Bank's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

This analysis highlights the performance of BBAC in 2011. Any reference to "BBAC" or the "Bank" is meant to cover BBAC s.a.l. and its international branches and any reference to "BDL" is meant to cover the Central Bank of Lebanon. Any reference to "Central Banks" is meant to cover BDL as well as the Central Bank where BBAC's branches operate.

Unless otherwise indicated, all figures are expressed in Lebanese Pounds, where all US Dollar amounts have been translated at the closing exchange rate that is published by BDL at the relevant dates, which remained unchanged and at a value of LBP 1507.50 / USD.

Corporate Profile

BBAC was established as a commercial bank in 1956 under the name of "Bank of Beirut and the Arab Countries" by a group of prominent investors headed by Sheikh Toufic Assaf, Mr. Nashaat Sheiklard, and Mr. Jamal Shehaiber. Currently, 54.258% of the Bank's shares are owned by the Assaf family, 37.067% are owned by Fransabank s.a.l., and the remaining 8.675% are held by other shareholders.

BBAC offers an extensive range of commercial and personal financial services, including Retail Banking, Corporate and Commercial Banking, Trade Finance, Private Banking, Capital Markets, and Bancassurance. Building on the success it has achieved through its domestic branches and international presence, BBAC is well positioned to provide excellent service to its clients who conduct international business operations.

Throughout the years, the Bank has pursued an expansion strategy that focuses on penetrating local, regional and international markets. BBAC is rigorously following this strategy as many new locations are currently being studied and evaluated for potential operation such as Chiah and Sami El Solh areas. Furthermore, various existing branches are either being renovated or relocated with the specific aim of enhancing customer convenience and better catering to the clients' needs along with boosting the branches' visibility so as to convey the Bank's image in accordance with its brand strategy.

Regionally, BBAC launched a new branch in Baghdad (Iraq) in early 2011 as an addition to its existing branch in Erbil (Northern Iraq). The Bank is constantly seeking opportunities to establish new branches in targeted areas in Lebanon, as well as representative offices or branches in key regional and African markets. As a result, the Bank's network is currently comprised of thirty-five domestic branches, three international branches (one in Limassol-Cyprus, and two in Iraq - Erbil and Baghdad), and a representative office in Abu Dhabi, UAE.

MANAGEMENT DISCUSSION AND ANALYSIS

Mission Statement

Integrity

BBAC believes that a sound banking relationship is built on integrity and trust. Trust is achieved by conducting clients' personal and business transactions efficiently and with strict confidentiality.

Service

BBAC constantly strives to recognize and satisfy evolving customers' needs by developing services, products and solutions tailored to meet their requirements.

Growth

BBAC is committed to being a leading participant in the economic development of the community where it is present. The extent of the Bank's success in attaining this objective is reflected positively in the measure of its growth.

Business Overview

BBAC offers customers a wide range of financial products and services that vary from the traditional banking activities to the most recent financial engineered products. These are presented by:

Corporate and Commercial Banking

With the belief that the welfare and growth of its clients will promote its own welfare and growth, BBAC strives to provide them with the optimum solutions for their business needs so as to capitalize on development opportunities. The Bank offers lines of short and long term loan facilities to meet the financing needs of the ever growing businesses. They vary from simple lines of credit and term loans to the more advanced commercial loans and trade financing.

Keeping in mind the small and medium sized enterprises (SMEs), as well as their need for sources of non-costly financing, BBAC offers various types of specialized loans such as Kafalat Loans and Subsidized Loans. These loans benefit from interest rate subsidies where they are granted based on business plans and feasibility studies showing the viability of the proposed business activity. Similar loans provide businesses with funds that enable them to grow and expand at a very low cost.

BBAC also delivers a comprehensive range of trade finance services to help businesses engaged in international and domestic import and export trade expand to new markets and focus on growing their business. These services include: Letters of Credit, Letters of Guarantee, Documentary and Clean Collections, and Discounting of Trade Bills.

The Bank's dedicated team of trade finance specialists has access to a global network of international correspondent banks and provides efficient processing and servicing along with consultation services, while ensuring that risks are adequately mitigated.

Retail Banking

BBAC is a leading bank in Lebanon, offering a wide range of Retail Banking services that positioned it among the top ten banks in the field.

These services are offered to residents and non-residents and they include: consumer lending, plastic cards, electronic banking services, insurance products, money transfers, safe deposit boxes, as well as current, savings and deposit accounts with competitive interest rates and flexible account options, depending on the customers' preferences and attitude to risk.

In recent years, BBAC has taken many measures in order to increase its share of the consumer loan market. As a result, many new products were introduced to satisfy the large base of clients. Consumers with different needs can choose from a wide variety of loans that include: Personal Loan, Appliance Loan, Doctor Loan, Small Business Loan, Car Loan, Educational Loans (School and University) as well as various housing loans (Housing Loan from BBAC, Iskan Loan, Housing Loan in collaboration with BDL, Military Housing Loan and more).

BBAC also offers a diversified collection of payment cards. These cards do not only give customers instant access to cash, but they also provide them with flexibility to purchase items in stores, on the Internet, through mail-order catalogues and over the telephone. They can be used on any of BBAC's 46 ATMs or on any ATM network and POS worldwide and range from the common debit cards to variable types of credit cards.

The debit cards are cash cards that are directly linked to the clients' accounts and are offered in two different cards, either the ordinary Electron Card or the Transparent Card.

BBAC issues various credit cards that offer consumers and businesses short-term lines of credit and a variety of repayment options. BBAC's main credit cards include Classic, Gold, and Platinum types. Moreover, the Bank also offers various other cards such as the Euro Card that facilitates payments and saves on exchange costs for the Euro users; the Diamond Card, which offers its female users the chance to win jewelry and diamonds through point accumulation; the CCCL Card that allocates 1% of the purchases to Children's Cancer Center of Lebanon (CCCL) to help treat children with cancer as well as the Kunhadi Card, which allocates 1% of the purchases to Kunhadi association for youth awareness on road safety. In addition to these, BBAC also offers its clients the Internet Card that provides the users with increased safety in their purchases through the Internet.

Moreover, BBAC continually invests in modern technology in accordance with the Bank's objective to maximize automation and to constantly enhance the value of its services. Accordingly, the following electronic services have been implemented: Online Banking, this service enables clients to check account balances and to carry out transactions through the Internet with complete safety as it has the most developed programs that provide data safety and Telephone Banking, a service that gives clients access to check their balances and get details of the transactions carried out over the phone. With the aim of ensuring comfort and convenience, the Bank established a Call Center where customers find the necessary round-the-clock support and clarifications. Not only this, but all BBAC clients benefit from a free of charge SMS Alert service that allows the client to be notified instantly whenever any balance changing transaction is performed on their accounts.

Treasury and Capital Markets

The main function of the Treasury Department at BBAC is to manage the Bank's liquidity as it makes every endeavor to benefit from all available resources. By doing so, it is able to maximize return on the Bank's assets while working under specific risk policies and guidelines set by the Board of Directors, the ALCO committee and in compliance with the rules and regulations set by BDL.

The Bank's treasurers continuously conduct research on domestic and international markets in order to identify rewarding and secure investment opportunities. Asset allocation is the central theme of the investment philosophy at BBAC and the dominant factor in determining the return on the portfolio.

Investments usually vary between a wide range of Lebanese (fixed income and equity) and foreign securities, as well as various money market operations and investments. Moreover, the Bank's treasurers are also active in the Foreign Exchange market. They provide the Bank's clients with round-the-clock services through the local Beirut Stock Exchange, as well as regional and international exchanges.

Private Banking

BBAC believes that Private Banking should go beyond traditional banking to meet its clients' individual needs. The Private Banking Unit at BBAC provides personalized services in an environment of confidentiality and trust, while finding creative solutions to complicated situations that are crucial for the clients who are seeking to manage their wealth today and develop new sources of wealth for future generations.

BBAC strives to be its clients' premier professional financial partner. Thus, the Private Banking Unit at the Bank functions with the aim of building long-term relationships with the clients by providing them with personal guidance and professional help. This is executed through putting forward a pool of investment services, which include trade execution, portfolio administration, and advice on investment opportunities and market insights.

The clients have full access to all equity markets and financial instruments that range from simple derivatives to the most sophisticated structured products such as futures, options, equity securities and all the main commodity products.

The Private Banking Unit has achieved superior differentiation through the quality of the service being diligently supplied to the valued clients by adapting it to the clients' individual requirements. It includes a team of dedicated professionals who offer consultation services to the clients on all aspects of their banking needs in order to link personal wealth to a world of financial expertise. The main objective of the Private Banking Unit at BBAC is to provide the clients with a safe haven by guaranteeing them continuity and stability in uncertain times.

Insurance Products and Services

BBAC differentiates its service by providing its clients with superior customer care and a broad portfolio of products and services that address the entire range of its clients' financial well-being objectives. Accordingly, the Bank offers insurance products and services as well as investment and savings plans throughout its branch network in partnership with insurers known for their solidity, security, and expertise.

In collaboration with Capital Insurance and Reinsurance Co. s.a.l., a subsidiary of BBAC, the Bank offers flexible and competitive pre-signed insurance contracts that are especially designed to satisfy all clients' requirements in terms of premium, cover, security, and services. These contracts include: (1) Private Car Insurance; (2) Personal Accidents Insurance; (3) Term Life Insurance (natural and/or accidental death); (4) Home Insurance (fire, neighbors' recourse and earthquake) and (5) Domestic Helper Insurance (life and medical expenses covering domestic workers).

BBAC continues to offer two investment plans, JANA Retirement Plan and NAJAH Education Plan, in partnership with Allianz SNA s.a.l. These plans are designed to give BBAC's clients and their families protection and guaranteed benefits.

Information Technology

BBAC believes that technological innovation does not only enable a broader reach for consumer banking and financial services, but also enhances its capacity for continuous and inclusive growth.

Keeping in mind the ultimate purpose of continuously providing clients with exceptional quality and excellent service, BBAC encourages a high level of interaction between the Information Technology (IT) Department and the other different business departments and divisions with the sole aim of increasing customer satisfaction, creating more synergy and reducing costs.

BBAC realizes that the competitive advantage of banks and financial institutions relies heavily on the capability of technology to implement business processes, manage risks and provide excellent customer service. As a result, the Bank seeks to acquire and internally develop advanced technologies.

The major achievements of the IT department in 2011 include the following:

- upgrading the core banking system to BFEQ-Bank Fusion Equation, the latest version adopted by MISYS, which the Bank has invested in to build the advanced technological applications and delivery channel products in order to better serve the customers who conduct remote operations

- implementing a new product called OPICS with the aim of enhancing the automation of Treasury activities and integrating them online with the core banking system for better monitoring, control and minimized manual intervention

- implementing a full Business Continuity and Disaster Recovery (BCDR) solution

  The main drivers that push the Bank towards applying such a solution from a business point of view are the cost, functionality and availability, Recovery Time Objective (RTO) and Recovery Point Objective (RPO). From a technical point of view, the drivers are performance, bandwidth, capacity, consistency and recovery.

  The Bank's goal is to reach a scalable, fault tolerant, and highly available solution with an Instant Failover while preventing data loss by having multiple datacenters in a consistent state all the time.

  The result is an exhaustive solution without a point of failure at any of the following layers: the physical site by itself, network connectivity and equipments, storage, servers, virtual infrastructure, software and applications.

- updating the Bank's main computers to state-of-the-art servers and data center virtualization and integrating the latest Antivirus solutions in order to facilitate the planned future growth strategies

Compliance

The Anti-Money Laundering (AML) Lebanese Law No. 318 was issued on April 20, 2001. This law, along with its amendments, is aimed at detecting and preventing any money laundering and potential terrorist financing. The implementation of this law was entrusted to the Special Investigation Commission (SIC) that was established to supervise the Lebanese Banks' adherence to this law.

In order to ensure proper implementation of this law, BDL issued several circulars that require the issuance of specific procedures for controlling all financial operations and activities that would result in either preventing or detecting any act of money laundering.

Since the issuance of the AML law, BBAC applied a new AML program, which includes written policies and procedures, designated AML officers and controllers, regular awareness training for all of its staff, as well as an independent internal and external audit in order to test the effectiveness of the program.

Risk Management

BBAC's Board of Directors strongly believes that adhering to sound corporate governance and reliable internal governance play a significant role in enhancing the Bank's global performance. Working in such an environment and keeping abreast with the industry's best practices while encouraging proactive risk initiatives, positively contributes to the effectiveness and efficiency of the Bank's risk management activities.

The Risk Management Department (RMD) at BBAC is responsible for the measurement and management of the risks to which the Bank is exposed. Its responsibility is divided into managing the different types of risk: credit risk, operational risk, market risk, and information security risk. The risk management process for each risk type stems from the Board's risk appetite. It also involves the risk's identification and assessment, measurement, control and mitigation, monitoring, and reporting. The department also manages interest rate risk, liquidity risk, and credit concentration risk.

The RMD reports directly to the Board of Directors. The latter oversees all risk areas and is ultimately responsible for the Bank's risk profile, which is discussed regularly by the Board with the head of RMD and the top executives at the Bank. Risk management policies set the risk management's framework and are updated annually. Nevertheless, the treatment and management of risk eventually lie with each risk owner as in the case with treasury, lending, and operations activities.

BBAC strives for compliance with local regulatory requirements as well as Basel guidelines. The Bank addresses Pillar 1 of Basel by measuring credit risk and market risk using the standardized approaches, and operational risk using the Basic Indicator Approach. The Bank also addresses Pillar 2 of Basel by developing and maintaining an Internal Capital Adequacy Assessment Process (ICAAP).

The RMD has improved its processes and methodologies by:

- developing Pexim (Basel II System/Solution) to automate capital measurement for credit and market risks and allowing the grouping of operational risk loss of data by business line and event type in accordance with regulatory requirements and international standards

- developing the Bank's Data Warehouse and Management Information Systems for the purpose of ensuring more efficient, accurate, and timely risk management processes and reports

- developing its credit risk rating processes for individual borrowers
- developing and testing its business continuity plan including setting a disaster recovery site
- expanding its Operational Risk Management function to prepare for the advanced approaches of operational risk measurement under Basel II as well as to increase and maintain operational risk awareness across the Bank

BBAC's RMD fully complies with the new directives of Basel III Accord and the Banking Control Commission of Lebanon's (BCCL) implementation plan. The Bank also follows up and strictly abides by the latest directives and requirements issued by the local regulatory bodies in all the countries where it operates.

Human Resources Management

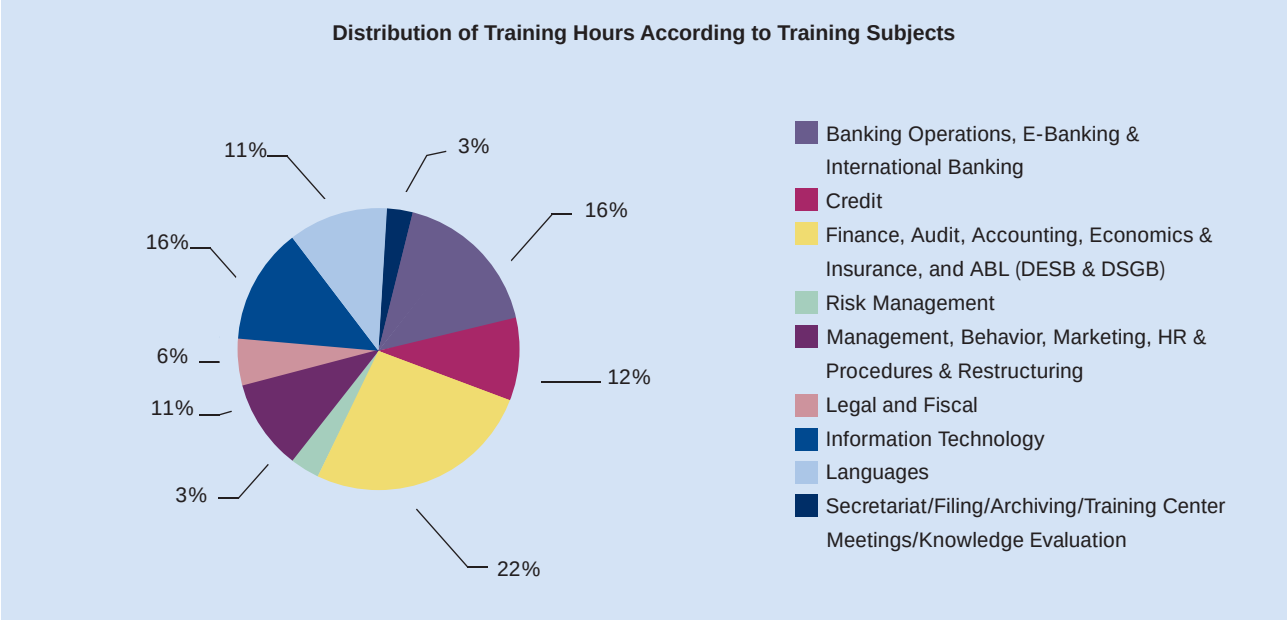
The main priority of the Human Resources Department at BBAC is to fulfill the strategic plan that has been addressed since 2007, which relates to the success of the department as well as the Bank. In order to ensure continuous development and establish new standards of competency and efficiency, the recruitment process has been thoroughly studied and implemented. For this reason, the staffing policy at BBAC is one of the most efficient among the group of Alpha banks as the highest levels of competency are considered when recruiting employees.

In line with the strategic plan mentioned above, the appraisal process has been revamped to address specific targets, both operational and behavioral. Moreover, the Bank has witnessed considerable growth in the number of employees and its standard averages are considered superior in the sector. The talent retention factor has improved steadily over the last few years and the number of employees below the age of 40 is approaching almost half of the total number of employees. In addition, the number of employees with university degrees has risen dramatically. Among those employees, a significant number hold graduate degrees.

The Bank has invested in major projects to improve the status and the conditions of its human resources. Salary scales are continuously adjusted in line with the market due to full scale involvement in market compensation studies. Another major aspect that BBAC is a strong advocate of is providing financial support to encourage employees to pursue their post graduate educational plans.

BBAC assigns great importance towards investing in its staff as training activities in 2011 were highly intensive and totaled 14,098 hours, which is an increase from the 13,752 hours of training in 2010. Internal training represented 54% of the total training hours and was made available to 72% of the Bank's total employees. Training programs have been introduced to respond to the current and future challenges of the banking sector and to enhance the employees' skills and productivity.

As shown in the graph below, the main areas of emphasis this year were Accounting, Finance and related topics, Banking Operations, Information Technology, and Credit, representing respectively 22%, 16%, 16% and 12% of the total training hours. The remaining 35% is mainly related to Communication Skills and Foreign Language Training Sessions.



BBAC continues to provide internships to numerous students in order to equip them with the basic tools that would enable them to understand the work environment better and be more prepared when they join the work-force upon graduation.

The Bank also continued to provide education sponsorship to a total of 16 employees who sought to obtain technical certificates and academic degrees such as the Centre D'études Bancaires diplomas, university B.A.'s and M.B.A.'s.

Corporate Social Responsibility

BBAC has been committed to supporting the community it serves since its inception in 1956. This commitment continues today with the goal of making a difference in the social and economic development of Lebanon. Through its corporate social responsibility (CSR) program, BBAC supports many non-profit organizations and other vital sectors to enhance the welfare and continuity of the Lebanese community.

In 2011, BBAC's CSR continued to promote youth development and related educational initiatives. The Bank signed a cooperation protocol with the 'Social Work League" that aims at helping needy Lebanese students pursue their higher educational goals by making university funding simple and stress-free. In addition, the Bank offered financial and moral support to an array of projects such as economic, environmental, health, and sports activities and cultural events.

The Bank encourages its employees to actively participate in a number of community service activities. In 2011, BBAC organized an employee fund raising campaign whereby employees raised funds to fulfill the holiday wishes of underprivileged families around Lebanon. These families' humble wishes varied from house renovation, car restoration, and kiosk supplies to basic necessities such as food and medicine.

By engaging in these projects and other kinds of good endeavors, BBAC puts its core value, care, into action in ways that stimulate better community growth, development and overall wellbeing.

Financial Activities and Performance Highlights

The Lebanese economy experienced slowing activity in 2011. According to information obtained from the Ministry of Economy and Trade, real GDP growth in 2011 was estimated at around 2% as compared to 7.5% in 2010. Rising domestic and regional political tension has strained Lebanon's opportunities for economic growth.

Despite the unfavorable political circumstances in the region, the Lebanese banking sector was relatively cushioned from severe blows to its activities. It still enjoyed a favorable and solid performance with deposits and loans growing at rates of approximately 7% and 14% respectively. Moreover, BDL has been monitoring Lebanese banks in countries that are suffering from political turmoil and has introduced rigorous stress testing and other prudent regulations to ensure adequate cover of increasing risks in such countries.

BBAC focused on maintaining an efficient and profitable mix of assets and liabilities during 2011. As indicated in table (T1), total interest earning assets fell by 2.56%. This reduction was the product of the decreases in balances with central banks and "due from banks and financial institutions" amounting to 58.48% and 29.74% respectively. However, increases in trading and investment securities and loans and advances to customers, the two major groups of interest earning assets, helped in moderating the total reduction in interest earnings assets.

T1 Interest and Non-Interest Earning Assets

The structure of total assets changed slightly from 2010 to 2011 as the portion of interest earning assets increased from 92.54% to 94.00% and the portion of non-interest earning assets decreased from 7.46% to 6.00%.

(LBP million)	Amount		Structure		% Change
	2010	2011	2010	2011	2011/2010
Balances with central banks	522,698	752,639	8.44%	11.57%	43.99%
Due from banks and financial institutions	986,526	693,100	15.94%	10.65%	(29.74)%
Trading and investment securities	2,937,491	3,078,644	47.46%	47.31%	4.81%
Loans and advances to customers	1,276,897	1,586,885	20.63%	24.39%	24.28%
Loans and advances to related parties	4,542	5,145	0.07%	0.08%	13.28%
Total Interest Earning Assets	**5,728,155**	**6,116,412**	**92.54%**	**94.00%**	**6.78%**
Cash and non-interest earning balances with central banks	253,955	178,152	4.10%	2.74%	(29.85)%
Debtors by acceptances	54,809	47,777	0.89%	0.73%	(12.83)%
Investments in subsidiaries	3,524	3,524	0.06%	0.05%	0.00%
Equity and other non-interest earning securities	39,027	32,672	0.63%	0.50%	(16.28)%
Assets held for sale	19,328	21,463	0.31%	0.33%	11.05%
Investment property	6,279	5,965	0.10%	0.09%	(5.00)%
Intangible fixed assets	1,114	1,612	0.02%	0.02%	44.73%
Property and equipment	59,111	67,351	0.95%	1.04%	13.94%
Other assets	24,722	31,856	0.40%	0.49%	28.86%
Total Non-Interest Earning Assets	**461,869**	**390,373**	**7.46%**	**6.00%**	**(15.48)%**
Total Assets	**6,190,023**	**6,506,785**	**100.00%**	**100.00%**	**5.12%**

T2 Interest and Non-Interest Bearing Liabilities

The increase in “due to banks and financial institutions” amounting to 45.06% as well as the slight increases in customers’ deposits (4.81%) and shareholders’ equity (3.46%) were the main drivers of the growth in total liabilities and equity. Interest bearing liabilities constituted 91.27% of total liabilities and shareholders’ equity. The main sources of funds were related to customers’ deposits (87.43%) and shareholders’ equity (7.39%).

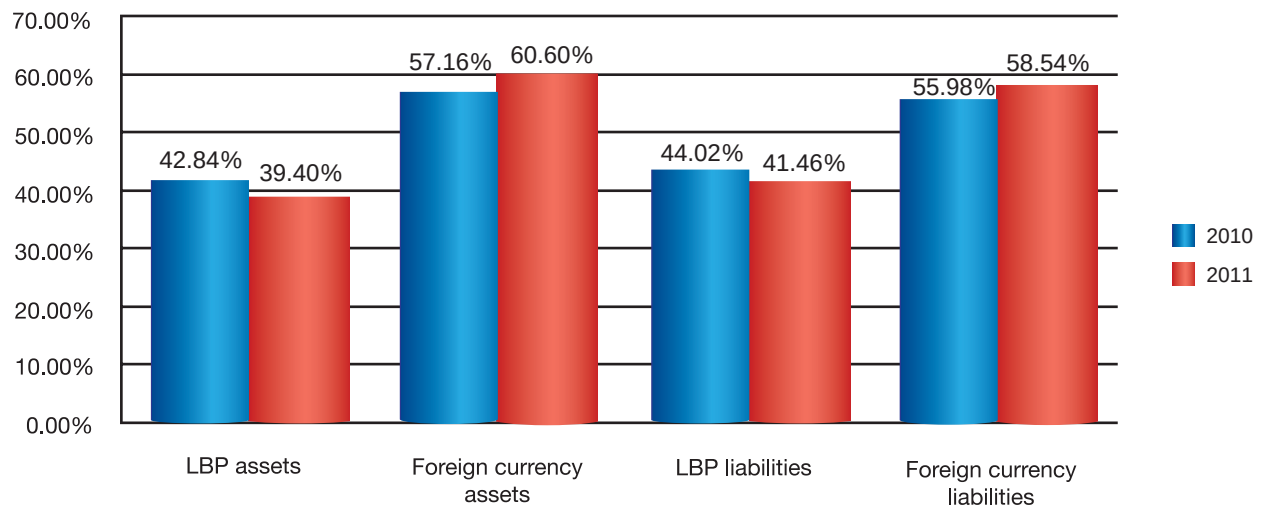
(LBP million)	Amount		Structure		% Change
	2010	2011	2010	2011	2011/2010
Due to banks and financial institutions	111,629	161,926	1.80%	2.49%	45.06%
Deposits from customers	5,427,518	5,688,778	87.68%	87.43%	4.81%
Deposits from related parties	86,163	88,290	1.39%	1.36%	2.47%
Total Interest Bearing Liabilities	**5,625,310**	**5,938,994**	**90.88%**	**91.27%**	**5.58%**
Financial liabilities held for trading	901	-	0.01%	0.00%	(100.00)%
Engagements by acceptances	54,809	47,777	0.89%	0.73%	(12.83)%
Current income tax liabilities	1,711	2,995	0.03%	0.05%	75.07%
Retirement benefit obligations	17,817	19,081	0.29%	0.29%	7.09%
Deferred tax liability	6,595	-	0.11%	0.00%	(100.00)%
Provision for restructuring	2,900	-	0.05%	0.00%	(100.00)%
Other liabilities	14,986	16,877	0.24%	0.26%	12.62%
Shareholders’ equity	464,994	481,061	7.51%	7.39%	3.46%
Total Non-Interest Bearing Liabilities and Equity	**564,713**	**567,791**	**9.12%**	**8.73%**	**0.55%**
Total Liabilities and Equity	**6,190,023**	**6,506,785**	**100.00%**	**100.00%**	**5.12%**

T3 Currency Breakdown of Assets and Liabilities

Due to political turmoil in the region, the economy in Lebanon suffered from decreasing confidence in the Lebanese banking sector, as is indicated by the increase in the dollarization levels of total assets and total liabilities (see table T3 and figure F1 below). However, BBAC's deposit dollarization level in 2011 of 58.54% remained lower than that of the Lebanese banking sector which closed the year at 65.90%.

(LBP million and Percentage)	Amount		Structure		% Change
	2010	2011	2010	2011	2011/2010
Assets	**6,190,023**	**6,506,785**	**100.00%**	**100.00%**	**5.12%**
LL	2,651,958	2,563,660	42.84%	39.40%	(3.33)%
FC	3,538,065	3,943,125	57.16%	60.60%	11.45%
Liabilities	**6,190,023**	**6,506,785**	**100.00%**	**100.00%**	**5.12%**
LL	2,725,056	2,697,783	44.02%	41.46%	(1.00)%
FC	3,464,967	3,809,002	55.98%	58.54%	9.93%

F1



Asset Management

T4 Uses of Funds

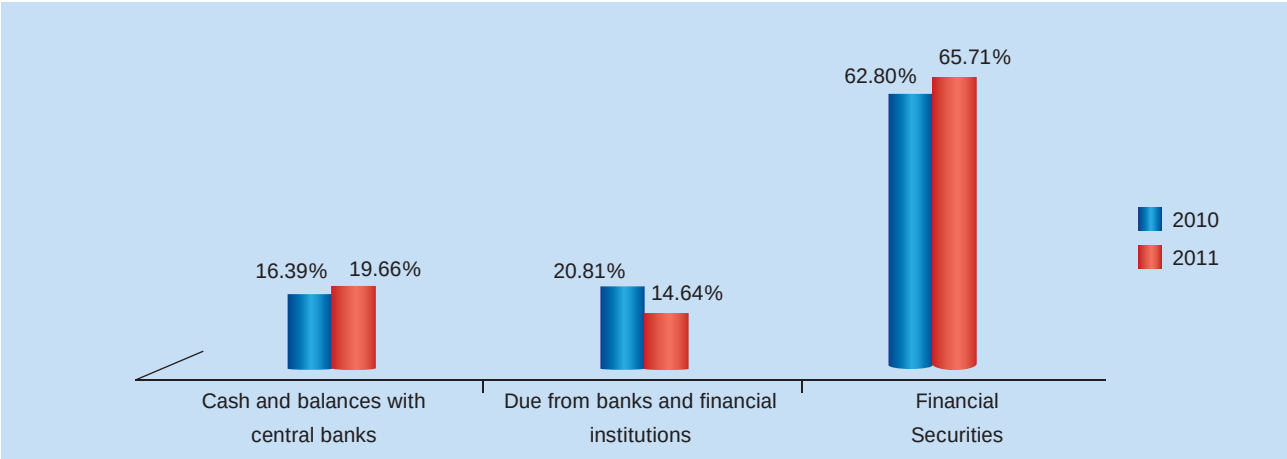
Despite the troubled political situation in the region, BBAC maintained prudent management of its mix of assets. The main constituents of assets are financial securities, which comprise 47.82% of total assets. The structures of financial assets and "due from banks and financial institutions" were reduced from 2010 to 2011. Loans and advances to customers increased by 24.24% and cash and balances with central banks by 19.85%, which represent 24.47% and 14.30% of total assets respectively. The increase in loans reflects the Bank's ability to identify and benefit from profitable opportunities. The asset side of the balance sheet is summarized in the following table:

(LBP million)	Amount		Structure		% Change
	2010	2011	2010	2011	2011/2010
Cash and balances with central banks	776,653	930,791	12.55%	14.30%	19.85%
Due from banks and financial institutions	986,526	693,100	15.94%	10.65%	(29.74)%
Financial Securities	2,976,518	3,111,316	48.09%	47.82%	4.53%
Loans and advances to customers & related parties	1,281,439	1,592,030	20.70%	24.47%	24.24%
Debtors by acceptances	54,809	47,777	0.89%	0.73%	(12.83)%
Other assets	114,078	131,771	1.84%	2.03%	15.51%
Total	**6,190,023**	**6,506,785**	**100.00%**	**100.00%**	**5.12%**

Liquid Assets

The above table clearly shows that the major portion of total assets (72.77%) is comprised of the three most liquid asset classes: cash and balances with central banks, "due from banks and financial institutions", and financial securities. This confirms the importance of liquidity at BBAC (figure F2).

F2 Distribution of Liquid Assets



T5 Liquidity Ratios

Liquidity ratios also signify BBAC's emphasis on liquidity; liquid assets cover 82.17% of deposits. Furthermore, if the deposits from banks and financial institutions were excluded from calculations, the ratios would not change drastically, indicating that BBAC is a highly liquid bank, as are most banks in Lebanon. The following table displays the ratios of amounts in Lebanese Pounds (LBP) and the counter value of other currencies (C/V):

(Percentage)	2010			2011		
	LBP	C/V	Total	LBP	C/V	Total
Loans / Assets	15.59%	24.54%	**20.70%**	19.20%	27.89%	**24.47%**
Loans / Deposits	17.39%	27.67%	**23.24%**	21.77%	31.28%	**27.56%**
Liquid Assets / Deposits	91.19%	82.00%	**85.96%**	87.76%	78.24%	**81.97%**
Liquid Assets / Assets	81.72%	72.71%	**76.57%**	77.42%	69.75%	**72.77%**
Net Liquid Assets* / Deposits	90.99%	78.60%	**83.94%**	87.27%	73.95%	**79.16%**
Net Liquid Assets* / Assets	81.53%	69.70%	**74.77%**	76.99%	65.93%	**70.28%**

* "Liquid assets" less "Deposits from banks and financial institutions"

T6 Cash and Central Banks' Deposits

Cash and balances with central banks represent 14.3% of total assets. Although cash declined slightly from 2010 to 2011, balances with central banks countered the decline with a 21.41% increase across the two years. The increase was mainly due to the rise of 35.02% in term deposits as indicated in the following table:

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Cash	**46,166**	**43,943**	**(4.82)%**
Central banks			
Sight deposits	229,498	210,276	
Term deposits	500,386	675,627	
Accrued interest receivable	603	945	
Total central banks	**730,487**	**886,848**	**21.41%**
Total cash and central banks' deposits	**776,653**	**930,791**	**19.85%**
Denominated as follows			
LBP	27.31%	18.73%	
Foreign currencies	72.69%	81.27%	

T7 Due from Banks and Financial Institutions

"Due from banks and financial institutions", which form 10.65% of total assets, displayed a 29.74% reduction from 2010 to 2011. This reduction is attributed to the decrease of 45.79% in time deposits.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Demand deposits	180,102	255,661	
Time deposits	805,951	436,902	
After-tax interest receivable	473	537	
Total	**986,526**	**693,100**	**(29.74)%**
Denominated as follows			
LBP	2.27%	1.45%	
Foreign currencies	97.73%	98.55%	

T8 Financial Securities

Investments in financial securities rose by 4.53%, which is a considerable rise given that financial securities constitute almost half of total assets (47.82%). This rise is the result of increased investments in Treasury bills by 4.08% and CDs and other debt securities by 6.12% both of which represent the bulk of the Bank's investment securities. Therefore, decreases in investments in Equity securities and Derivative securities did not have a significant effect.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Treasury bills			
Nominal amount	1,774,073	1,873,585	
Unamortized premium (discount)	2,412	13,723	
Net interest receivable	31,774	29,685	
Revaluation gain	38,012	4,627	
Total Treasury bills	**1,846,271**	**1,921,620**	**4.08%**
CDs and other debt securities			
Nominal value	1,058,158	1,121,723	
Unamortized premium (discount)	4,721	12,035	
Net interest receivable	19,598	23,310	
Revaluation gain (loss)	7,855	(44)	
Total CDs and other debt securities	**1,090,332**	**1,157,024**	**6.12%**
Total Equity securities	**39,027**	**32,672**	**(16.28)%**
Total Derivative securities	**888**	**-**	**(100.00)%**
Total Financial securities	**2,976,518**	**3,111,316**	**4.53%**

F3 Breakdown by Type of Investment Securities

The following figure (F3) charts the breakdown of investment securities by type and percentage. As shown, Treasury bills constitute the largest percentage (61.76%) followed by CDs and other debt securities (37.19%).

In line with the Lebanese banking sector's increase in dollarization, BBAC's foreign currency denominated securities increased from 35.03% to 42.13%.

Loans and Advances to Customers and Related Parties

T9 Breakdown of Loans and Advances by Currency

Loans and advances represent 24.47% of total assets, which witnessed a 24.24% increase from 2010 to 2011. This growth is in line with BBAC's lending policy, which seeks high quality and profitable new loans.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Loans and advances to customers	1,276,897	1,586,885	
Loans and advances to related parties	4,542	5,145	
Total	**1,281,439**	**1,592,030**	**24.24%**
Denominated as follows			
LBP	32.25%	30.93%	
Foreign currencies	67.75%	69.07%	

T10 Breakdown of Loans and Advances to Customers by BDL Classification

In compliance with the international standards of accounting and reporting (IAS39 and IFRS 7), BBAC continued with its collective impairment tests on its loans and advances and provisioning any uncovered positions. In addition, BBAC met the requirements of BDL of pursuing efforts to reduce its non-performing loans portfolio as indicated by the decrease in the "net substandard and doubtful loans to gross loans" ratio from 2.22% in 2010 to 1.48% in 2011 (Table 10).

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Net regular loans (1)	**1,246,065**	**1,561,880**	**25.35%**
Add collective impairment on loans and advances	23,501	26,213	11.54%
Gross regular loans (2)	**1,269,566**	**1,588,093**	**25.09%**
Net substandard loans (3)	**11,520**	**14,363**	**24.68%**
Add unrealized interest	4,541	5,031	10.80%
Gross substandard loans (4)	**16,061**	**19,394**	**20.75%**
Net doubtful loans (5)	**19,311**	**10,640**	**(44.90)%**
Add unrealized interest	30,567	26,003	(14.93)%
Add provisions	56,166	45,885	(18.30)%
Add other provisions	-	4,121	-
Gross doubtful loans (6)	**106,044**	**86,649**	**(18.29)%**
Net substandard and doubtful loans (3+5)	**30,831**	**25,003**	**(18.90)%**
Net loans	**1,276,896**	**1,586,883**	**24.28%**
Gross loans	**1,391,671**	**1,694,136**	**21.73%**
Net substandard and doubtful to gross loans (3+5)/(2+4+6)	**2.22%**	**1.48%**	**(33.33)%**

Liability Management

T11 Sources of Funds

BBAC focuses on the efficient management of its liability mix in addition to its asset mix. Its main source of funding is deposits from customers and related parties, which amount to 88.79% of its total liabilities followed by shareholders' equity (7.39%). Both deposits from customers and related parties as well as shareholders' equity rose from 2010 to 2011.

(LBP million)	Amount		Structure		% Change
	2010	2011	2010	2011	2011/2010
Banks and financial institutions	111,629	161,926	1.80%	2.49%	45.06%
Deposits from customers and related parties	5,513,681	5,777,068	89.07%	88.79%	4.78%
Engagements by acceptances	54,809	47,777	0.89%	0.73%	(12.83)%
Other liabilities	44,910	38,953	0.73%	0.60%	(13.26)%
Shareholders' equity	464,994	481,061	7.51%	7.39%	3.46%
Total	**6,190,023**	**6,506,785**	**100.00%**	**100.00%**	**5.12%**

T12 Deposits from Banks and Financial Institutions

Deposits from banks and financial institutions experienced significant growth of 45.06%. This growth was mainly the result of the increase in short-term loans and was also supported by a rise in sight deposits.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Sight deposits	21,336	29,669	
Term deposits	87,517	74,806	
Short-term loan	2,469	56,066	
Accrued interest receivable	307	1,385	
Total	**111,629**	**161,926**	**45.06%**
Denominated as follows			
LBP	4.44%	6.89%	
Foreign currencies	95.56%	93.11%	

T13 Breakdown of Customers' Deposits by Source and Currency Mix

Deposits from customers represent 98.22% of total deposits, and consequently are the main source of funds for BBAC. Therefore, the growth of 4.78% of total deposits was due to the growth of 5.04% of deposits from customers. In addition, a portion of the foreign currencies denominated credit-linked deposits, which were issued in 2008 with a nominal value of LBP 53,721 million and maturities up to five years, matured in 2011. These credit-linked deposits pay a higher coupon rate than the average deposits and at maturity, the Bank has the option to either deliver cash or return Lebanese Treasury bills with a nominal value equivalent to the nominal amounts of these deposits. In 2011, credit-linked deposits were classified at amortized cost.

(LBP million)	Amount		Structure		% Change
	2010	2011	2010	2011	2011/2010
Deposits from customers	5,427,518	5,674,289	98.44%	98.22%	4.55%
Financial liabilities held at FVTPL	-	14,489	0.00%	0.25%	-
Deposits from related parties	86,163	88,290	1.56%	1.53%	2.47%
Total	**5,513,681**	**5,777,068**	**100.00%**	**100.00%**	**4.78%**
Denominated as follows					
LBP	43.10%	39.15%			
Foreign currencies	56.90%	60.85%			

Shareholders' Equity

T14 Shareholders' Equity

In spite of the decreases in cash contributions to capital and revaluation of available-for-sale securities, total shareholders' equity experienced a growth of 3.46%. This growth was the result of the 100% increase in ordinary share capital after the number of common shares was raised from LBP 72 million to LBP 144 million, combined with a 15.30% rise in retained earnings.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Ordinary share capital	72,000	144,000	100.00%
Preferred share capital	75,375	75,375	0.00%
Cash contribution to capital	43,109	36	(99.92)%
Real estate revaluation surplus*	21,061	21,061	0.00%
Reserves related for capital	77,043	90,783	17.83%
Reserve for liquidation of PSD	3,653	4,165	14.02%
Revaluation of AFS (Available-for-sale Securities)	32,225	-	(100.00)%
Other reserves	15,475	1,451	(90.62)%
Retained earnings	125,053	144,190	15.30%
Total	**464,994**	**481,061**	**3.46%**

T15 Capital Adequacy Ratio

Total risk weighted assets increased by 26.81% from 2010 to 2011, largely due to the 24.24% growth in loans and advances to customers and related parties.

Although the Basel II ratio declined, as shown in the table below, it is still above the minimum required ratio (8%). The reason behind this decline is that risk weighted assets increased at a higher rate than net capital, reflecting the expansion of BBAC's business activities.

(LBP million and Percentage)	Amount	
	2010	2011
Risk weighted assets	**3,124,502**	**3,962,306**
Tier I Capital	350,956	400,595
Tier II Capital	26,113	10,000
Net Capital	**377,069**	**410,595**
Tier I Capital ratio	11.23%	10.11%
Tier II Capital ratio	0.84%	0.25%
Capital Ratio (Basel II ratio)	**12.07%**	**10.36%**

Financial Performance

T16 Income Statement

Net income witnessed an increase in 2011 despite the slight decrease in net interest margin and similar income and the increases in staff expenses and other operating expenses. This rise was mainly due to the significant rise in non-interest income (20.56%), which reflects BBAC's strategy of identifying profitable opportunities in commissions and fees.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Net interest margin and similar income	106,522	103,030	(3.28)%
Net provision less releases on loans and advances	(3,668)	3,864	205.34%
Non-interest income	35,619	42,942	20.56%
Staff expenses	(38,870)	(44,622)	14.80%
Other operating expenses	(30,562)	(34,981)	14.46%
Profit before taxes	**69,041**	**70,233**	**1.73%**
Taxes	(11,054)	(12,173)	10.12%
Net Income	**57,987**	**58,060**	**0.13%**

T17 Management Efficiency Ratios

The "interest paid to interest received" ratio remained at approximately the same 2010 level, indicating that BBAC was able to sustain a uniform change in interest paid and interest received. The rise in the efficiency ratio is explained by the decrease in net interest income coupled with the increase in total operating expenses. Higher operating expenses in 2011 in comparison with 2010 also led to an increase in the cost per average branch, especially since the number of branches changed slightly from 37 to 38 branches within the two years. The increase in the "net commissions to income" ratio is largely due to the 13.32% increase in net commissions.

(Percentage)	2010	2011
Interest Paid / Interest Received	70.32%	70.63%
Net Commissions / Income*	16.56%	17.34%
Cost / Income* (Efficiency Ratio)	50.14%	53.13%
Cost per Average Branch (LBP million)	1,902	2,123

* Before "Operating expenses" and "Taxes"

T18 Net Financial Income

Net financial income increased in 2011 by 8.21%, mainly because of the increase in non-interest income (20.56%). Net interest margin also increased, albeit slightly (3.93%), as a result of the rise in net provisions less releases on loans and advances.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Net interest margin	102,854	106,894	3.93%
Non-interest income	35,619	42,942	20.56%
Net financial income	**138,473**	**149,836**	**8.21%**

T19 Interest Margin Analysis

In light of BBAC's strategy of efficiently managing its mix of assets and liabilities, the cost of average interest earning assets decreased from 4.30% in 2010 to 4.27% in 2011. Given that this reduction was accompanied by a larger one in the return on average interest earning assets, gross interest margin fell from 1.82% to 1.77%. The net releases on loans and advances protected net interest margin from declining significantly as it fell by only 0.02%. The net releases on loans and advances also played a role in the increase of the net spread.

(LBP million and Percentage)	2010					2011				
	LBP	%	C/V	%	Total	LBP	%	C/V	%	Total
Average interest earning assets	2,192,165	40.30%	3,246,887	59.70%	**5,439,051**	2,335,552	39.44%	3,586,731	60.56%	**5,922,283**
Interest paid	137,345	58.71%	96,581	41.29%	**233,926**	129,519	53.67%	111,814	46.33%	**241,333**
Interest received	178,848	53.76%	153,826	46.24%	**332,674**	179,363	52.49%	162,328	47.51%	**341,691**
Net interest income	41,503	42.03%	57,245	57.97%	**98,748**	49,844	49.67%	50,514	50.33%	**100,358**
Cost of average interest earning assets (in %)		6.27%		2.97%	**4.30%**		5.55%		3.12%	**4.07%**
Return on average interest earning assets (in %)		8.16%		4.74%	**6.12%**		7.68%		4.53%	**5.77%**
Gross interest margin (in %)		**1.89%**		**1.76%**	**1.82%**		**2.13%**		**1.41%**	**1.69%**
Net releases (provisions) on loans and advances	(12,385)		8,717		**(3,668)**	(6,357)		10,221		**3,864**
Net interest margin (in %)		**1.33%**		**2.03%**	**1.75%**		**1.86%**		**1.69%**	**1.76%**
Average interest earning assets to average assets (in %)		87.84%		95.27%	**92.13%**		89.56%		95.89%	93.29%
Gross spread (in %)		1.66%		1.68%	**1.67%**		1.91%		1.35%	**1.58%**
Net spread (in %)		1.17%		1.94%	**1.61%**		1.67%		1.62%	**1.64%**

T20 Non-Interest Income

Non-interest income enjoyed a superior 20.56% growth from 2010 to 2011. The major factors involved in this increase were the increase in credit-related fees and commissions driven by the increase in loans coupled with the reduction in fees and commissions expense as a whole, resulting in a 13.32% growth of net commissions received. Net trading income also played a role as it grew by 20.58% reflecting the improvement in Lebanese capital market activity.

(LBP million)	Amount		Structure		% Change
	2010	2011	2010	2011	2011/2010
Credit-related fees and commissions	8,479	9,390	30.10%	31.87%	10.74%
Commissions from letters of credit and guarantee	6,249	6,808	22.18%	23.11%	8.95%
Commissions from banking operations	6,282	6,530	22.30%	22.16%	3.95%
Brokerage fees received	2,768	2,389	9.83%	8.11%	(13.69)%
Other fees and commissions	4,390	4,344	15.59%	14.74%	(1.05)%
Total fees and commissions income(1)	**28,168**	**29,461**	**100.00%**	**100.00%**	**4.59%**
Commissions on banking operations	(1,807)	(1,379)	34.49%	39.65%	(23.69)%
Brokerage fees paid	(1,651)	(1,012)	31.51%	29.10%	(38.70)%
Other fees	(1,781)	(1,087)	34.00%	31.25%	(38.97)%
Total fees and commissions expense(2)	**(5,239)**	**(3,478)**	**100.00%**	**100.00%**	**(33.61)%**
Net commissions received(3)	**22,929**	**25,983**	**64.37%**	**60.51%**	**13.32%**
Net trading income(4)	**9,836**	**11,860**	**27.61%**	**27.62%**	**20.58%**
Other operating income(5)	**2,854**	**5,099**	**8.01%**	**11.87%**	**78.66%**
Total non-interest income(6)	**35,619**	**42,942**	**100.00%**	**100.00%**	**20.56%**

(3) = (1)-(2)

(6) = (3)+(4)+(5)

T21 General Operating Expenses

General operating expenses grew by 14.65%, which was mainly the result of the increase in all expenses.

(LBP million)	Amount		% Change
	2010	2011	2011/2010
Staff expenses	38,870	44,622	14.80%
Other operating expenses	27,082	31,121	14.91%
Depreciation and amortization	3,480	3,860	10.92%
Total	**69,432**	**79,603**	**14.65%**

T22 Profitability

Both average assets and average equity increased considerably from 2010 to 2011 at rates of 7.54% and 6.16% respectively. Net income amounted to LBP 58,060 million, which is a 0.13% growth since 2010. Due to the fact that the increase in net income was smaller than the increases in average assets and average equity, return on average assets (ROAA) and return on average equity (ROAE) declined in 2011.

Earnings per share (EPS) also witnessed a decrease from LBP 805 to LBP 403 due to the combination of the increase in the number of common shares from LBP 72 million to LBP 144 million and the minor change in net income. For the same reasons, diluted earnings per share also decreased. The doubling of the number of common shares was accompanied by the reduction of the dividend per common share by half. The dividend payout ratio also fell since the decrease in dividends per common share was greater than the decrease in the diluted earnings per share. Consequently, the retention ratio rose.

(LBP million and Percentage)	Amount		% Change
	2010	2011	2011/2010
Average assets	5,903,552	6,348,404	**7.54%**
Average equity	445,561	473,028	**6.16%**
Return on average assets ROAA after tax (%)	0.98%	0.91%	**(0.07)%**
Return on average equity ROAE after tax (%)	13.01%	12.27%	**(0.74)%**
Net income for the Year after tax*	57,987	58,060	**0.13%**
Net income available for common shareholders**	51,767	51,840	**0.14%**
Number of common shares outstanding (million)	72	144	**1.00**
Number of preferred shares outstanding (million)	5	5	**-**
Earnings per common share (EPS) in LBP*	805	403	**(49.94)%**
Earnings per common share (EPS) in LBP**	719	360	**(49.93)%**
Dividends per common share DPS in LBP***	110	55	**(50.00)%**
Dividends per preferred share in LBP	1,244	1,244	**0.00%**
Dividends payout ratio**	15.30%	15.28%	**(0.02)%**
Retention ratio**	84.70%	84.72%	**0.02%**
Book value per common share in LBP****	5,411	2,817	**(47.94)%**

* Before the allocation of any dividends

** After allocation of dividends on the Preferred Shares

*** An additional interest payment of about LBP 1,050 million was made on the Cash Contributions

**** Before distribution of Common Shares' dividends

ANNUAL REPORT 2011

AUDITORS' **REPORT**

Contents

AUDITORS' REPORT

Independent Auditors' Report to the Shareholders of BBAC S.A.L.

Report on the financial statements

We have audited the accompanying stand-alone financial statements of BBAC S.A.L. ("the Bank"), which comprise the balance sheet as at 31 December 2011 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditors' responsibility

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

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

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

Basis for qualified opinion

As explained in notes 2.17 and 2.18, the Bank accounts for investment properties and lands and buildings classified as property and equipment under the fair value model and the revaluation model respectively. Initial estimates of the property revaluations commissioned by the Bank show their carrying amount to be significantly understated. Because the revaluation exercise has not been formally completed as of the date of our report, we were unable to quantify the effects of those revaluations on the Bank's financial statements, specifically property and equipment, investment properties, real estate revaluation reserve, depreciation expense and profit for the year.

Qualified opinion

In our opinion, except for the possible effects of the matter described in the basis for qualified opinion paragraph, the accompanying financial statements present fairly, in all material aspects, the financial position of the Bank as at 31 December 2011, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

PricewaterhouseCoopers

KPMG

Beirut, Lebanon
13 June 2012

Balance sheet at 31 December 2011

	Note	2011 LL Million	2010 LL Million
ASSETS			
Cash and balances with central banks	5	**930,791**	776,653
Loans and advances to banks	6	**693,100**	986,526
Loans and advances to customers	8	**1,592,030**	1,281,439
Debtors by acceptances	9	**47,777**	54,809
Investment securities:			
- Fair value through profit or loss	7	**170,314**	225,243
- Available-for-sale	10	**-**	904,637
- Loans and receivables	10	**-**	1,127,303
- Held to maturity	10	**-**	719,335
- Amortised cost	10	**2,941,002**	-
Investments in subsidiaries	11	**3,524**	3,524
Investment properties	12	**5,965**	6,279
Property and equipment	13	**67,351**	59,111
Intangible assets	14	**1,612**	1,114
Other assets	15	**31,856**	24,722
		6,485,322	6,170,695
Non-current assets classified as held for sale	16	**21,463**	19,328
Total assets		**6,506,785**	6,190,023
LIABILITIES			
Deposits from banks and financial institutions	17	**161,926**	111,629
Financial liabilities held at fair value through profit or loss	18	**14,489**	-
Deposits from customers	18	**5,762,579**	5,513,681
Financial liabilities held for trading	7	**-**	901
Engagements by acceptances	9	**47,777**	54,809
Current income tax liabilities	33	**2,995**	1,711
Deferred income tax liabilities		**-**	6,595
Other liabilities	19	**16,877**	14,986
Provision for restructuring	20	**-**	2,900
Retirement benefit obligations	21	**19,081**	17,817
Total liabilities		**6,025,724**	5,725,029
EQUITY			
Share capital – Common shares	22	**144,000**	72,000
Share capital – Preferred shares	22	**75,375**	75,375
Cash contributions to capital	22	**36**	43,109
Other reserves	23	**117,460**	149,457
Retained earnings	23	**144,190**	125,053
Total equity		**481,061**	464,994
Total equity and liabilities		**6,506,785**	6,190,023

The financial statements on pages 3 to 89 were authorised for issue by the directors on 23 May 2012 and were signed on their behalf by:

Mr. Ghassan Assaf

Chairman and General Manager

The notes on pages 8 to 89 are an integral part of these financial statements.

Statement of comprehensive income for the year ended 31 December 2011

	Note	2011 LL Million	2010 LL Million
Interest and similar income	24	**341,691**	332,674
Dividend income		**2,672**	7,774
Interest and similar expenses	24	**(241,333)**	(233,926)
Net interest and similar income		**103,030**	106,522
Net loan impairment releases (charges)	29	**3,864**	(3,668)
Net interest and similar income after loan impairment releases (charges)		**106,894**	102,854
Fee and commission income	25	**29,461**	28,168
Fee and commission expense	25	**(3,478)**	(5,239)
Net fee and commission income		**25,983**	22,929
Net (losses) gains on financial instruments held at fair value through profit or loss	26	**(1,126)**	57
Net gains on investment securities	27	**12,986**	9,779
Other operating income	28	**5,099**	2,854
Personnel expenses	30	**(44,622)**	(38,870)
Depreciation and amortisation expense	32	**(3,860)**	(3,480)
Other operating expenses	31	**(31,121)**	(27,082)
Profit before income tax		**70,233**	69,041
Income tax expense	33	**(12,173)**	(11,054)
Profit for the year		**58,060**	57,987
Other comprehensive income			
Net losses on available-for-sale investment securities, net of tax		**-**	(4,508)
Total comprehensive income for the year		**58,060**	53,479

The notes on pages 8 to 89 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2011

	Common shares LL Million	Preferred shares LL Million	Cash contributions to capital LL Million	Other reserves LL Million	Retained earnings LL Million	Total LL Million
At 1 January 2010	72,000	75,375	43,109	138,873	96,771	426,128
Profit for the year	-	-	-	-	57,987	57,987
Fair value losses on available for sale investment securities (net of tax)	-	-	-	(4,508)	-	(4,508)
Total comprehensive income	**-**	**-**	**-**	**(4,508)**	**57,987**	**53,479**
Dividends relating to 2009 (note 34)	-	-	-	-	(13,419)	(13,419)
Interest paid on cash contributions to capital (note 34)	-	-	-	-	(1,194)	(1,194)
Transfers from retained earnings (note 23)	-	-	-	15,092	(15,092)	-
At 31 December 2010	72,000	75,375	43,109	149,457	125,053	464,994
At 1 January 2011	**72,000**	**75,375**	**43,109**	**149,457**	**125,053**	**464,994**
Impact of adoption of IFRS 9	-	-	-	(32,225)	5,221	(27,004)
Profit for the year	-	-	-	-	58,060	58,060
Total comprehensive income	**-**	**-**	**-**	**-**	**58,060**	**58,060**
Transfers from retained earnings and reserves (note 22)	71,657	-	(43,073)	(15,474)	(13,110)	-
Additional paid in capital (note 22)	343	-	-	-	-	343
Dividends relating to 2010 (note 34)	-	-	-	-	(14,138)	(14,138)
Interest paid on cash contributions to capital (note 34)	-	-	-	-	(1,194)	(1,194)
Transfers from retained earnings (note 23)	-	-	-	15,702	(15,702)	-
At 31 December 2011	**144,000**	**75,375**	**36**	**117,460**	**144,190**	**481,061**

The notes on pages 8 to 89 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2011

	Note	2011 LL Million	2010 LL Million
Cash flows from operating activities			
Profit before income tax		**70,233**	69,041
Adjustments for non cash-items:			
Net loan impairment (releases) charges	29	**(3,864)**	3,668
Impairment charges on other assets	31	**1,192**	591
Depreciation charge	13	**3,175**	2,975
Amortisation charge	14	**685**	505
Gain on disposal of property and equipment	28	**(407)**	(11)
Gain on disposal of assets classified as held for sale	28	**(1,145)**	(2,346)
Fair value loss on investment properties	12, 31	**164**	154
Release of provision for restructuring	20	**(2,900)**	-
Net loss on financial instruments held at fair value through profit or loss		**9,608**	3,595
Net gain on investment securities		**(12,986)**	(9,779)
Dividends income		**(2,672)**	(7,774)
Provision for retirement benefit obligations	21	**1,954**	1,866
		63,037	62,485
Balances with central banks	5	**27,376**	(7,031)
Loans and advances to banks	6	**(6,490)**	252,175
Financial assets held at fair value through profit or loss	7	**34,437**	27,904
Loans and advances to customers	8	**(310,859)**	(283,463)
Investment securities	10	**(201,244)**	(72,637)
Other assets	15	**(8,326)**	(3,349)
Deposits from banks and financial institution	17	**50,297**	(2,768)
Deposits from customers	18	**264,275**	523,341
Other liabilities		**2,231**	5,321
Dividends received		**2,672**	7,774
Employee benefits paid	21	**(690)**	(1,137)
Income taxes paid	33	**(10,889)**	(11,623)
Net cash (used in) generated from operating activities		**(94,173)**	496,992

Statement of cash flows (continued) for the year ended 31 December 2011

	Note	2011 LL Million	2010 LL Million
Cash flows from investing activities			
Purchase of intangible assets	14	**(1,183)**	(224)
Purchase of property and equipment	13	**(11,860)**	(7,640)
Proceeds from disposal of property and equipment		**1,002**	216
Proceeds from disposal of intangible assets		**-**	6
Proceeds from disposal of assets classified as held for sale		**3,142**	**6,398**
Net cash used in investing activities		**(8,899)**	(1,244)
Cash flows from financing activities			
Cash contribution to capital	22	**343**	-
Interest paid on cash contributions to capital		**(1,194)**	(1,194)
Dividends paid		**(14,479)**	(13,380)
Net cash used in financing activities		**(15,330)**	(14,574)
Cash and cash equivalents at the beginning of the year	35	**1,038,673**	557,499
Net cash (used in) generated from operating activities		**(94,173)**	496,992
Net cash used in investing activities		**(8,899)**	(1,244)
Net cash used in financing activities		**(15,330)**	(14,574)
Cash and cash equivalents at the end of the year	35	**920,271**	1,038,673

Principal non-cash transactions:

The principal non-cash transactions are as follows:

- The Bank took possession of properties in settlement of customers' loans amounting to LL 4,132 million (2010 – LL 1,577 million) and classified them as non-current assets held for sale (note 16);
- Management transferred an amount of LL 150 million from investment property to property and equipment (2010 – LL 563 million) (note 12); and
- The Bank early adopted IFRS 9 (note 10), and it chose 1 January 2011 as the date of initial application (as stipulated by the Banking Control Commission circular no. 265). The main effects were a decrease in investment securities by LL 27 billion, an increase in retained earnings by LL 5.22 billion and a decrease in fair value reserve by LL 32.22 billion.

The notes on pages 8 to 89 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2011

1 General information

BBAC S.A.L. ("the Bank") offers a full range of retail, private and commercial banking activities through its head office in Beirut and its network of thirty nine branches across Lebanon, in addition to a branch in Cyprus and two branches in Iraq (Erbil and Baghdad).

The Bank was incorporated in Lebanon in 1956 and registered at the Commercial Court in Beirut under No. 6196. It appears under number 28 in the list of Lebanese banks. The address of its registered office is as follows:
P.O. Box: 11-1536, Clemenceau, Beirut – Lebanon.

2 Summary of significant accounting policies

The financial statements relate to the Bank and are presented on a non-consolidated basis. The Bank has also prepared under a separate cover consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") for the Bank and its subsidiaries ("the Group").

The consolidated financial statements can be obtained from BBAC S.A.L. registered office: P.O. Box: 11-1536, Clemenceau, Beirut – Lebanon.

Users of the stand-alone financial statements should read them together with the Group's consolidated financial statements for the year ended 31 December 2011 in order to obtain full information on the balance sheet, results of operations and changes in balance sheet of the Group as a whole.

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

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings, available-for-sale financial assets (policy applicable prior 1 January 2011), and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

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

The Bank classifies its expenses by the nature of expense method.

The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency. Except as otherwise indicated, the figures shown in the financial statements are stated in LL million.

The disclosures on risks from financial instruments are presented in the financial risk management report contained in note 3.

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 35 shows the balance sheet captions in which cash and cash equivalents items are included.

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

(a) Standards, amendments and interpretations early adopted on 1 January 2011

- IFRS 9 was issued in November 2009 and October 2010. It addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39, ''Financial instruments: recognition and measurement" that relate to the classification and measurement of financial instruments.

IFRS 9 requires financial assets to be classified into two measurement categories:
(i) those measured at fair value,
(ii) and those measured at amortised cost.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the Bank's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features").

All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election, on an investment-by-investment basis can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the profit or loss, unless this creates an accounting mismatch.

The Bank has adopted IFRS 9 from 1 January 2011, as well as the related consequential amendments to other IFRSs, because this new accounting policy provides reliable and more relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transitional provisions of the standard, comparative figures have not been restated.

The Bank's management has assessed the financial instruments held by the Bank at the date of initial application of IFRS 9 (1 January 2011). For more information on the main effects resulting from this assessment, refer to note 10.

(b) Standards, amendments and interpretations effective on 1 January 2011

- IFRS 7 (amendment), 'Financial instruments', (effective from 1 January 2011 applied retrospectively). This amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The adoption of the amendment results in additional disclosures but does not have an impact on the balance sheet or the statement of comprehensive income of the Bank.

- IAS 1 (amendment), 'Presentation of financial statements', (effective from 1 January 2011). This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The adoption of the amendment results in additional disclosures but does not have an impact on the balance sheet or the statement of comprehensive income of the Bank.

- IAS 24, 'Related party disclosures', (revised 2009, effective from 1 January 2011). IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. The revised standard amends the definition of a related party and modifies certain related-party disclosure requirements for government-related entities. This amendment did not have a significant impact on the Bank's financial statements.

(*c) Standards, amendments and interpretations issued but not effective for the financial year beginning 1 January 2011 and not early adopted*

- Amendment to IAS 1, 'Presentation of financial statements' regarding other comprehensive income, (effective from 1 July 2012). The main change resulting from these amendments is a requirement for Banks to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The impact of this standard is not expected to be significant on the Bank's financial statements.

- IAS 27 (Revised 2011), 'Separate financial statements', (effective from 1 January 2013). The standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The impact of this standard is not expected to be significant on the Bank's financial statements.

- IFRS 13, 'Fair value measurement', (effective 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on 1 January 2013.

- Amendment to IFRS 7, 'Financial instruments: Disclosures' on derecognition, (effective 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's balance sheet, particularly those involving securitisation of financial assets.The impact of this standard is not expected to be significant on the Bank's financial statements.

- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012). IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the Bank expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The impact of this standard is not expected to be significant on the Bank's financial statements.

- Amendment to IAS 19, 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The impact of this standard is not expected to be significant on the Bank's financial statements.

- IFRS 10 'Consolidated financial statements' (effective 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It also sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The impact of this standard is not expected to be significant on the Bank's financial statements.

- IFRS 12, 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Bank is yet to assess IFRS 12's full impact and intends to adopt IFRS 12 no later than the accounting period beginning on or after 1 January 2013.

2.2 Investments in subsidiaries

Subsidiaries are companies in which the Bank directly or indirectly holds the majority of the voting rights and when it determines their financial and business policies and is able to exercise control over them in order to benefit from their activities. The existence and effect of potential voting rights that are currently exercisable are considered when assessing whether the Bank controls another entity. Investments in subsidiaries are accounted for by the Bank under the cost method.

A listing of the Bank's subsidiaries is shown in note 11.

2.3 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

Prior to 1 January 2011
In the case of changes in the fair value of monetary assets denominated in foreign currency classified as available for sale, a distinction is made between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security.

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

From 1 January 2011
Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in other comprehensive income.

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

2.4 Financial assets and liabilities

2.4.1 Classification prior to 1 January 2011

The Bank allocates financial assets to the following IAS 39 categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available for sale financial assets. Management determines the classification of its financial instruments at initial recognition.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial assets designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated as hedging instruments.

Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate and bank loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the balance sheet as "Financial assets held at fair value through profit or loss".

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to the statement of comprehensive income. Gains and losses arising from changes in fair value are included directly in the statement of comprehensive income and are reported as "Net (losses) gains on financial instruments held at fair value through profit or loss ". Interest income and expense and dividend income and expenses on financial assets held for trading are included in "Net interest and similar income" or "Dividend income", respectively. The instruments are derecognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership and the transfer qualifies for derecognising.

The Bank designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed. According to IAS 39, the fair value option is only applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consists of debt host and an embedded derivative that must be separated.

Financial assets for which the fair value option is applied are recognised in the balance sheet as "Financial assets held at fair value ". Fair value changes relating to financial assets designated at fair value through profit or loss are recognised in " Net (losses) gains on financial instruments held at fair value through profit or loss ".

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Bank intends to sell immediately or in the short term, which are classified as held for trading, and those that the entity upon initial recognition designates as fair value through profit or loss; (b) those that the Bank upon initial recognition designates as available for sale; or (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value, which is the cash consideration to originate or purchase the loan including any transaction costs, and measured subsequently at amortised cost using the effective interest rate method. Loans and receivables are reported in the balance sheet as loans and advances to banks or customers or as investment securities. Interest on loans is included in the statement of comprehensive income and is reported as "Interest and similar income". In the case of impairment, the impairment loss is reported as a deduction from the carrying value of the loan and recognised in the statement of comprehensive income as "Loan impairment charges".

(c) Held-to-maturity financial assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity, other than:

(a) those that the Bank upon initial recognition designates as at fair value through profit or loss;
(b) those that the Bank designates as available for sale; and (c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as "Interest and similar income". In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as "Net gains on investment securities". Held-to-maturity investments comprise Lebanese treasury bills, and debt securities issued by commercial banks and Central Bank of Lebanon.

(d) Available-for-sale financial assets

Available-for-sale investments are financial assets that are intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held to maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are initially recognised at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognised in the statement of comprehensive income, except for impairment losses and foreign exchange gains and losses, until the financial asset is derecognised. If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognised in the statement of comprehensive income is recognised in the profit or loss. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available-for-sale are recognised in the profit or loss. Dividends on available-for-sale equity instruments are recognised in the profit or loss in "Dividend income" when the Bank's right to receive payment is established.

2.4.2 Classification from 1 January 2011

As from 1 January 2011, the Bank classifies its financial assets in the following categories: those to be measured subsequently at fair value, and those to be measured at amortised cost. This classification depends on whether the financial asset is a debt or equity investment.

Debt investments

(a) Financial assets at amortised cost

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

(b) Financial assets at fair value

If either of the two criteria above are not met, the debt instrument is classified as 'fair value through profit or loss'.

Equity investments

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

2.4.3 Recognition and measurement prior to 1 January 2011

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using

the effective interest method. Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the profit or loss within 'other (losses)/gains – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the profit or loss as part of other income when the Bank's right to receive payments is established. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit or loss as 'gains and losses from investment securities'. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in the profit or loss as part of other income when the Bank's right to receive payments is established.

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions. Financial assets that are transferred to a third party but do not qualify for derecognition are presented in the balance sheet as "Assets pledged as collateral", if the transferee has the right to sell or repledge them.

2.4.4 Recognition and measurement from 1 January 2011

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

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

A gain or loss on a debt investment that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of comprehensive income within 'other (losses)/gains-net' in the period in which they arise.

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

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

The Bank is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

2.4.5 Financial liabilities

The Bank's holding in financial liabilities is in financial liabilities designated at fair value through profit or loss, financial liabilities at amortised cost. Financial liabilities are derecognised when extinguished.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading. Those financial instruments are recognised in the balance sheet as "Financial liabilities held at fair value through profit or loss".

Gains and losses arising from changes in fair value of financial liabilities classified held for trading are included in the statement of comprehensive income and are reported as "Net (losses) gains (losses) on financial instruments held at fair value through profit or loss". Interest expenses on financial liabilities held for trading are included in "Interest and similar expenses".

Financial liabilities for which the fair value option is applied are recognised in the balance sheet as "Financial liabilities held at fair value". Fair value changes relating to financial liabilities designated at fair value through profit or loss are recognised in "Net (losses) gains on financial instruments held at fair value through profit or loss ".

(b) Other liabilities measured at amortised cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are deposits from banks or customers (even those deposits with embedded derivatives, where the derivative was separated from the host contract and accounted for as a trading derivative), debt securities in issue for which the fair value option is not applied, convertible bonds and subordinated debts.

2.4.6 Determination of fair value

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

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

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

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

The Bank uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity, such as foreign exchange, credit default swaps and unlisted Lebanese treasury bills (denominated in Lebanese pounds). For these financial instruments, inputs into models are generally market observable.

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

2.4.7 Recognition of deferred day-one profit and loss

The best evidence of fair value at initial recognition is the transaction price (that is, the fair value of the consideration given or received), unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (that is, without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets.

The timing of recognition of deferred day one profit and loss is determined individually. It is either amortised over the life of the transaction, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognised immediately in the statement of comprehensive income without immediate reversal of deferred day one profits and losses.

2.4.8 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognised because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Bank retains a portion of the risks.

2.5 Reclassification of financial assets

2.5.1 Reclassification prior to 1 January 2011

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held to maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

2.5.2 Reclassification from 1 January 2011

When, and only when, an entity changes its business model for managing financial assets it shall reclassify all affected financial assets. An entity shall not reclassify any financial liability nor equity instruments.

If an entity reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The entity shall not restate any previously recognised gains, losses or interest.

If an entity reclassifies a financial asset so that it is measured at fair value, its fair value is determined at the reclassification date. Any gain or loss arising from a difference between the previous carrying amount and fair value is recognised in profit or loss.

If an entity reclassifies a financial asset so that it is measured at amortised cost, its fair value at the reclassification date becomes its new carrying amount.

2.6 Classes of financial instruments

2.6.1 Classes of financial instruments prior to 1 January 2011

The Bank classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

Category (as defined by IAS 39)		Class (as determined by the Bank)		Subclass
Financial assets	Financial assets at fair value through profit or loss	Financial assets held for trading	Debt securities	
			Equity securities	
			Derivatives - non-hedging	
	Loans and receivables	Loans and advances to banks		
		Loans and advances to customers	Loans to individuals	- Overdraft - Credit cards - Personal loans - Housing loans
			Loans to corporate entities	- SMEs - Large corporate customers
		Investment securities - debt securities		Unlisted and Listed
	Held-to-maturity investments	Investment securities - debt securities		Unlisted and Listed
	Available-for-sale financial assets	Investment securities - debt securities		Unlisted and Listed
		Investment securities - equity securities		Unlisted and Listed
Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities held for trading (credit linked deposits, derivatives)		
	Financial liabilities at amortised cost	Deposits from banks		
		Deposits from customers	Retail customers	
			Large corporate customers	
			SMEs	
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, letters of credit and other financial facilities			

2.6.2 Classes of financial instruments from 1 January 2011

Category (as defined by IFRS 9)		Class (as determined by the Bank)		Subclass
Financial assets	Held at amortised cost	Loans and advances to parent and sister banks		
		Loans and advances to banks		
		Loans and advances to customers	Loans to individuals	- Overdraft - Credit cards - Personal loans - Housing loans
			Loans to corporate entities	- SMEs - Large corporate entities
		Investment securities - debt instruments		Unlisted and Listed
	At fair value through profit or loss	Investment securities : Equity instruments Debt securities Derivatives – non-hedging		
Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities held for trading (credit linked deposits, derivatives)		
	Financial liabilities at amortised cost	Deposits from banks		
		Deposits from customers		
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, letters of credit and other financial facilities			

2.7 Offsetting financial instruments

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

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

2.8 Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

2.9 Fee and commission income

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

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

2.10 Dividend income

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

2.11 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

(i) significant financial difficulty of the issuer or obligor;

(ii) a breach of contract, such as a default or delinquency in interest or principal payments;

(iii) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;

(iv) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(v) the disappearance of an active market for that financial asset because of financial difficulties; or

(vi) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet

be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of borrowers in the portfolio; and
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

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

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

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

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Bank and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Bank to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in

"Net loan impairment releases (charges)" whilst impairment charges relating to investment securities (Held to maturity and loans and receivables categories) are classified in "Net gains on investment securities". If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income.

(b) Assets classified as available-for-sale (prior to 1 January 2011)

The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available for sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the statement of comprehensive income.

(c) Renegotiated loans

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

2.12 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2011.

2.13 Cash and cash equivalents

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

2.14 Repossessed property

In certain circumstances, property is repossessed following the foreclosure on loans that are in default.

Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "non-current assets classified as held for sale".

2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, exchange-traded options), including recent market transactions, or valuation techniques (for example, for swaps and currency transactions), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Prior to 1 January 2011

Embedded derivatives in other financial instruments (whether independently transferrable or not), such as credit default swaps in financial instruments (i.e., credit linked instruments: notes/deposits), are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the profit or loss unless the Bank chooses to designate the hybrid contracts at fair value through profit or loss.

From 1 January 2011

Embedded derivatives that cannot be independently transferred from the host contract are accounted for along with the entire hybrid contract at either amortised cost or at fair value. Unlike IAS 39, there is no more bifurcation. Embedded derivatives linked to other indexes (for example, equity, performance, credit default swaps) would not pass the amortised cost test and the entire hybrid would be accounted for at fair value.

2.16 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. They are divided into finance leases and operating leases. The leases entered into by the Bank, are principally operating leases, where a significant portion of the risks and rewards of ownership are retained by another party, the lessor. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income on a straight-line basis over the period of the lease. The total payments made under operating leases are charged to "other operating expenses" in the statement of comprehensive income on a straight-line basis over the period of the lease.

When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

2.17 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the Bank, are classified as investment properties. Investment properties comprise office buildings and retail parks leased out under operating lease agreements.

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank

accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. The Bank considers the owner-occupied portion as insignificant when the property is more than 5% held to earn rental income or capital appreciation. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter. Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the date of the balance sheet.

Gains or losses arising from changes in the fair value of investment properties are included in the statement of comprehensive income in the year in which they arise. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably.

All other repairs and maintenance costs are charged to the statement of comprehensive income during the financial period in which they are incurred. The fair value of investment properties is based on the nature, location and condition of the specific asset. The fair value is based on valuations performed periodically by external appraisers.

The Bank only enters as lessor into lease agreements that are classified as operating leases (IAS 17). A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The properties leased out under operating leases are included in "Investment properties".

2.18 Property and equipment

Land and buildings comprise mainly branches and offices and are accounted for using the revaluation model. All other items in property and equipment are accounted for using the cost model (i.e. at historical cost less accumulated depreciation and net of impairment charges, if any).

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

Increases in the carrying amount arising on revaluation of land and buildings are credited to 'real estate revaluation reserve' in shareholders' equity. Decreases that offset previous increases of the same asset are charged against 'real estate revaluation reserve' in equity; all other decreases are charged to the statement of comprehensive income.

Land is not depreciated. Depreciation of other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

	Years
Buildings	50
Computer equipment	5
Furniture, fixtures and equipment	12 - 13
Vehicles	10
Leasehold improvements	16 - 17

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property and equipment were impaired as at 31 December 2011 (2010 – nil).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within 'other operating income' in the statement of comprehensive income.

2.19 Intangible assets

Intangible assets comprise separately identifiable intangible items arising from business combinations, computer software licences and other intangible assets. Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding20 years. Intangible assets with an indefinite useful life are not amortised. Generally, the identified intangible assets of the Bank have a definite useful life. At each date of the balance sheet, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount.

Intangible assets comprise only computer software licenses. Intangible assets are recognised at cost.

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

Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

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

2.20 Non-current assets classified as held for sale

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

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of

carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.21 Income tax

(a) Current income tax

Income tax payable (receivable) is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognised as an expense (income) for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity.

Tax losses can be relieved only by carry-forward against taxable profits of future periods, a deductible temporary difference arises. Those losses carried forward are set-off against deferred tax liabilities carried in the balance sheet.

The Bank does not offset income tax liabilities and current income tax assets.

(b) Deferred income tax

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

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred tax related to fair value re-measurement of properties, which are recognised in other comprehensive income, is also recognised in other comprehensive income.

Prior to 1 January 2011

In addition to the above, deferred tax related to fair value re-measurement of available-for-sale investments, which are recognised in other comprehensive income, is also recognised in other comprehensive income and subsequently in the profit or loss together with the deferred gain or loss.

2.22 Employee benefits

The Bank is subscribed to the compulsory defined benefit plan of the national social security fund.

IAS 19 'Employee benefits' requirements:

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service or compensation. The liability recognised in the balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the balance sheet date less contributions to the fund. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities that have terms to maturity approximating the terms of the related pension liability.

Local requirements:
The compulsory defined benefit plan varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total monthly contributions paid to National Social Security Fund (''NSSF"), End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits.

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

2.23 Provisions

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

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

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

2.24 Financial guarantee contracts

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

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the bank's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with IAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgement of management. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is

reported in the statement of comprehensive income within other operating expenses.

2.25 Share capital

(a) Share issue costs

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

(b) Dividends on ordinary shares

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

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

(c) Cash contributions to capital

Cash contributions to capital are classified as equity. A part of these cash contributions generates interest charges paid to the respective shareholders.

2.26 Comparatives

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

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

3 Financial risk management

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

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

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

The Board provides written principles for overall risk management, as well as guidance covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments. The Bank's Risk committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. In addition, internal audit is responsible for the independent review of risk management and the control environment.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include

credit risk, liquidity risk, market risk and operational risk (which are discussed below).

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, but can also arise from credit enhancement provided, such as credit derivatives (credit default swaps), financial guarantees, letters of credit, and acceptances.

The Bank is also exposed to other credit risks arising from investments in debt securities and other exposures arising from its trading activities ("trading exposures"), including non-equity trading portfolio assets, derivatives and settlement balances with market counterparties.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk. The credit risk management and control are centralised with the credit administration unit, which reports to the head of risk management department.

3.1.1 Credit risk measurement

(a) Loans and advances (including loan commitments and guarantees)

To measure the credit risk of loans and advances to customers, the Bank rates its counterparties based on the rating model as set by the Central Bank of Lebanon ("BDL") basic circular no. 58:

- Normal – the loan is expected to be repaid on a timely and consistent basis;
- Special mention – the loan is expected to be repaid but the client's file is not complete;
- Sub-standard – the client has a difficult financial condition and might not be in a position to settle the loan in full;
- Doubtful – there is no movement in the clients' balance; and
- Bad – the probability of repayment is low and almost nil.

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

(b) Debt securities

For debt securities, external rating such as Standard & Poor's rating or their equivalents are used by the Asset and Liability Committee (supported by Treasury department) for managing the credit risk exposures.

3.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are set by the Board of Directors, (in compliance with the requirements of BDL basic circular number 48 and 81).

The exposure to any one borrower including banks and financial institutions is further restricted by sub-limits covering on and off-balance sheet exposures, and daily delivery risk limits in relation to trading items such as spot and forward foreign exchange contracts. Actual exposures against limits are monitored daily.

Lending limits are reviewed in the light of changing market and economic conditions and on yearly basis, the Bank performs credit reviews of the portfolio of loans on hand.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

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

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

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

(b) Master netting arrangements

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

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

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Guarantees and standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit – which are written undertakings by the Bank on behalf of a customer authorising a third party to draw drafts on the Bank up to a stipulated amount under specific terms and conditions – are collateralised by the underlying shipments of goods to which they relate in addition to a required cash margin set by the credit committee based on the credit rating of each customer (usually a margin of 15% is blocked in

compliance with BDL basic circular no. 52) and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments.
The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

Impairment allowances are only recognised for losses that have been incurred at the date of the balance sheet based on objective evidence of impairment (refer to note 2.11). Accordingly, the internal and external rating systems described in note 3.1.1 are used as indicators for impairment.

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

Bank's internal rating

	2011 Credit risk exposure (%)	**2011 Impairment provision (%)[1]**	2010 Credit risk exposure (%)	2010 Impairment provision (%)[1]
1, 2. Normal and Special Mention	**94%**	**2%**	91%	2%
3. Sub-standard	**1%**	**26%**	1%	28%
4. Doubtful	**4%**	**86%**	7%	78%
5. Bad	**1%**	**100%**	1%	100%
	100%		100%	

The total impairment constitutes 6% (2010 – 8%) of the total gross loans portfolio.

[1] *The impairment provision is shown above as a percentage of gross loans in their respective categories.*

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

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

	Maximum exposure	
	2011 LL Million	2010 LL Million
Assets		
Balances with central banks	**890,183**	730,487
Loans and advances to banks	**693,100**	986,526
Loans and advances to customers		
Loans to individuals		
- Personal	**107,110**	113,473
- Credit cards	**6,874**	5,970
- Mortgages	**306,866**	262,626
- Other	**103,320**	100,248
Loans to corporate entities		
- Large corporate customers	**731,062**	478,332
- Small and medium size enterprises (SMEs)	**246,348**	231,307
- Kafalat loans	**28,258**	28,582
- Subsidized loans	**62,192**	60,901
Debtors by acceptances	**47,777**	54,809
Investment securities (debt securities)	**3,078,644**	2,936,603
Other assets	**20,109**	14,001
At 31 December	**6,321,843**	6,003,865

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

	Maximum exposure	
	2011 LL Million	2010 LL Million
Loan commitments	**41,833**	54,790
Financial guarantees	**223,202**	149,946
	265,035	204,736

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2011 and 2010, without taking account any collateral held or other credit enhancements attached. For on-balance sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 49% of the total maximum exposure is derived from investment sec.urities (2010 – 49%); 25% is derived from loans and advances to customers (2010 – 22%) and 14% is derived from balances with central banks (2010 – 12%).

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from both its loans and advances portfolio and debt securities based on the following:

- 94% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2010 – 91%);
- 54% of the gross loans and advances portfolio is fully collateralised and the net exposure (gross loan amount less provisions and collaterals) represents 38% of the total gross loans and advances portfolio.
- 89% of the loans and advances portfolio are considered to be neither past due nor impaired (2010 – 86%); and
- 63% of the Bank's debt securities portfolio is allocated to Lebanese treasury bills (2010 – 63%), of which 54% is denominated in Lebanese pounds (2010 – 61%), whose risk of default is considered nil.
- 34% of the Bank's debt securities portfolio is allocated to certificates of deposits issued by the Central Bank of Lebanon (2010 – 44%), of which 80% is denominated in Lebanese pounds (2010 – 73%), whose risk of default is considered nil.

Concentration of risks of financial assets with credit exposure

The following table breaks down the Bank's credit exposure at their carrying amounts (without taking into account any collateral held or other credit support), as categorised by geographical region as at 31 December 2011 and as at 31 December 2010. For this table, the Bank has allocated exposures to regions based on the country of use of its funds.

	Lebanon LL Million	Arab countries LL Million	United Kingdom LL Million	Other European countries LL Million	Other countries LL Million	Total LL Million
Assets						
Balances with central banks	839,280	47,135	-	3,768	-	890,183
Loans and advances to banks	45,219	11,803	448,861	76,529	110,688	693,100
Financial assets held at fair value through profit or loss	77,030	982	34,113	1,432	24,085	137,642
Loans and advances to customers	1,411,679	103,936	40,598	12,605	23,212	1,592,030
Debtors by acceptances	41,305	5,046	-	293	1,133	47,777
Investment securities (debt securities)	2,877,431	4,964	35,114	7,977	15,516	2,941,002
Other assets	18,384	497	-	(3,666)	4,894	20,109
At 31 December 2011	**5,310,328**	**174,363**	**558,686**	**98,938**	**179,528**	**6,321,843**
Balances with central banks	706,005	21,034	-	3,448	-	730,487
Loans and advances to banks	58,341	336,965	165,416	298,700	127,104	986,526
Financial assets held for trading	179,929	2,640	4,055	-	-	186,624
Loans and advances to customers	1,149,166	65,028	40,271	9,660	17,314	1,281,439
Debtors by acceptances	53,437	422	-	54	896	54,809
Investment securities (debt securities)	2,627,819	24,611	29,765	16,280	51,504	2,749,979
Other assets	13,392	504	-	105	-	14,001
At 31 December 2010	**4,788,089**	**451,204**	**239,507**	**328,247**	**196,818**	**6,003,865**

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2011		2010	
	Loans and advances to customers LL Million	**Loans and advances to banks LL Million**	Loans and advances to customers LL Million	Loans and advances to banks LL Million
Neither past due nor impaired	**1,512,016**	**693,081**	1,198,625	986,507
Past due but not impaired	**81,223**	**-**	75,484	-
Individually impaired	**106,043**	**2,555**	122,105	2,555
Gross	**1,699,282**	**695,636**	1,396,214	989,062
Less: allowance for impairment	**(107,252)**	**(2,536)**	(114,775)	(2,536)
Net	**1,592,030**	**693,100**	1,281,439	986,526
Individually impaired	**(81,040)**	**(2,536)**	(90,824)	(2,536)
Portfolio allowance	**(26,212)**	**-**	(23,951)	-
Total	**(107,252)**	**(2,536)**	(114,775)	(2,536)

The total impairment charge for loans and advances is LL 110 billion (2010 – LL 117 billion) of which LL 84 billion (2010 – LL 93 billion) represents the individually impaired loans and the remaining amount of LL 26 billion (2010 – LL 24 billion) represents the portfolio provision. Further information of the impairment allowance for loans and advances to banks and to customers is provided in notes 6 and 8.

(a) Loans and advances neither past due nor impaired

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

At 31 December 2011

	Individual (retail customers)				Corporate entities				
	Personal LL Million	**Credit cards LL Million**	**Mortgages LL Million**	**Other LL Million**	**Large corporate customers LL Million**	**SMEs LL Million**	**Kafalat LL Million**	**Subsidized LL Million**	**Total LL Million**
Grades:									
1. Normal	87,403	6,784	285,036	131,912	696,720	205,548	24,942	44,104	1,482,449
2. Special mention	1,073	96	63	3,610	22,244	2,481	-	-	29,567
Total	**88,476**	**6,880**	**285,099**	**135,522**	**718,964**	**208,029**	**24,942**	**44,104**	**1,512,016**

At 31 December 2010

	Individual (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
1. Normal	60,837	5,706	255,728	95,787	436,635	234,011	24,251	51,203	1,164,158
2. Special mention	8,474	84	633	803	15,437	7,396	1,631	9	34,467
Total	**69,311**	**5,790**	**256,361**	**96,590**	**452,072**	**241,407**	**25,882**	**51,212**	**1,198,625**

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Therefore, loans and advances past due are not usually considered impaired, unless other information is available to indicate the contrary. Gross amount of loans and advances by class to customers that were past due but not impaired were as follows:

At 31 December 2011

	Individual (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades:									
Past due up to 30 days	-	-	18,068	5,752	11,596	6,502	1,542	16,663	60,123
Past due 30-60 days	-	-	1,458	844	4,372	926	-	43	7,643
Past due 60-90 days	-	-	469	479	4,813	1,805	135	-	7,701
Past due above 90 days	-	-	980	349	3,355	450	622	-	5,756
Total	**-**	**-**	**20,975**	**7,424**	**24,136**	**9,683**	**2,299**	**16,706**	**81,223**
Fair value of collateral	**-**	**-**	**25,306**	**19,328**	**67,977**	**15,046**	**4,103**	**19,719**	**151,479**

At 31 December 2010

	Individuals				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Grades									
Past due up to 30 days	103	-	4,923	2,282	7,144	1,756	907	26,525	43,640
Past due 30-60 days	32	-	590	1,097	2,022	53	94	473	4,361
Past due 60-90 days	29	-	212	91	125	139	-	-	596
Past due above 90 days	362	-	3,361	2,155	15,981	3,150	1,878	-	26,887
Total	**526**	**-**	**9,086**	**5,625**	**25,272**	**5,098**	**2,879**	**26,998**	**75,484**
Fair value of collateral	607	-	35,379	28,660	53,166	14,848	3,353	17,415	153,428

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets. In subsequent periods, the fair value is assessed by reference to market price or by using valuation techniques with updated market data.

(c) Loans and advances individually impaired

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

(i) Loans and advances to customers

At 31 December 2011

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	**19,045**	**2**	**1,073**	**15,547**	**39,107**	**28,827**	**1,041**	**1,401**	**106,043**
Fair value of collateral	**15,445**	**-**	**261**	**14,991**	**27,815**	**14,144**	**405**	**-**	**73,061**

At 31 December 2010

	Individuals (retail customers)				Corporate entities				
	Personal LL Million	Credit cards LL Million	Mortgages LL Million	Other LL Million	Large corporate customers LL Million	SMEs LL Million	Kafalat LL Million	Subsidized LL Million	Total LL Million
Gross amount	**5,543**	**35**	**1,377**	**16,532**	**35,448**	**60,456**	**501**	**2,213**	**122,105**
Fair value of collateral	723	-	1,193	-	25,841	22,652	-	-	50,409

(ii) Loans and advances to banks

The total amount of individually impaired loans and advances to banks as at 31 December 2011 was LL 2.56 billion (2010 – LL 2.56 billion). No collateral is held by the Bank, and an impairment provision of LL 2.54 billion (2010 – LL 2.54 billion) has been recognised to cover the exposure.

(d) Loans and advances renegotiated

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

	2011 LL Million	2010 LL Million
Loans and advances to customers - individuals		
Term loans	**2,307**	10,543

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2011 and 2010, based on Standard & Poor's ratings:

At 31 December 2011

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Financial assets held at fair value through profit or loss	-	4,560	57,067	-	-	76,015	137,642
Investment securities	-	17,024	35,862	9,286	3,095	2,875,735	2,941,002
Total	**-**	**21,584**	**92,929**	**9,286**	**3,095**	**2,951,750**	**3,078,644**

At 31 December 2010

	From AAA+ to AAA- LL Million	From AA+ to AA- LL Million	From A+ to A- LL Million	From BBB+ to BBB- LL Million	From BB+ to BB- LL Million	From B+ to B- LL Million	Total LL Million
Financial assets held for trading	-	-	3,679	3,015	-	179,930	186,624
Investment securities (debt securities)	-	45,795	94,433	-	-	2,609,751	2,749,979
Total	**-**	**45,795**	**98,112**	**3,015**	**-**	**2,789,681**	**2,936,603**

3.1.7 Repossessed collateral

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

	2011 LL Million	2010 LL Million
Nature of assets		
Residential property- carrying amount	**4,132**	1,577

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness. Repossessed property is classified in the balance sheet within assets classified as held for sale (note 16).

3.1.8 Stress tests

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. In 2011, the Bank performed credit stress testing on its credit exposure in Syria and it was reviewed by senior management and the Board of Directors. The assumptions can be summarised as follows:

- Corporate and SMEs portfolio – performing loans:
  15% of the largest debtors (by amount) will become doubtful and 20% of the outstanding balance is expected to be non-recoverable.

- Corporate and SMEs portfolio – non-performing loans:
  - 25% of the largest debtors (by amount) that were classified as substandard will become doubtful and 50% of the outstanding balance is expected to be non-recoverable.
  - 25% of the largest debtors (by amount) that were classified as doubtful are expected to be non-recoverable.

- Retail portfolio – performing loans:
  25% of the largest debtors (by amount) of the retail portfolio and 20% of the housing portfolio will become doubtful and 20% of the outstanding balance is expected to be non-recoverable.

- Retail portfolio – non-performing loans:
  - 25% of the largest debtors (by amount) of the retail portfolio and 20% of the housing portfolio that were classified as substandard will become doubtful and 50% of the outstanding balance is expected to be non-recoverable.
  - 25% of the largest debtors (by amount) of the retail portfolio and 20% of the housing portfolio that were classified as doubtful are expected to be non-recoverable.

- Exclude the above mentioned clients' collateral (except cash collateral) from the computation of the expected loss.

Based on the above, the Bank's exposure was limited to LL 4.8 billion.

3.2 Market risk

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

The market risks arising from trading and non-trading activities are monitored by the Treasury department. Regular reports are submitted to the Board of Directors, Asset Liability Committee ("ALCO") and senior management.

Trading portfolios include those positions arising from market-making transactions where the Bank acts as principal with clients or with the market. Non-trading portfolios primarily arise from the interest rate management of the entity's retail and commercial banking assets and liabilities. Non-trading portfolios also consist of foreign exchange and equity risks arising from the Bank's investment securities.

3.2.1 Market risk measurement techniques

Effective identification and monitoring of market risk is essential for maintaining stable profit. This is carried out by the Bank's risk management department. The Bank's treasury is responsible for managing the market exposure within the limits as approved by ALCO and as stipulated by the circulars of Central Bank of Lebanon no. 32 and 81. The major measurement technique used to measure and control market risk is outlined below.

Sensitivity analysis

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

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

Foreign exchange risk

If the foreign currency exchange rate increases/decreases by 1%, the net effect [gain/(loss)] is as follows:

	2011		2010	
	USD LL Million	**Euro LL Million**	USD LL Million	Euro LL Million
Effect on profit	**1,479**	**28**	1,525	56

Interest rate risk

If the interest rate increases by 2%, the net effect [gain/(loss)] is as follows:

	2011		2010	
	Effect on profit LL Million	**Effect on equity LL Million**	Effect on profit LL Million	Effect on equity LL Million
USD	**(8,369)**	**-**	(4,578)	(27,621)

There is no impact on Lebanese denominated financial instruments as they are held at amortised cost and carry fixed interest rates.

3.2.3 Foreign exchange risk

The Bank takes on exposure to the effects of fluctuations in the prevailing foreign currency exchange rates on its balance sheet and cash flows. The Board of Directors sets limits on the level of exposure by currency as follows:

- Net exposure by currencies should not exceed 1% of Tier I capital.
- Gross exposure (in absolute terms) by currencies should not exceed 40% of Tier I capital.

This exposure limit is related to and set out in compliance with the limits set by the BDL (basic circular no. 32) and closely monitored by the Bank's Treasury department on a daily basis.

The table below summarises the Bank's exposure to foreign currency exchange rate risk at 31 December 2011 and 2010. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency.

At 31 December 2011

	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
ASSETS						
Cash and balances with central banks	174,291	712,167	11,780	706	31,847	930,791
Loans and advances to banks	10,077	528,533	111,676	11,027	31,787	693,100
Financial assets held at fair value through profit or loss	1,556	165,882	2,876	-	-	170,314
Loans and advances to customers	492,338	1,001,029	33,134	40,581	24,948	1,592,030
Debtors by acceptances	-	39,125	8,210	30	412	47,777
Investment securities (debt securities at amortised cost)	1,798,889	1,103,756	38,357	-	-	2,941,002
Other assets	12,292	17,824	1,480	1	259	31,856
Total financial assets	**2,489,443**	**3,568,316**	**207,513**	**52,345**	**89,253**	**6,406,870**
LIABILITIES						
Deposits from banks and financial institutions	11,152	100,333	24,890	14	25,537	161,926
Deposits from customers	2,261,567	3,235,519	166,778	52,392	46,323	5,762,579
Financial liabilities held at fair value through profit or loss	-	14,489	-	-	-	14,489
Engagements by acceptances	-	39,125	8,210	30	412	47,777
Other liabilities	9,807	5,624	924	5	517	16,877
Total financial liabilities	**2,282,526**	**3,395,090**	**200,802**	**52,441**	**72,789**	**6,003,648**
Net on-balance sheet financial position	**206,917**	**173,226**	**6,711**	**(96)**	**16,464**	**403,222**
Financial guarantees and loan commitments	**31,480**	**172,123**	**25,588**	**63**	**52,951**	**282,205**

At 31 December 2010

	LBP LL Million	USD LL Million	EUR LL Million	GBP LL Million	Others LL Million	Total LL Million
ASSETS						
Cash and balances with central banks	212,134	544,452	7,217	1,025	11,825	776,653
Loans and advances to banks	22,367	833,326	101,059	11,256	18,518	986,526
Financial assets held for trading	163,483	57,588	4,172	-	-	225,243
Loans and advances to customers	413,308	774,258	29,400	39,661	24,812	1,281,439
Debtors by acceptances	-	46,516	6,270	-	2,023	54,809
Investment securities:						
- Available for sale	652,278	222,797	29,562	-	-	904,637
- Loans and receivables	686,037	441,266	-	-	-	1,127,303
- Held to maturity	430,771	284,409	4,155	-	-	719,335
Other assets	5,986	18,002	732	-	2	24,722
Total financial assets	**2,586,364**	**3,222,614**	**182,567**	**51,942**	**57,180**	**6,100,667**
LIABILITIES						
Deposits from banks and financial institutions	4,957	82,367	1,222	55	23,028	111,629
Deposits from customers	2,376,322	2,898,913	167,947	52,052	18,447	5,513,681
Financial liabilities held for trading	1	900	-	-	-	901
Engagements by acceptances	-	46,516	6,270	-	2,023	54,809
Other liabilities	-	14,482	495	5	4	14,986
Total financial liabilities	**2,381,280**	**3,043,178**	**175,934**	**52,112**	**43,502**	**5,696,006**
Net on-balance sheet financial position	**205,084**	**179,436**	**6,633**	**(170)**	**13,678**	**404,661**
Financial guarantees and loan commitments	**27,080**	**149,800**	**20,962**	**2**	**6,892**	**204,736**

3.2.4 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may reduce losses in the event that unexpected movements arise. The Board sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored daily by the Treasury department.

The table below summarises the Bank's exposure to interest rate risks. It includes the Bank's financial instruments at carrying amounts, categorised by the earlier of contractual repricing (for example for floating rate notes) or maturity dates.

At 31 December 2011

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
ASSETS							
Cash and balances with central banks	110,315	165,825	361,800	37,688	-	255,163	930,791
Loans and advances to banks	288,823	136,062	15,075	-	3,200	249,940	693,100
Financial assets held at fair value through profit or loss	-	15,075	-	76,073	39,353	39,813	170,314
Loans and advances to customers	251,891	174,501	504,526	299,481	40,299	321,332	1,592,030
Debtors by acceptances	-	-	-	-	-	47,777	47,777
Investment securities (debt securities at amortised cost)	20,000	35,000	372,280	1,528,936	894,911	89,875	2,941,002
Other assets	-	-	-	-	-	31,856	31,856
Total financial assets	**671,029**	**526,463**	**1,253,681**	**1,942,178**	**977,763**	**1,035,756**	**6,406,870**
LIABILITIES							
Deposits from banks and financial institutions	65,860	40,365	12,860	6,642	-	36,199	161,926
Deposits from customers	2,966,353	356,791	541,124	147,556	2,363	1,748,392	5,762,579
Financial liabilities held at fair value through profit or loss	-	-	-	14,489	-	-	14,489
Engagements by acceptances	-	-	-	-	-	47,777	47,777
Other liabilities	-	-	-	-	-	16,877	16,877
Total financial liabilities	**3,032,213**	**397,156**	**553,984**	**168,687**	**2,363**	**1,849,245**	**6,003,648**
Total interest repricing gap	**(2,361,184)**	**129,307**	**699,697**	**1,773,491**	**975,400**		

At 31 December 2010

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non interest bearing LL Million	Total LL Million
ASSETS							
Cash and balances with central banks	260,958	22,613	69,345	342,646	-	81,091	776,653
Loans and advances to banks	719,784	233,183	-	15,075	16,688	1,796	986,526
Financial assets held for trading	23,562	7,500	83,995	60,588	10,553	39,045	225,243
Loans and advances to customers	470,267	100,809	404,366	280,552	25,445	-	1,281,439
Debtors by acceptances	-	-	-	-	-	54,809	54,809
Investment securities:							
- Available for sale	143,065	12,000	164,321	524,381	60,308	562	904,637
- Loans and receivables	79,425	35,000	27,150	736,861	248,867	-	1,127,303
- Held to maturity	16,692	65,500	213,428	308,904	114,811	-	719,335
Other assets	-	-	-	-	-	24,722	24,722
Total financial assets	**1,713,753**	**476,605**	**962,605**	**2,269,007**	**476,672**	**202,025**	**6,100,667**
LIABILITIES							
Deposits from banks and financial institutions	74,349	10,033	1,814	3,769	-	21,664	111,629
Deposits from customers	4,241,297	392,207	510,502	293,470	6,005	70,200	5,513,681
Financial liabilities held for trading	-	-	-	-	-	901	901
Engagements by acceptances	-	-	-	-	-	54,809	54,809
Other liabilities	-	-	-	-	-	14,986	14,986
Total financial liabilities	**4,315,646**	**402,240**	**512,316**	**297,239**	**6,005**	**162,560**	**5,696,006**
Total interest repricing gap	**(2,601,893)**	**74,365**	**450,289**	**1,971,768**	**470,667**		

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers. The Bank maintains an active presence in global money markets to enable this to happen;
- Maintaining a portfolio of highly marketable assets that can be easily liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring the liquidity ratios of the balance sheet against internal and regulatory requirements (BDL basic circulars no. 72, 73, 84, 86 and 87); and
- Managing the concentration and profile of debt maturities.

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

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

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

At 31 December 2011

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
LIABILITIES						
Deposits from banks and financial institutions	101,627	40,515	13,264	-	7,558	162,964
Deposits from customers	4,717,675	359,781	557,035	165,400	3,727	5,803,618
Financial liabilities held at fair value through profit or loss	-	-	-	16,790	-	16,790
Engagements by acceptances	47,777	-	-	-	-	47,777
Other liabilities	16,877	-	-	-	-	16,877
Total liabilities (contractual maturity dates)	**4,883,956**	**400,296**	**570,299**	**182,190**	**11,285**	**6,048,026**
Assets held for managing liquidity risk (contractual maturity dates)	**937,634**	**386,221**	**944,976**	**2,138,235**	**1,079,125**	**5,486,191**

At 31 December 2010

	Up to 1 month LL Million	1 – 3 months LL Million	3 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Total LL Million
LIABILITIES						
Deposits from banks and financial institutions	96,764	9,395	1,823	-	4,289	112,271
Deposits from customers	4,311,102	397,692	531,992	328,858	8,899	5,578,543
Financial liabilities held for trading	-	-	-	901	-	901
Engagements by acceptances	54,809	-	-	-	-	54,809
Other liabilities	14,986	-	-	-	-	14,986
Total liabilities (contractual maturity dates)	**4,477,661**	**407,087**	**533,815**	**329,759**	**13,188**	**5,761,510**
Assets held for managing liquidity risk (contractual maturity dates)	**1,108,239**	**459,809**	**720,087**	**2,451,671**	**545,136**	**5,284,942**

3.3.3 Assets held for managing liquidity risk

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

- Cash and balances with central banks;
- Lebanese treasury bills that are easily liquidated in the secondary markets; and
- Secondary sources of liquidity in the form of current accounts and short-term placements (with maturities less than 3 months) with foreign banks (mainly United Kingdom).

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

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

	Carrying value		Fair value	
	2011 LL Million	2010 LL Million	**2011 LL Million**	2010 LL Million
Financial assets				
Balances with central banks	**890,183**	730,487	**899,825**	733,091
Loans and advances to banks	**693,100**	986,526	**697,105**	988,116
Loans and advances to customers	**1,592,030**	1,281,439	**1,807,752**	1,285,797
Investment securities	**2,941,002**	1,846,638	**3,101,690**	1,932,421
	6,116,315	4,845,090	**6,506,372**	4,939,425
Financial liabilities				
Deposits from banks and financial institutions	**161,926**	111,629	**167,177**	111,659
Deposits from customers	**5,777,068**	5,513,681	**5,825,388**	5,527,002
	5,938,994	5,625,310	**5,992,565**	5,638,661

(i) Loans and advances to banks and balances with central banks

The carrying amount of floating rate placements, overnight deposits, items in the course of collection, and current accounts (i.e. maturity is less than 1 year) is a reasonable approximation of fair value.

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

(ii) Loans and advances to customers

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

The carrying amount of overdrafts and impaired loans is a reasonable approximation of fair value.

(iii) Investment securities

The fair value for loans and receivables and assets at amortised cost is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity, and yield characteristics. For more information, refer to step (ii) above.

(iv) Deposits from banks and due to customers

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

The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(b) Financial instruments measured at fair value

See note 2.4.6 "Determination of fair value".

(c) Fair value hierarchy

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

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges.

- Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts, traded loans issued structured debt. The sources of input parameters like LIBOR yield curve or counterparty credit risk are Bloomberg and Reuters.

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

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

3.4.1 Assets and liabilities measured at fair value

At 31 December 2011	Level 1 LL Million	Level 2 LL Million	Total LL Million
Financial assets held at fair value through profit or loss:			
- Debt securities	91,212	46,430	137,642
- Equity securities	8,389	24,283	32,672
Total assets	**99,601**	**70,713**	**170,314**
Financial liabilities held at fair value through profit or loss	-	14,489	14,489
Total liabilities	**-**	**14,489**	**14,489**
At 31 December 2010			
Financial assets held for trading:			
- Debt securities	20,582	166,042	186,624
- Equity securities	15,792	21,939	37,731
- Derivatives	-	888	888
Available-for-sale financial assets:			
- Investment securities – debt	251,115	652,226	903,341
- Investment securities – equity	-	1,296	1,296
Total assets	**287,489**	**842,391**	**1,129,880**
Financial liabilities held for trading	-	901	901
Total liabilities	**-**	**901**	**901**

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial/reputational loss. The Bank is in process of finalising its policies and procedures to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Bank as part of overall risk management activities.

3.6 Capital management

The Bank's objectives when managing capital, which is a broader concept than the 'equity' on the face of the balance sheet, are:

- To comply with the capital requirements set by the regulators of the banking markets where the Bank operates;
- To apply mitigation techniques that may help lower the capital requirements;
- To safeguard the Bank's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and

- To maintain a strong capital base to support the development of its business.

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

The Bank maintains a ratio of total regulatory capital to its risk-weighted assets (the 'Basel Ratio') above a minimum level agreed with the authority which takes into account the risk profile of the Bank. In addition, all the Bank's branches located outside Lebanon are subject to capital requirements of the respective jurisdiction (i.e. Cyprus and Iraq).

The regulatory capital requirements are strictly observed when managing economic capital.

The Bank's regulatory capital is managed by its Board of Directors and monitored by the Risk Management department.
In accordance with BDL circular no. 43, the Bank's capital is constituted of the following:

- Tier I capital: common shares, non-cumulative perpetual preferred shares, cash contributions (net of goodwill), unspecified banking reserve, legal reserve, retained earnings and reserves created by appropriations of retained earnings (except for real estate revaluation reserve); and

- Tier II capital: subordinated loans, revaluation surplus on real estate (as approved by BDL) and preferred shares (except non-cumulative).

Investment in insurance companies is deducted from Tier 1 capital and capital adequacy ratio is computed on deconsolidated basis (i.e. without taking into consideration the assets of the insurance company). Any shortfalls in required provisions for non-performing loans and any violation of the set limit on granting facilities to related parties are also deducted from the regulatory capital.

The risk weighted assets are measured using the 'standardised approach' (SA) for credit risk. Risk weights are assigned to assets on and off balance sheet items according to their asset class and credit assessment. For the determination of credit assessments, Standard & Poor rating is used. Any eligible collateral and netting agreements are taken into account for calculating risk-weighted assets.

The table below summarises the composition of regulatory capital and the ratios of the Bank for the years ended 31 December. During these two years, the foreign branches complied with all the externally imposed capital requirements to which they are subject.

Tier I Capital		
	2011 LL Million	2010 LL Million
Share capital and cash contributions to capital	**144,687**	115,760
Premium	**75,375**	75,375
Unidentified banking reserve	**32,690**	26,441
Legal reserve	**45,222**	38,772
Reserve for capital increase	**333**	13,194
Retained earnings	**109,123**	88,042
Less: intangible assets	**(1,612)**	(1,117)
Less: Investment in subsidiaries	**(5,223)**	(5,511)
Total qualifying Tier I Capital	**400,595**	350,956
Tier II Capital		
Real estate revaluation reserve	**10,000**	10,000
Revaluation reserve – available for sale investments	**-**	16,113
Total qualifying Tier II Capital	**10,000**	26,113
Total regulatory Capital	**410,595**	377,069
Risk- weighted assets		
On-balance sheet	**3,494,809**	2,715,550
Off-balance sheet	**107,675**	72,796
Market risk	**128,150**	128,288
Operational risk	**231,672**	207,868
Total risk-weighted assets	**3,962,306**	3,124,502
Basel ratio (%)	**10.36**	12.07

The decrease of the regulatory capital in the year 2011 is mainly due to the increase of the risk weighted assets which reflects the expansion of the business in 2011.

4 Critical accounting estimates and judgements

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

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates

undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

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

(a) Impairment losses on loans and advances

The Bank reviews its loan portfolios to assess impairment at least on semi annual basis. In determining whether an impairment loss should be recorded, the Bank makes judgments as to whether there is any observable data indicating an impairment trigger followed by measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan with that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the Bank. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.
Where the net present value of estimated cash flows differs +/- 5%, the impairment loss is estimated LL 2,184 million lower or higher.

(b) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using discounted cash flow model. These cash flow models are based on underlying market prices for interest rates. Where market data is not available for all elements of a derivative's valuation, extrapolation and interpolation of existing data has been used. These models are validated and periodically reviewed by the financial control department. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

(c) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions.

(d) Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Bank determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Bank considers the interest rates of Lebanese government securities that have terms to maturity approximating the terms of the related liability.

If the discount rate differed by +/- 0.5% from management's estimates, the carrying amount of the pension obligations would decrease/increase by approximately LL 1 billion.

(e) Business model – Applicable from 1 January 2011

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

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

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Bank exercises judgement to determine the objective of the business model for portfolios which are held for liquidity purposes. Certain debt securities are held by the Bank in a separate portfolio for long term yield and as a liquidity reserve. The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent (for more information on securities sold, refer to note 10). The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. Certain other debt securities are expected to be held by the Bank in separate portfolios in order to manage short-term liquidity. Sales from this portfolio are frequently made to meet ongoing business needs. The Bank determines that these securities are not held within a business model whose objective is to hold assets in order to collect contractual cash flows.

5 Cash and balances with central banks

	2011 LL Million	2010 LL Million
Cash in hand	**38,675**	45,313
Checks for collection	**46,677**	24,459
Other money market placements	**56,718**	-
Balances with central bank other than mandatory reserve deposits	**159,361**	50,145
Included in cash and cash equivalents (note 35)	**301,431**	119,917
Mandatory reserve deposits with Central Banks (a)	**626,482**	644,727
Mandatory reserve – cash in hand	**1,933**	853
Restricted cash - Central Bank of Iraq (b)	**-**	10,553
Interest receivable – BDL	**945**	603
	629,360	656,736
	930,791	776,653
Current	**893,103**	512,840
Non-current	**37,688**	263,813
	930,791	776,653

(a) In accordance with Central Bank of Lebanon ("BDL") regulations, the Bank is required to constitute mandatory reserves in Lebanese pounds ("LL reserves") of 15% and 25% of the average weekly customers deposit accounts denominated in Lebanese pounds. The Bank is also required to constitute mandatory reserves in foreign currency ("FCY reserve") calculated on the basis of 15% of customers deposit accounts denominated in foreign currency. Foreign branches (in Iraq and Cyprus) are also subject to mandatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they are operating.

(b) In compliance with the Central Bank of Iraq law number 56/2004, the Bank placed a deposit of LL 10,553 million (US$ 7 million) to open a branch in Baghdad - Iraq. In 2011, the Bank obtained the authorisation to start its operations and accordingly the deposited amount was released to be used as an operating capital for the day-to-day operations of the branch.

Mandatory reserve deposits are not available for use in the Bank's day-to-day operations. Cash in hand and LL reserves are non-interest bearing, whereas FCY reserves and other money market placements are floating-rate assets.

6 Loans and advances to banks

	2011 LL Million	2010 LL Million
Current accounts	**256,274**	180,973
Placements with banks	**362,566**	737,783
Included in cash and cash equivalents (note 35)	**618,840**	918,756
Loans and advances to banks	**61,184**	54,758
Pledged advances (a)	**15,075**	15,075
Less: allowance for impairment	**(2,536)**	(2,536)
Interest receivable	**537**	473
	74,260	67,770
	693,100	986,526
Current	**674,825**	922,549
Non-current	**18,275**	63,977
	693,100	986,526

(a) the pledged advances represents a cash collateral amounting to LL 15,075 million (US$ 10 million) in respect of an interest swap financial instrument maturing in September 2012 (note 7).

7 Financial instruments at fair value through profit or loss

	2011 LL Million	2010 LL Million
Securities held at fair value through profit or loss		
Debt securities		
Listed:		
- Lebanese treasury bills	**76,016**	17,772
- Other debt securities	**15,196**	2,810
	91,212	20,582
Unlisted:		
- Lebanese treasury bills	**-**	121,406
- Certificates of deposit - BDL	**-**	40,641
- Other debt securities	**46,430**	3,995
	46,430	166,042
Total debt securities	**137,642**	186,624
Equity securities:		
- Listed	**8,388**	15,792
- Unlisted	**24,284**	21,939
Total equity securities	**32,672**	37,731
Total trading derivatives	**-**	888
Total assets held for trading	**170,314**	225,243

The above mentioned securities are held for trading purposes.

At 31 December 2010			
	Notional contract amount LL Million	Fair Values	
		Assets LL Million	Liabilities LL Million
Credit default swap - credit linked note (a)	45,979	-	900
Credit default swap - credit linked deposit (b)	25,412	888	-
Forward foreign exchange agreements (c)	9,111	-	1
		888	901
At 31 December 2011			
Credit default swap - credit linked note (a)			**46,430**
Credit default swap - credit linked deposit (b)			**14,489**

(a) The Bank invested in debt securities that contain an embedded derivative. In case of default prior to maturity, the issuer can settle the notes with the delivery of Lebanese treasury bills.

(b) The Bank issued credit-linked deposits deposits with preferential interest rates. At maturity, the Bank can settle the deposits with the delivery of Lebanese treasury bills in foreign currency. These deposits are linked to the credit risk of the Lebanese treasury bills.

As at 1 January 2011 and as explained in note 2.15, embedded derivatives that cannot be independently transferred are accounted for with the host contract as one instrument. Accordingly and effective 1 January 2011, the Bank reclassified the host contract from held to maturity and loans and receivables to fair value through profit or loss. The hybrid contract (embedded derivative and host contract) is now measured at fair value through profit or loss, effective 1 January 2011.

(c) Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. The credit risk is negligible, as forward contracts are collateralised by cash or marketable securities (usually not less than 20% of notional contract amount), and changes in the forward contract value are settled immediately if change exceeds the cash margin taken from clients.

As at 31 December 2011, the Bank has an interest rate swap with Deutsche Bank London with a notional amount of LL 45,225 million (US$ 30 million) maturing in September 2012. The Bank pays a fixed interest rate and in return it collects a fixed rate (paid at maturity) and a return linked to the performance of a basket of currencies in emerging markets.

8 Loans and advances to customers

	2011 LL Million	2010 LL Million
Medium and long term loans	**1,260,794**	991,819
Overdrafts	**224,646**	174,171
Short term loans	**64,469**	71,627
Scheduled loans	**19,726**	19,360
Discounted bills	**11,075**	6,709
Loans and advances to related parties (note 37)	**5,145**	4,542
Net debit against credit accounts – speculation accounts	**2,442**	1,296
Creditors accidentally debtors	**782**	1,208
Unpaid bills	**529**	571
Interest receivable	**3,631**	2,806
Non-performing loans:		
- Substandard	**19,394**	16,061
- Doubtful and bad	**86,649**	106,044
Gross loans and advances to customers	**1,699,282**	1,396,214
Less: allowance for impairment	**(107,252)**	(114,775)
Net loans and advances to customers	**1,592,030**	1,281,439
Current	**1,252,250**	966,547
Non-current	**339,780**	314,892
	1,592,030	1,281,439

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

	2011 Specific allowance impairment for LL Million	2011 Collective allowance impairment for LL Million	2010 Specific allowance impairment for LL Million	2010 Collective allowance impairment for LL Million
Balance at 1 January	**90,824**	**23,951**	91,929	15,258
Increase in impairment allowances (note 29)	**4,394**	**2,261**	4,424	8,693
Unrealised interest	**5,551**	**-**	6,785	-
Reversal of impairment (note 29)	**(10,519)**	**-**	(9,449)	-
Written-off	**(9,210)**	**-**	(2,640)	-
Transfers to off-balance sheet	**-**	**-**	(225)	-
At 31 December	**81,040**	**26,212**	90,824	23,951

9 Debtors and engagements by acceptances

	2011 LL Million	2010 LL Million
Customers' acceptances	**47,777**	54,809

Customers' acceptances represent term documentary credits which the Bank has committed to settle on behalf of its customers against commitments provided by them, which are stated as a liability in the balance sheet under caption entitled "Engagements by acceptances". Debtors and engagements by acceptances are considered as current assets and liabilities.

10 Investment securities

	2011 LL Million	2010 LL Million
Securities available for sale		
Debt securities – at fair value:		
Listed:		
- Lebanese treasury bills (TBs)	-	177,626
- Other debt securities	-	73,489
	-	251,115
Unlisted:		
- Lebanese treasury bills (TBs)	-	611,656
- Certificates of deposit (CDs) - BDL	-	40,570
- Other debt securities	-	-
	-	652,226
Equity securities – at cost:		
Unlisted	-	1,296
Total securities available for sale ("AFS")	-	904,637
Securities loans and receivables		
Debt securities – at amortised cost:		
Listed:		
- Lebanese treasury bills (TBs)	-	296,165
- Debt security linked to credit risk	-	15,695
	-	311,860
Unlisted:		
- Certificates of deposit (CDs) – BDL (denominated in LL)	-	686,097
- Certificates of deposit (CDs) – BDL (denominated in US$)	-	118,409
- Certificates of deposit (CDs) – commercial banks	-	10,937
	-	815,443
Total securities loans and receivables ("L&R")	-	1,127,303

	2011 LL Million	2010 LL Million
Securities held to maturity		
Debt securities – at amortised cost:		
Listed:		
- Lebanese treasury bills (TBs)	-	222,723
- Other debt securities	-	-
	-	222,723
Unlisted:		
- Lebanese treasury bills (TBs)	-	398,923
- Certificates of deposit (CDs) – BDL (denominated in LL)	-	31,788
- Certificates of deposit (CDs) – BDL (denominated in US$)	-	30,232
- Certificates of deposit (CDs) – commercial banks	-	2,879
- Other debt securities	-	32,790
	-	496,612
Total securities held to maturity ("HTM")	-	719,335
Securities at amortised cost		
Debt securities:		
Listed:		
- Lebanese treasury bills	**845,564**	-
- Other debt securities	**79,875**	-
	925,439	-
Unlisted:		
- Lebanese treasury bills (TBs)	**1,000,040**	-
- Certificates of deposit (CDs) – BDL (denominated in LL)	**798,849**	-
- Certificates of deposit (CDs) – BDL (denominated in US$)	**201,299**	-
- Certificates of deposit (CDs) – commercial banks	**13,717**	-
- Other debt securities	**1,658**	-
	2,015,563	-
Total securities at amortised cost	**2,941,002**	-
Current	**517,155**	613,531
Non-current	**2,423,847**	2,137,744
	2,941,002	2,751,275

All debt securities have fixed coupons.

The movement in investment securities for the year ended 31 December 2010 is summarised as follows:

	Available for sale LL Million	Loans and receivables LL Million	Held to maturity LL Million	Total LL Million
At 1 January 2010	921,979	1,007,261	744,127	2,673,367
Exchange differences on monetary assets	(978)	-	(325)	(1,303)
Additions	289,998	646,791	202,717	1,139,506
Disposals (sale and redemption)	(303,895)	(526,749)	(227,184)	(1,057,828)
Losses from changes in fair value (note 23)	(2,467)	-	-	(2,467)
At 31 December 2010	**904,637**	**1,127,303**	**719,335**	**2,751,275**

At 1 January 2011, the Bank early adopted IFRS 9 (refer to note 2.1) and the impact on the financial statements was as follows:

Classification			Book value		
Financial assets	**IAS 39**	**IFRS 9**	**IAS 39 LL Million**	**IFRS 9 LL Million**	**Difference LL Million**
Lebanese treasury bills	Available for sale	Fair value through profit or loss	32,124	32,124	-
Other debt securities	Available for sale	Fair value through profit or loss	55,157	55,157	-
Equity securities	Available for sale	Fair value through profit or loss	1,296	1,296	-
Lebanese treasury bills	Available for sale	Amortised cost	757,158	729,421	(27,737)
Other debt securities	Available for sale	Amortised cost	18,332	17,927	(405)

Certificates of deposit	Available for sale	Amortised cost	40,570	36,791	(3,779)
			904,637	872,716	(31,921)
Classification			Book value		
Financial assets	IAS 39	IFRS 9	IAS 39 LL Million	IFRS 9 LL Million	Difference LL Million
Equity securities	Held for trading	Fair value through profit or loss	37,731	37,731	-
Lebanese treasury bills	Held for trading	Amortised cost	139,178	135,778	(3,400)
Other debt securities	Held for trading	Amortised cost	6,805	4,666	(2,139)
Certificates of deposit	Held for trading	Amortised cost	40,641	36,184	(4,457)
Trading Derivative (a)	Held for trading	Fair value through profit or loss	888	888	-
			225,243	215,247	(9,996)
Lebanese treasury bills	Held to maturity	Fair value through profit or loss	320	382	62
Other debt securities	Held to maturity	Fair value through profit or loss	31,124	32,730	1,606
Lebanese treasury bills	Held to maturity	Amortised cost	621,326	621,326	-
Other debt securities	Held to maturity	Amortised cost	1,666	1,666	-
Certificates of deposit	Held to maturity	Amortised cost	64,899	64,899	-
			719,335	721,003	1,668
Lebanese treasury bills	Loans and receivables	Fair value through profit or loss	35,824	41,230	5,406
Other debt securities	Loans and receivables	Fair value through profit or loss	15,695	16,939	1,244
Lebanese treasury bills	Loans and receivables	Amortised cost	260,341	260,341	-
Certificates of deposit	Loans and receivables	Amortised cost	815,443	815,443	-
			1,127,303	1,133,953	6,650
Total investment securities			**2,976,518**	**2,942,919**	**(33,599)**
Deferred tax liability			**(6,595)**	**-**	**6,595**
Net Impact					**(27,004)**

(a) In 2010, the derivative was accounted for separately from the host contract. In 2011, upon implementation of IFRS 9, the Bank accounted for the hybrid contract (i.e. the host contact and the related embedded derivative) as a financial liability held at fair value through profit or loss.

The movement in investment securities for the year ended 31 December 2011 is summarised as follows:

	Fair value through profit or loss LL Million	Amortised cost LL Million	Held for trading LL Million	Available for sale LL Million	Loans and receivables LL Million	Held to maturity LL Million	Total LL Million
At 1 January 2011	-	-	224,355	904,637	1,127,303	719,335	2,975,630
Transfer to fair value through profit or loss	217,589	-	(37,731)	(88,577)	(51,519)	(31,444)	8,318
Transfer to amortised cost	-	2,724,442	(186,624)	(816,060)	(1,075,784)	(687,891)	(41,917)
Exchange differences on monetary assets	(195)	(693)	-	-	-	-	(888)
Additions	229,336	1,175,936	-	-	-	-	1,405,272
Disposals (sale and redemption)	(266,807)	(958,683)	-	-	-	-	(1,225,490)
Net unrealised loss (note 26)	(9,609)	-	-	-	-	-	(9,609)
At 31 December 2011	**170,314**	**2,941,002**	**-**	**-**	**-**	**-**	**3,111,316**

11 Investments in subsidiaries

	% ownership	2011 LL Million	2010 LL Million
The Capital for Insurance and Reinsurance Company S.A.L.	80%	**3,524**	3,524
Informatics Co. S.A.R.L.	84%	**-**	-
Société Libanaise de Service S.A.R.L.	91%	**-**	-
		3,524	3,524

The Capital for Insurance and Reinsurance Company S.A.L. provides life and general insurance services.

Informatics Co. S.A.R.L. was established to provide information technology services to the Bank. However, the Company ceased its operations in 1999 and is now only managing its cash balances.

Société Libanaise de Service S.A.R.L. manages the properties of the Bank and third parties and provides security and maintenance services.

12 Investment property

	Land LL Million	Buildings LL Million	Total LL Million
At 1 January 2010	**5,747**	**1,249**	6,996
Fair value loss (note 31)	-	(154)	(154)
Transfer to property and equipment (note 13)	-	(563)	(563)
At 31 December 2010	**5,747**	**532**	6,279
Fair value loss (note 31)	-	(164)	(164)
Transfer to property and equipment (note 13)	-	(150)	(150)
At 31 December 2011	**5,747**	**218**	**5,965**

The following amounts have been recognised in the statement of comprehensive income:

	2011 LL Million	2010 LL Million
Rental income (note 28)	**183**	136
Maintenance expenses	**(164)**	(154)
	19	(18)

13 Property and equipment

	Land and buildings LL Million	Work in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
At 1 January 2010							
Cost or valuation	45,688	6,812	10,272	8,134	233	17,189	88,328
Accumulated depreciation	(10,759)	-	(6,491)	(5,185)	(103)	(11,702)	(34,240)
Net book amount	**34,929**	**6,812**	**3,781**	**2,949**	**130**	**5,487**	**54,088**
Year ended 31 December 2010							
Opening net book amount	34,929	6,812	3,781	2,949	130	5,487	54,088
Additions	361	4,246	763	559	21	1,690	7,640
Transfers from investment properties (note 12)	563	-	-	-	-	-	563
Disposals	(14)	-	(167)	(8)	(7)	(9)	(205)
Transfers	3,514	(3,514)	-	-	-	-	-
Depreciation charge (note 32)	(940)	-	(1,113)	(436)	(17)	(469)	(2,975)
Closing net book amount	**38,413**	**7,544**	**3,264**	**3,064**	**127**	**6,699**	**59,111**
At 31 December 2010							
Cost or valuation	50,126	7,544	10,632	8,529	227	18,878	95,936
Accumulated depreciation	(11,713)	-	(7,368)	(5,465)	(100)	(12,179)	(36,825)
Net book amount	**38,413**	**7,544**	**3,264**	**3,064**	**127**	**6,699**	**59,111**

	Land and buildings LL Million	Work in progress LL Million	Computer equipment LL Million	Furniture, fixtures and equipment LL Million	Vehicles LL Million	Leasehold improvements LL Million	Total LL Million
Year ended 31 December 2011							
Opening net book amount	38,413	7,544	3,264	3,064	127	6,699	59,111
Additions	716	7,925	790	809	96	1,524	11,860
Transfers from investment property (note 12)	150	-	-	-	-	-	150
Disposals	(217)	-	(275)	(103)	-	-	(595)
Transfers	372	(372)	-	-	-	-	-
Depreciation charge (note 32)	(958)	-	(1,167)	(477)	(21)	(552)	(3,175)
Closing net book amount	**38,476**	**15,097**	**2,612**	**3,293**	**202**	**7,671**	**67,351**
At 31 December 2011							
Cost or valuation	51,118	15,097	10,782	9,018	323	20,402	106,740
Accumulated depreciation	(12,642)	-	(8,170)	(5,725)	(121)	(12,731)	(39,389)
Net book amount	**38,476**	**15,097**	**2,612**	**3,293**	**202**	**7,671**	**67,351**

14 Intangible assets

	Computer Software Licenses LL Million
At 1 January 2010	
Cost	5,102
Accumulated amortisation	(3,701)
Net book amount	**1,401**
Year ended 31 December 2010	
Opening net book amount	1,401
Additions	224
Disposals	(6)
Amortisation charge (note 32)	(505)
Closing net book amount	**1,114**
At 31 December 2010	
Cost	5,282
Accumulated amortisation	(4,168)
Net book amount	**1,114**
Year ended 31 December 2011	
Opening net book amount	1,114
Additions	1,183
Disposals	-
Amortisation charge (note 32)	(685)
Closing net book amount	**1,612**
At 31 December 2011	
Cost	6,465
Accumulated amortisation	(4,853)
Net book amount	**1,612**

15 Other assets

	2011 LL Million	2010 LL Million
Advances on purchases of property and equipment (a)	**10,102**	9,158
Credit card facilities – not yet allocated to customers (b)	**9,292**	3,946
Prepaid expenses	**1,645**	1,221
Receivable from national social security fund (c)	**1,542**	1,326
Stationary supplies	**-**	342
Other receivables	**2,439**	2,264
Doubtful receivables (d)	**14,389**	14,020
Less: allowance for impairment	**(7,553)**	(7,555)
	31,856	24,722
Current	**21,040**	14,238
Non-current	**10,816**	10,484
	31,856	24,722

(a) Advances on fixed asset purchases include an amount of LL 5.4 billion (2010 – LL 5.4 billion) paid to a contractor in respect of the construction of a branch in Beirut Central District. In November 2011, the contractor obtained the license to start the project.

(b) This account represents transactions executed by the clients on debit and credit cards to be collected by the Bank.

(c) This account represents medical expenses reimbursed by the Bank to the employees. These amounts will be recovered later from the national social security fund.

(d) This account includes doubtful receivables of LL 2.7 billion (2010 – LL 2.7 billion) from one of the Bank's money dealers. Management recorded a provision of LL 1.8 billion (2010 – LL 1.8 billion) to cover any expected loss.

This account also includes an amount of LL 3.2 billion (2010 – LL 3.2 billion) that is fully provided for to cover losses incurred in connection with contentious depositors' claims in one of the Bank's branches.

Moreover, this account includes amounts receivable from two employees of LL 8.5 billion (2010 – LL 8.2 billion), which were involved in fraudulent activities. Management recorded a provision of LL 2.5 billion (2010 – LL 2.5 billion) against the uncovered exposure.

16 Assets classified as held for sale

The movement of assets classified as held for sale is as follows:

	2011 LL Million	2010 LL Million
Balance at 1 January	**19,328**	21,803
Acquisitions during the year	**4,132**	1,577
Disposals during the year	**(1,997)**	(4,052)
Balance at 31 December	**21,463**	19,328

17 Deposits from banks and financial institutions

	2011 LL Million	2010 LL Million
Deposits from other banks	**104,475**	108,853
Deposits from a financial institutions	**56,066**	2,469
Interest payable	**1,385**	307
	161,926	111,629
Current	**155,316**	107,860
Non-current	**6,610**	3,769
	161,926	111,629

All above listed financial liabilities are classified as liabilities at amortised cost.

18 Deposits from customers

	2011LL Million	2010 LL Million
Term deposits	**4,282,632**	4,201,504
Sight deposits (i)	**926,092**	765,517
Related parties (note 37)	**88,290**	86,163
Deposits held as collateral (ii)	**442,550**	409,075
Credit linked deposits (a)	**-**	25,412
Financial liabilities held at fair value through profit or loss (a)	**14,489**	-
Interest payable	**23,015**	26,010
	5,777,068	5,513,681
Current	**5,612,659**	5,214,206
Non-current	**164,409**	299,475
	5,777,068	5,513,681
(i) Sight deposits:		
Checking and current accounts	**610,626**	468,851
Debtors accidentally creditors	**36,235**	31,035
Payment orders	**13,809**	13,215
Public sector deposits	**152**	96
Saving accounts - demand	**265,270**	252,320
	926,092	765,517
(ii) Deposits held as collateral:		
Blocked accounts against credit facilities	**377,312**	341,613
Margins on speculation accounts	**5,268**	4,645
Margins against issuance of letters of guarantee	**37,258**	35,773
Margins against issuance of documentary credits	**22,712**	27,044
	442,550	409,075

(a) These credit-linked deposits bear preferential interest rates and were classified at amortised cost, whereas the embedded derivative was separated and measured separately at fair value. At maturity, the Bank can settle the deposit with Lebanese treasury bills denominated in US Dollars (note 7).

Deposits due to customers only include financial instruments classified as liabilities at amortised cost. All deposits are at fixed interest rates.

19 Other liabilities

	2011 LL Million	2010 LL Million
Due to financial institution (a)	**3,985**	2,871
Accrued expenses	**3,666**	2,127
Withholding taxes and other charges	**2,285**	2,024
Due to clients (b)	**182**	1,955
Due to employees	**1,527**	1,316
Due to National Social Security Fund	**606**	555
Dividends payable and interest payable on cash contribution to capital	**49**	390
Other provisions	**1,998**	886
Other liabilities	**2,579**	2,862
	16,877	14,986

Other liabilities are expected to be settled within no more than 12 months of the date of the balance sheet.

(a) This account represents transactions executed by the clients on credit cards and settled on behalf of the Bank.

(b) This account represents the redemption of securities (Lebanese treasury bills) and/or interest collected on behalf of clients and which have not yet been settled.

20 Provision for restructuring

The provision for restructuring represents the indemnities payable by the Bank under a restructuring plan that started in 2007. However in 2011, the Bank took a decision to stop the plan and therefore released the provision (note 28).

21 Retirement benefit obligations

Provision for retirement benefit obligations comprises the following:

	2011 LL Million	2010 LL Million
Provision for retirement benefit obligations	**19,286**	18,022
Advances against retirement benefit obligations	**(205)**	(205)
	19,081	17,817

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

	2011 LL Million	2010 LL Million
At 1 January	**18,022**	17,293
Charge for the year (note 30)	**1,954**	1,866
Payments during the year	**(690)**	(1,137)
At 31 December	**19,286**	18,022

The principal assumptions used were as follows:

	2011	2010
Discount rate	**8%**	7.19%
Future salary increases	**6%**	7.4%

22 Share capital and cash contributions to capital

	2011 LL Million	2010 LL Million
Common shares (a)	**144,000**	72,000
Preferred shares (b)		
Par value	**5,000**	5,000
Premium on issuance	**70,375**	70,375
	75,375	75,375
Cash contributions to capital (c)		
Interest bearing (5.5% per annum)	**36**	21,697
Non-interest bearing	**-**	21,412
	36	43,109

(a) On 21 November 2011, an Extraordinary General Assembly was held to increase the total number of ordinary shares to become 144 million as of year-end (2010 – 72 million) with a par value of LL 1,000 per share (2010 – LL 1,000 per share). All issued shares are fully paid. The increase in common shares was as follows:

	LL Million
Transfer from cash contributions to capital	43,073
Transfer from retained earnings	13,110
Transfer from reserve for capital increase – other reserves	11,500
Transfer from other reserves	3,974
Paid in cash	343
	72,000

(b) In July 2006, the Bank issued 5 million non-cumulative redeemable preferred shares with nominal value of LL 1,000 each at an issue price of LL 15,075 (US$ 10 per share). The excess of issue price over nominal value amounted to LL 70 billion and was reflected as share premium.

(c) In prior years, cash contributions were made based on agreements held between the Bank and its shareholders and subject to the following conditions:

- These contributions will remain placed as a fixed deposit as long as the Bank is a going concern.
- These contributions can be used to write off any deficit incurred by the Bank.
- The shareholders have the right to use these contributions to settle their share in any increase of capital.
- These contributions are considered as part of Tier I capital for the purpose of determining the Bank's capital adequacy ratio, as approved by BDL.

23 Other reserves and retained earnings

	2011 LL Million	2010 LL Million
Reserves		
Real estate revaluation reserve (a)	**21,061**	21,061
Legal reserve (b)	**50,159**	44,353
Reserve for unidentified banking risks (c)	**40,624**	32,690
Fair value reserve of available for sale investment securities (d)	**-**	32,225
Reserve for capital increase (e)	**1,118**	11,501
Reserve for liquidation of assets classified as held for sale (f)	**4,165**	3,653
Other reserves	**333**	3,974
	117,460	149,457
Retained earnings (g)	**144,190**	125,053

(a) Real estate revaluation reserve

The revaluation reserve arose from the revaluation of investment property and property and equipment. The revaluation was performed by an independent appraiser under the provisions of fiscal law 282/93 based on market values of 31 December 1993.

(b) Legal reserve

In compliance with the requirements of Code of Money and Credit article number 132, banks are required to appropriate 10% of their annual profits as legal reserve. This reserve is not available for distribution.

(c) Reserve for unidentified banking risks

In compliance with the requirements of BDL basic circular no. 50, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk weighted assets and off-balance sheet accounts as a reserve for unidentified banking risks. This reserve is considered as part of Tier I capital, but is not available for distribution.

(d) Fair value reserve of available for sale investment securities

The revaluation reserve shows the effects from the fair value measurement of financial instruments of the category available for sale after deduction of deferred taxes. Any gains or losses are not recognised in the statement of comprehensive income until the asset has been sold or impaired. On 1 January 2011, upon the early adoption of IFRS 9, this reserve has been liquidated (note 10).

(e) Reserve for capital increase

In compliance with Banking Control Commission circular no. 173, all gains recognised on the sale of properties acquired in settlement of debt should be appropriated from retained earnings and recorded as "free reserve for capital increase". In 2011, as mentioned in note 22, the bank liquidated this reserve for capital increase.

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

In compliance with BDL basic circular no. 78, banks are required to deduct from annual profits an amount of 5% or 20% of the carrying value of its properties acquired in settlement of debt. However, in 2010 and in compliance with Banking Control Commission issued memo 4/2010 and 10/2010, the bank transferred the booked provision to equity. Moreover, the required reserves are now established through appropriation of retained earnings. This reserve is not considered as part of the Bank's Tier Capital nor is available for distribution.

(g) Retained earnings

	2011 LL Million	2010 LL Million
Balance at 1 January	**125,053**	96,771
Impact of adoption of IFRS 9	**5,221**	-
Profit for the year	**58,060**	57,987
Dividends declared (note 34)	**(14,138)**	(13,419)
Interest paid on cash contributions to capital (note 34)	**(1,194)**	(1,194)
Transfer to legal reserve (x)	**(5,806)**	(5,798)
Transfer to reserve for unidentified banking risks (x)	**(7,933)**	(6,249)
Transfer to reserve for liquidation of assets classified as held for sale (x)	**(845)**	(87)
Transfer to reserve for capital increase (x)	**(1,118)**	(2,958)
Transfer for capital increase (note 22)	**(13,110)**	-
At 31 December	**144,190**	125,053

(x) Transfers from retained earnings to other reserves amounted to LL 15,702 million (2010 – LL 15,092 million).

As stipulated by the Banking Control Commission (''BCC") circular no. 270 (issued in September 2011), the Bank is not allowed to distribute from its retained earnings all income generated from the revaluation of financial assets held at fair value through profit or loss. As at 31 December 2011, unrealised gain on financial instruments held at fair value through profit or loss amounted to LL 2.4 billion (note 26).

24 Net interest and similar income

	2011 LL Million	2010 LL Million
Interest and similar income		
Loans and advances:		
- Customers	**98,694**	86,143
- Banks and financial institutions	**9,073**	11,138
- Related parties (note 37)	**204**	34
	107,971	97,315
Financial assets at fair value through profit or loss	**10,793**	17,869
Investment securities:		
- Available for sale	**-**	72,741
- Loans and receivables	**-**	91,853
- Held-to-maturity	**-**	52,896
- Amortised cost	**222,927**	-
	222,927	217,490
	341,691	332,674
Interest and similar expenses		
Deposits due to customers	**(230,489)**	(224,253)
Deposits from banks and financial institutions	**(8,538)**	(7,179)
Deposits due to related parties (note 37)	**(2,306)**	(2,494)
	(241,333)	(233,926)
Net interest and similar income	**100,358**	98,748

25 Net fee and commission income

	2011 LL Million	2010 LL Million
Fee and commission income		
Credit-related fees and commissions	**9,390**	8,479
Commissions on banking operations	**6,530**	6,282
Commissions on letters of credit and guarantees	**6,808**	6,249
Brokerage fees	**2,389**	2,768
Other commissions	**4,344**	4,390
	29,461	28,168
Fee and commission expense		
Commission on banking operations	**(1,379)**	(1,807)
Brokerage fees paid	**(1,012)**	(1,651)
Other commission expenses	**(1,087)**	(1,781)
	(3,478)	(5,239)
Net fee and commission income	**25,983**	22,929

26 Net (losses) gains on financial instruments held at fair value through profit or loss

	2011 LL Million	2010 LL Million
Net gains on foreign exchange transactions	**902**	2,858
Net gains on foreign exchange translation	**3,838**	717
Net unrealised loss on financial instruments held for trading	**-**	(3,595)
Unrealised loss on financial instruments held at fair value through profit or loss	**(12,012)**	-
held at fair value through profit or loss (note 23)	**2,403**	-
Realised gain	**3,743**	77
	(1,126)	57

27 Net gains on investment securities

Net gains on investment securities comprise:

Sale of financial assets classified as AFS	**-**	8,161
Sale of financial assets classified as L&R	**-**	1,618
Sale of financial assets held at amortised cost (a)	**12,986**	-
	12,986	9,779

(a) In 2011, the Bank sold investment securities from its investment securities portfolio held at amortised cost portfolio. The sales with their respective gain/loss and reason are as follows:

- In January 2011, the Bank performed a swap with BDL on a portion of its CDs portfolio with a nominal value of LL 52 billion. This transaction only included CDs maturing in a period not exceeding 6 months. In addition, this transaction did not generate any profit or loss.
- In March 2011, the Bank performed a swap with BDL on a portion of its CDs portfolio with a nominal value of LL 30 billion. This transaction only included CDs maturing in a period not exceeding 6 months. In addition, this transaction generated profit of LL 90 million.
- In April 2011, the Bank performed a swap with BDL on a portion of its TBs portfolio with a nominal value of LL 87 billion. This transaction only included TBs maturing in a period not exceeding 6 months. In addition, this transaction did not generate any profit or loss.
- In June 2011, the Bank sold Eurobonds with a nominal amount of LL 84 billion and bought new Eurobonds (with a nominal value of around LL 100 billion) with different maturities to adjust the maturity mismatch between its assets and liabilities. This transaction resulted in a gain of LL 11.5 billion.
- In November 2011, the Bank performed a swap with BDL on a portion of its Eurobonds portfolio with a nominal value of LL 30 billion. This transaction only included Eurobonds maturing in a period not exceeding 6 months. In addition, this transaction generated profit of LL 1.3 billion.

The Bank believes that the above mentioned sales are consistent with its objective to collect contractual cash flows.

28 Other operating income

	2011 LL Million	2010 LL Million
Release of provision for restructuring (note 20)	**2,900**	-
Gain on disposal of assets classified as held for sale	**1,145**	2,346
Gain on disposal of property and equipment	**407**	11
Rental income (note 12)	**183**	136
Other	**464**	361
	5,099	2,854

29 Net loan impairment releases (charges)

	2011 LL Million	2010 LL Million
Loans and advances to customers		
Reversal of impairment (note 8)	**10,519**	9,449
Increase in impairment – collective (note 8)	**(2,261)**	(8,693)
Increase in impairment – specific (note 8)	**(4,394)**	(4,424)
	3,864	(3,668)

30 Personnel expenses

Wages and salaries	**29,173**	25,721
Social security costs	**3,877**	4,024
Pension costs – defined benefit plan (note 21)	**1,954**	1,866
Scholarship	**2,159**	2,181
Transportation	**2,109**	1,888
Medical expenses	**1,227**	1,147
Training expenses	**342**	392
Other employee benefits	**3,781**	1,651
	44,622	38,870

31 Other operating expenses

Office supplies and utilities	**4,761**	4,456
Advertising expense	**2,170**	1,598
Deposit guarantee premiums	**2,702**	2,460
Professional fees	**2,363**	2,097
Repairs and maintenance	**1,820**	1,770
Municipality and other taxes	**2,653**	2,690
Software costs	**1,491**	1,628
Travel expense	**1,251**	1,249
Impairment charge on other assets	**1,192**	591
Directors' remuneration (note 37)	**1,124**	1,115
Operating lease rentals	**1,074**	993
Donations	**1,036**	1,145
Subscriptions	**925**	948
Insurance expense (note 37)	**670**	811
Directors' attendance fees (note 37)	**580**	434
Fair value loss on investment properties (note 12)	**164**	154
Other	**5,145**	2,943
	31,121	27,082

32 Depreciation and amortisation

	2011 LL Million	2010 LL Million
Depreciation charge (note 13)	**3,175**	2,975
Amortisation charge (note 14)	**685**	505
	3,860	3,480

33 Income tax expense

	2011 LL Million	2010 LL Million
Lebanon branches ("Head office")	**10,936**	10,083
Foreign branches	**1,237**	971
Tax charge for the year	**12,173**	11,054

The tax on the Bank's whole profit (including foreign branches) before tax differs from the theoretical amount that would arise using the basic tax rate of the Lebanon branches as follows:

	2011 LL Million	2010 LL Million
Profit before income tax	**70,233**	69,041
Tax calculated at the Head office tax rate of 15% (2010 – 15%)	**10,535**	10,356
Add back charges (gains) not accountable for tax purposes:		
- Changes related to prior periods	**-**	(60)
- Different tax rates in other countries	**(233)**	(510)
- Differences between accounting and fiscal depreciation	**37**	36
- Net loss on investment securities	**899**	539
- Donations and other provisions	**645**	1,095
- Interest paid on cash contributions to capital	**-**	(179)
- Other	**290**	(223)
Income tax	**12,173**	11,054

The income tax rate applicable to Head office income is 15% (2010 – 15%). The income tax rate applicable to foreign branches ranges from 0% to 10% (2010 – 0% to 10%).

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

	2011 LL Million	2010 LL Million
At 1 January	**1,711**	2,280
Charge for the year	**12,173**	11,054
Payments during the year	**(10,889)**	(11,623)
At 31 December	**2,995**	1,711

The fiscal years 2008 to 2011 remain subject to examination by the income tax authorities.

34 Dividends per share and interest on cash contributions

A dividend in respect of 2010 of LL 110 per common share and LL 1,244 per preferred share amounting to a total dividend of LL 14,138 million (2010 – LL 13,419 million) and interest on cash contributions to capital of LL 1,194 million (2010 – LL 1,194 million) was declared.

A dividend in respect of 2011 of LL 55 per common share and LL 1,244 per preferred share amounting to a total of LL 14,138 million and interest on cash contributions to capital of LL 1,050 million are proposed by the directors subject to ratification by the General Assembly in June 2012. These financial statements do not reflect these payables.

35 Cash and cash equivalents

Cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including cash in hand, deposits held at call with banks.

	2011 LL Million	2010 LL Million
Cash and balances with central banks (note 5)	**301,431**	119,917
Loans and advances to banks (note 6)	**618,840**	918,756
	920,271	1,038,673

36 Contingent liabilities and commitments

(a) Legal proceedings
There were a number of legal proceedings involving claims by and against the Bank at 31 December 2011, which arose in the ordinary course of business. The Bank does not expect the ultimate resolution of any of the proceedings to which Bank is party to have a significantly adverse effect on the balance sheet of the Bank. Accordingly, no provision has been booked.

(b) Guarantee and other financial facilities
At 31 December 2011, the Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit and guarantees to customers as follows:

	2011 LL Million	2010 LL Million
Letters of guarantee (i)	**223,202**	149,946
Letters of credit	**41,833**	54,790
	265,035	204,736

(i) The nature and the amounts of the letters of guarantee are as follows:

	2011 LL Million	2010 LL Million
Guarantees given to insurance brokers	**63,541**	39,161
Guarantees given to customers	**95,175**	60,448
Guarantees against bank facilities	**64,486**	50,337
	223,202	149,946

37 Related-party transactions

The Bank is controlled by Assaf Holding S.A.L. (incorporated in Lebanon) which owns 45% of the ordinary shares, Fransabank S.A.L. (incorporated in Lebanon) owns 37% of the ordinary shares and the remaining 18% are widely held.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and other financial facilities (i.e. loan commitments, guarantees, etc.).

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

(a) Loans and advances to related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2011 LL Million	2010 LL Million	**2011 LL Million**	2010 LL Million
Loans and advances (note 8)	**5,145**	4,542	**-**	-
Interest income (note 24)	**204**	34	**-**	-

No provisions have been recognised in respect of loans given to related parties (2010 - nil).
Loans and advances to related parties comprise loans with variable rates and fixed rates of LL 3,214 million (2010 – LL 3,527 million) and LL 1,931 million (2010 – LL 1,015 million) respectively. The majority of these loans are secured by real estate mortgages.

(b) Deposits from related parties

	Directors and other key management personnel (and close family members)		Related companies (associated companies and subsidiaries)	
	2011 LL Million	2010 LL Million	**2011 LL Million**	2010 LL Million
Due to customers (note 18)	**46,214**	47,310	**42,076**	38,853
Interest expense (note 24)	**1,162**	1,764	**1,144**	730

Deposits from related parties are unsecured and comprise deposits with variable rates repayable on demand, and fixed rates repayable at maturity of LL 13,292 million (2010 – LL 12,856 million) and LL 74,998 million (2010 – LL 73,307 million) respectively.

(c) Other transactions with related parties

	2011 LL Million	2010 LL Million
Insurance expense – Bank (note 31)	**670**	811
Insurance expense – staff	**243**	236
Cost of other services received	**386**	391
Dividends received	**-**	5,200
Commissions paid	**14**	16

(d) Key management compensation

Directors' remuneration (note 31)	**1,124**	1,115
Directors' attendance fees (note 31)	**580**	434
Other key management compensation	**1,753**	1,611

38 Events after the reporting period

On 9 March 2012, an extraordinary general assembly was held to issue non-cumulative redeemable preferred shares 'B' with a nominal value of LL 1,000 each at an issue price of LL 15,075 (US$ 10 per share). These shares were fully issued and paid.
In addition, on 9 March 2012, an extraordinary general assembly was held to redeem preferred shares 'A' and to increase the Bank's common shares through appropriation of retained earnings by an amount of LL 5,016 million.

At 9 March 2012, the Bank's capital is broken down as follows:

	LL Million
Common shares	**149,016**
Preferred shares	
Preferred shares 'B' par value	8,000
Premium on preferred shares 'B'	112,600
	120,600

ANNUAL REPORT 2011

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Colombo
Bank of Ceylon

Copenhagen
Danske Bank A/S

Doha
Qatar National Bank SAQ

Dubai
MashreqBank PSC

Frankfurt
Deutsche Bank AG
Commerzbank AG

Kuwait
National Bank of Kuwait SAK

London
Barclays Bank Plc
HSBC Bank Plc

Madrid
BBVA SA

Milano
Intesa Sanpaolo SpA

Montréal
National Bank of Canada

New York
The Bank of New York Mellon
Citibank N.A.
JPMorgan Chase Bank N.A.
Standard Chartered Bank

Oslo
DNB Nor Bank ASA

Paris
Société Générale
Banque Audi Saradar France SA

Riyadh
Banque Saudi Fransi

Stockholm
Skandinaviska Enskilda Banken AB

Sydney
Arab Bank Australia Limited

Tokyo
U.B.A.F.

Vienna
Unicredit Bank Austria AG

Zurich
Credit Suisse

Subsidiaries

• **Informatics Co. s.a.r.l.**

It is a software company that offers commercial and technical services. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 84 % of the company's shares.

• **Société Libanaise de Service s.a.r.l.**

The company is active in real estate management. It was established in 1980 and is chaired by Sheikh Ghassan Assaf. BBAC owns 91 % of the company's shares.

• **The Capital Insurance and Reinsurance Co. s.a.l.**

The company provides a full-range of insurance and reinsurance services. It is chaired by Mr. Assad G. Merza. BBAC owns 80% of the company's shares.