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IBL BANK

ANNUAL REPORT 2011



# ANNUAL REPORT 2011

IBL BANK S.A.L

# INTRODUCTION

2011 witnessed the creation and implementation of our bank's main corporate selling line "IBL Bank, where your dreams count", which emphasizes on the commitment of our institution to strive towards the achievement of every one of our clients' goals. The expert in numbers sees beyond just numbers... and manages to make your dreams truly count. The visuals illustrating our Annual Report 2011 are naturally based on our corporate motto launch, emphasizing the implementation of the concept. Enjoy reading our latest numbers... but remember that it's your dreams that make them truly count!

IBL BANK S.A.L

# ANNUAL REPORT 2011

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# ABOUT IBL BANK

IBL BANK



Salim Habib
Chairman General Manager

The Lebanese Economy during 2011 has recorded a timid 1% to 2% real GDP growth, slowing down from the 8% average growth during the previous 4 years, avoiding hence recession thanks to a moderate growth in the second half of 2011 with the cabinet formation and the renewal of BDL's Governor H.E. Mr. Riad Salameh term.

Regarding the public sector indebtedness, Lebanon's gross public debt reached USD 53.6 billion, up by 2% from 2010. With the low economic growth, Lebanon's Debt to GDP ratio continued to decline in 2011, though at a slower pace reaching 133% in 2011 coming from 134% in 2010 and 180% in 2006. At a time of rising concerns over sovereign related debt levels across the world, more should be done to contain Lebanon's still elevated indebtedness ratios.

Moreover, for the first time in nearly a decade, Lebanon witnessed due to regional politico-security conditions and rising oil prices, a Twin deficit situation with the balance of payments posting a deficit of USD 1.9 billion, against a surplus of USD 3.3 billion in 2010. However, Monetary conditions remained favorable, with BDL foreign currency reserves (excluding gold) reaching a historic high of USD 30.8 billion in

"...comfortably high liquidity levels with a 103% ratio in LBP, and a 75% liquidity ratio in foreign currencies, reaching an 87% total liquidity ratio."

December 2011, growing by USD 2.2 billion during the year. Hence, the ratio of foreign currency reserves to local currency money supply reached 79% in December 2011 showing the Central Bank's ability to defend the local currency.

In these economic conditions, the Lebanese banking sector realized a moderate performance in 2011, as evidenced by:
The commercial banks Balance-Sheet increasing by 9% mainly thanks to a continuously increasing deposits base, to reach USD 140.6 billion in December 2011, against a higher yearly growth rate of 12% in 2010.

The Lebanese banking sector continued in 2011 to record a strong growth in its lending activity to the private sector that recorded a USD 4.4 billion increase during the year to reach USD 39.3 billion in December 2011. It is important to note that this growth did not come at the expense of asset quality, as Lebanese banks' doubtful loans to total loans reached 3.5% in December 2011 comparing favorably to regional and international benchmarks.

However, at the profitability level, interest margins came under pressure in 2011 due to a negative carry on foreign currency primary liquidity on one hand, and the renewal of Lebanese Pounds Treasury Bills at a 2% lower yields than initial investments, while cost of deposits in Lebanese pounds slightly decreased by 0.3% on the second hand. In this context, and for the first time in 9 years, Lebanese Banks net profit registered a 3.4% decrease in 2011 as compared to 2010.

In this context, IBL Bank registered a strong year 2011 over-performing the sector in most Key Performance Indicators, while continuing in its conservative strategy and strong risk management practices, as showed by:

IBL Bank total assets growing by 17% in 2011 as compared to 9% for the sector, while the Bank's total deposits increased by 18% in 2011 as compared to 8% for the sector.
In parallel, the Bank's loan book continued its expansion during 2011, recording a 28% increase as compared to 12.6% increase for the sector.
In addition, thanks to IBL Bank's conservative approach, the Bank's net doubtful loans to total loans remained as low as 0.1% as at December 2011.
As a consequence of the Bank's strategic directions, IBL Bank realized a 14% growth in Net Income during 2011 as compared to the negative growth of the sector, leading to IBL Bank ranking first in Net income growth and enjoying the second highest Return on Average Equity (ROAE) in the Lebanese banking sector.

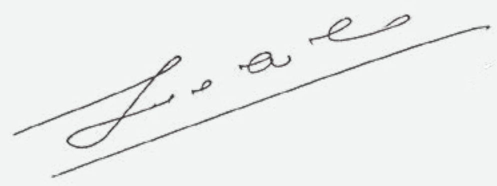
Mirroring the Bank's conservative risk management framework, IBL Bank, as at December 2011 is enjoying a strong capitalization mainly constituted of core Tier 1 capital and healthy financial soundness evidenced by a CAR 2 of 13.8% including profits of the year while the minimum required solvency ratio is 8%. In addition, the Bank has a strong liquidity as witnessed by comfortably high liquidity levels with a 103% ratio in LBP, and a 75% liquidity ratio in Foreign Currencies, reaching an 87% total liquidity ratio.

In line with our Strategy, IBL has added a new entity to the Group: IBL Investment Bank that offers new services and diversifies the Group's sources of income. IBL Investment Bank SAL started its operations during the first quarter of 2011. The main business lines are advisory, corporate finance and wealth management. The first year of operations was highly satisfactory, with IBL Invest reaching its targets as evidenced by its ROA of 2.9% and its ROE of 19.8%.

2011 is another successful year in the regional development of IBL Bank. In fact, and as planned, we successfully realized major achievements attaining our goal of value creation and growth, through regional diversification in Iraq (Erbil and Baghdad) and Cyprus (Limassol).

Finally, during 2011 and after many workshops with advertising experts and communication experts to analyze our Brand, we have elected "Where Your Dreams Count" as the Bank's new motto. It is in fact our understanding that dreams ought to be listened to and assessed as evidenced in most of the Bank's achievements.

I would like to close by grabbing this opportunity to thank our customers and correspondent banks for their continuous trust and support as well as the Board of Directors and the entire Group's staff for their precious insights and efforts to push the Bank towards higher summits.



Salim Habib
Chairman General Manager

The Bank traces its roots back to 1961 and has hence been at the service of its clients for more than fifty years. The Bank was incorporated on May 5, 1961, as a Société Anonyme Libanaise (joint stock Company) under the name of "Development Bank SAL" with a capital of LBP 8 million for a period of 99 years.

In 1998, the majority of the Bank's shares were purchased by a group of Lebanese and foreign investors.
A year later, in September 1999, the Bank acquired the total share capital of BCP Oriel Bank, and consequently all branches of the acquired bank are to this date operating under Intercontinental Bank of Lebanon (IBL Bank). Mr. Salim Habib has been Chairman-General Manager of the Bank since 1998.

The current group of shareholders that took over the Bank in 1998 pursued a policy towards raising the Bank into one of the top national banks.

The Bank has achieved a significant growth in total assets as well as in the main components of its balance sheet, during the last years. Its total assets grew from U.S. $437 million in 2000 to reach U.S. $3,783 million at the end of 2011, resulting in an increase of almost 755 percent.

Despite its strong expansion in total assets since 2000, the Bank translated this growth into enhanced financial profits, with the net income attaining U.S. $41 million in the end of 2011, representing an improvement of more than 2,828 percent over net income of U.S. $1.4 million as at December 31, 2000.

These results are driven by the continuing augmentation of the Bank's net interests and net commissions, as well as by the solid increase of the customers' base and deposits. Customers' deposits topped at U.S. $3,445 million in 2011 from U.S. $384 million in 2000.

Furthermore, the actual shareholders of the Bank succeeded in increasing the share capital of the Bank to reach an amount of more than U.S. $100 million, while the Total Shareholders' Equity grew from U.S. $18 million as at December 2000 to U.S. $267 million as at December 2011.

The Bank currently has 19 active branches spread all over Lebanon and 3 Branches abroad: the first in Europe (Cyprus -Limassol), and 2 Branches in Iraq (Erbil and Baghdad).

In addition, during 2008, the Board of Directors decided to change the Bank's name and logo from Intercontinental Bank of Lebanon to IBL Bank, in order to boost the Bank's positioning and Brand awareness.

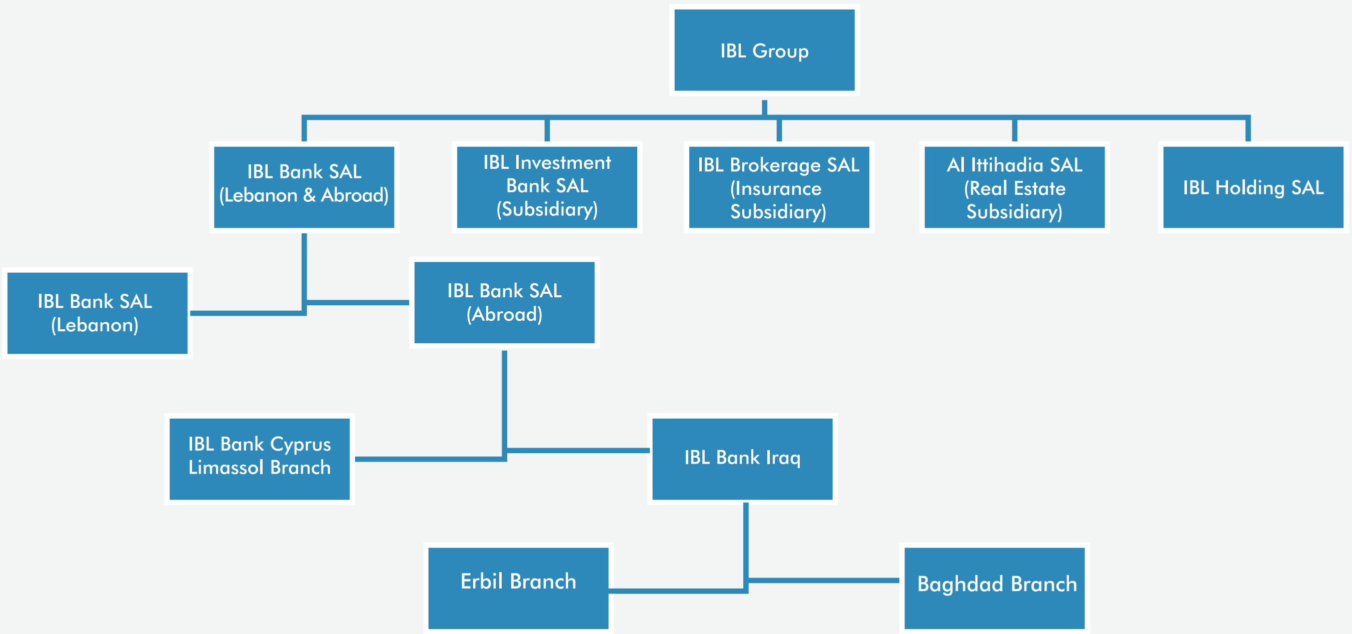
In 2011, the Bank established IBL Investment Bank SAL (IBL Invest), a fully owned Lebanese specialized bank. IBL Invest aims to provide value added investment banking services meeting the needs of its clients and targeting new regional markets, namely the Gulf Markets. The main business line will be advisory, corporate finance and wealth management services. IBL Invest started its operation during the first quarter of 2011.

The strong growth the Bank achieved since 1998 was coupled with and fostered by continuous investments in human capital, either organically through seminars, training sessions and effective Human Resources management or externally by recruiting skilled managers and dynamic young staff.

Amid its track record of solid growth, rigorous risk management and adequate Capital levels, the Bank is in the process of developing its local and regional network.

The Bank's Head-Office and main branch are located in Achrafieh, Beirut.

## GROUP STRUCTURE:




IBL Bank is part of the Alpha Group of Banks and is ranked 11th in terms of total assets as at December 2011.

IBL Bank main activities are focused on commercial and retail banking services such as deposits, loans, trade finance, cash management as well as treasury via 19 Branches covering the Lebanese territory, in addition to a European Branch in Limassol/Cyprus and two Branches in Iraq located in Baghdad and Erbil. Being concerned by offering universal Banking services, the IBL group launched in 2011 the IBL Investment Bank, having as main activities Private Banking, Investment Banking, and Asset Management.
IBL group Strategy is to extend a wide and diversified range of services to its customers through specialized and independent entities such as IBL Brokerage, insurance consultancy and Al Ittihadia, real estate consultancy and management.

## PRINCIPLES OF CORPORATE GOVERNANCE

Moreover, the principles of corporate governance are well established in the Bank through the adoption of the Group's Corporate Governance Guidelines that were approved by the Board Risk Committee in 2012, in compliance with Regulatory Requirements. In addition, there is proper delegation of responsibilities to key managers and to executive committees with clear cut segmentation of duties between Front and Back Office departments thus enhancing accountability. Finally executive board members are present in most of the Bank's Committees.
In addition, in the Bank's structure, the Internal Audit and the Audit Committee are directly attached to the Board while the Risk Management Division is attached to the Chairman. This structure allows proper independence to these two bodies in line with Corporate Governance principles.

Furthermore, the Bank's Head of Risk Management and/or his deputy are members in all the Bank's committees, thus enhancing risk awareness and compliance with the risk appetite of the Bank.

It is important to note that the Bank's strategy aims at promoting four key governance principles at the corporate level: transparency, responsibility, fairness, and accountability and to ensure that the necessary framework and institutional capacity are in place to enforce them. These principles form the common basis of corporate governance guidelines and codes and correspond to the best corporate governance practice. In more details:

**Transparency** and disclosure enable stakeholders to assess the Bank's financial performance and soundness.
The Bank ensures that it is operating in a transparent way to avoid any decision that may adversely affect employees, shareholders and other stakeholders.

**Responsibility** refers to the clear division and delegation of authority. This covers three different areas:
- Responsibility of board members and directors.
- Responsibility of senior managers before the Board of Directors;
- Responsibility of managers to comply with their basic social responsibility, in particular in relation to employees.

**Fairness** in the treatment of all stakeholders (such as shareholders, depositors, creditors, the bank's employees and regulators).
The systems that exist within the Group must be balanced to take into account all those that have an interest in the organization and its future.
The rights of various groups have to be acknowledged and respected.

**Accountability** in the relationships between the Bank's executive management and the Board, and between the Board and the shareholders and other stakeholders.
Senior management and board members must be accountable for the decisions and actions they undertake.

Finally, specialized Committees are in place with regards to risk management, internal control, and internal audit:

- Audit Committee (Board of Directors Committee)
- Risk Committee (Board of Directors Committee)
- Management Committee
- ALCO Committee
- Senior Credit Committee
- Junior Credit Committee
- Retail Credit Committee
- Compliance Committee
- IT Security Committee
- IT Committee
- Procurement Committee
- Follow-up Committee for Subsidiaries Abroad
- Organization and Methods Committee
- Change Management Committee

## BOARD OF DIRECTORS

The current members of the Board of Directors of IBL Bank sal were elected at the meeting of the Ordinary General Assembly held on June 9, 2011 and serve for a term expiring on the date of the Ordinary General Assembly that will examine the accounts and activity of the financial year 2013. The Board of Directors of IBL Bank sal comprises the following Directors:

| | |
|---|---|
| Mr. Salim Y. Habib | Chairman, General Manager |
| His Excellency<br>Mr. Elie N. Ferzli | Member of the Board<br>Member of the Audit Committee |
| His Excellency<br>Dr. Mohammad Abdel Hamid Baydoun | Member of the Board<br>Member of the Audit Committee |
| Mr. Kamal A. Abi Ghosn | Member of the Board<br>Deputy General Manager<br>Member of the Risk Committee |
| Prince Sager Sultan Al Sudairy | Member of the Board |
| MM. Bicom SAL. Holding<br>(Represented by Mr. Mazen El Bizri) | Member of the Board<br>Member of the Risk Committee |
| Mr. Merhi A. Abou Merhi | Member of the Board |
| Me. Mounir Kh. Fathallah | Member of the Board<br>Chairman of the Audit Committee |
| Mr. Tony N. El Choueiri | Independent Member of the Board<br>Chairman of the Risk Committee<br>Member of the Audit Committee |
| Me. Ziad Ch. Fakhoury | Secretary of the Board |

## LEGAL ADVISORS AND AUDITORS

| | |
|---|---|
| Cabinet Me. Rizkallah Makhlouf<br>Me. Rizkallah Makhlouf | Legal Advisor - Lebanon |
| Fakhoury & Fakhoury Law Firm<br>(Chawki Fakhoury & Associates)<br>Me. Ziad Fakhoury | Legal Advisor - Lebanon |
| Etude Michel Tueni<br>Me Michel Tueni | Legal Advisor - Lebanon |
| Cabinet Me Mamoun Mahmoud Al Khadi<br>Me Mamoun Al Khadi | Legal Advisor - Iraq |
| Cabinet Abou Sleiman and partners<br>Me Randa Abou Sleiman | Legal Advisor - Iraq |
| Chrysses Demetriades & Co LLC<br>Advocates Legal consultants | Legal Advisor - Cyprus |
| MM. Deloitte & Touche | External Auditors - Lebanon |
| MM DFK. Fiduciaire du Moyen-Orient | External Auditors - Lebanon |
| MM. Adel Alhassoun & Co<br>CPA's & consultants | External Auditors - Iraq |
| MM. Deloitte Limited | External Auditors - Cyprus |

## GENERAL MANAGEMENT

**Mr. Salim Habib**
Chairman, General Manager

**Mr. Kamal Abi Ghosn**
Director - Deputy General Manager

**Mr. Nakhlé Khoneisser**
Assistant General Manager
Head of Treasury and Capital Markets

**Mr. Rodolphe Atallah**
Assistant General Manager
Head of Operations development

**Mr. Samir Tawilé**
Senior Manager
Head of International Banking Division

**Mrs. Dolly Merhy**
Senior Manager
Head of Accounting & Finance

**Mrs. Tania Tayah**
Senior Manager
Head of Risk Management

**Dr. Imad Hasbani**
Deputy Senior Manager
Deputy Head of Risk Management

**Mr. Habib Lahoud**
Senior Manager
Head of Retail Banking Division

**Mr. Ghassan El Rayess**
Deputy Senior Manager
Head of Corporate Banking

**Mr. Khalil Salameh**
Manager
Head of Human Resources

**Mr. Elias El Khazen**
Manager
Head of Internal Audit

**Mr.Walid El Helou**
Manager
Operational Development

**Mr. Karim Habib**
Manager
Head of Financial Control

**Mr. Antoine Achkar**
Manager
Head of Recovery Department

**Mr. Joe Boustany**
Manager
Head of Compliance Unit

**Mr. Salim Jabaji**
Advisor - Information Technology

**Mr. Elie Hlayel**
Head of Information Technology

**Mr. Esber Wehbé**
Head of Information Security

**Mr. Habib Abou Merhi**
Head of Operations – Trade Finance

**Mr. Charbel Eid**
Head of Organization and methods

**Miss Ishtar Zulfa**
Manager
Head of Erbil branch
Iraq

**Mr. Michel Assaf**
Manager
Head of Baghdad branch
Iraq

**Mrs Ghada Christofides**
Manager
Head of Limassol branch
Cyprus

## IBL INVESTMENT BANK SAL

### BOARD OF DIRECTORS (Elected on January 5, 2011)

**Mr. Salim Habib**
Chairman General Manager

**Mr. Kamal Abi Ghosn**
Member of the Board

**IBL Bank sal**
Member of the Board
Represented by Mr. Karim Habib

**Me Ziad Fakhoury**
Secretary of the Board

### GENERAL MANAGEMENT

**Mr. Salim Habib**
Chairman General Manager

**Mr. William George**
Deputy General Manager

**Mr. Moussa El Kari**
Manager
Head of Private Banking

**Mr. Jimmy El Azar**
Manager
Head of Asset Management

### LEGAL ADVISORS AND AUDITORS

**Fakhoury & Fakhoury Law Firm**
**(Chawki Fakhoury & Associates)**
**Me. Ziad Fakhoury**
Legal Advisor - Lebanon

**Cabinet Abou Sleiman and Partners**
**Me Randa Abou Sleiman**
Legal Advisor

**MM. Deloitte & Touche**
External Auditors

**MM. DFK Fiduciaire du Moyen-Orient**
External Auditors

The Bank operates through a number of committees, set up with clear missions, authorities and responsibilities, as follows:

## AUDIT COMMITTEE (BOARD OF DIRECTORS COMMITTEE)

The Audit Committee is a Board Committee composed of three members of the Board of Directors. It ensures the existence and the regular enhancement of an adequate system of internal controls.

It reinforces the internal and the external audit and ensures the compliance with International Auditing Standards. It reviews all the audit activity reports and discusses the significant recommendations and management plans for their implementation. It revaluates and recommends improvements on the measurement system for assessing the various risks of the Bank.

The Audit Committee reviews also the Bank's contingency plan and ensures the implementation of the operational risk management framework.

## RISK COMMITTEE (BOARD OF DIRECTORS COMMITTEE)

The Risk Committee's objective is to assist IBL Board of Directors in implementing the BOD mission such as planning the risk profile, setting the risk appetite and tolerance, approving and reviewing the risk framework and policies, reviewing the risk reports and overseeing the development of the risk function within the Group.
The Committee is composed of one executive member of the Board of Directors and two non-executive members. The Head of Risk Management will act as coordinator and assist the Committee in planning and organizing its work.

The Committee recommends to the Board the parameters of the Bank's risk management framework in line with the Committee's objective set above.

## MANAGEMENT COMMITTEE

The Management Committee acts as an advisory body to the Chairman General Manager on all issues relating to the Bank's general policies.

The Management Committee meets a least once a month. It ensures the day-to-day management of the Bank according to prevailing laws, rules, regulations, best practices as well as the effective management of operational risks arising from inadequate or failed internal processes, people and systems or from external events.

It proposes to the Board of Directors the Bank's medium and long-term goals and strategies, and the business plan for achieving these goals, and recommends the improvement of the Bank's organization structure in case of need.

## ASSET-LIABILITY COMMITTEE (ALCO)

The ALCO is responsible for setting up and supervising the implementation of an asset-liability management policy, which the Treasury is responsible for executing.

ALCO's primary objective is to oversee the management of the balance sheet structure and liquidity, monitor the market risk levels, analyze the Bank's financial ratios and the reports on the sources and utilizations of funds, and maximize income from interest spread and trading activity within the approved risk and gap parameters. The ALCO is also responsible for assessing market conditions according to economic and political developments.

## SENIOR CREDIT COMMITTEE

The Senior Credit Committee sets up the framework for credit risks, economic sectors distributions, classification and provisioning policies, subject to the Board of Directors approval.

It is in charge of studying credit applications that exceed the limits of the Junior Credit Committee, loans to financial institutions, recovery processes and credit products proposals.

In addition, this committee has for responsibilities to review and take decisions on cases handed over by the commercial banking department (SME, Corporate, Retail) or the recovery department, and follow up on cases handed over to the Legal Department, recommend actions on cases, approve settlements, and propose adequate provisions.

## JUNIOR CREDIT COMMITTEE

The Junior Credit Committee evaluates and approves all corporate and commercial loans and facilities with a tenor not exceeding one year provided that they comply with the credit strategy approved by the Board of Directors and provided that the aggregate total cumulative secured and clean facilities granted to one client or group of interrelated names through commercial association and/or through common ownership/management control do not exceed USD 400,000.

## RETAIL CREDIT COMMITTEE

The role of the Retail Credit Committee is to approve all consumer loans that are not within the products criteria or are exceeding the head of retail limit up to a predefined limit set for each product.

It is also responsible for following-up on relevant granted loans and facilities, reviewing and approving amendments, renewals and cancellations of respective loans and facilities.

## COMPLIANCE COMMITTEE

The Compliance Committee is responsible for checking the proper execution as well as the effectiveness of procedures and systems adopted for Fighting Money Laundering and Terrorist Financing.

It reviews and updates these procedures, on a regular basis, according to latest applied approaches

## IT SECURITY COMMITTEE

The IT Security Committee is responsible for the human security within the Bank's premises. It works together with the Internal Audit department to make sure all IT security rules are well applied.

It implements and monitors security plans and applies the used norms to ensure the correct distribution of tasks among employees.

It monitors also the IT security systems and rules as well as the emergency plans. It deals with any security breach and takes appropriate measures to avoid facing it another time.

## IT COMMITTEE

The mission of the IT committee is to set the IT strategy.

It should establish and apply a structured approach regarding the long-range planning process, which should take into account risk assessment results, including business, environmental technology and human resources risks.

## PROCUREMENT COMMITTEE

The role of the Procurement Committee is to validate purchasing procedures; Tenders, rules and conditions of settlement, study annual budgets of material resources as fixed assets and general expenses and make recommendations to the Management Committee.

## ORGANIZATION AND METHODS COMMITTEE

The role of the Organization and Methods Committee is to review the process modeling and to settle on the right solutions.

It suggests the policies and procedures to be applied, optimizes the organization of the Bank, and simplifies the procedures with respect to delegations and formal controls, and reviews the structures with the new technologies and products introduced by the Bank.

## FOLLOW-UP COMMITTEE FOR SUBSIDIARIES ABROAD:

The Follow-up Committee for Subsidiaries Abroad undertakes all tasks mentioned in Central Bank basic circular No. 110 dated August 16, 2007 in order to examine closely the abroad activities of the group, including but not limited to management, strategy, performance, results and risks levels.

## CHANGE MANAGEMENT COMMITTEE

The Change Management Committee has been formed to review, advice and document the proposed changes required by the IT Security Committee on IBL IT infrastructure including hardware, software and banking applications,and to report its decisions and activities to the General Management.

The Bank has been actively building up its domestic franchise in the last few years, as reflected by the significant rise in total assets and deposits.

The Bank's principal activities are divided into three major areas: Retail Banking; Commercial Banking and Trade finance; Treasury and Capital Market Operations.

## RETAIL BANKING

The Bank's management believes that retail banking is an efficient way to diversify earnings and risk, as well as a mean to consolidate its relationship with all its customers, and consequently emphasizes and focuses on this business line. The retail department has been consistently empowered with Human Capital and has been introducing new products ranging from bancassurance to retail loans to deposits programs, which are regarded as less risky and high yielding.

In keeping with this strategy, our number of ATMs across the country has reached 27 and 5 abroad. Our branch network likewise grew in 2011 to reach 19 local branches, a branch in Limassol, Cyprus, 2 branches in Iraq, one in Erbil and one in Baghdad.

## COMMERCIAL BANKING AND TRADE FINANCE

The Bank provides its clients with a full range of commercial banking services and products, in addition to trade finance services through its network of international correspondent banks. The Bank's loans are mainly granted in Foreign Currency, and are denominated predominantly in US Dollars, having either a maturity of up to one year with the possibility of renewal, or term loans with generally an interest re-pricing period of 1 year.

## TREASURY AND CAPITAL MARKETS OPERATIONS

The Bank's Treasury operations consist of managing and placing the Bank's liquidity. The Treasury department invests those funds with prime international banks as well as with the Central Bank of Lebanon and other Lebanese banks. The Bank, in the course of its activity on the Lebanese interbank market, defines individual limits per bank, and deals only with prime banks. The Bank provides its customers with securities brokerage and trading activities.



Management of risk is fundamental to the financial soundness and integrity of the Bank. All risks taken must be identified, measured, monitored and managed within a comprehensive risk management framework.

The following key principles support our approach to risk and capital management:

– The Board of Directors has the overall responsibility of determining the type of business and the level of risk appetite that the Bank is willing to undertake in achieving its objectives.
– Up-to-date policies, procedures, processes and systems to allow the execution of effective risk management.
– The relevant committees' structure enhances the approval and review of actions taken to manage risk.

The Risk Management Division proposes and reviews the overall risk policy of the Bank in anticipation of, and in compliance with, regulatory and international standards. It is responsible of monitoring and controlling all types of risk on a regular basis while the business units are responsible for the continuous management of their risk exposures in order to ensure that the risks are within the specified and acceptable limits.

The Risk Management Division is independent of other business units in the Bank which are involved in risk taking activities. It reports directly to the Chairman General Manager and the Board Risk Committee. As such, it contributes to the growth and profitability of the Bank by ensuring that the risk management framework in place is both sound and effective and complies with the Board's directives.

The Board Risk Committee (BRC) has responsibility for ensuring that an appropriate risk management framework is in place. The BRC receives regular reports on risk management, stress testing, liquidity and capital adequacy. It also approves significant changes to Risk Management policies and Framework.

The Bank's risk management processes distinguish among four kinds of specific risks: credit risk, market risk, liquidity risk and operational risk.

## A. CREDIT RISK MANAGEMENT

Credit Risk is the risk that arises from the inability of the borrowers or counterparties to meet their contractual commitments. We distinguish among three kinds of credit risk: Default Risk, Country Risk and Settlement Risk.

Various factors may affect the ability of borrowers to repay loans in full and many circumstances may affect the Bank's ability to resolve non-performing loans. As a result, actual losses incurred in a problem loan recovery process may also affect the Bank's capital adequacy.

The Board of Directors, the Board Risk Committee and the Senior Credit Committee define the credit risk strategy of the Bank and approve both policy changes as well as other enhancements to the credit risk management framework.

The objective of the Bank's credit risk strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. This strategy is based on three core principles: conservatism, diversification and monitoring.

The Bank has set up clear processes for credit approval that include credit policies and procedures with clear credit concentration limits, approval limits depending on the size of business and/or the size of the credit line as well as credit risk mitigation techniques. Commercial and Corporate lending are largely centralized at Head Office and sanctioned by a Senior and a Junior credit committee depending on the exposure.

The Bank exercises, through the Credit Administration Department, an ongoing review and control of extended credit facilities and their respective guarantees. Regular monitoring and surveillance of the accounts are performed by the account officers.

## B. MARKET RISK MANAGEMENT

Market Risk is the risk of loss resulting from changes in market prices and interest rates, from the correlations between these elements and from their volatility.

The Bank manages market risk through its Market Risk Management framework that specifies the global activity and individual limits, together with, but not limited to, stress testing and scenario analysis.

The Asset/Liability Committee (ALCO) manages interest rate risk, which results from mismatches or gaps in the amounts of its assets and liabilities that mature or re-price within a given period, by matching the re-pricing of assets and liabilities.

## C. LIQUIDITY RISK MANAGEMENT

Liquidity Risk is the risk to the Bank's earnings or capital arising from its inability to meet its financial obligations as they fall due, without incurring significant costs or losses. Liquidity is managed to address known as well as unanticipated cash funding needs.

The Bank maintains sufficient liquidity to fund its day-to-day operations, meet deposits withdrawals and loan disbursement, participations in new investments and repayment of borrowings.
Liquidity Management within the Bank focuses on both overall balance sheet structure and the control within prudent limits of risk arising from the mismatch of maturities across the balance sheet and from contingent obligations.

## D. OPERATIONAL RISK MANAGEMENT

By operational risk, the Bank refers to the potential of incurring losses in relation to procedures, human error, internal systems or external events, including events with a low probability of occurrence but a high level of risk. Under this definition, operational risk also includes legal risk but excludes strategic and reputational risks.

The Bank manages its operational risk based on a consistent framework that enables it to determine its operational risk profile in comparison to its risk appetite and to define risk mitigating measures and priorities.

Operational risk management forms part of the day-to-day responsibilities of management at all levels. Qualitative and quantitative methodologies and tools are applied to identify and assess operational risks and to provide management with information for determining appropriate mitigating measures.

The tools used in operational risk management are being finalized and include:

– a loss database of operational risk events categorised according to the Basel II business lines and operational risk event types;
– a risk and control self-assessment process (RCSA) to analyse business activities and identify operational risks that could affect the achievement of business objectives and
– key risk indicators (KRIs) which are used to manage operational risk on an ongoing basis. KRIs contribute to an assessment of the operational risk profile. The main purpose is to assist management by providing an early-warning indicator of potential risk exposures and/or a potential breakdown of controls.

## E. STRESS TESTING AND ICAAP

IBL Bank complements its regular standardized risk reporting process with stress tests. Stress tests are used to check whether the Bank can withstand specific negative events or economic changes. They examine the effect of possible unfavourable events on the capital and liquidity position of the Bank and provide insight on the vulnerability of the business lines and the portfolios.

Stress tests are part of the ICAAP and an important tool for analysing the Bank's risk profile.
The ICAAP is based on the level of risks the Bank is prepared to take in order to realise its strategic objectives, or its risk appetite. The risk appetite indicates the maximum risk that the Bank considers acceptable to implement its business strategy in order to protect itself against events that could have an adverse effect on profitability and capital.

Stress tests are also part of the capital planning process. Stress testing may reveal a reduction in surplus capital or a shortfall in capital under specific scenarios.
This may then serve as a leading indicator to the Bank's Board to raise additional capital, reduce capital outflows, adjust the capital structure and/or reduce its risk appetite.

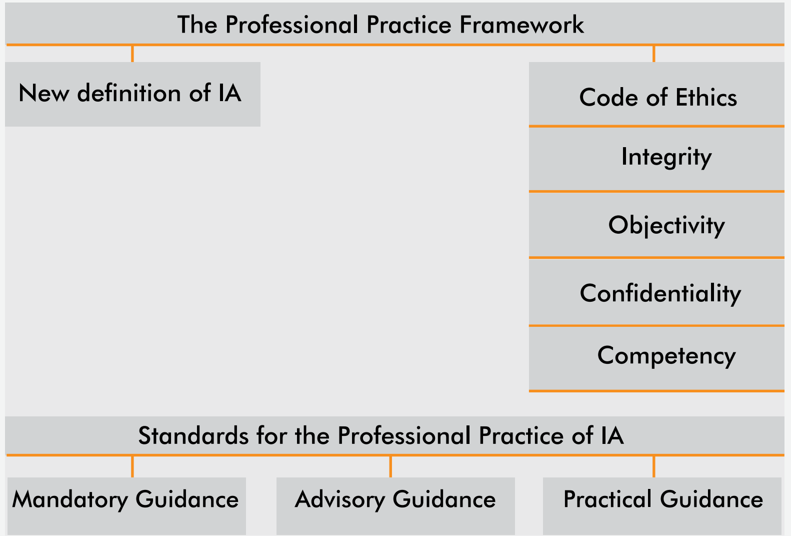
## CAPITAL ADEQUACY RISK MANAGEMENT

Capital Adequacy Risk is the risk that the Bank may not have enough capital and reserves to conduct normal business or to absorb unexpected losses arising from market, credit and operational risk factors.

The Bank's policy aims to ensure that it maintains an adequate level of capital to support growth strategies and to meet market expectations and regulatory requirements.

Under Basle 2 and as at December 31, 2011 IBL maintains a ratio of 11.74%, way above the notional 8% set by Basle.

# INTERNAL AUDIT




Internal auditing is a profession and activity involved in helping the bank achieve its stated objectives using a systematic methodology for analyzing business processes, procedures and activities with the goal of highlighting organizational problems and recommending solutions. Internal auditing frequently involves measuring compliance with the entity's policies and procedures.

The internal audit activity evaluates risk exposures relating to the organization's governance, operations and information systems, in relation to:

- Effectiveness and efficiency of operations.
- Reliability of financial reporting.
- Safeguarding of assets.
- Compliance with laws, regulations, and contracts.

## INTERNAL AUDIT FUNCTION

Internal Auditing is an independent objective assurance and consulting activity designed to add value and improve IBL's operations. It helps IBL accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

## CHARACTERISTICS USED BY THE INTERNAL AUDIT DEPARTMENT

- Clear objectives and enterprise-wide authority for its activities.
- Objective & independent performance of its responsibilities.
- Proper follow up with management on action taken in response to audit findings and recommendations.

## ROLE OF INTERNAL AUDIT

The role of internal auditing includes the review of the accounting system and related internal controls, monitoring their operations and recommending improvements. It also generally includes a review of the means used to identify, measure, and report financial and operating information and specific inquiry into individual items detailed testing of transactions, balances and procedures.

The Internal Audit role has extended beyond financial controls, playing a more prominent and proactive role in non-financial reporting, risk management, & corporate governance.


## INTERNAL AUDIT RESPONSIBILITIES

- Evaluates and provides reasonable assurance that risk management, control, and governance systems are functioning as intended and will enable the Bank's objectives and goals to be met.
- Reports risk management issues and internal controls deficiencies identified directly to the audit committee and provides recommendations for improving the Bank's operations, in terms of both efficient and effective performance
- Evaluates information security and associated risk exposures
- Maintains open communication with the management and the audit committee

## RISK BASED INTERNAL AUDITING

It is a methodology that links internal auditing to the bank's overall risk management framework. This allows the internal audit activity to provide assurance to the board that risk management processes are managing risks effectively, in relation to the risk appetite.

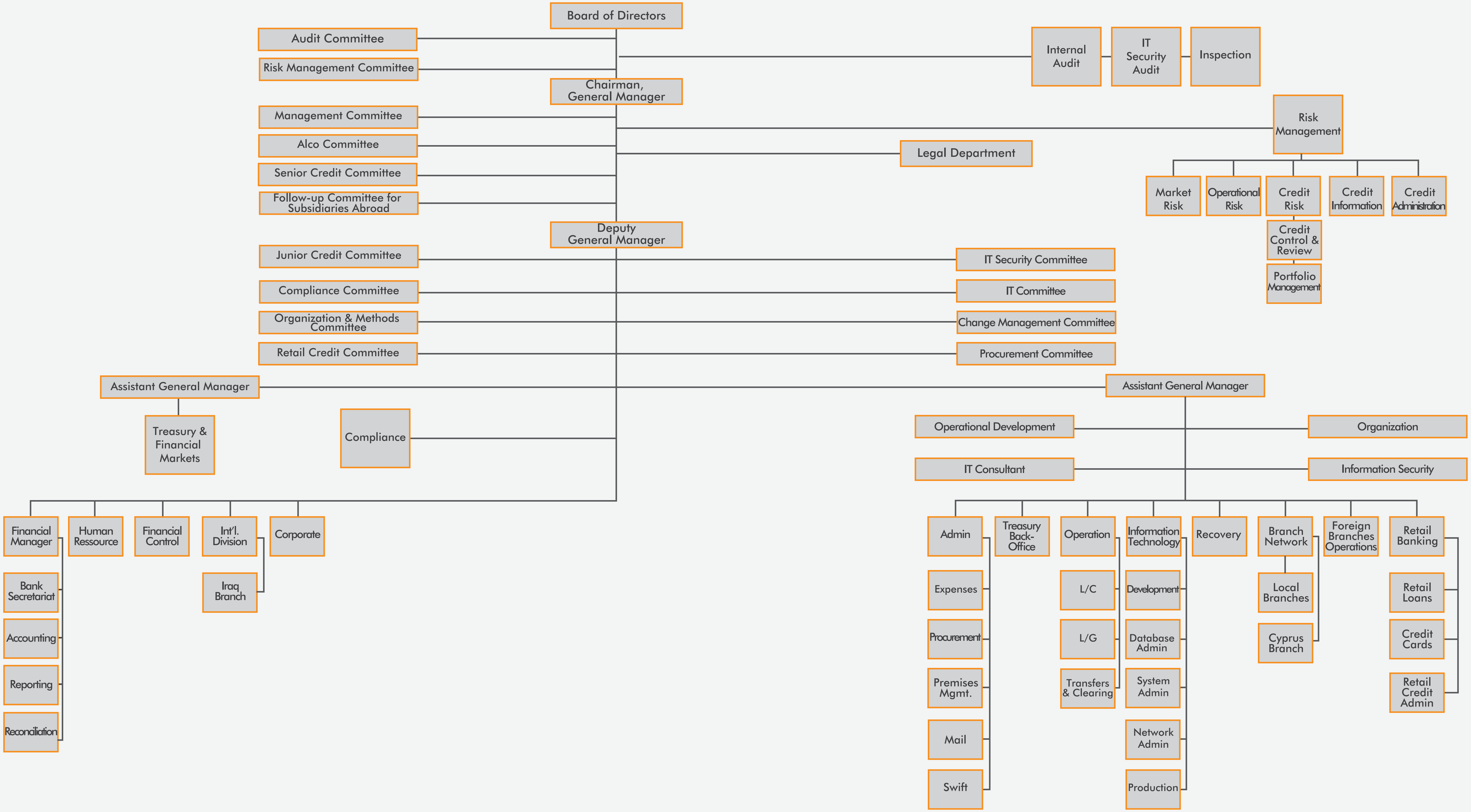

## AUDIT COMMITTEE

Relationship between Internal Audit and Audit Committee:

The audit committee of the Board of Directors and the internal auditors are interdependent and mutually accessible, with the internal auditors providing objective opinions, information, support; and the audit committee providing validation and oversight to the internal auditors.

The internal audits provide to the audit committee objective assessment on the state of IBL's risk, control, governance, and monitoring activities.

# ORGANIZATIONAL CHART



The Bank's strategy of continuous growth not only quantitatively but also qualitatively is reflected in the following milestones:

**Issuance of the Series 2 Preferred Shares:** IBL has successfully issued 500,000 preferred shares at US$ 100 per share in September 2011, for a total value of US $ 50 Million. This issue was highly oversubscribed, while the window for subscriptions was only 2 weeks. The success of IBL Bank Series 2 preferred shares issuance, underlines the strong trust and confidence in IBL Bank.

**Green Loans Financing:** In line with the Bank's vision to be active in supporting "Sustainable Development", IBL Bank was the first bank to benefit from the NEEREA fund (National Energy Efficiency and Renewable Energy Action) and finance the first Green Building in Lebanon with Gold LEED Certification.

**UNDP – LCEC – IBL Bank Partnership:** IBL Bank was selected amongst all Lebanese banks by the UNDP (United Nations Development Program) and the LCEC (Lebanese Center for Energy Conservation) to be their partner bank. As such we signed a tripartite agreement whereby a grant by the UNDP will be used to guarantee NEEREA compliant loans granted by IBL Bank.

**Champville Basket-Ball Team:** We continued our Social involvement in 2011 by the sponsoring of sports and young talents with our support of the Champville Basket-Ball Team who has recently won the highly competitive and most loved and watched sport event in Lebanon: the Basket-Ball Championship.

**Livret i:** IBL has introduced to the market an innovative deposit program, where the holder of the Livret I benefits from an interest rate net of taxes, which remains unchanged if there is a variation in the taxation rate on interests.

**Byblos Festival:** Our commitment in favor of cultural, artistic and touristic events, is a continuing tradition which stems from our aspiration to offer our support to affirm the cultural vocation of Lebanon. IBL Bank continued to be the main sponsor of Byblos International Festival, who is seen as the most renowned and respected Cultural Festival not only in Lebanon but also in the Middle-East.

Finally, during this year, we have continued to invest in Human Capital, as we are convinced that it is the most important form of Capital. Indeed, 2011 was rich in investments in training and the recruitment of new talents as we make sure to manage our Human Resources in the most effective and efficient manner. Consequently, given our emphasis on staff professional development, over 188 managers and staff, assisted to 68 different external seminars throughout the year in Lebanon and abroad, not counting the continuous internal effort of training and skills enhancement of our staff.

# COMPLIANCE & AML

- Compliance has become core to conduct banking business within a multifaceted risk environment. In order to counter the multitude of threats encountered daily by the Bank, the Compliance Department has developed a strict body of Compliance doctrines and rules of good conduct that meet with the highest professional, local and international standard that are applied by every staff member in The Bank.

- The mission of the Compliance Department is to advice the Management of the Bank, in all issues related to AML & CFT, and Regulatory compliance, in order to prevent any regulatory sanctions, material financial losses, threat to reputation.

- Since AML & CFT have always been a key consideration to IBL Bank, continuous efforts and investments are undergone to ensure that the bank remains ahead of the curve in terms of internal controls for this purpose:

• The Compliance Department conducts regular reviews and updates of procedures to ensure that its compliance program remains appropriate to both local regulatory requirements and international standards.

• The Compliance Department worked as previous year on the implementation of the latest version, of automated systems, as the AML Reporter, for screening and monitoring of all Banking transactions, and the DNFS (Designated Names Filtering System) for the filtering of all account opening and entities.

• The Compliance Department installed an automated solution, interfacing between the core banking system and the swift system that allows to filter and screen all swift messages, regarding entities and countries, this control is applied both on the operation department and compliance department level.

• The Bank continuously provides appropriate managers and staff with additional specialized training, especially with our Regulatory Body the SIC (Special Investigation Commission) at the Central Bank of Lebanon.

# Byblos International Festival 2012 is held with the support of IBL Bank













In a natural strive to support our rich heritage, art and culture, and to raise the name of our country higher, IBL Bank is proud to be the official sponsor of the 2012 Byblos International Festival for the third year in a row.
During the whole period of the festival, IBL Bank welcomed its guests in its classy lounge overlooking the magnificent bay of Byblos, with drinks and bites on the house.
Moreover, IBL hostesses circulated in the busy roads of the city distributing "IBL en fête" cards, which offered various interesting packages and banking products full of interest!
With an impressive eclectic program in the enchanting venue of Byblos, everyone who attended the shows this year left with a festive heart and a dreamful head!



**IBL Bank, where your dreams count**



## Iraqi Training Sessions

Within the framework of its constant support to the Iraqi banking industry, IBL Bank s.a.l has continued during 2011 and 2012 in extending training sessions in trade finance to many Iraqi banks' Staff at the premises of its Training Center at the Head Office in Beirut. This picture illustrates the Senior staff of Rafidain Bank who have followed satisfactorily an extensive training session (2 weeks) at IBL Bank with the Chairman and General Manager awarding each of them an official certificate with his congratulations.

## The Champville Basketball Team

The Champville Basketball Team, with the support of IBL Bank, wins the Lebanese basketball cup.

IBL Bank continued its social involvement by the sponsoring of sports and young talents with its support of the Champville Basket Ball team who has won the highly competitive and most loved and watched sports event in Lebanon: The Basket Ball Championship - Antoine Choueiri Cup

The players received the cup from Mrs. Choueiri who congratulated them for their good play.

IBL Bank, the official partner of the Champville Club, wishes to congratulate them for this well deserved victory, wishing them a bright future full of success.

## Night of The Adeaters


Official sponsor of this cultural event for the 3rd year in a row, IBL Bank offered every adeater the chance to be the star on the cover of its catalog, portraying the new selling line of the bank "Where your dreams count".

The picture was printed instantly and handed to the adeater to take home as a souvenir of the memorable evening!

## Our Annual Gala Dinner

On 21/12/2011, IBL Bank organized its annual gala dinner to celebrate with all of its employees and shareholders in a festive atmosphere at The Phoenicia Intercontinental Hotel.

The celebration included the distribution of two gold ounces to congratulate Miss Aurore Daher and Mr. Assad Obeid for achieving the most sales, becoming our Top employees for 2011.

A draw was held to select the lucky winners of our prizes, including two round-trip tickets to Turkey, 10 chouhadaouna cards and a dinner invitation for 4 at Mosaic restaurant.

The shareholders then gathered to cut the "50 Years of Excellence" cake!

## Opening of Our New Branch in JNAH

In 2012, one of the new destinations witnessing the inauguration of a new IBL Bank branch is the region of Jnah, opening until 17 h to cater the needs of our customers.

Jnah is one of the luxurious residential districts of our Capital. Its name literally means "wings" due to its location along the southern border of Beirut, extending eastward from the sea to the Sport City inland.

Jnah branch is an architectural jewel showcasing the new IBL Bank branches' design signed by the internationally recognized architect Mr. Jean-Louis Mainguy.


JNAH Branch

## Launching of Livret i

IBL Bank launched a new saving account: The Livret i, a term savings account with passbook, where our customers benefit from an interest rate net of taxes and which remains unchanged if there is a variation in the taxation rate on interests.

- Blocking Period: 1 year
- Frequency of interest: 1 month
- Currency: USD or LBP or Euro
- Minimum deposit: USD 1,000 or its equivalent
- Maximum deposit: USD 50,000 or its equivalent
- Possibility of increasing the deposit during the blocking period, until reaching the maximum deposit of USD 50,000.

... and other interesting advantages!



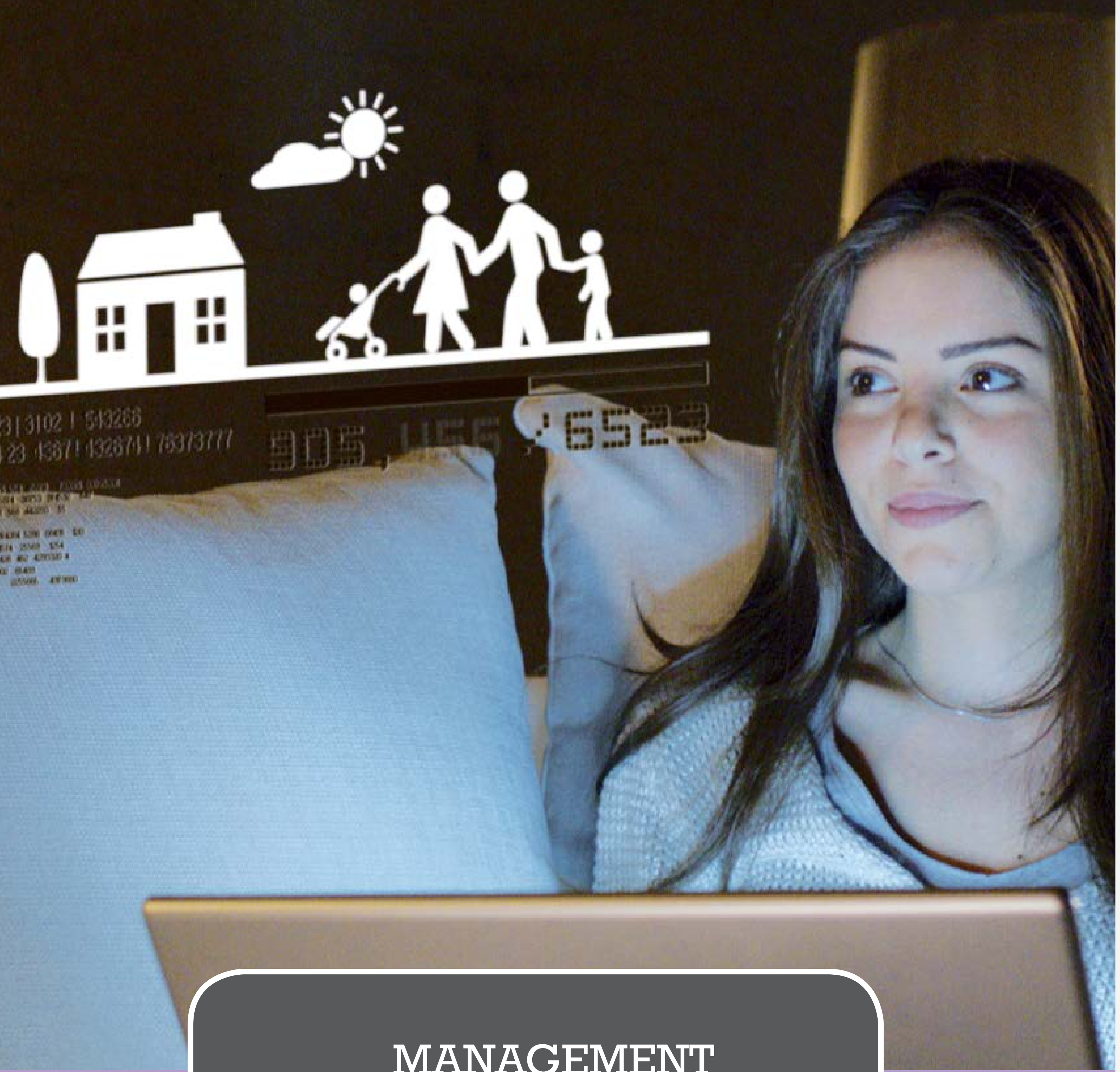
## Partnership With UNDP

Protecting the environment is a global challenge that requires global solutions. Our mission at IBL Bank is to make a positive change in our local community by contributing in preserving the dream of a green Lebanon.

Therefore, on the 13th of September 2012, and during the Beirut Energy Forum, IBL Bank signed an agreement with the UNDP for an active collaboration aiming at financing Green Projects. IBL Bank is the only Lebanese bank that was selected by the UNDP for a fruitful collaboration.

Through IBL Bank's ongoing care for nature, you can rely on our support along with our strong collaboration with the United Nations Development Programme, to realize your eco-friendly projects.

# MANAGEMENT ANALYSIS



# MANAGEMENT ANALYSIS

IBL BANK

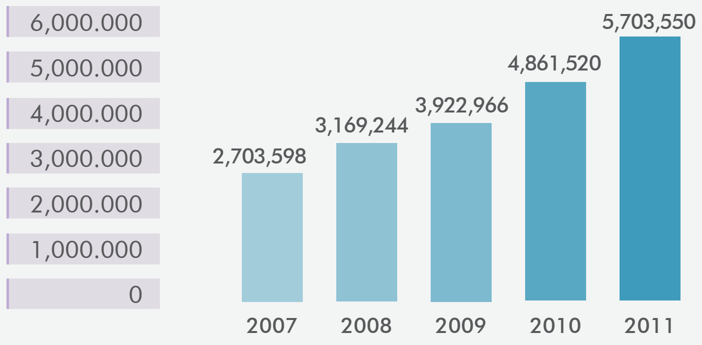
## Key Figures

| | 31 December ( In Millions of LBP) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | % GROWTH 2010/2011 | 2010 | % GROWTH 2009/2010 | 2009 | % GROWTH 2008/2009 | 2008 | % GROWTH 2007/2008 | 2007 |
| Total Assets | 5, 703, 550 | 17.32 | 4, 861, 520 | 23.92 | 3, 922, 966 | 23.78 | 3, 169, 244 | 17.22 | 2,703,598 |
| Customer Deposits | 5, 192, 853 | 17.53 | 4,418,332 | 24.83 | 3,539,377 | 24.11 | 2,851,705 | 17.96 | 2,417,615 |
| Shareholders' Equity | 402, 971 | 22.20 | 329,767 | 13.44 | 290,707 | 21.77 | 238,742 | 40.52 | 169,893 |
| Loans & Advances to Customers & Related Parties | 945, 573 | 27.73 | 740,288 | 85.48 | 399.120 | -15.23 | 470.849 | 51.86 | 310,053 |
| Income for the Year | 61, 800 | 14.40 | 54.022 | 28.60 | 42,008 | 8.25 | 38,808 | 26.88 | 30.586 |
| Liquidity Ratio in LBP | 102.82% | | 105.97% | | 110,01% | | 111.49% | | 109.97% |
| Liquidity Ratio in FCY | 74.52% | | 74.28% | | 80,79% | | 71,26% | | 80.83% |
| Liquidity Ratio in LL & FCY | 87.04% | | 90.15% | | 95.32% | | 90.50% | | 92.81% |
| Return on Average Assets | 1.17% | | 1.23% | | 1.18% | | 1.32% | | 1.19% |
| Return on Average Equity | 16.84% | | 17.41% | | 18.73% | | 22.88% | | 23.47% |

- NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

# TOTAL ASSETS

| TOTAL ASSETS (In millions of LBP ) | | | | |
|---|---|---|---|---|
| 2007 | 2008 | 2009 | 2010 | 2011 |
| 2,703,598 | 3,169,244 | 3,922,966 | 4,861,520 | 5,703,550 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

As at 31 December 2011, IBL Bank's Group total assets reached LBP 5,703,550 million as compared to LBP 4,861,520 million as at 31 December 2010, reflecting a year-on-year increase of LBP 842,030 million meaning 17.32%, while the average growth in total assets in the Alpha Group of Lebanese Banks stood at 9% during the year 2011.

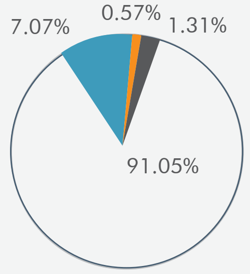
This increase in total assets was substantially fueled by increases in funding, which consisted primarily of customer deposits and shareholders' equity.

Regarding the structure of the Group's assets, it is worth noting that total assets denominated in foreign currencies increased to 53.85% at the end of December 2011, up from 49.23% at the end of December 2010, while total assets of branches abroad and those of IBL Investment Bank constituted respectively 2% and 3.6% of the total assets of the Group as at 31 December 2011.

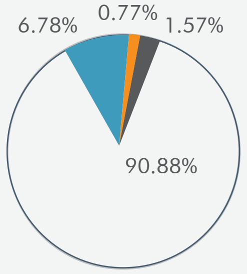
# SOURCES OF FUNDS

| BALANCE SHEET STRUCTURE - LIABILITIES IN % | END 2011 | END 2010 |
|---|---|---|
| Deposits and borrowings from banks | 1.31% | 1.57% |
| Customer's and related parties accounts at amortized cost | 91.05% | 90.88% |
| Shareholder's equity | 7.07% | 6.78% |
| Other liabilities | 0.57% | 0.77% |
| | 100.00% | 100.00% |

END 2011




END 2010




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

The Group's sources of funds are mainly customers' deposits, which represent the norm in the Lebanese banking industry. In fact, IBL Bank is structurally oriented towards deposits activity that is regarded as a stable source of funding and as a consequence the group's customers and related parties accounts represented as at 31 December 2011, 91.05% of total liabilities as compared to 90.88% as at 31 December 2010.

Other funding sources include the shareholders' equity (Tier I and Tier II) which constituted 7.07% of total liabilities as at 31 December 2011 as compared to 6.78% as at 31 December 2010. The share of deposits and borrowings from banks amounted to 1.31% as at 31 December 2011 down from 1.57% as at 31 December 2010.

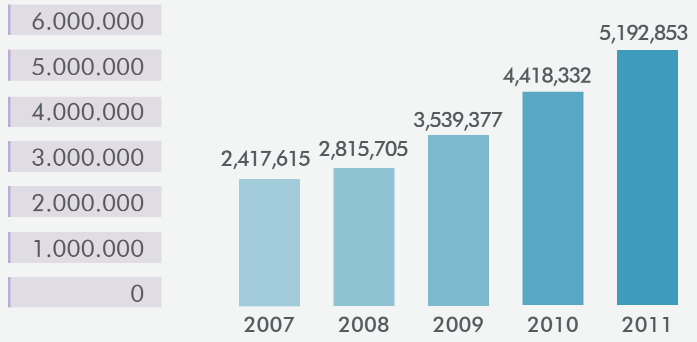
Interest-bearing liabilities as a share of total liabilities remained almost unchanged and represented 92.36% as at 31 December 2011 as compared to 92.45% as at 31 December 2010.

In absolute terms, interest bearing liabilities stood at LBP 5,267,425 million as at 31 December 2011 as compared to LBP 4,494,525 million as at December 2010, registering a growth of 17.20% over the year.

# CUSTOMERS' AND RELATED PARTIES ACCOUNTS AT AMORTIZED COST

CUSTOMERS' AND RELATED PARTIES ACCOUNTS AT AMORTIZED COST ( in millions of LBP)

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 2,417,615 | 2,851,705 | 3,539,377 | 4,418,332 | 5,192,853 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Customers' deposits recorded an increase of 17.53% during the year 2011 to reach LBP 5,192,853 million as at 31 December 2011 up from LBP 4,418,332 million as at 31 December 2010, outperforming the average growth in total deposits of the Lebanese Banking sector which stood at 7.9% during the year 2011. In fact, according to Bankdata, IBL Bank had the forth highest growth rate in terms of deposits in 2011, among the Alpha Group of banks.

Customers' deposits represent the principal source of funds of the Group and constitute 91.05% of the total assets as at 31 December 2011 as compared to 90.88% as at 31 December 2010.

Customers' deposits denominated in LBP represented 44.23% of total customers' deposits as at 31 December 2011 down from 49.10% as at 31 December 2010. As a consequence, foreign currencies share of total deposits, increased by the end of 2011 to 55.77% of total deposits as compared to 50.90% by the end of 2010, while the average dollarization rate of deposits in the Alpha Group reached 31% in December 2011.

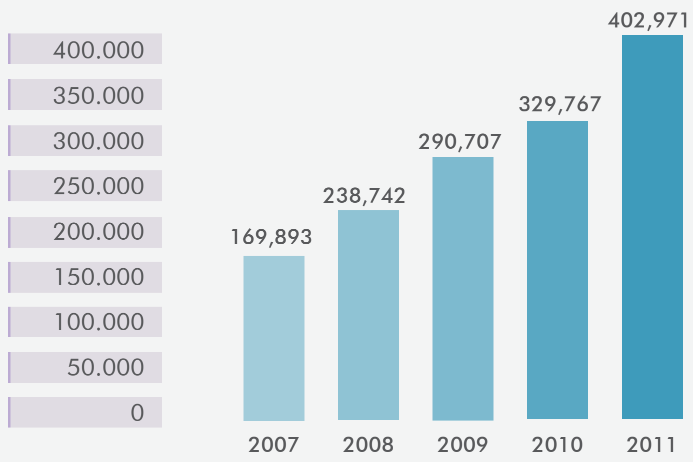
The composition of customers' deposits remained almost unchanged .They were comprised mostly of term deposits which consisted of 79.21% of total customers' deposits as at 31 December 2011 as compared to 80.67% as at 31 December 2010 . Demand deposits which earn the minimum interest rate offered by the Group, represented 10.90% as at 31 December 2011 as compared to 6.25% as at 31 December 2010.

The major part of the Bank's customers' deposits are short-term with deposits having a remaining maturity of less than One year representing 99.58% of total customers' deposits as at 31 December 2011 as compared to 99.69% as at 31 December 2010

# SHAREHOLDERS' EQUITY

SHAREHOLDERS' EQUITY (In millions of LBP)

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 169,893 | 238,742 | 290,707 | 329,767 | 402,971 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

As at 31 December 2011, shareholders' equity stood at LBP 402,971 million as compared to LBP 329,767 million as at 31 December 2010, reflecting a year-on-year increase of 22.20%. According to Bankdata, the bank was ranked first in 2011 in terms of shareholders' equity growth among its peers.

As a percentage of total assets, shareholders'equity represented 7.07% as at 31 December 2011 as compared to 6.78% as at 31 December 2010.

Tier I Capital which is the main source of equity comprises common shares Capital, preferred shares capital, preferred shares premium, legal reserves,retained earnings and general reserves. Tier I Capital increased by 31.50% to reach LBP 396,333 million as at 31 December 2011 up from LBP 301,387 million as at 31 December 2010.

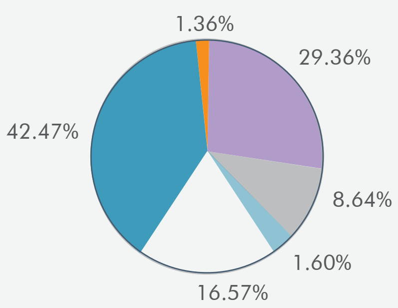
Tier I increase can be mainly attributed to retained earnings (undistributed profits) and to the redemption of IBL series 1 preferred shares for the aggregate amount of US$ 25,200,000 and the new issuance of IBL series 2 preferred shares for an aggregate amount of US$ 50,000,000.

Moreover, Tier II Capital decreased from LBP 28,380 million as at 31 December 2010 to LBP 6,630 million as at 31 December 2011. This decrease is mainly due to the early application of IFRS 9 starting 1 January 2011.

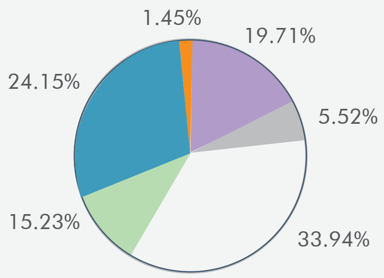
# USES OF FUNDS

| BALANCE SHEET STRUCTURE - ASSETS IN % | END 2011 | END 2010 |
|---|---|---|
| Cash and Central Banks | 29.36% | 19.71% |
| Deposits with Banks and Financial Institutions | 8.64% | 5.52% |
| Loans to Banks | 1.60% | 33.94% |
| Loans and Advances to customers and related parties | 16.57% | 15.23% |
| Investment Securities and Trading assets at FVTPL | 42.47% | 24.15% |
| Other Assets | 1.36% | 1.45% |
| | 100.00% | 100.00% |

END 2011




END 2010




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Within the overall uses of funds," cash and Central Banks" increased from 19.71% as at 31 December 2010 to 29.36% as at 31 December 2011. This was mainly due to the increase in term placememts with the Central Bank of Lebanon.

The share of "Deposits with Banks and Financial Institutions" to total assets increased also from 5.52% as at 31 December 2010 to 8.64% as at 31 December 2011.

The "loans to banks" in 2010 amounted to 33.94% of total assets. They were mainly constituted of certificates of deposit issued by the Central Bank of Lebanon and classified as loans and receivables. In 2011, and following the application of IFRS 9, this category was cancelled and the portfolio has been reclassified as either at amortized or fair value through profit or loss.
"Loans to banks" as at 31 December 2011 constituted 1.60% of total assets.

On the other hand, the share of "loans and advances to customers and related parties" to total assets increased from 15.23% as at 31 December 2010 to 16.57% as at 31 December 2011.

The Bank's "portfolio securities" constituted 42.47% of total assets as at 31 December 2011 up from 24.15% as at 31 December 2010.

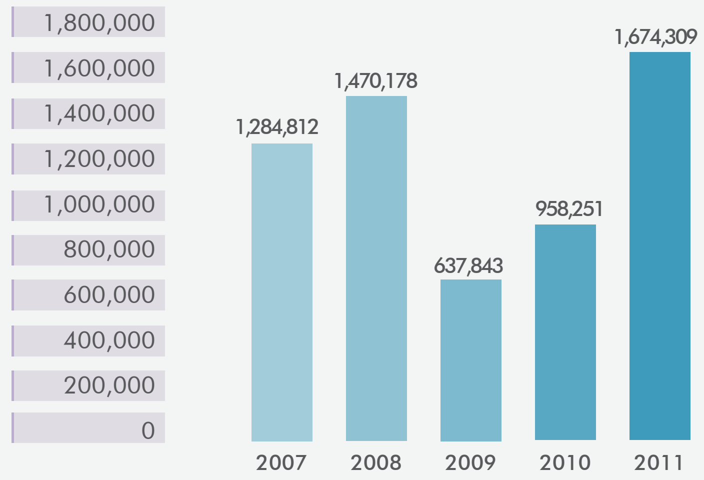
The portfolio includes "trading assets at Fair Value Through Profit or Loss" in a percentage of 14.92% of total portfolio and 6.34% of total assets.

Other assets" represented 1.36% of total assets as at 31 December 2011 as compared to 1.45% as at 31 December 2011. They are mainly constituted of "property and equipment" in a percentage of 55.87% of total "other assets" and "assets acquired in satisfaction of debts" in a percentage of 25.40% at the year ended December 2011 as compared to 47.73% and 23.90% respectively at the year ended December 2010.

Interest-earning assets represented 95.16% of total assets as at 31 December 2011 as compared to 92.97% as at 31 December 2010.

# CASH AND CENTRAL BANKS

| CASH AND CENTRAL BANKS (in millions of LBP) | | | | |
|---|---|---|---|---|
| 2007 | 2008 | 2009 | 2010 | 2011 |
| 1,284,812 | 1,470,178 | 637,843 | 958,251 | 1,674,309 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"CASH AND CENTRAL BANKS" ARE DISTRIBUTED AS FOLLOWS:

| | End of year 2011 | | End of year 2010 | |
|---|---|---|---|---|
| Cash on hand | 38,762 | 2.32% | 28,080 | 2.93% |
| Non-interest earning accounts | 198,668 | 11.86% | 271,079 | 28.29% |
| Interest earning accounts | 1,436,879 | 85.82% | 659,092 | 68.78% |
| | 1,674,309 | 100.00% | 958,251 | 100.00% |

As at 31 December 2011 "Cash and Central Banks" amounted to LBP 1,674,309 million and constituted 29.36% of total assets as compared to LBP 958,251 million and 19.71% as at 31 December 2010, reflecting a year-on-year increase of 74.73%.

Non-interest earning accounts constituted 11.86% of total "Cash and Central Banks" as at 31 December 2011 down from 28.29% as at 31 December 2010.

These accounts represent balances held by the Bank at the Central Bank of Lebanon in compliance with the obligatory reserve requirements for all banks operating in Lebanon on commitments in Lebanese Pounds calculated on the basis of 25% of sight and 15% on term commitments, in addition to the current account with the Central Bank of Kurdistan,Iraq. This decrease is the consequence of the incentives loan mechanism put in place by the Central Bank of Lebanon (BDL) allowing banks to use these obligatory reserves to finance certain sectors.

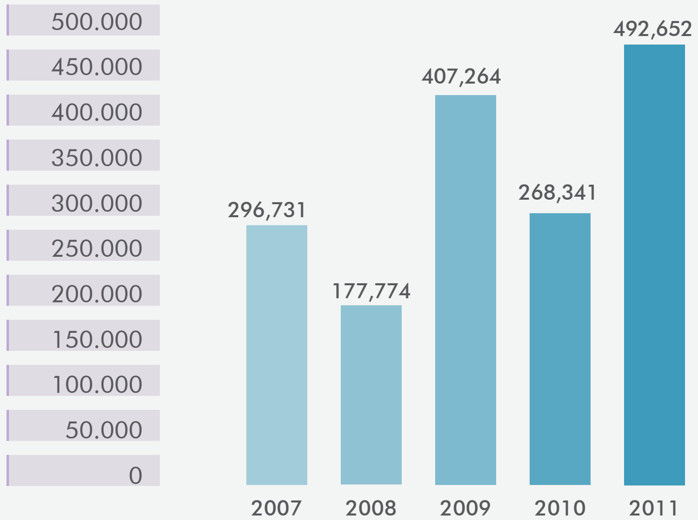
Interest earning accounts are constituted of term placements with the Central Bank of Lebanon that amounted to LBP 1,436,879 million and represented 85.82% of total "Cash and Central Banks" at the year end December 2011 as compared to LBP 659,092 million and 68.78% respectively at the year end December 2010.

Term placements also include the equivalent in foreign currencies of LBP 804 billion as at 31 December 2011 deposited in accordance with local banking regulations which require banks to maintain interest bearing reserves in foreign currency to the extent of 15% of customers' deposits in foreign currency.

# DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS (in millions of LBP)

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 296,731 | 177,774 | 407,264 | 268,341 | 492,652 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

"DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS " ARE DISTRIBUTED AS FOLLOWS:

| | End of year 2011 | | End of year 2010 | |
|---|---|---|---|---|
| Current accounts with Banks | 124.523 | 25.28% | 52.612 | 19.61% |
| Term placements with Banks | 368568 | 74.81% | 209.400 | 78.04% |
| Pledged deposits with Banks | 37 | 0.01% | 3.439 | 1.28% |
| Checks in course of collection | -521 | -0.11% | 2.849 | 1.06% |
| Accrued Interest | 45 | 0.01% | 41 | 0.01% |
| | 492.652 | 100.00% | 268.341 | 100.00% |

As at 31 December 2011, "deposits with banks and financial institutions" amounted to LBP 492,652 million and constituted 8.64% of total assets as compared to LBP 268,341 million and 5.52% as at 31 December 2010, reflecting a year-on-year increase of 83.59%.

As shown on the breakdown above, term placements constituted 74.81% of total "deposits with banks and financial institutions" as at 31 December 2011 down from 78.04% as at 31 December 2010.

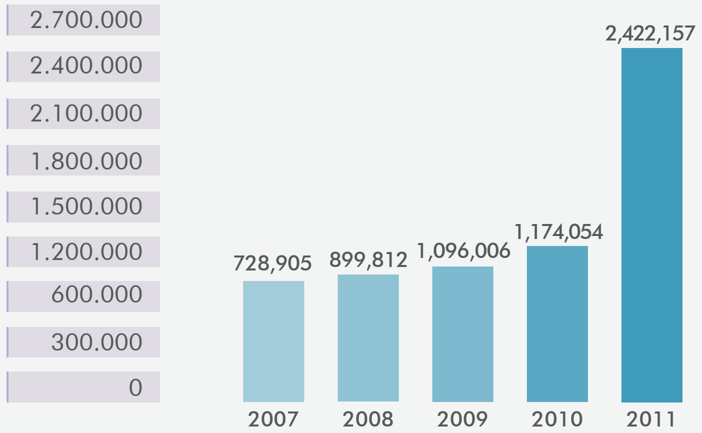
Pledged deposits in the amount of LBP 37 million as at 31 December 2011 include deposits subject to right to setoff by the related correspondents against banking facilities to finance documentary credit transactions.
Almost 100% of the current and term deposits are denominated in foreign currencies, and all the term and pledged deposits as at 31 December 2011 mature during the year 2012.

"Deposits with banks and financial institutions" are geographically distributed as follows: 1.95% in Lebanon and 98.05% in low risk countries mainly in Europe and the USA.

# INVESTMENT SECURITIES AND TRADING ASSETS AT FVTPL

INVESTMENT SECURITIES AND TRADING ASSETS AT FVTPL (In millions of LBP)

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 728,905 | 899,812 | 1,096,006 | 1,174,054 | 2,422,157 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

The Bank's securities portfolio represented 42.47% of total assets as at 31 December 2011 as compared to 24.15% as at 31 December 2010.

In compliance with circular 265 of the Lebanese Banking Control Commission, issued on September 2010, IBL bank 's Group adopted, effective 1st of January 2011, phase 1 of IFRS 9.

IFRS 9 introduced new classification and measurement requirements for financial assets and financial liabilities. It requires all financial assets related to debt securities to be classified and subsequently measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets.It also cancelled all previous categories under IAS 39, namely held for trading, available for sale, held to maturity, as well as financial assets classified as loans and receivables.

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

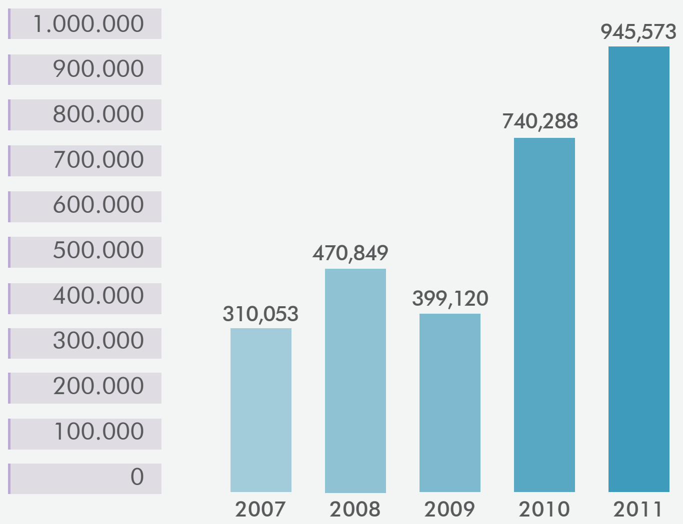
The currency composition of the total portfolio for the year 2011 is 64.62% in Lebanese Pounds and 35.38% in foreign Currency as compared to 35.39% in Lebanese Pounds and 64.61% in Foreign Currency for the year 2010.

The Lebanese government bonds as at 31 December 2011 amounted to LBP 620,104 million and constituted 25.60% of the total portfolio, whereas the certificates of deposit issued by the Central Bank of Lebanon constituted 73.96% .

## LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES

LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES( in millions of LBP)

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 310,053 | 470,849 | 399,120 | 740,288 | 945,573 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

As at 31 December 2011, the Group's "loans and advances to customers and related parties", net of provisions and unrealized interests for Non Performing Loans, amounted to LBP 945,573 million against LBP 740,288 million as at 31 December 2010, reflecting a year-on-year increase of 27.73%. According to Bank data, IBL Bank was ranked fourth in terms of loans and advances growth in 2011 among its peers.

The ratio of IBL Bank's total loans to total assets was 16.57% as at 31 December 2011 as compared to 15.23% as at 31 December 2010.

81.47% of total loans are denominated in foreign currency and mostly in US Dollars. The high dollarization of the Bank's loan portfolio is in line with market practice in the Lebanese banking sector, and reflects the state of the Lebanese economy for the past ten years.

In common with the Bank's peers , IBL adopts a conservative lending policy as a result of the current volatile environment in Lebanon and in order to maintain a high asset quality.

During 2011, IBL Bank continued to benefit from the Central Bank of Lebanon incentives to stimulate lending and economic growth by easing of reserve requirements.

The growth in the Group's loans portfolio reflected primarily the extention of housing loans to individuals and commercial facilities to SMEs, which are subsidised and guaranteed.

Loans-to-deposits ratio improved to 18.21% as at 31 December 2011 as compared to 16.75% as at 31 December 2010 as the increase of the Bank's loan portfolio was accompanied by a strong increase in deposits reflecting the Bank's policy to invest its growth into more liquid assets.

To support and reinforce the loans portfolio during the current economic conditions prevailing in the country, IBL Bank improved the level of provisions set against Non Performing Loans, increasing the provision charge from the amount of LBP 3,882 million for the year 2010 to LBP 5,233 million for the year 2011, before deduction of the write-back provisions.

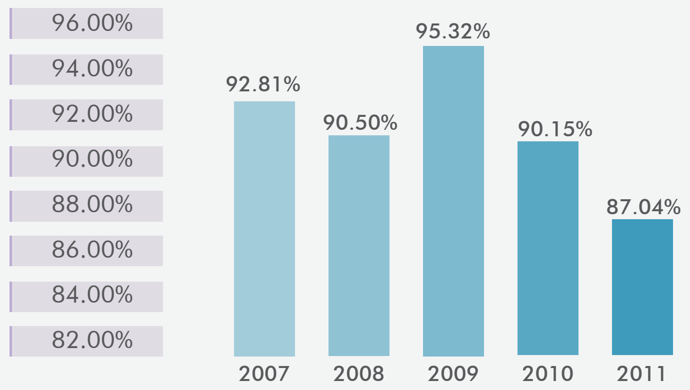
Provisions and unrealized interest for impaired loans including collective provisions increased to reach LBP 81,232 million as at 31 December 2011 as compared to LBP 78,582 as at 31 December 2010.

The major driver of this increase was the collective provisions that the Bank provided for during 2011 against any potential deterioration of the loan portfolio, as collective provisions increased by LBP 4,498 million to reach LBP 10,850 million at the end of 2011.

## LIQUIDITY RATIO

LIQUIDITY RATIO

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 92,81% | 90,50% | 95,32% | 90,15% | 87,04% |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

IBL Bank has successfully maintained ample liquidity in 2011 where overall liquidity stood at 87.04% as at 31 December 2011 as compared to 90.15% as at 31 December 2010.

As such, the Lebanese Pound liquidity ratio, including Lebanese Government treasury bills, was 102.82% reflecting an available liquidity covering Lebanese Pounds deposits in total.

Moreover, the liquidity ratio in foreign currencies accounted to 74.52% as at 31 December 2011 as compared to 74.28% as at 31 December 2010.

The liquidity position is assessed and managed under a variety of scenarios, giving the consideration to stress factors relating to both the market in general and specifically to the Group. IBL Bank's financial position structure is run in a way aimed at maintaining diversification and lowering concentration among different sources of funds.

Maturity mismatch between assets and liabilities which characterises the Lebanese Banking sector was also noticable in IBL Bank. This mismatch is considered as low risk, especially that maturing deposits do not actually materialize in cash outflows and are generally automatically renewed.

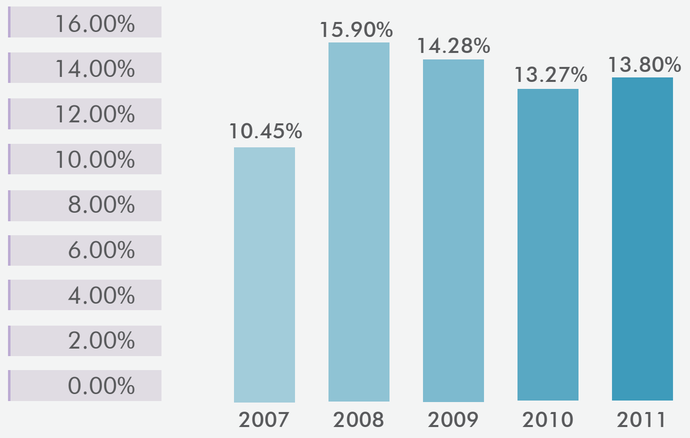
In 2011, the interest rate gap position was negative in the maturities from 0 to 3 months , and afterwards, the maturity gaps turned back positive for time brackets greater than 3 months.

The Alco (Assets and Liabilities Committee) manages the mismatches by maintaining strict liquidity criterias on investments and by following the behavior of deposits which have a proved track record of being recurring and core. All liquidity policies and procedures are subject to review and approval by Alco, the Board Risk Committee and ultimately the Board of Directors.

# CAPITAL ADEQUACY RATIO

CAPITAL ADEQUACY RATIO (BASEL II)

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 10.45% | 15.90% | 14.28% | 13.27% | 13.80% |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon, to safeguard the Group's ability to continue as a going concern, and to maintain a strong capital base.

During 2011, the Bank was required to observe the minimum capital adequacy ratio set by the Regulator at 8% based on the standardized approach rules of basel II accord.

IBL Bank's capital adequacy ratio under Basel II, calculated according to the Central Bank of Lebanon guidelines reached 13.80% as at 31 December 2011 as compared to 13.27% as at 31 December 2010. Total risk weighted assets amounted to LBP 2,937,130 million as at 31 December 2011 against LBP 2,217,030 million as at 31 December 2010, meaning an increase of 32.42%. This increase in primarily due to the Credit Risk, while operational risk and market risk charges went up to a lesser extend.

Credit risk constituted the largest proportion of risk weighted assets accounting for 87.02% of the total. This position is relatively affected by Lebanon's sovereign rating which impacts the risk weighting of foreign currency government securities held by the Bank.

The Central Bank of Lebanon has amended, in December 2011, the circular relating to regulatory capital definition for Capital Adequacy Ratio measurement to comply with Basel III requirements. Three Capital Adequacy Ratios were introduced and Lebanese Banks are required to abide progressively by the minimum set limits by end of 2015:

- Net Common Equity Tier I ( NCE T I) / Total risk weighted assets
- Tier I / Total risk weighted assets
- Total Capital Funds / Total risk weighted assets

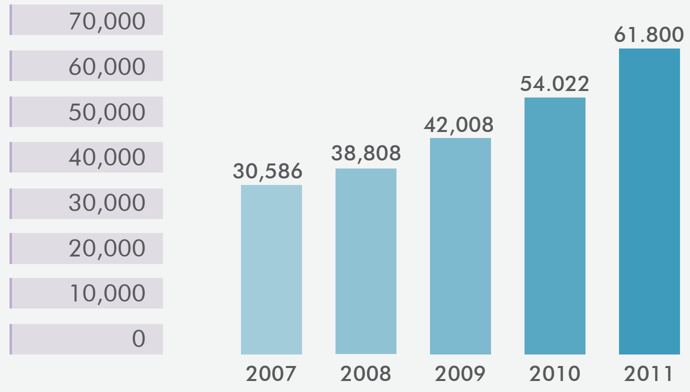
These ratios are calculated in accordance with the standardized Approach for credit risk, the Basic Indicator Approach for operational risk and the standardized measurement for market risk.
The Group is currently comfortably above the minimum requirements set for 2012.

# PROFITABILITY

PROFITABILITY (in millions of LBP)

NET INCOME FOR THE YEAR

| 2007 | 2008 | 2009 | 2010 | 2011 |
|---|---|---|---|---|
| 30,586 | 38,808 | 42,008 | 54,022 | 61,800 |




• NB: Comparative figures have been reclassified to comply with the presentation in the current financial statements

Net Income for the year 2011 amounted to LBP 61,800 million, recording an increase of 14.40% compared to LBP 54,022 million for the year 2010.

The year-on-year analysis reveals that the increase in consolidated earnings resulted from the increase in net financial revenues, after impairment charge for credit losses, from LBP 100,014 million as at 31 December 2010 to LBP 115,249 million as at 31 December 2011, meaning a rise of 15.23%.

This result, is after taking into consideration the allowance for collective impairment of LBP 4,523 million that was provided for during 2011.

IBL's performance is also reflected in the Bank's high profitability ratios that are among the highest in the Lebanese banking sector.

In fact, IBL Bank's Return on Average Assets (ROAA) stood at 1.17% at the end of 2011 while the Bank's Return on Average Equity ( ROAE) reached 16.84%, ranking second and fourth respectively according to Bankdata.

Staff and administrative expenses rose from LBP 35,872 million in 2010 to LBP 42,622 million in 2011 registering a year-to-year increase of 18.82% as the result of the Bank's expansion locally and regionally.

Despite the increase in staff and operating expenses, the Bank's effective cost-control policy resulted in IBL maintaining a relatively low cost-to-income ratio of 36.20% as at 31 December 2011, ranking first in the Alpha Group whose Average was 47.40% as at 31 December 2011.

On the other hand, earnings per share stood at LBP 3,169 (US$ 2.50) in 2011 compared to LBP 3,563 (US$ 2.36) in 2010.

# LIST OF MAIN CORRESPONDENTS - TREASURY & FINANCIAL MARKET

| CORRESPONDENT | CITY | SWIFT CODE |
|---|---|---|
| National Bank of Abu Dhabi | Abu Dhabi | NBADAEAA |
| The Housing Bank for Trade & Finance | Amman | HBHOJOAX |
| Jordan Ahli Bank PLC | Amman | JONBJOAX |
| Bank of Baghdad | Baghdad | BABIIQBA |
| Iraqi Middle East Investment Bank | Baghdad | IMEBIQBA |
| Banco de Sabadell SA | Barcelona | ATLAESMM |
| Byblos Bank Europe SA | Brussels | BYBBBEBB |
| Danske Bank A/S | Copenhagen | DABADKKK |
| Doha Bank | Doha | DOHBQAQA |
| Al Khaliji France SA | Dubai | LICOAEAD |
| MashreqBank | Dubai | BOMLAEAD |
| Central Bank of Kurdistan Region Minare Bank | Erbil | XXXXXXXX |
| Deutsche Bank AG | Frankfurt | DEUTDEFF |
| Commerzbank AG | Frankfurt | COBADEFF |
| Bankmed (Suisse) SA | Geneva | MEDSCHGG |
| The National Commercial Bank | Jeddah | NCBKSAJE |
| The Commercial Bank of Kuwait | Kuwait | COMBKWKW |
| Wells Fargo Bank N.A. | London | PNBPGB2L |
| Banco Popular Espanol | Madrid | POPUESMM |
| Intesa Sanpaolo spa (formerly Banca Intesa spa) | Milano | BCITITMM |
| The Bank of New York Mellon | New York | IRVTUS3N |
| Wells Fargo Bank N.A. | New York | PNBPUS3NNYC |
| DNB Nor Bank ASA | Oslo | DNBANOKK |
| Al Khaliji France SA | Paris | LICOFRPP |
| Banque Audi Saradar (France) SA | Paris | AUDIFRPP |
| Skandinaviska Enskilda Banken | Stockholm | ESSESESS |
| North Bank For Finance & Investment | Sulaimaniyah | NRTTIQBA |
| Beirut Hellenic Bank Ltd | Sydney | LIKIAU2S |
| The Bank of New York Mellon | Tokyo | IRVTJPJX |
| Sumitomo Mitsui Banking Corporation | Tokyo | SMBCJPJT |
| Unicredit Bank Austria AG. | Vienna | BKAUATWW |

# MAIN RESOLUTIONS OF THE ORDINARY GENERAL ASSEMBLY HELD ON JULY 5, 2012

## Resolution 1:

The Ordinary General Assembly, after listening to the reports of the Board of Directors and the external Auditors regarding the accounts of the year 2011, and after reviewing the balance sheet and the profit and loss accounts for the same year, decided:

The ratification of the reports, the balance sheets and all other accounts of the Bank relating to the fiscal year ending on 31/12/2011.

Decision taken unanimously.

## Resolution 2 :

The Ordinary General Assembly, after taking note of the net profits realized during 2011, which amounted to LBP 42,345 million decided:

1) The Distribution of US$ 3,750 Thousand of these profits, to the holders of series 2 preferred shares, amount which represent 7.50% of the issue price amounted to US$ 100 for each share , pursuant to the third decision (Item 4- par A) of the Extraordinary General Assembly held on June 9,2011.

2) The distribution of LBP 17,745 million (approximately US$ 11,800 Thousand ) of these profits to the Common Shareholders in proportion of their participation in the Bank's Capital.
3) It was also decided to transfer the remaining balance of the net profits of the year 2011 to retained earnings (previous results).

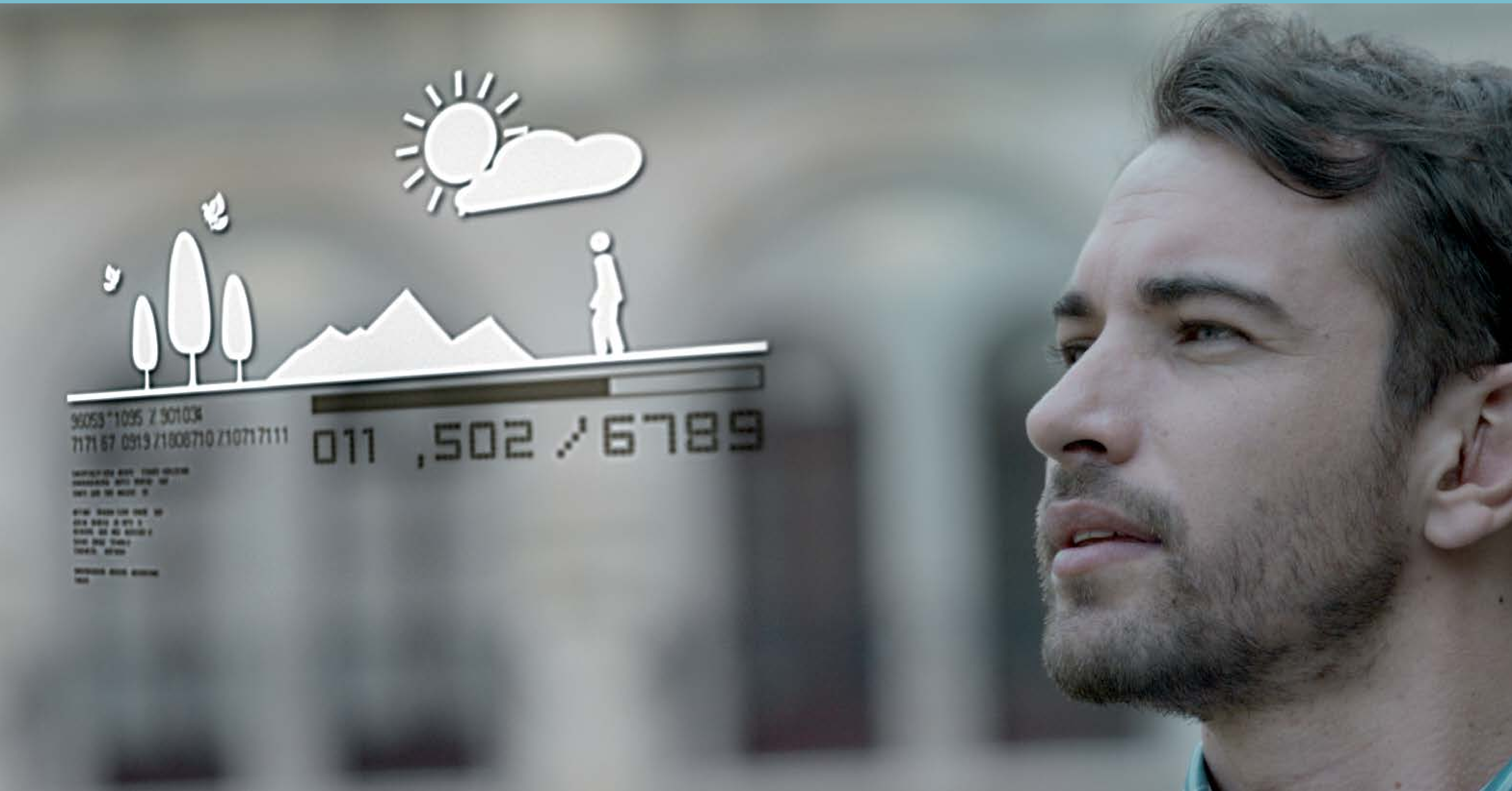
Decision taken unanimously.

## Resolution 7 :

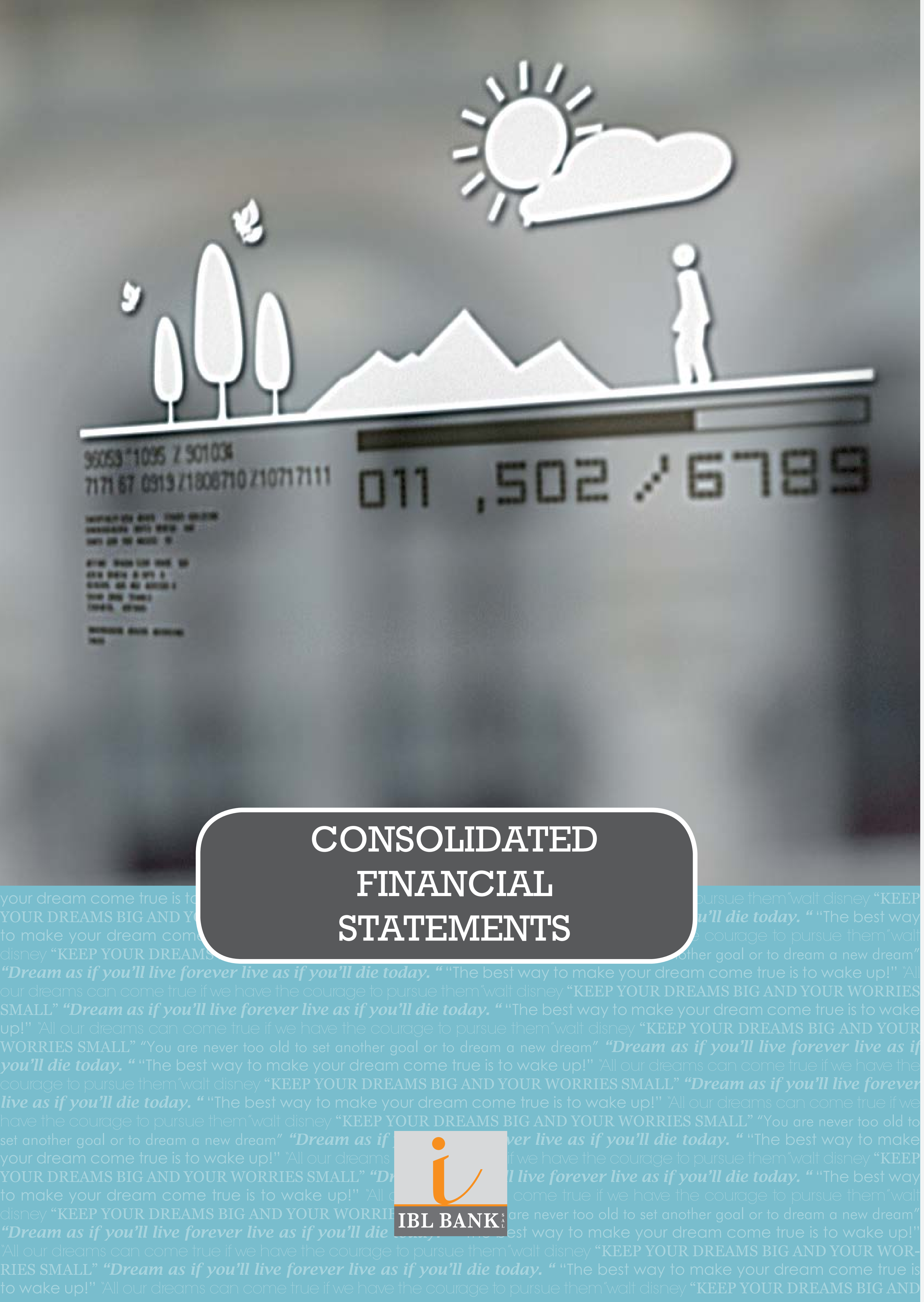
The Ordinary General Assembly, after going through the reports of the Board of Directors and the external Auditors in compliance with article 158 of the Code of Commerce And article 152 paragraph.4 of the Code of Money and Credit, decided:

The ratification of the activities carried out in accordance to the above-mentioned laws, and renewal of the prior authorization given to the Directors to act according to those articles, in addition to the prior authorization of article 159 of the Code of Commerce.

Decision taken unanimously.




# CONSOLIDATED FINANCIAL STATEMENTS




BT 32289/DTT
# INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of IBL BANK S.A.L. AND SUBSIDIARIES (the Bank), which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Management's Responsibility For The Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit.

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, within the framework of existing banking laws in Lebanon.

The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the IBL Bank S.A.L. as of December 31, 2011, and its consolidated financial performance and consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
May 23, 2012

Deloitte & Touche

DFK Fiduciaire du Moyen Orient

# IBL BANK S.A.L. And Subsidiaries
## Consolidated Statement Of Financial Position

| Assets | Notes | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|---|
| Cash and Central Banks | 6 | 1,674,309,302 | 958,250,566 |
| Deposits with banks and financial institutions | 7 | 492,651,922 | 268,341,148 |
| Loans to banks | 8 | 91,429,994 | 1,650,059,354 |
| Loans and advances to customers | 9 | 904,627,852 | 700,590,851 |
| Loans and advances to related parties | 10 | 40,945,597 | 39,697,295 |
| Trading assets at fair value through profit or loss | 11 | 361,348,083 | 569,876 |
| Investment securities | 12 | 2,060,808,887 | 1,173,484,266 |
| Customers' liability under acceptances | 13 | 5,233,506 | 16,158,555 |
| Assets acquired in satisfaction of loans | 14 | 19,666,700 | 16,854,329 |
| Property and equipment | 15 | 43,256,131 | 33,661,437 |
| Intangible assets | 16 | 1,103,671 | 911,493 |
| Regulatory blocked fund | 17 | 4,500,000 | - |
| Other assets | 18 | 3,668,105 | 2,941,025 |
| **Total Assets** | | **5,703,549,750** | **4,861,520,195** |

## Financial Instruments With Off-Balance Sheet Risk:

| | | | |
|---|---|---|---|
| Documentary and commercial letters of credit | 37 | 275,042,010 | 123,727,438 |
| Guarantees and standby letters of credit | 37 | 72,038,019 | 70,974,801 |
| Forward contracts | 37 | 22,395,579 | 43,510,524 |
| fiduciary deposits | | 5,185,800 | 6,693,300 |

THE ACCOMPANYING NOTES 1 TO 43 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

| LIABILITIES | Notes | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|---|
| Deposits and borrowings from banks | 19 | 74,572,775 | 76,192,994 |
| Customers' accounts at amortized cost | 20 | 5,108,759,703 | 4,342,227,601 |
| Related parties accounts at amortized cost | 38 | 84,093,278 | 76,104,785 |
| Acceptance liability | 13 | 5,233,506 | 16,158,555 |
| Other liabilities | 21 | 21,458,674 | 16,516,152 |
| Provisions | 22 | 6,461,100 | 4,552,980 |
| **Total liabilities** | | **5,300,579,036** | **4,531,753,067** |

| EQUITY | | | |
|---|---|---|---|
| Common shares | 23 | 146,250,000 | 113,700,000 |
| Non-cumulative convertible preferred shares | 24 | 75,356,250 | 37,957,500 |
| Common shares premium | | 6,514,784 | 6,514,784 |
| Reserves | 25 | 30,730,719 | 20,039,297 |
| Asset revaluation surplus | | 2,752,680 | 2,752,680 |
| Cumulative change in fair value of investment securities | 26 | | 22,780,579 |
| Regulatory reserve for assets acquired in satisfaction of loans | 14 | 3,885,040 | 2,846,649 |
| Retained earnings | | 75,081,363 | 69,153,528 |
| Income for the year | | 61,681,255 | 54,022,111 |
| Equity attributable to owners of the group | | 402,252,091 | 329,767,128 |
| Non-controlling interest | 28 | 718,623 | - |
| **Total Equity** | | **402,970,714** | **329,767,128** |
| **Total Liabilities and Equity** | | **5,703,549,750** | **4,861,520,195** |

THE ACCOMPANYING NOTES 1 TO 43 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

# IBL BANK S.A.L. And Subsidiaries
## Consolidated Statement Of Income

| | Notes | Year Ended December 31, 2011 LBP'000 | Year Ended December 31, 2010 LBP'000 |
|---|---|---|---|
| Interest income | 29 | 298,856,385 | 289,641,297 |
| Interest expense | 30 | (247,099,484) | (215,597,133) |
| Net interest income | | 51,756,901 | 74,044,164 |
| | | | |
| Fee and commission income | 31 | 7,270,472 | 7,980,710 |
| Fee and commission expense | 32 | (3,151,319) | (498,028) |
| Net fee and commission income | | 4,119,153 | 7,482,682 |
| | | | |
| Other operating income | 33 | 3,579,313 | 18,492,881 |
| Income from fair value through profit or loss investment securities or held-for-trading activities | 34 | 60,604,027 | 2,392,540 |
| | | | |
| Net financial revenues | | 120,059,394 | 102,412,267 |
| | | | |
| Allowance for impairment and write-off of loans and advances (net of write-backs) | 35 | (4,810,853) | (3,398,529) |
| Write-back of provision | | - | 1,000,000 |
| Net financial revenues after impairment charge for credit losses | | 115,248,541 | 100,013,738 |
| | | | |
| Staff costs | 36 | (23,770,131) | (19,887,709) |
| Administrative expenses | | (16,036,291) | (13,748,275) |
| Depreciation and amortization | 15, 16 | (2,815,570) | (2,101,831) |
| Other expenses | | (81,184) | (133,719) |
| | | (42,703,176) | (35,871,534) |
| | | | |
| Profit before income tax | | 72,545,365 | 64,142,204 |
| Income tax expense | 21 | (10,745,487) | (10,120,093) |
| Income for the year | | 61,799,878 | 54,022,111 |
| | | | |
| Attributable to: | | | |
| Equity holders of the Group | | 61,681,255 | 54,022,111 |
| Non-controlling interest | | 118,623 | - |
| | | 61,799,878 | 54,022,111 |

THE ACCOMPANYING NOTES 1 TO 43 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

IBL BANK S.A.L. And Subsidiaries

## Consolidated Statement Of Comprehensive Income

| | Year Ended December 31, 2011 LBP'000 | Year Ended December 31, 2010 LBP'000 |
|---|---|---|
| Income for the year | 61,799,878 | 54,022,111 |
| | | |
| Other comprehensive Income: | | |
| Net change in fair value of available-for-sale securities | - | 8,629,737 |
| Net change in fair value of recycled securities recycled to profits and losses | - | (13,168,014) |
| Deferred tax liabilities | - | (972,487) |
| Amortized change in fair value of held to maturity securities reclassified | - | (149,414) |
| Net other comprehensive income | - | (5,660,178) |
| | | |
| Total comprehensive income | 61,799,878 | 48,361,933 |
| | | |
| Attributable to: | | |
| Equity holders of the Group | 61,681,255 | 48,361,933 |
| Non-controlling interest | 118,623 | - |
| | 61,799,878 | 48,361,933 |

THE ACCOMPANYING NOTES 1 TO 43 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

# IBL BANK S.A.L. And Subsidiaries
## Consolidated Statement Of Changes In Equity

| | Common Shares LBP'000 | Preferred Shares LBP'000 | Common Shares Premium LBP'000 | Reserves LBP'000 | Asset Revaluation Surplus LBP'000 | Cumulative Change in Fair Value of Investment Securities LBP'000 | Regulatory Reserve for Assets Acquired in Satisfaction of Loans LBP'000 | Retained Earings LBP'000 | Income for the year LBP'000 | Attributable to the Equity Holders of the Bank LBP'000 | Non-Controlling Interest LBP'000 | Total LBP'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Balance, January 1, 2010** | **113,700,000** | **37,957,500** | **6,514,784** | **9,716,728** | **2,752,680** | **28,440,757** | **2,201,248** | **47,415,108** | **42,008,242** | **290,707,047** | **-** | **290,707,047** |
| Comprehensive income | - | - | - | - | - | (5,660,178) | - | - | 54,022,111 | 48,361,933 | - | 48,361,933 |
| Regulatory reserve for assets acquired in satisfaction of loans (Note 14) | - | - | - | - | - | - | 926,297 | (926,297) | - | - | - | - |
| Release of Regulatory reserve for assets in satisfaction of loans | - | - | - | - | - | - | (280,896) | 280,896 | - | - | - | - |
| Dividends paid | - | - | - | - | - | - | - | (8,349,224) | - | (8,349,224) | - | (8,349,224) |
| Difference in exchange | - | - | - | - | - | - | - | 47,372 | - | 47,372 | - | 47,372 |
| Reversal of provision on investment in subsidiary | - | - | - | - | - | - | - | (1,000,000) | - | (1,000,000) | - | (1,000,000) |
| Allocation of 2009 retained earnings | - | - | - | 10,322,569 | - | - | - | 31,685,673 | (42,008,242) | - | - | - |
| **Balance, December 31, 2010** | **113,700,000** | **37,957,500** | **6,514,784** | **20,039,297** | **2,752,680** | **22,780,579** | **2,846,649** | **69,153,528** | **54,022,111** | **329,767,128** | **-** | **329,767,128** |
| Effect of IFRS 9 adoption (Note 5) | - | - | - | - | - | (22,780,579) | - | 17,915,958 | - | (4,864,621) | - | (4,864,621) |
| Comprehensive income | - | - | - | - | - | - | - | - | 61,681,255 | 61,681,255 | 118,623 | 61,799,812 |
| Issuance of common shares (Note 23) | 32,550,000 | - | - | (6,300,000) | - | - | - | (26,250,000) | - | - | - | - |
| Issuance of preferred shares - Series 2 (Note 24) | - | 75,356,250 | - | - | - | - | - | - | - | 75,356,250 | - | 75,356,250 |
| Redemption of preferred shares - Series 1 (Note 24) | - | (37,957,500) | - | - | - | - | - | - | - | (37,957,500) | - | (37,957,500) |
| Dividends paid (Note 27) | - | - | - | - | - | - | - | (22,295,880) | - | (22,295,880) | - | (22,295,880) |
| Regulatory reserve for assets acquired in satisfaction of loans (Note 14) | - | - | - | - | - | - | 1,038,391 | (1,038,391) | - | - | - | - |
| Difference in exchange | - | - | - | - | - | - | - | 150,207 | - | 150,207 | - | 150,207 |
| Prior year adjustments | - | - | - | - | - | - | - | 415,252 | - | 415,252 | - | 415,252 |
| Allocation of 2010 retained earnings | - | - | - | 16,991,422 | - | - | - | 37,030,689 | (54,022,111) | - | - | - |
| Non-controlling interest share in subsidiary (Note 28) | - | - | - | - | - | - | - | - | - | - | 600,000 | 600,000 |
| **Balance at December 31, 2011** | **146,250,000** | **75,356,250** | **6,514,784** | **30,730,719** | **2,752,680** | **-** | **3,885,040** | **75,081,363** | **61,681,255** | **402,252,091** | **718,623** | **402,970,714** |

THE ACCOMPANYING NOTES 1 TO 43 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

THE ACCOMPANYING NOTES 1 TO 43 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

# IBL BANK S.A.L.
# Consolidated Statement Of Cash Flows

| | Notes | Year Ended December 31, 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|---|
| Cash flows from operating activities: | | | |
| Income after tax | | 61,799,878 | 54,022,111 |
| Adjustments to reconcile net income to net cash provided by/(used in) operating activities: | | | |
| Depreciation and amortization | | 2,815,570 | 2,101,830 |
| Write-back of provision | | - | (1,000,000) |
| Change in fair value of trading assets at fair value through profit or loss | | (1,087,720) | (2,154,853) |
| Provision for end-of-service indemnity | | 1,046,445 | 1,038,173 |
| Provision for credit losses (net of write backs) | | 4,810,853 | 3,398,529 |
| Provision for contingencies | | 1,000,000 | - |
| Provision for loss in foreign currency position | | - | 12,750 |
| Gain on sale of assets acquired in satisfaction of loans | | - | (612,612) |
| Loss/(gain) on sale of property and equipment | | 12,243 | (185,448) |
| Net decrease/(increase) in loans to banks | | 6,728,248 | (325,333,685) |
| Net increase in loans and advances to customers | | (211,660,205) | (335,407,751) |
| Net increase in loans and advances to related parties | | (1,248,302) | (8,673,049) |
| Net increase in compulsory reserves and term deposits with The Central Banks | | (450,936,572) | (143,924,830) |
| Net decrease in deposits with banks and financial institutions | | 7,869,465 | 14,186,715 |
| Increase in regulatory blocked fund | | (4,500,000) | - |
| Net increase in other assets | | (727,080) | (546,938) |
| Net increase/(decrease) in deposits and borrowings from banks | | 8,880,051 | (5,322,785) |
| Net increase in customers' accounts at amortized cost | | 766,532,102 | 870,261,035 |
| Net increase in related parties' accounts at amortized cost | | 7,988,493 | 8,693,933 |
| Net increase/(decrease) in other liabilities | | 5,508,199 | (5,672,432) |
| Provisions settled | | (138,325) | (140,394) |
| Net cash provided by operating activities | | 204,693,343 | 124,740,299 |
| Cash flow from investing activities: | | | |
| Purchased of property and equipment | | (12,105,177) | (8,096,530) |
| Purchased of intangible assets | | (537,410) | - |
| Proceeds from sale of assets acquired in satisfaction of loans | | - | 992,460 |
| Proceeds from sale of intangible assets | | 4,965 | (100,830) |
| Proceeds from sale of fixed assets | | 22,719 | 1,016,602 |
| Decrease/(increase) in portfolio securities | | 300,021,383 | (85,469,664) |
| Net cash provided/(used in) investing activities | | 287,406,480 | (91,657,962) |
| Cash flows from financing activities: | | | |
| Dividends paid | | (22,295,880) | (8,349,224) |
| Issuance of preferred shares | | 75,356,250 | - |
| Redemption of preferred shares | | (37,957,500) | - |
| Cash received from non-controlling interest | | 600,000 | - |
| Net cash provided by/(used in) financing activities | | 15,702,870 | (8,349,224) |
| Net increase in cash and cash equivalents | | 496,397,276 | 24,733,113 |
| Cash and cash equivalents - Beginning of year | 39 | 507,802,693 | 487,569,580 |
| Cash and cash equivalents - Ending of year | 39 | 1,004,199,969 | 512,302,693 |

THE ACCOMPANYING NOTES 1 TO 43 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS



## 1. General Information

IBL Bank S.A.L. is a Lebanese joint-stock company registered in the Lebanese commercial register under No. 10472 and in the list of banks published by the Central Bank of Lebanon under No. 52.

The consolidated financial statements of the Bank as at December 31, 2011 comprise the Bank and its subsidiaries (the "Group"). The Group is primarily involved in investment, corporate and retail banking.

The Bank's name was changed during 2008 from Intercontinental Bank of Lebanon S.A.L. to IBL Bank S.A.L. by virtue of the resolution of the Extraordinary General Assembly of Shareholders held on August 20, 2007.

The Group operates through a network consisting of 19 branches in Lebanon and a branch in Kurdistan - Erbil District established in 2008, another one in Limassol, Cyprus established in 2009 and a branch in Baghdad, Iraq established and started operation on December 26, 2010.

## 2. Adoption Of New And Revised International Financial Reporting Standards (IFRS)

### 2.1 Early Adopted Standard During The current Period

In the current year the Group has applied IFRS 9 Financial Instruments (as issued in November 2009 and revised in October 2010) and the related consequential amendments in advance of their effective dates.
The date of initial application is of January 1, 2011. Changes in accounting policies resulting from the adoption of IFRS 9 have been applied on a retrospective basis without restatement of prior periods as permitted by the Standard.

### *Financial Assets*

IFRS 9 introduces new classification and measurement requirements for financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement. As a general rule, IFRS 9 requires all financial assets related to debt securities to be classified and subsequently measured at either amortized cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. However, equity securities and derivations should all be measured at fair value.

As required by IFRS 9, debt instruments are measured at amortized cost only if the asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. If either of the two criteria is not met, the debt instruments are classified as at fair value through profit or loss (FVTPL).

However, the Group may choose at initial recognition to designate a debt instrument that meets the amortized cost criteria as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

Debt instruments that are subsequently measured at amortized cost are subject to impairment.

Investments in equity instruments are classified and measured as at FVTPL except when the equity investment is not held for trading and is designated by the Group as at fair value through other comprehensive income (FVTOCI).

If the equity investment is designated as at FVTOCI, all gains and losses, except for dividend income that is generally recognized in profit or loss in accordance with IAS 18 Revenue, are recognized in other comprehensive income and are not subsequently reclassified to the consolidated statement of income.

For debt instruments not designated at fair value through profit or loss under the fair value option, reclassification is required between fair value through profit or loss and amortized cost, or vice versa, if the Group's business model objective for its financial assets changes so that its previous measurement basis no longer applies.

IFRS 9 requires that derivatives embedded in contracts with a host that is a financial asset within the scope of the standard are not separated. Instead the hybrid financial instrument is assessed in its entirety as to whether it should be measured at amortized cost or fair value.

As at January 1, 2011, the directors have reviewed and assessed the Group's existing financial assets. The impact resulting from the initial application of IFRS 9 on the Group's financial assets is detailed under Note 5. Differences between the carrying amounts of financial assets and financial liabilities from the adoption of IFRS 9 are recognized in opening retained earnings.

### *Financial Liabilities*

IFRS 9 also contains requirements for the classification and measurement of financial liabilities. One major change in the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

For financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in the fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in the consolidated statement of income.

## 2.2 Standards And Interpretations Effective For The Current Period

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

• Amendments to IAS 24 Related Party Disclosures (as revised in 2009) modify the definition of a related party and simplify disclosures for government-related entities. The Bank and its subsidiary are not government-related entities and the application of the revised definition of related party set out in IAS 24 (as revised in 2009) in the current year has not resulted in the identification of related parties that were not identified as related parties under the previous Standard.

• Amendments to IAS 32 Classification of Rights Issues address the classification of certain rights issues denominated in a foreign currency as either equity instruments or as financial liabilities. The application of the amendments has had no effect on the amounts reported in the current and prior years because the Group has not issued instruments of this nature.

• Amendments to IFRIC 14 - Prepayments of a Minimum Funding Requirement. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction. The application of the amendments has had no effect on the Group's financial statements.

• IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognized in profit or loss. The application of IFRIC 19 has had no effect on the amounts reported in the current and prior years because the Group has not entered into any transactions of this nature.

• Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IFRS 7; IAS 1; IAS 27 (2008); IAS34; IFRIC 13. The application of these improvements to IFRSs issued in 2010 has not had any material effect on amounts reported in the consolidated financial statements.

## 2.3 Standards And Interpretations In Issue But Not Yet Effective

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

### *Effective For Annual Periods Beginning On Or After*

• July 1, 2011 Amendments to IFRS 7 Disclosures Transfers of Financial Assets increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. Currently, the Group has not entered into such transactions.

• January 1, 2013 IFRS 10 Consolidated Financial Statements replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements, and SIC 12 Consolidation - Special Purpose Entities.
IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee and includes a new definition of control. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. IAS 27 Consolidated and Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures have been amended for the issuance of IFRS 10.

• January 1 , 2013 IFRS 11 Joint Arrangements replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities - Non monetary Contributions by Venturers. IFRS 11 establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate. IAS 28 Investments in Associates and Joint Ventures has been amended for the issuance of IFRS 11.

• January 1, 2013 IFRS 12 Disclosure of Interests in Other Entities is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

• January 1 ,2013 IFRS 13 Fair Value Measurement defines fair value, establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The scope of IFRS 13 is broad and applies to both financial and non-financial items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements, except in specified circumstances.

In general, the disclosure requirements in IFRS 13 are more extensive than those required in the current standards.

• July 1, 2012 Amendments to IAS 1 - Presentation of Other Comprehensive Income. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements.

However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.

• January 1, 2012 Amendments to IAS 12 Income Taxes provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale.

- January 1, 2013 Amendments to IAS 19 Employee Benefits eliminate the "corridor approach" and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.

- January 1, 2013 IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

- January 1, 2013 Amendments to IFRS 7 Financial Instruments: Disclosures enhancing disclosures about offsetting of financial assets and liabilities.

- January 1, 2013 Amendments to IAS 32 Financial Instruments: Presentation relating to application guidance on the offsetting of financial assets and financial liabilities.

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

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

# 3. Significant Accounting Policies

## *Statement Of Compliance*

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs).

## *Basis Of Preparation*

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

- Assets and liabilities held for trading.
- Financial instruments designated at fair value through profit or loss.
- Investments in equities.
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest (effective January 1, 2011).
- Available-for-sale financial assets (applicable prior to January 1, 2011).

The principal accounting policies applied are set out below:

## *A. Basis Of Consolidation:*

The consolidated financial statements of IBL Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries). Control is achieved when, among other things, the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries consist of the following:

| Company Name | Inception Date | Ownership | Type of Business |
|---|---|---|---|
| Al-Itihadiah Real Estate S.A.L. | May 31, 1979 | 99.97 | Real Estate Properties |
| IBL Holding S.A.L. | November 11, 2008 | 99.70 | Holding |
| IBL Brokerage S.A.L. | March 14, 2006 | 99.80 | Brokerage |
| IBL investment Bank S.A.L. | February 4, 2011 | 98.00 | Specialized Bank |

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the other entities of the Group.

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

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

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

## *B. Foreign Currencies:*

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

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

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

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

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

## C. Recognition And Derecognition Of Financial Assets And Liabilities:

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

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

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.
On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Effective January 1, 2011, upon derecognition of a financial asset that is classified as fair value through other comprehensive income, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is reclassified to retained earnings.

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

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

## D. Classification Of Financial Assets:

**Policy Applicable effective January 1, 2011 (IFRS 9):**

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

### *Debt Instruments:*

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

- They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

### *Equity Instruments:*

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

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

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI").

Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss.

Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income.
Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Designation at FVTOCI is not permitted if the equity investment is held for trading.
A financial asset is held for trading if:

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

### *Reclassification:*

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

Reclassification is not allowed where:

• The other comprehensive income option has been exercised for a financial asset, or
• The fair value option has been exercised in any circumstance for a financial instrument.

Policy Applicable prior to January 1, 2011 (IAS 39):

Subsequent to initial recognition, investment securities are accounted for depending on their classification as either: held-to-maturity, loans and receivables, available-for-sale, or fair value through profit or loss.

*Held-To-Maturity Investment Securities:*

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost.

*Loans and Receivables Investment Securities:*

Loans and receivables investment securities are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the ability to hold to maturity.

Loans and receivables investment securities are carried at amortized cost.

*Available-For-Sale Investment Securities:*

Available-for-sale investments are non-derivative investments that are not designated as another category of financial assets. Unquoted equity securities whose fair value cannot be readily measured are carried at cost. All other available-for-sale investments are carried at fair value and unrealized gains or losses are included in other comprehensive income.

The change in fair value on available-for-sale debt securities reclassified to held-to-maturity is segregated from the change in fair value of available-for-sale debt securities under equity and is amortized over the remaining term to maturity of the debt security as a yield adjustment.

*Designation At Fair Value through Profit And Loss:*

The Group designates financial assets and liabilities at fair value through profit or loss when either:

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

## E. *Financial Liabilities And Equity Instruments:*

*Classification as debt or equity:*

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

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

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

The component parts of compound instruments (convertible notes) issued by the Bank are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

*Financial Liabilities:*

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

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

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

• Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
• the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
• it forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

## F. *Offsetting:*

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

## G. *Fair Value Measurement Of Financial Instruments:*

Fair value is the amount agreed to exchange an asset or to settle a liability between a willing buyer and a willing seller in an arm's length transaction. When published price quotations exist, the Group measures the fair value of a financial instrument that is traded in an active market using quoted prices for that instrument. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis.
If the market for a financial instrument is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument is based on one or more factors such as the time value of money and the credit risk of the instrument, adjusted for any other factors such as liquidity risk.

## H. *Impairment Of Financial Assets:*

Effective January 1, 2011 financial assets carried at amortized cost; and prior to January 1, 2011 financial assets other than those carried at fair value through profit and loss, are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

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

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

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

For investments in equity securities, a significant or prolonged decline in fair value below cost is objective evidence of impairment.

Prior to January 1, 2011: For available-for-sale investment securities, the cumulative losses previously recorded in other comprehensive income and accumulated in equity were recognized in profit or loss in case the impairment losses are substantiated by a prolonged decline in fair value of the investment securities.
Any increase in the fair value of available-for-sale equity securities, subsequent to an impairment loss, was not recognized in profit or loss. Any increase in the fair value of available-for-sale debt securities, subsequent to an impairment loss, was recognized in profit or loss.

## I. Loans And Advances

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

## J. Financial Guarantees:

Financial guarantees contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, and credit-insurance contracts).
Financial guarantee liabilities are initially measured at their fair value, and subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

## K. Property And Equipment:

Property and equipment are stated at historical cost, less accumulated depreciation and impairment loss, if any.

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

| | Rates |
|---|---|
| Buildings | 2% |
| Office improvements and installations | 20% |
| Furniture, equipment and machines | 8% |
| Computer equipment | 20% |
| Vehicles | 20% |

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

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

## L. Intangible Assets:

Intangible assets other than goodwill, are amortized on a straight-line basis. Intangible assets are subject to impairment testing.

## M. Assets Acquired In Satisfaction Of Loans:

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

## N. Impairment Of Tangible And Intangible Assets (Other Than Goodwill):

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

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

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

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

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

## O. Provision for Employees' End-Of- Service Indemnity

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

### P. Provisions:

Provisions are recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

### Q. Revenue And Expense Recognition:

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

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

Other fee and commission income are recognized as the related services are performed.
Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost.
- Interest on available-for-sale investment securities (prior to January 1, 2011).
- Interest income on financial assets measured at fair value through profit or loss and interest income on the trading portfolio are presented separately in the consolidated statement of income.

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

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

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income in accordance with IFRS 9, are presented in other revenue, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income. Prior to January 1, 2011 dividends on available-for-sale securities were presented in other revenue.

### R. Income Tax:

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method.

Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

### S. Fiduciary Accounts:

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

### T. Cash And Cash Equivalents:

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

## 4. Critical Accounting Judgments And Key Sources Of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the future periods if the revision affects both current and future periods.

### A. Critical Accounting Judgments In Applying The Group's Accounting Policies:

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

*Business Model:*

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity.

The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets.

While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.
In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Group considers:

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

*Characteristics Of The Financial Asset:*

Once the Group determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset.

In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

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

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

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

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

## B. *Key Sources Of Estimation Uncertainty:*

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

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

Loans collectively assessed for impairment are determined based on losses incurred by loans portfolios with similar characteristics.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3G.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

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

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

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

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

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

Changes in assumptions about any of these factors could affect the reported fair value of the Lebanese Government debt securities and Central Bank certificates of deposit."
Impairment of Available-for-Sale Equity Investments (Prior to January 1, 2011):

The Group determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination requires judgment. In making this judgment the Group, among other factors, evaluates the normal volatility in share price.

## 5. Classification Of Financial Assets On The Date Of Initial Application Of IFRS 9

As discussed in Note 2 (2.1) the Group has early adopted IFRS 9 Financial Instruments. Below is a summary of the transitional classification and measurement adjustments to Group's investments securities on the date of initial application of IFRS 9. All other financial assets were classified as loans and receivables under IAS 39 and have been classified at amortized cost under IFRS 9:

| | Previous Classification Under IAS 39 | Classification/ Designation Under IAS 39 | Carrying Amount Under IAS 39 at December 31, 2010 LBP'000 | Carrying Amount Under IFRS 9 at January 1, 2011 LBP'000 | Offset of the Change in Fair Value LBP'000 |
|---|---|---|---|---|---|
| Equity securities | Available-for-sale | Fair value through profit or loss | 2,254,316 | 2,254,316 | - |
| Lebanese treasury bills | Available-for-sale | Amortized cost | 62,696,841 | 63,238,003 | (541,162) |
| Lebanese treasury bills | Available-for-sale | Fair value through profit or loss | 179,164,492 | 179,164,492 | - |
| Lebanese Government bonds | Available-for-sale | Amortized cost | 154,095,556 | 148,718,572 | 5,376,984 |
| Lebanese Government bonds | Available-for-sale | Fair value through profit or loss | 37,494,987 | 37,494,987 | - |
| Lebanese Government bonds | Held-to-maturity | Amortized cost | 273,569,726 | 273,569,726 | - |
| Lebanese Government bonds | Held-to-maturity | Fair value through profit or loss | 43,403,360 | 41,647,702 | 1,755,658 |
| Certificates of deposit issued By Central Bank of Lebanon | Available-for-sale | Fair value through profit or loss | 31,838,201 | 31,838,201 | - |
| Certificates of deposit issued by Central Bank of Lebanon | Loans and advances | Fair value through profit or loss | 510,425,836 | 529,796,685 | (19,370,849) |
| Certificates of deposit issued by Central Bank of Lebanon | Available-for-sale | Amortized cost | 168,601,152 | 150,234,813 | 18,366,339 |
| Certificates of deposit issued by Central Bank of Lebanon | Loans and advances | Amortized cost | 1,041,475,276 | 1,041,475,276 | - |
| Certificates of deposit issued by Central Bank of Lebanon | Held-to-maturity | Amortized cost | 193,464,269 | 193,464,269 | - |
| Certificates of deposits issued by banks | Available-for-sale | Amortized cost | 6,905,856 | 6,769,978 | 135,878 |
| | | | 2,705,389,868 | 2,699,667,020 | 5,722,848 |
| Less: Deferred tax | | | (405,808,280) | (404,950,053) | (858,227) |
| | | | 2,299,581,588 | 2,294,716,967 | 4,864,621 |

The impact of the early adoption of IFRS 9 on the opening retained earnings and the cumulative change in fair value as at January 1, 2011 was as follows:

| | Retained Earnings LBP'000 | Cumulative Change in Fair Value (Under Equity) LBP'000 |
|---|---|---|
| Reported balances - December 31, 2010 | 69,153,528 | 22,780,579 |
| Allocation to retained earnings of portion of change in fair value related to portfolio classified as at fair value through profit or loss (net of deferred tax) | 17,915,958 | (17,915,958) |
| Offset of change in fair value related to portfolio classified as at amortized cost | - | (4,864,621) |
| Reported balances - January 1, 2011 | 87,069,486 | - |

## 6. Cash And Central Banks

| | Year Ended December 31, 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Cash on hand | 38,762,594 | 28,079,608 |
| Non-interest earning accounts: | | |
| - Compulsory reserves with Central Banks | 140,595,515 | 208,554,656 |
| - Current accounts at Central Banks | 58,072,602 | 33,123,946 |
| - Blocked placement with the Central Bank of Lebanon for the establishment of a specialized bank | - | 29,400,000 |
| Interest earning accounts: | | |
| - Term placements with the Central Bank of Lebanon | 1,415,683,530 | 654,203,420 |
| - Accrued interest receivable | 21,195,061 | 4,888,936 |
| | 1,674,309,302 | 958,250,566 |

Compulsory reserves with Central banks represents a compulsory deposit with the Central bank of Lebanon not available for use in the Bank's day-to-day operations and is reflected at amortized cost.

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

Placement with Central Bank of Lebanon amounting to LBP29billion as at December 31, 2010 represents the Group's share in the capital of IBL Investment Bank S.A.L. that started its operations on January 8, 2011 and, the placement was released accordingly.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP804billion as at December 31, 2011 (LBP614billion as at December 31, 2010) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, bonds, certificates of deposits and loans acquired from non-resident financial institutions maturing within one year.

Term placements with Central Bank of Lebanon bear the following maturities

December 31, 2011

| | LBP Base Accounts | | F/Cy Base Accounts | |
|---|---|---|---|---|
| Maturity (Year) | Amount LBP'000 | Average Interest Rate % | Counter Value of Amount in LBP LBP'000 | Average Interest Rate % |
| 2012 | 589,500,000 | 7.75 | 826,183,530 | 5.14 |

December 31, 2010

| | LBP Base Accounts | | F/Cy Base Accounts | |
|---|---|---|---|---|
| Maturity (Year) | Amount LBP'000 | Average Interest Rate % | Counter Value of Amount in LBP LBP'000 | Average Interest Rate % |
| 2011 | 40,500,000 | 2.97 | 613,703,420 | 4.60 |

## 7. Deposits With Banks And Financial Institutions

| | December 31 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Checks in course of collection | (521,408) | 2,848,981 |
| Current accounts with banks and financial institutions | 124,523,355 | 52,611,813 |
| Term placements with banks and financial institutions | 368,567,533 | 209,400,027 |
| Pledged deposits with banks and financial institutions | 37,023 | 3,439,124 |
| Accrued interest receivable | 45,419 | 41,203 |
| | 492,651,922 | 268,341,148 |

Pledged deposits with banks and financial institutions in the amount of LBP37million include deposits subject to right of setoff by the related correspondents against banking facilities to finance letters of credit as at December 31, 2011 (LBP3.4billion for 2010).

Term placements and pledged deposits bear the following maturities:

**December 31, 2011**

| Maturity (Year) | Balance in LBP: Amount LBP'000 | Balance in LBP: Average Interest Rate % | Balance in F/Cy: Counter Value of Amount in LBP LBP'000 | Balance in F/Cy: Average Interest Rate % |
|---|---|---|---|---|
| 2012 | 1,500,000 | 4.50 | 367,104,556 | 0.44 |

**December 31, 2010**

| Maturity (Year) | Balance in LBP: Amount LBP'000 | Balance in LBP: Average Interest Rate % | Balance in F/Cy: Counter Value of Amount in LBP LBP'000 | Balance in F/Cy: Average Interest Rate % |
|---|---|---|---|---|
| 2011 | - | - | 212,839,151 | 0.47 |

## 8. Loans To Banks

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

| | December 31, 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Regular accounts | 91,040,000 | 68,100,000 |
| Certificates of deposit issued by the Central Bank of Lebanon | - | 1,551,901,112 |
| Accrued interest receivable | 389,994 | 30,058,242 |
| Doubtful bank accounts | 78,442 | 78,460 |
| Less: Allowance for impairment | (78,442) | (78,460) |
| | 91,429,994 | 1,650,059,354 |

Loans to banks classified as regular accounts mature as follows:

| | December 31, 2011 LBP LBP'000 | December 31, 2011 Interest Rate % | December 31, 2010 LBP LBP'000 | December 31, 2010 Interest Rate % |
|---|---|---|---|---|
| Up to 1 year | 7,060,000 | 3.39 | 2,060,000 | 3.97 |
| 1 year to 3 years | 16,620,000 | 3.39 | 14,120,000 | 3.97 |
| 3 years to 5 years | 18,660,000 | 3.39 | 13,660,000 | 3.97 |
| Beyond 5 years | 48,700,000 | 3.39 | 38,260,000 | 3.97 |
| | 91,040,000 | | 68,100,000 | |

Certificates of deposit issued by the Central Bank of Lebanon classified as loan to banks consist of the following:

| | December 31, 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Certificates of deposit issued by the Central Bank of Lebanon in Lebanese Pounds | - | 1,591,000,000 |
| Discounts | - | (39,098,888) |
| | - | 1,551,901,112 |

Certificates of deposit issued by the Central Bank of Lebanon mature as follows:

| Maturity | December 31, 2011 Balance LBP'000 | December 31, 2011 Average Interest Rate % | December 31, 2010 Balance LBP'000 | December 31, 2010 Average Interest Rate % |
|---|---|---|---|---|
| 2014 | - | - | 1,279,000,000 | 9.02 |
| 2015 | - | - | 42,000,000 | 7.53 |
| 2017 | - | - | 270,000,000 | 7.91 |
| | - | | 1,591,000,000 | |

The group reclassified the certificates of deposits upon the early adoption of IFRS 9 (Note 5)

## 9. Loans And Advances To Customers

This caption consists of the following:

| | December 31 2011 LBP'000 | December 31 2010 LBP'000 |
|---|---|---|
| Loans and advances to customers | 427,616,278 | 380,011,790 |
| Discounted bills | 7,768,215 | 7,615,243 |
| Long and medium term loans | 456,762,950 | 287,787,370 |
| Net multi-currency trading | 946,428 | 3,655,888 |
| Creditors accidentally debtors | 8,456,911 | 12,900,380 |
| Substandard loans (net of unearned interest) | 1,541,530 | 1,335,151 |
| Doubtful loans (net of unearned interest) | 42,115,187 | 47,355,372 |
| Less: Provision for doubtful loans | (31,783,274) | (34,757,059) |
| Allowance for collective impairment | (9,949,765) | (6,401,544) |
| | 903,474,460 | 699,502,591 |
| Accrued interest receivable | 1,153,392 | 1,088,260 |
| | 904,627,852 | 700,590,851 |

This section includes net multicurrency trading exposures amounting to LBP946million for 2011 year end (LBP3.7billion for 2010) that are fully secured by cash margins in the amount of LBP16billion as at December 31,2011 (LBP16billion at 2010 year end) and recorded under "Customers' accounts at amortized cost" under liabilities.

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

| | December 31 | | | | | |
|---|---|---|---|---|---|---|
| | 2011 | | | 2010 | | |
| | Gross Amount Net of Unrealized Interest LBP'000 | Impairment Allowance LBP'000 | Carrying Amount LBP'000 | Gross Amount Net of Unrealized Interest LBP'000 | Impairment Allowance LBP'000 | Carrying Amount LBP'000 |
| Performing retail loans: | | | | | | |
| - Mortgage loans | 130,089,392 | - | 130,089,392 | 67,022,259 | - | 67,022,259 |
| - Personal loans | 23,944,075 | - | 23,944,075 | 18,622,946 | - | 18,622,946 |
| - Credit card | 2,010,027 | - | 2,010,027 | 667,975 | - | 667,975 |
| - Overdrafts | 10,793,471 | - | 10,793,471 | 14,341,112 | - | 14,341,112 |
| | 166,836,965 | - | 166,836,965 | 100,654,292 | - | 100,654,292 |
| Non-performing retail loans: | | | | | | |
| - Substandard loans | 1,345,046 | - | 1,345,046 | 400,188 | - | 400,188 |
| - Doubtful loans | 1,577,757 | (1,047,924) | 529,833 | 1,564,187 | (1,126,607) | 437,580 |
| | 2,922,803 | (1,047,924) | 1,874,879 | 1,964,373 | (1,126,607) | 837,768 |
| Performing corporate loans: | | | | | | |
| - Large Enterprises | 400,513,011 | - | 400,513,011 | 305,195,057 | - | 305,195,057 |
| - Small and medium enterprises | 334,200,806 | - | 334,200,806 | 286,121,322 | - | 286,121,322 |
| | 734,713,817 | - | 734,713,817 | 591,316,379 | - | 591,316,379 |
| Non-performing corporate loans: | | | | | | |
| - Substandard loans | 196,484 | - | 196,484 | 934,963 | - | 934,963 |
| - Doubtful loans | 40,537,430 | (30,735,350) | 9,802,080 | 45,791,185 | (33,630,452) | 12,160,733 |
| | 40,733,914 | (30,735,350) | 9,998,564 | 46,726,148 | (33,630,452) | 13,095,696 |
| Allowance for collective Impairment | - | (9,949,765) | (9,949,765) | - | (6,401,544) | (6,401,544) |
| Accrued interest receivable | 1,153,392 | - | 1,153,392 | 1,088,260 | - | 1,088,260 |
| | 946,360,891 | (41,733,039) | 904,627,852 | 741,749,454 | (41,158,603) | 700,590,851 |

The movement of substandard loans with related unrealized interest is summarized as follows:

| 2011 | Substandard Loans LBP'000 | Unrealized Interest LBP'000 | Net Book Value LBP'000 |
|---|---|---|---|
| Balance January 1, 2011 | 2,148,531 | (813,380) | 1,335,151 |
| Additions | 255,752 | (255,752) | - |
| Settlements | (468,885) | - | (468,885) |
| Write-off | (3,919) | 12,558 | 8,639 |
| Transfer to/from doubtful and bad loans | (1,322,427) | 859,979 | (462,448) |
| Transfer from regular loans | 1,024,323 | - | 1,024,323 |
| Write-back | - | 90,045 | 90,045 |
| Effect of exchange rates changes | 17,627 | (2,922) | 14,705 |
| Balance December 31, 2011 | 1,651,002 | (109,472) | 1,541,530 |

| 2010 | Substandard Loans LBP'000 | Unrealized Interest LBP'000 | Net Book Value LBP'000 |
|---|---|---|---|
| Balance January 1, 2010 | 1,783,686 | (681,975) | 1,101,711 |
| Additions | 2,400,215 | (272,919) | 2,127,296 |
| Settlements | (1,083,841) | - | (1,083,841) |
| Write-off | (107,085) | 107,085 | - |
| Write-back | - | 4,165 | 4,165 |
| Transfer to/from doubtful and bad loans | (1,080,814) | 34,352 | (1,046,462) |
| Transfer from regular loans | 199,753 | - | 199,753 |
| Effect of exchange rates changes | 36,617 | (4,088) | 32,529 |
| Balance December 31, 2010 | 2,148,531 | (813,380) | 1,335,151 |

The movement of doubtful and bad loans and related unrealized interest and allowance for impairment is summarized as follows:

| 2011 | Doubtful and Bad Loans LBP'000 | Unrealized Interest LBP'000 | Allowance For Impairment LBP'000 | Net Book Value LBP'000 |
|---|---|---|---|---|
| Balance January 1, 2011 | 84,081,315 | (36,725,943) | (34,757,059) | 12,598,313 |
| Additions | 7,937,065 | (7,816,536) | (376,302) | (255,773) |
| Settlements | (4,095,889) | - | - | (4,095,889) |
| Write-off | (8,303,771) | 6,521,357 | 2,581,798 | 799,384 |
| Write-back | - | 344,886 | 422,192 | 767,078 |
| Transfer to/from substandard and regular loans | 1,382,960 | (856,691) | (5,931) | 520,338 |
| Effect of exchange rates changes | (330,882) | (22,684) | 352,028 | (1,538) |
| Balance December 31, 2011 | 80,670,798 | (38,555,611) | (31,783,274) | 10,331,913 |

| 2010 | Doubtful and Bad Loans LBP'000 | Unrealized Interest LBP'000 | Allowance For Impairment LBP'000 | Net Book Value LBP'000 |
|---|---|---|---|---|
| Balance January 1, 2010 | 89,976,138 | (35,239,763) | (39,693,350) | 15,043,025 |
| Additions | 8,259,880 | (7,729,755) | (643,375) | (113,250) |
| Settlements | (4,205,928) | - | - | (4,205,928) |
| Write-off | (9,620,421) | 5,686,481 | 3,869,476 | (64,464) |
| Write-back | - | 423,565 | 483,620 | 907,185 |
| Transfer to/from substandard and regular loans | 1,080,814 | (34,352) | - | 1,046,462 |
| Effect of exchange rates changes | (1,409,168) | 167,881 | 1,226,570 | (14,717) |
| Balance December 31, 2010 | **84,081,315** | **(36,725,943)** | **(34,757,059)** | **12,598,313** |

The movement of the allowance for collective impairment during 2011 and 2010 is as follows:

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Balance January 1 | 6,401,544 | 3,359,622 |
| Additions | 3,548,221 | 3,045,672 |
| Other movement | - | (3,750) |
| Balance December 31 | 9,949,765 | 6,401,544 |

## 10. Loans And Advances To Related Parties

This caption includes loans and advances granted by the Bank to one of its major shareholders and his subsidiaries in the amount of LBP24billion as of December 31, 2011 (LBP23billion as of December 31, 2010) that are covered to the extent of LBP17billion by cash margin recorded under "Related parties accounts at amortized cost" and real estate guarantee to the extent of LBP6billion.

## 11. Trading Assets At Fair Value Through Profit Or Loss

This caption consists of the following:

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Trading assets at fair value through profit or loss/held-for-trading | 354,510,812 | 555,432 |
| Accrued interest receivable | 6,837,271 | 14,444 |
| | 361,348,083 | 569,876 |

| December 31, 2011 | LBP Base Accounts Fair Value Through Profit or Loss LBP'000 | F/Cy Base Accounts Fair Value Through Profit or Loss LBP'000 |
|---|---|---|
| Balance at December 31, 2010 | - | - |
| Transfers | 721,610,322 | 79,720,584 |
| Purchases | 800,353,536 | 284,841,221 |
| Sales/matured | (1,251,300,000) | (286,628,513) |
| Amortized cost | 6,622,236 | (1,796,774) |
| Gain/(loss) from revaluation of fair value through profit or loss | 1,213,960 | (125,760) |
| Balance at December 31, 2011 | 278,500,054 | 76,010,758 |

The Group has reclassified its investment portfolio upon the early adoption of IFRS9.

## Trading Assets At Fair Value Through Profit Or Loss

| | December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | LBP Base Accounts | | | F/Cy Base Accounts | | | |
| | Amortized Cost LBP'000 | Carrying Fair Value LBP'000 | Cumulative Change in Fair Value LBP'000 | Amortized Cost LBP'000 | Carrying Fair Value LBP'000 | Cumulative Change in Fair Value LBP'000 | Total Fair Value LBP'000 |
| Unquoted securities | 160,322 | 160,322 | - | 2,788,875 | 2,788,875 | - | 2,949,197 |
| Quoted equity securities | - | - | - | 893,409 | 893,409 | - | 893,409 |
| Certificates of deposit issued by | | | | | | | |
| Central Bank of Lebanon | 277,125,773 | 278,339,732 | 1,213,959 | - | - | - | 278,339,732 |
| Lebanese Government bonds | - | - | - | 72,440,492 | 72,328,474 | (112,018) | 72,328,474 |
| | 277,286,095 | 278,500,054 | 1,213,959 | 76,122,776 | 76,010,758 | (112,018) | 354,510,812 |

## 12. Investment Securities

| | December 31, 2011 | | | December 31, 2010 | | |
|---|---|---|---|---|---|---|
| | LBP | C/V of F/Cy | Total | LBP | C/V of F/Cy | Total |
| | LBP'000 | LBP'000 | | LBP'000 | LBP'000 | |
| A. Financial assets classified | | | | | | |
| at amortized cost | 1,257,943,311 | 771,073,745 | 2,029,017,056 | - | - | - |
| Accrued interest receivable | 22,854,291 | 8,937,540 | 31,791,831 | - | - | - |
| | 1,280,797,602 | 780,011,285 | 2,060,808,887 | - | - | - |
| | | | | | | |
| B. Available-for-sale securities | - | - | - | 408,399,553 | 234,650,848 | 643,050,401 |
| Accrued interest receivable | - | - | - | 6,885,821 | 4,659,981 | 11,545,802 |
| | - | - | - | 415,285,374 | 239,310,829 | 654,596,203 |
| | | | | | | |
| C. Held-to-maturity securities | - | - | - | - | 510,437,355 | 510,437,355 |
| Accrued interest receivable | - | - | - | - | 8,450,708 | 8,450,708 |
| | - | - | - | - | 518,888,063 | 518,888,063 |
| | 1,280,797,602 | 780,011,215 | 2,060,808,887 | 415,285,374 | 758,198,892 | 1,173,484,266 |

The Group has reclassified its investment portfolio upon the early adoption of IFRS 9 (Note 5).

| | December 31, 2011 | |
|---|---|---|
| | LBP Base Accounts Amortized Cost LBP'000 | F/Cy Base Accounts Amortized Cost LBP'000 |
| Balance at December 31, 2010 | - | - |
| Transfers | 1,257,075,000 | 649,889,569 |
| Purchases | 100,998,808 | 267,599,999 |
| Sales/matured | (82,075,000) | (141,481,656) |
| Amortized cost | (18,055,612) | (3,375,737) |
| Gain/(loss) from revaluation of fair value | | |
| through profit or loss | - | - |
| Difference in exchange | - | (1,558,315) |
| Balance at December 31, 2011 | 1,257,943,196 | 771,073,860 |

The difference of exchange is related to the Eurobonds portfolio held in Euro amounting to LBP62.16 billion (counter value of Euro31,900,000) as of December 31, 2011.

The movement of available-for-sale and held-to-maturity investment securities, exclusive of the related accrued interest, is summarized as follows:

| | 2010 | | |
|---|---|---|---|
| | Available-for-Sale | | Held-to Maturity |
| | LBP LBP'000 | C/V of F/Cy LBP'000 | C/V of F/Cy LBP'000 |
| Balance January 1, 2010 | 344,888,137 | 227,323,712 | 477,403,879 |
| Additions | 643,634,370 | 127,300,203 | 63,673,785 |
| Sales/matured | (576,609,370) | (119,430,420) | (31,092,188) |
| Gain/(loss) from change in fair value | (7,067,452) | (1,664,684) | - |
| Effect of discount/premium amortization | 3,553,868 | 1,122,037 | 3,377,059 |
| Effect of exchange rates changes | - | - | (2,925,180) |
| Balance December 31, 2010 | 408,399,553 | 234,650,848 | 510,437,355 |

### A. Investment Security At Amortized Cost

This caption consists of the following:

| | December 31, 2011 | | | | |
|---|---|---|---|---|---|
| | LBP Base Accounts | | F/Cy Base Accounts | | |
| | Amortized Cost LBP'000 | Fair Value LBP'000 | Amortized Cost LBP'000 | Fair Value LBP'000 | Amortized Cost LBP'000 |
| Lebanese Government Bonds | - | - | 541,332,757 | 543,245,878 | 541,332,757 |
| Certificates of deposit issued by the | | | | | |
| Central Bank of Lebanon | 1,257,943,311 | 1,376,230,231 | 221,182,675 | 228,445,781 | 1,479,125,986 |
| Certificates of deposit issued by banks | - | - | 8,558,313 | 8,625,714 | 8,558,313 |
| | 1,257,943,311 | 1,376,230,231 | 771,073,745 | 780,317,373 | 2,029,017,056 |

Amortized Cost Investments Are Segregated Over Remaining Periods To Maturity As Follows:

| | December 31, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | LBP Base Accounts | | | | F/Cy Base Accounts | | | |
| | Nominal Value LBP'000 | Amortized Cost LBP'000 | Net Carrying Value LBP'000 | Yield % | Nominal Value LBP'000 | Amortized Cost LBP'000 | Net Carrying Value LBP'000 | Yield % |
| Contractual Maturity | | | | | | | | |
| Lebanese Government Bonds: | | | | | | | | |
| - Up to 1 year | - | - | - | - | 24,798,375 | 24,690,395 | 24,092,866 | 4.59 |
| - 1 year to 3 years | - | - | - | - | 177,295,658 | 178,471,773 | 180,506,576 | 6.23 |
| - 3 years to 5 years | - | - | - | - | 72,927,693 | 72,398,658 | 70,829,834 | 5.98 |
| - 5 years to 10 years | - | - | - | - | 213,654,096 | 213,085,095 | 216,020,035 | 6.76 |
| - Beyond ten years | - | - | - | - | 53,546,400 | 52,686,836 | 51,796,567 | 6.45 |
| | - | - | - | | 542,222,222 | 541,332,757 | 543,245,878 | |
| | | | | | | | | |
| Certificates of deposit issued by | | | | | | | | |
| the central bank of Lebanon: | | | | | | | | |
| - Up to 1 year | - | - | - | - | 148,262,625 | 145,745,230 | 151,249,712 | 9.15 |
| - 1 year to 3 years | 1,270,000,000 | 1,251,944,388 | 1,369,866,327 | 9.79 | 75,375,000 | 75,437,445 | 77,196,069 | 8.91 |
| - 5 years to 10 years | 6,000,000 | 5,998,923 | 6,363,904 | 7.90 | - | - | - | |
| | 1,276,000,000 | 1,257,943,311 | 1,376,230,231 | | 223,637,625 | 221,182,675 | 228,445,781 | |
| | | | | | | | | |
| Certificates of deposit issued by banks: | | | | | | | | |
| -Up to 1 year | - | - | - | - | 7,836,000 | 7,804,563 | 7,866,898 | 7.75 |
| -5 years to 10 years | - | - | - | - | 753,750 | 753,750 | 758,816 | 6.75 |
| | - | - | - | | 8,589,750 | 8,558,313 | 8,625,714 | |
| | | | | | | | | |
| | 1,276,000,000 | 1,257,943,311 | 1,376,230,231 | | 774,449,597 | 771,073,745 | 780,317,373 | |

## B. Available-For-Sale Securities:

This caption consists of the following:

| | December 31, 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | LBP Base Accounts | | | F/Cy Base Accounts | | | |
| | Amortized Cost LBP'000 | Carrying Fair Value LBP'000 | Cumulative change in Fair Value LBP'000 | Amortized Cost LBP'000 | Carrying Fair value LBP'000 | Cumulative change inFair Value LBP'000 | Total Fair Value LBP'000 |
| Quoted equity securities | - | - | - | 1,581,127 | 2,093,994 | 512,867 | 2,093,994 |
| Unquoted equity securities | 1,122 | 160,322 | 159,200 | - | - | - | 160,322 |
| Lebanese treasury bills | 241,584,917 | 241,860,333 | 275,416 | - | - | - | 241,860,333 |
| Lebanese Government bonds | - | - | - | 187,723,951 | 191,590,543 | 3,866,592 | 191,590,543 |
| Certificates of deposit issued by | | | | | | | |
| the Central Bank of Lebanon | 151,276,564 | 166,378,898 | 15,102,334 | 28,007,409 | 34,060,455 | 6,053,046 | 200,439,353 |
| Certificates of deposit issued | | | | | | | |
| by banks | - | - | - | 6,769,983 | 6,905,856 | 135,873 | 6,905,856 |
| | 392,862,603 | 408,399,553 | 15,536,950 | 224,082,470 | 234,650,848 | 10,568,378 | 643,050,401 |

## Available-For-Sale Investments Are Segregated Over Remaining Periods To Maturity As Follows:

| | December 31, 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | LBP Base Accounts | | | | F/Cy Base Accounts | | | |
| | Nominal Value LBP'000 | Amortized Cost LBP'000 | Carrying Value LBP'000 | Yield % | Nominal Value LBP'000 | Amortized Cost LBP'000 | Carrying Value LBP'000 | Yield % |
| Contractual Maturity | | | | | | | | |
| Lebanese treasury bills: | | | | | | | | |
| - Up to 1 year | 62,075,000 | 63,239,149 | 62,696,840 | 4.47 | - | - | - | - |
| - 3 years to 5 years | 169,450,000 | 173,345,768 | 174,280,756 | 6.93 | - | - | - | - |
| - 5 years to 10 years | 5,000,000 | 5,000,000 | 4,882,737 | - | - | - | - | - |
| | 236,525,000 | 241,584,917 | 241,860,333 | - | - | - | | |
| | | | | | | | | |
| Lebanese Government bonds: | | | | | | | | |
| - 1 year to 3 years | - | - | - | - | 35,124,031 | 34,978,191 | 35,481,545 | 6.94 |
| - 3 years to 5 years | - | - | - | - | 116,098,061 | 118,416,527 | 120,630,848 | 7.24 |
| - 5 years to 10 years | - | - | - | - | 29,048,018 | 32,450,582 | 33,534,836 | 7.31 |
| - Beyond 10 years | - | - | - | - | 1,882,868 | 1,878,651 | 1,943,314 | - |
| | - | - | - | | 182,152,978 | 187,723,951 | 191,590,543 | |
| | | | | | | | | |
| Certificates of deposit issued by the Central Bank of Lebanon: | | | | | | | | |
| - 1 year to 3 years | 151,000,000 | 151,276,564 | 166,378,898 | 11.40 | 30,150,000 | 28,007,409 | 34,060,455 | 9.75 |
| | 151,000,000 | 151,276,564 | 166,378,898 | | 30,150,000 | 28,007,409 | 34,060,455 | |
| | | | | | | | | |
| Certificates of deposit issued by banks: | | | | | | | | |
| - 1 year to 3 years | - | - | - | - | 6,030,000 | 6,016,233 | 6,151,806 | 7.75 |
| - 5 years to 10 years | - | - | - | - | 753,750 | 753,750 | 754,050 | 6.75 |
| | - | - | - | | 6,783,750 | 6,769,983 | 6,905,856 | |
| | | | | | | | | |
| Shares | 1,122 | 1,122 | 160,322 | | 1,581,127 | 1,581,127 | 2,093,994 | |
| | 387,526,122 | 392,862,603 | 408,399,553 | | 220,667,855 | 224,082,470 | 234,650,848 | |

Available-for-sale certificates of deposit issued by the Central Bank of Lebanon as at December 31, 2010 include certificates of deposit with carrying value of LBP34billion (counter value of USD22,666,666) and nominal value of LBP30billion (counter value of USD20,000,000) maturing in 2015 with a put option exercisable at a redemption value of 91.63% of the par value in year 2012. Interest is recognized on these securities based on the yield to put option date.

During 2008, and as a result of the Group's change in intention, it reclassified Eurobonds from available-for-sale to held to maturity securities as follows:

| | | | December 31, 2010 | | |
|---|---|---|---|---|---|
| | Coupon Rate % | Maturity | Nominal Value USD | Carrying Value USD | Change in Fair Value USD |
| Eurobonds | 9.00 | May 2, 2014 | 25,000,000 | 25,392,048 | 392,048 |
| Counter value in LBP'000 | | | | 38,278,512 | 591,030 |

Change in fair value amounting to LBP591million as at December 31, 2011 was booked under "Change in fair value of available-for-sale securities" under equity and is amortized until maturity (Note 26).

## C. Held-To-Maturity Investment:

This caption consists of the following:

| | December 31, 2010 | |
|---|---|---|
| | F/Cy Base Accounts | |
| | Amortized Cost LBP'000 | Fair Value LBP'000 |
| Lebanese Government bonds | 316,973,086 | 326,962,895 |
| Certificates of deposit issued by the Central Bank of Lebanon | 193,464,269 | 202,502,559 |
| | 510,437,355 | 529,465,454 |

Held to maturity investments are Segregated Over Remaining Period To Maturity as Follows:

| | F/Cy Base Accounts | | |
|---|---|---|---|
| | 2010 | | |
| | Net Carrying Value LBP'000 | Fair Value LBP'000 | Yield % |
| Lebanese Government Bonds: | | | |
| Up to 1 Year | 32,435,436 | 31,842,888 | 6.02 |
| 1 year to 3 years | 78,630,652 | 78,456,240 | 6.32 |
| 3 years to 5 years | 76,426,337 | 78,007,854 | 7.09 |
| 5 years to 10 years | 88,568,868 | 92,683,883 | 7.20 |
| Beyond 10 years | 40,911,793 | 45,972,030 | 8.18 |
| | 316,973,086 | 326,962,895 | |
| Certificates of Deposit Issued by the Central Bank of Lebanon: | | | |
| 1 year to 3 years | 193,464,269 | 202,502,559 | 9.01 |
| | 193,464,269 | 202,502,559 | |
| | | | |
| Total | 510,437,355 | 529,465,454 | |

## 13. Customers' Liability Under Acceptances

Acceptances represent documentary credits which the Bank has committed to settle on behalf of its customers against commitments by those customers (acceptances).

The commitments resulting from these acceptances are stated as a liability in the balance sheet for the same amount.

## 14. Assets Acquired In Satisfaction Of Loans

Assets acquired in satisfaction of loans have been acquired through enforcement of security over loans and advances.

The movement of assets acquired in satisfaction of loans during 2011 and 2010 was as follows:

| | Real Estate LBP'000 |
|---|---|
| Cost: | |
| Balance, January 1, 2010 | 17,951,451 |
| Additions | 486,109 |
| Disposals | (1,352,066) |
| Balance, December 31, 2010 | 17,085,494 |
| Additions | 2,812,371 |
| Balance, December 31, 2011 | 19,897,865 |
| Accumulated allowance for impairment: | |
| Balance, January 1, 2010 | 231,165 |
| Write-off on disposal | - |
| Balance December 31, 2010 | 231,165 |
| Write-off on disposal | - |
| Balance, December 31, 2011 | 231,165 |
| Carrying amount: | |
| December 31, 2011 | 19,666,700 |
| | |
| December 31, 2010 | 16,854,329 |

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation within 2 years from the date of approval, the Group allocate a regulatory reserves for assets acquired in satisfaction of loans from the retained earnings. During 2011, LBP1.04billion were allocated from retained earnings (LBP926million during 2010).

During 2010, the Bank disposed of ten plots mainly in Tripoli for an amount of LBP1.4billion. This transaction resulted in a gain of LBP613million which was recorded under "Other operating income" (Note 33).

## 15. Property And Equipment

| | Buildings LBP'000 | Freehold Improvements LBP'000 | Furniture and Equipments LBP'000 | Computer Equipments LBP'000 | Vehicles LBP'000 | Advances on Capital Expenditures LBP'000 | Total LBP'000 |
|---|---|---|---|---|---|---|---|
| Gross/Revalued Amount: | | | | | | | |
| - Balance, January 1, 2010 | 21,752,610 | 8,898,296 | 3,609,108 | 3,320,210 | 361,285 | 544,815 | 38,486,324 |
| - Additions | 3,567,486 | 1,387,085 | 1,077,102 | 308,897 | - | 1,755,960 | 8,096,530 |
| - Disposals | (766,338) | (588,261) | (258,594) | (616,204) | (7,085) | - | (2,236,482) |
| - Transfers between categories | - | (197,606) | (859,798) | 1,057,404 | - | - | - |
| Balance, December 31, 2010 | 24,553,758 | 9,499,514 | 3,567,818 | 4,070,307 | 354,200 | 2,300,775 | 44,346,372 |
| - Additions | 4,318,132 | 1,911,442 | 374,582 | 775,339 | 31,815 | 4,693,867 | 12,105,177 |
| - Disposal | - | (167,494) | (87,000) | (82,855) | (30) | - | (337,379) |
| - Transfers between categories | - | 1,635,155 | 665,620 | - | - | (2,300,775) | - |
| - Adjustments and difference of exchange | - | (3,513) | (3,205) | (1,618) | (2,125) | - | (10,461) |
| **Balance, December 31, 2011** | **28,871,890** | **12,875,104** | **4,517,815** | **4,761,173** | **383,860** | **4,693,867** | **56,103,709** |
| Accumulated Depreciation: | | | | | | | |
| - Balance, January 1, 2010 | 702,638 | 5,594,458 | 1,427,574 | 2,340,524 | 241,791 | - | 10,306,985 |
| - Additions | 71,888 | 960,146 | 177,664 | 529,788 | 43,793 | - | 1,783,279 |
| - Write-off on disposal | - | (559,249) | (238,902) | (605,277) | (1,901) | - | (1,405,329) |
| - Transfers between categories | - | (203,827) | (196,220) | 400,047 | - | - | - |
| Balance, December 31, 2010 | 774,526 | 5,791,528 | 1,170,116 | 2,665,082 | 283,683 | - | 10,684,935 |
| - Additions | 78,758 | 1,462,068 | 293,498 | 598,445 | 42,752 | - | 2,475,521 |
| - Write-off on disposal | - | (167,207) | (66,033) | (76,093) | (30) | - | (309,363) |
| - Adjustments and difference of exchange | - | (1,381) | (561) | (1,454) | (119) | - | (3,515) |
| **Balance, December 31, 2011** | **853,284** | **7,085,008** | **1,397,020** | **3,185,980** | **326,286** | **-** | **12,847,578** |
| Carrying Amount: | | | | | | | |
| - Balance, December 31,2011 | 28,018,606 | 5,790,096 | 3,120,795 | 1,575,193 | 57,574 | 4,693,867 | 43,256,131 |
| - Balance, December 31,2010 | 23,779,232 | 3,707,986 | 2,397,702 | 1,405,225 | 70,517 | 2,300,775 | 33,661,437 |

Addition to buildings during 2011 includes the purchase of a new branch in Jnah for the amount of LBP4.1billion while the additions in the advances on capital expenditures are the expenditures for the new branch in Achrafieh.

Addition to buildings during 2010 includes the purchase of a plot in Jbeil for the amount of LBP3.35billion.

## 16. Intangible Assets

| | Purchased Software LBP'000 |
|---|---|
| Cost: | |
| Balance, January 1, 2010 | 2,746,804 |
| Acquisitions | 149,175 |
| Disposals | (266,831) |
| Balance, December 31, 2010 | 2,629,148 |
| Acquisitions | 537,410 |
| Difference of exchange | (7,595) |
| Balance, December 31, 2011 | 3,158,963 |
| Amortization: | |
| Balance, January 1, 2010 | 1,617,588 |
| Amortization for the year | 318,552 |
| Disposals | (218,485) |
| Balance, December 31, 2010 | 1,717,655 |
| Amortization for the year | 340,049 |
| Difference of exchange | (2,412) |
| Balance, December 31, 2011 | 2,055,292 |
| Carrying Amounts: | |
| December 31, 2011 | 1,103,671 |
| December 31, 2010 | 911,493 |

## 17. Regulatory Blocked Fund

Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese treasury bills upon establishment of "IBL Investment Bank S.A.L." .

This deposit is refundable in case of cease of operations according to Article 132 of the Code of Money and Credit

## 18. Other Assets

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Accounts receivable- Credit cards | 2,200,940 | 1,072,023 |
| Prepayments | 1,108,499 | 1,337,516 |
| Net of forward foreign currency position | 75,429 | 271,525 |
| Sundry accounts receivable | 283,237 | 259,961 |
| | 3,668,105 | 2,941,025 |

"Accounts receivable-Credit cards" represents client withdrawals on the credit cards that the bank has settled on their behalf to "CSC Bank S.A.L.".

These receivables were collected in the subsequent period.

## 19. Deposits And Borrowings From Banks

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

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Current deposits of banks and financial institutions | 34,433,411 | 38,285,289 |
| Other short term borrowings | 40,075,522 | 37,847,247 |
| Accrued interest payable | 63,842 | 60,458 |
| | 74,572,775 | 76,192,994 |

The maturities of other short term borrowings are as follows:

| December 31, 2011 | | | | |
|---|---|---|---|---|
| | Balance in LBP | | Balance in F/Cy | |
| Maturity (Year) | Amount LBP'000 | Average Interest Rate % | Counter Value of Amount in LBP LBP'000 | Average Interest Rate % |
| 2012 | 6,500,910 | 2.75 | 33,574,612 | 2.41 |

| December 31, 2010 | | | | |
|---|---|---|---|---|
| | Balance in LBP | | Balance in F/Cy | |
| Maturity (Year) | Amount LBP'000 | Average Interest Rate % | Counter Value of Amount in LBP LBP'000 | Average Interest Rate % |
| 2011 | 15,076,158 | 4.25 | 22,771,089 | 1.86 |
| | 15,076,158 | | 22,771,089 | |

# 20. Customers' Accounts At Amortized Cost

| December 31, 2011 | LBP LBP'000 | Counter Value of F/Cy LBP'000 | Total LBP'000 |
|---|---|---|---|
| Deposits from customers: | | | |
| - Current / demand deposits | 65,116,588 | 500,975,533 | 566,092,121 |
| - Term deposits | 1,889,345,170 | 2,223,946,687 | 4,113,291,857 |
| - Collateral against loans and advances | 12,092,267 | 4,034,918 | 16,127,185 |
| | 1,966,554,025 | 2,728,957,138 | 4,695,511,163 |
| Margins and other accounts: | | | |
| - Margins for irrevocable import letters of credit | - | 12,151,714 | 12,151,714 |
| - Margins on letters of guarantee | 1,553,967 | 4,600,463 | 6,154,430 |
| - Other margins | 269,899,470 | 96,624,471 | 366,523,941 |
| | 271,453,437 | 113,376,648 | 384,830,085 |
| Accrued interest payable | 18,980,087 | 9,438,368 | 28,418,455 |
| Total | 2,256,987,549 | 2,851,772,154 | 5,108,759,703 |

| December 31, 2010 | LBP LBP'000 | Counter Value of F/Cy LBP'000 | Total LBP'000 |
|---|---|---|---|
| Deposits from customers: | | | |
| - Current / demand deposits | 36,727,513 | 239,426,450 | 276,153,963 |
| - Term deposits | 1,751,036,396 | 1,813,268,554 | 3,564,304,950 |
| - Collateral against loans and advances | 20,352,502 | 2,613,027 | 22,965,529 |
| | 1,808,116,411 | 2,055,308,031 | 3,863,424,442 |
| Margins and other accounts: | | | |
| - Margins for irrevocable import letters of credit | 332,899 | 38,120,219 | 38,453,118 |
| - Margins on letters of guarantee | 1,588,072 | 3,234,771 | 4,822,843 |
| - Other margins | 324,612,861 | 83,825,431 | 408,438,292 |
| | 326,533,832 | 125,180,421 | 451,714,253 |
| Accrued interest payable | 19,341,249 | 7,747,657 | 27,088,906 |
| Total | 2,153,991,492 | 2,188,236,109 | 4,342,227,601 |

Deposits from customers at amortized cost are allocated by brackets of deposits as follows:

| December 31, 2011 | LBP | | | Counter Value of F/Cy | | |
|---|---|---|---|---|---|---|
| | Total Deposits LBP'000 | Percentage to Total Deposits % | No. of Accounts | Total Deposits LBP'000 | Percentage to Total Deposits % | No. of Account LBP'000 |
| Less than LBP50,000 | 93,641,382 | 4.18 | 74 | 60,400,101 | 2.13 | 74 |
| From 50,001 to 250,000 | 288,093,625 | 12.87 | 16 | 162,201,437 | 5.71 | 5 |
| From 250,001to 750,000 | 369,727,066 | 16.52 | 6 | 231,164,763 | 8.13 | 6 |
| From 750,001 to 1,500,000 | 240,513,815 | 10.75 | 2 | 251,574,819 | 8.85 | 2 |
| More than 1,500,001 | 1,246,031,574 | 55.68 | 2 | 2,136,992,666 | 75.18 | 3 |
| | 2,238,007,462 | 100.00 | 100 | 2,842,333,786 | 100.00 | 100 |

| December 31, 2010 | LBP | | | Counter Value of F/Cy | | |
|---|---|---|---|---|---|---|
| | Total Deposits LBP'000 | Percentage to Total Deposits % | No. of Accounts | Total Deposits LBP'000 | Percentage to Total Deposits % | No. of Account LBP'000 |
| Less than LBP50,000 | 84,933,481 | 3.98 | 73 | 51,473,312 | 2.36 | 73 |
| From 50,001 to 250,000 | 281,287,567 | 13.18 | 18 | 146,097,129 | 6.70 | 16 |
| From 250,001 to 750,000 | 343,443,891 | 16.09 | 6 | 187,459,888 | 8.60 | 7 |
| From 750,001 to 1,500,000 | 218,408,086 | 10.23 | 2 | 200,498,075 | 9.20 | 2 |
| More than 1,500,001 | 1,206,577,218 | 56.52 | 1 | 1,594,960,048 | 73.14 | 2 |
| | 2,134,650,243 | 100.00 | 100 | 2,180,488,452 | 100.00 | 100 |

Deposits from customers at amortized cost include at December 31, 2011 coded deposit accounts in the aggregate amount of LBP172billion (LBP185billion in 2010). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers at amortized cost include at December 31, 2011 fiduciary deposits received from banks for a total amount of LBP326billion (LBP255billion in 2010).

The average balance of deposits at amortized cost and related cost of funds over the last three years were as follows:

| Average Balance of Deposits | | | | |
|---|---|---|---|---|
| Year | LBP Base Accounts | F/Cy Base Accounts | Cost of Funds | Average Interest Rate |
| 2011 | 2,189,188,113 | 2,57 2,756,425 | 24 4,435,760 | 5.13 |
| 2010 | 1,989,610,735 | 1,998,143,868 | 213,240,882 | 5.35 |
| 2009 | 1,551,644,000 | 1,580,751,000 | 191,902,092 | 6.10 |

## 21. Other Liabilities

This Caption Consists of The Following:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | LBP'000 | LBP'000 |
| Current tax liability | 417,473 | 1,214,922 |
| Withheld taxes and property taxes | 5,616,818 | 1,939,120 |
| Due to the Social Security National Fund | 309,182 | 235,126 |
| Checks and incoming payment orders in course of settlement | 5,132,245 | 2,359,686 |
| Blocked capital subscriptions for companies under incorporation | 1,709,290 | 939,810 |
| Accrued expenses | 2,048,708 | 1,905,935 |
| Dividends declared and payable | 170,680 | 197,649 |
| Payable to personnel and directors | 730,360 | 634,738 |
| Unearned revenues | 1,748,686 | 1,206,734 |
| Due to former shareholders | 417,577 | 417,577 |
| Deferred taxes (Note 26) | - | 3,915,779 |
| Sundry accounts payable | 3,157,655 | 1,549,076 |
| | 21,458,674 | 16,516,152 |

## 22. Provisions

Provisions Consist of The Following:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | LBP'000 | LBP'000 |
| Provision for staff end of service indemnity | 5,315,464 | 4,407,344 |
| Provision for contingencies | 1,045,636 | 45,636 |
| Provision for loss in foreign currency position | 100,000 | 100,000 |
| | 6,461,100 | 4,552,980 |

The additional provision for contingencies in the amount of LBP1billion was taken and booked during 2011 in the statement of income (Note 35).

The movement of provision for staff end of service indemnity is as follows:

| | 2011 | 2010 |
|---|---|---|
| | LBP'000 | LBP'000 |
| Balance, January 1 | 4,407,344 | 3,509,565 |
| Additions (Note 36) | 1,046,445 | 1,038,173 |
| Settlements | (138,325) | (140,394) |
| Balance, December 31 | 5,315,464 | 4,407,344 |

## 23. Share Capital

According to the decision of the extraordinary General Assembly held on June 9, 2011, the Bank decided to redeem the 840,000 non-cumulative convertible preferred shares for LBP7,500 each in the total amount of LBP6.3billion and to issue 840,000 ordinary shares for LBP7,500 each.

Furthermore, upon the decision of the Extraordinary General Assembly held on June 9, 2011, the Bank issued 3,500,000 ordinary shares for LBP7,500 each by transfer from retained earnings.

Consequently, the Bank's authorized capital became LBP146.25bililon as at December 31, 2011 consisting of 19,500,000 fully paid shares LBP7,500 each.

The Bank hedged part of its capital against fluctuations in the Lebanese currency through a fixed currency position of USD6,300,000.

According to the decision of the General Assembly held on June 9, 2011, the Bank authorized the distribution of dividends in the amount of LBP17.74billion from retained earnings to the common shareholders and 4.56billion to the preferred shareholders based on the percentage of ownership (Note 26).

## 24. Non-Cumulative Convertible Preferred Shares

The non-cumulative convertible preferred shares amounted to LBP37.96billion (USD25,200,000) as at December 31, 2010 composed of 840,000 of non-cumulative convertible preferred shares for LBP7,500 each, in addition to a premium of USD25 each. According to the decision of the Extraordinary General Assembly held on June 9, 2011, the Bank redeemed all of the 840,000 preferred shares amounting to LBP6.3billion, and issued for 840,000 new ordinary shares for LBP7,500 each.

In addition, the Extraordinary General Assembly held on June 9, 2011 decided to issue 500,000 non-cumulative preferred shares LBP7,500 each, in addition to a premium of USD95 each. These shares do not carry a voting right except in limited circumstances

## 25. Reserves

Reserves consist of the following:

| | December 31 2011 LBP'000 | December 31 2010 LBP'000 |
|---|---|---|
| Legal reserve | 10,336,401 | 5,044,979 |
| Reserve for general banking risks | 16,506,318 | 11,106,318 |
| Other reserves | 3,888,000 | 3,888,000 |
| | 30,730,719 | 20,039,297 |

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

The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-balance sheet risk and global exchange position as defined for the computation of the solvency ratio at year-end, on condition that the aggregate rate does not fall bellow 1.25% at the end of the tenth year, starting 1998, which is 2007 and 2% at the end of the twentieth year.

This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Bank's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution and to be used to cover any annual losses or unexpected losses agreed upon with the banking control commission.

## 26. Cumulative Change In Fair Value Of Investment Securities

The cumulative change in fair value of investment securities consists of the following:

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Net cumulative change in fair value of available-for-sale securities | - | 22,189,549 |
| Net cumulative change in fair value of securities reclassified under held-to-maturity securities (Note 12) | - | 591,030 |
| | - | 22,780,579 |

The Group has reclassified its investment portfolio upon the early adoption of IFRS 9 (Note 5).

The net cumulative change in fair value of available-for-sale consists of the following:

| | December 31, 2010 Cumulative Change in Fair Value LBP'000 | December 31, 2010 Deferred Tax LBP'000 | December 31, 2010 Net LBP'000 |
|---|---|---|---|
| Unrealized gains on quoted securities | 512,867 | (76,930) | 435,937 |
| Unrealized gains on unquoted securities | 159,200 | (23,880) | 135,320 |
| Unrealized gains on Lebanese treasury bills | 275,416 | (41,312) | 234,104 |
| Unrealized loss on Lebanese Government bonds | 3,866,592 | (579,988) | 3,286,604 |
| Unrealized gain/(loss) on certificates of deposit issued by the Central Bank of Lebanon | 21,155,380 | (3,173,288) | 17,982,092 |
| Unrealized gain/(loss) on certificates of deposit issued by commercial banks | 135,873 | (20,381) | 115,492 |
| | 26,105,328 | (3,915,779) | 22,189,549 |

## 27. Dividends Paid

The following dividends were declared and paid by the Bank during the year according to the decision of the General Assembly meeting held on June 9, 2011:

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Ordinary shares | 17,737,200 | 4,174,612 |
| Preferred shares | 4,558,680 | 4,174,612 |
| | 22,295,880 | 8,349,224 |

## 28. Non-Controlling Interest

This caption comprises the following:

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Capital | 600,000 | - |
| Income for the year | 118,623 | - |
| | 718,623 | - |

## 29. Interest Income

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Interest earning deposits with the Central Bank of Lebanon | 49,563,739 | 12,407,752 |
| Deposits with banks and financial institutions | 2,246,878 | 1,236,856 |
| Amortized cost investment securities | 182,943,284 | - |
| Available-for-sale investment securities | - | 53,819,969 |
| Held-to-maturity investment securities | - | 38,750,825 |
| Loans to banks (including Central Bank CDs) | 3,079,223 | 141,792,291 |
| Loans and advances | 58,536,536 | 39,726,826 |
| Related parties | 2,486,725 | 1,906,778 |
| | 298,856,385 | 289,641,297 |

Interest income realized on impaired loans and advances to customers represent recoveries of interest. Accrued interest on impaired loans and advances is not recognized until recovery/ rescheduling agreement\signed with customers.

## 30. Interest Expense

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Deposits and borrowings from banks and financial institutions | 1,875,191 | 1,673,235 |
| Customers' accounts at amortized cost | 244,435,760 | 213,240,882 |
| Related parties accounts at amortized cost | 788,533 | 683,016 |
| | 247,099,484 | 215,597,133 |

## 31. Fee And Commission Income

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Commission on documentary credits | 2,174,544 | 2,919,227 |
| Commission on letters of guarantee | 1,003,000 | 1,007,803 |
| Service fees on customers' transactions | 3,067,373 | 3,431,298 |
| Asset management fees | 223,633 | 16,433 |
| Brokerage fees | 143,838 | - |
| Other | 658,084 | 605,949 |
| | 7,270,472 | 7,980,710 |

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

## 32. Fee And Commission Expense

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Commission on transactions with banks | 2,979,262 | 344,619 |
| Other | 172,057 | 153,409 |
| | 3,151,319 | 498,028 |

## 33. Other Operating Income

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Gain on sale of available-for-sale securities: | | |
| Lebanese treasury bills | - | 6,014,363 |
| Certificates of deposit issued by Central Bank of Lebanon | - | 7,367,113 |
| Dividends on available for-sale securities | - | 169,982 |
| Gain on sale of assets acquired in satisfaction of loans | - | 612,612 |
| Foreign exchange gain | 3,532,749 | 2,972,959 |
| Other | 46,564 | 1,355,852 |
| | 3,579,313 | 18,492,881 |

## 34. Income From Trading Assets At Fair Value Through Profit Or Loss

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Interest income | 38,325,985 | 29,225 |
| Change in fair value of held-for-trading securities | - | 2,154,853 |
| Change in fair value of trading assets at fair value through profit or loss | 1,101,941 | - |
| Net realized gain on sale of trading assets at fair value through profit or loss | 21,176,101 | - |
| Net realized gain on sale of held-for-trading securities | - | 208,462 |
| | 60,604,027 | 2,392,540 |

## 35. Allowance For Impairment And Write-Off Of Loans And Advances

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Allowance for impairment loans and advances | 376,302 | 643,375 |
| Write-back | (422,192) | (483,620) |
| Allowance for collective impairment | 3,548,221 | 3,045,672 |
| Provision for contingencies (Note 22) | 1,000,000 | - |
| Write-off of loans | 308,522 | 193,102 |
| | 4,810,853 | 3,398,529 |

## 36. Staff Costs

| | 2011 LBP'000 | 2010 LBP'000 |
|---|---|---|
| Salaries | 20,711,661 | 17,244,550 |
| Social Security contributions | 2,012,025 | 1,604,986 |
| Provision for end-of-service indemnities (Note 22) | 1,046,445 | 1,038,173 |
| | 23,770,131 | 19,887,709 |

## 37. Financial Instruments With Off-Balance Sheet Risks

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the balance sheet.

However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

## 38. Balances / Transactions With Related Parties

In the ordinary course of its activities, the Bank conducts transactions with related parties including shareholders, directors, and other key management. Balances with related parties consist of the following:

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Direct facilities and credit balances: | | |
| Secured loans and advances | 40,945,597 | 39,697,295 |
| Deposits | 84,093,278 | 76,599,438 |
| Indirect facilities: | | |
| Letters of guarantee | 918,860 | 2,929,549 |

Secured loans and advances are covered by real estate mortgage to the extent of LBP6billion and by pledged deposits of the respective borrowers to the extent of LBP17billion for 2011 and 2010 respectively.

The remunerations of executive management amounted to LBP3.52billion during 2011 (LBP2.7billion during 2010). Board of directors attendance fees amounted to LBP425million during 2011 (LBP448million during 2010).

## 39. Cash And Cash Equivalents

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

| | December 31, 2011 LBP'000 | December 31, 2010 LBP'000 |
|---|---|---|
| Cash | 38,762,594 | 28,079,608 |
| Current account at the Central Bank of Kurdistan | 58,072,602 | 33,123,946 |
| Time deposits with the Central Bank of Lebanon | 469,410,807 | 251,354,102 |
| Current accounts with banks and financial institutions | 124,001,947 | 55,460,794 |
| Time deposits with banks and financial institutions | 368,567,533 | 209,400,027 |
| Demand deposits from banks | (34,433,411) | (38,285,289) |
| Time deposits from banks | (20,182,103) | (26,830,495) |
| | 1,004,199,969 | 512,302,693 |

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

The following transactions are non-monetary and were excluded from the consolidated statement of cash flows:

(a) Increase in assets acquired in satisfaction of loans for the amount of LBP2.8billion against loans and advances to customers for the year ended December 31, 2011 (LBP486million for the year ended December 31, 2010).

(b)Increase in financial assets at amortized cost in the amount of LBP176billion and decrease in financial assets at fair value through profit or loss in the amount of LBP297billion, against decrease in loans to banks, available-for-sale investment securities and held-to-maturity investment securities in the amount of LBP1.551billion, LBP654billion and LBP519billion, respectively.

(c) Increase in retained earnings against decrease in cumulative change in fair value of available-for-sale securities in the amount of LBP22.8billion.

## 40. Capital Management

The Group's objectives when managing capital are to comply with the capital requirements set by the Central Bank of Lebanon, the Group's main regulator, to safeguard the Group's ability to continue as a going concern and to maintain a strong capital base.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad. In addition, the bank is required to observe the minimum capital adequacy ratio set by the regulator at 8% (Basle 2 Ratio).

The Group's capital is split as follows:
Tier I capital: Comprises share capital, shareholders' cash contribution to capital, non-cumulative perpetual preferred shares, share premium, reserves from appropriation of profits and retained earnings. Goodwill and cumulative unfavorable change in fair value of available-for-sale securities are deducted from Tier I Capital.

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

Also, various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital and qualifying short term subordinated loan capital may not exceed 50% of Tier I capital.The Group has complied with the regulatory capital requirement throughout the period.

The Group's consolidated capital adequacy ratio as per Basle 2 as at December 31, 2011 and 2010 amounted to 11.74% and 11.73% respectively, and is determined as follows:

| | December 31, | |
|---|---|---|
| | 2011 | 2010 |
| | LBPmillion | LBPmillion |
| Total capital | 344,821 | 260,116 |
| | | |
| Credit risk | 2,555,853 | 2,068,642 |
| Market risk | 207,192 | 1,926 |
| Operational risk | 174,085 | 146,462 |
| Total risk-weighted assets | 2,937,130 | 2,217,030 |
| | | |
| Capital adequacy ratio - Tier I and Tier II | 11.74% | 11.73% |

## 41. Financial Risk Management

The Bank has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Interest rate risk
- Foreign Exchange risk

The Credit Committee, Assets and Liabilities Committee work under the mandate of the board to set up risk limits and manage the overall risk in the Bank.

A. Credit Risk

1. Credit risk Management

Credit risk represents the risk of loss due to failure of a customer or counterparty to meet its financial obligations in accordance with contractual terms. The objective of the Bank's credit risk strategy is to quantify and manage credit risk on an aggregate portfolio basis, as well as to limit the risk of loss resulting from an individual customer default. This strategy is based on three core principles: Conservatism, diversification and monitoring.

The Bank manages credit risk through underwriting, periodically reviewing and approving credit exposures based on prevailing credit policies and guidelines. Additionally the Bank manages credit risk through loan portfolio diversification, limiting exposure to any single industry, risk mitigation, customer and guarantor within various geographical areas.
Corporate and Commercial Lending are largely centralized at head office and are sanctioned by relating credit committees.

2. Loan Classification And Monitoring

The Bank loan classification and internal rating system is derived from the frame work of the regulatory classification requirement, and which is consistent with best practices. The loans' classification methodology is as follows:

A. Ordinary accounts:
  - Regular
  - Watch, for incomplete documentation
B. Special mention accounts.
C. Substandard accounts.
D. Doubtful accounts.
E. Bad or failing accounts.

• Ordinary Accounts: All payments are current and full repayment of interest and principal from normal sources is not in doubt.

• Watch List: Loans and advances rated Watch List are loans that are not impaired nor they show any creditworthiness weakness but for which the Bank determines that they require special monitoring due to certain deficiencies in the credit file with respect to the financial statements, collaterals, profitability, or others.

• Special Mention Accounts: Loans past due but not impaired are loans where contractual interest or principal are past due but believes that impairment is not appropriate on the basis of the level of collateral available and the stage of collection of amounts owed to the Bank.

• Substandard loans: There is weakness in the borrower's creditworthiness, profitability, cash flows for a long period and collaterals or uses of the facilities for other purposes. Default has occurred or is likely to occur or the repayment schedule has been restructured. Past due for more than 90 but less than 270 days.

• Doubtful loans: More adverse conditions than those related to the above mentioned classification, with a greater degree of risk associated with the on going deterioration in the client position and sufficiency of collateral and the cease of deposits for greater than 270 days and less than 365 days or the cease of settlements or rescheduled payments for more than 90 days.

• Bad or failing accounts: It covers credits that are regarded as uncollectible, when the delay in payments exceeds 365 days.

Loan account classifications are reviewed periodically by the Credit department. Accounts' classification is monitored based on relevant facts related to the accounts' performance and are up and/or down-graded depending on the credit worthiness of the borrowers and their ability to pay back, taking into consideration the quality of the guarantees. Once Accounts are classified as less then regular, they become closely monitored for debtor's behavior, accounts performance, deterioration in the borrower's solvency, cash generation and overall financial condition.
If, however, the borrower's difficulties appear to be more fundamental and/or the collateral no longer adequately covers the facility, whether due to excessive exposure or diminution in the value of the collateral then the account is classified as Class C and interest is discontinued to be recognized in the income statement.

3. Risk Mitigation Policies

Collateral:

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

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

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally updated every 2 years and when a loan is individually assessed as impaired.
Generally, Collateral is not held over loans and advances to banks, except when securities are held as part of reverse repurchase and securities borrowing activity. Collateral usually is not held against investment securities, and no such collateral was held at December 31, 2011 and 2010.

A plan of action is determined in relation to each Class C account. If there is no improvement, a provision is taken in respect of the principal based on the expected debt recovery, and the account is then classified as Class D. Once recovery becomes very remote, the full outstanding balance is provided for; the account is down graded to Class E.

Impaired loans and securities
Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. These loans are

graded C, D and E in the Bank's internal credit risk grading methodology.

Past due but not impaired loans
Loans and securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Allowances for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loan loss allowance established for Banks of homogeneous assets in respect of losses that have been incurred but have not been identified on loans subject to individual assessment for impairment.

Write-off policy
The Bank writes-off a loan or security (and any related allowances for impairment losses) when Bank's management and credit business unit determine that the loans/securities are uncollectible in whole or in part. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay its obligation in full, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardized loans, charge off decisions generally are based on a product specific past due status.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of impaired assets by risk grade, as well as the fair value of collaterals taken against these loans.

## Below Are The Details Of The Bank's Exposure To Credit Risk With Respect To Loans And Advances To Customers:

| | December 31, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Fair Value of Collateral Held | | | | |
| | Gross Loans Net of Unrealized Interest LBP'000 | Allowance for Impairment LBP'000 | Net exposure LBP'000 | Pledged Funds LBP'000 | Real Estate Property LBP'000 | Equity Securities LBP'000 | Other LBP'000 | Total LBP'000 |
| Regular Accounts | 897,599,238 | - | 897,599,238 | 370,006,129 | 349,716,163 | 4,527,858 | 30,277,910 | 754,528,060 |
| Past due regular loans and advances but not impaired: | | | | | | | | |
| Between 30-60 days | 3,664,161 | - | 3,664,161 | - | - | - | - | - |
| Between 60-90 days | 11,283 | - | 11,283 | - | - | - | - | - |
| Between 90-180 days | 433,418 | - | 433,418 | - | - | - | - | - |
| Beyond 180 days | 996,074 | - | 996,074 | - | - | - | - | - |
| | 5,104,936 | - | 5,104,936 | - | - | - | - | - |
| Impaired: | | | | | | | | |
| Substandard | 1,541,530 | - | 1,541,530 | - | 1,055,250 | - | - | 1,055,250 |
| Doubtful and bad | 39,622,552 | (30,495,503) | 9,127,049 | 809,151 | 16,743,465 | - | - | 17,552,616 |
| Restructured doubtful & bad | 2,492,635 | (1,287,771) | 1,204,864 | - | 2,984,850 | - | - | 2,984,850 |
| | 43,656,717 | (31,783,274) | 11,873,443 | 809,151 | 20,783,565 | - | - | 21,592,716 |
| Collectively impaired | - | (9,949,765) | (9,949,765) | - | - | - | - | - |
| | 946,360,891 | (41,733,039) | 904,627,852 | 370,815,280 | 370,499,728 | 4,527,858 | 30,277,910 | 776,120,776 |

| | | | | | December 31, 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | Fair Value of Collateral Held | | | | |
| | Gross Loans Net of Unrealized Interest LBP'000 | Allowance for Impairment LBP'000 | Net exposure LBP'000 | Pledged Funds LBP'000 | Real Estate Property LBP'000 | Equity Securities LBP'000 | Other LBP'000 | Total LBP'000 |
| Regular Accounts | 692,343,814 | - | 692,343,814 | 371,983,531 | 283,805,416 | 3,460,098 | 31,636,971 | 690,886,016 |
| Past due regular loans and advances but not impaired: | | | | | | | | |
| Between 30-60 days | 242,343 | - | 242,343 | - | - | - | - | - |
| Between 60-90 days | 29,688 | - | 29,688 | - | - | - | - | - |
| Between 90-180 days | 89,156 | - | 89,156 | - | - | - | - | - |
| Beyond 180 days | 353,930 | - | 353,930 | - | - | - | - | - |
| | 715,117 | - | 715,117 | - | - | - | - | - |
| Impaired: | | | | | | | | |
| Substandard | 1,060,958 | - | 1,060,958 | 69,682 | 892,737 | - | - | 962,419 |
| Restructured substandard | 274,193 | - | 274,193 | 464,706 | 275,816 | - | - | 740,522 |
| Doubtful and bad | 46,665,525 | (34,438,386) | 12,227,139 | 762,325 | 20,435,584 | - | - | 21,197,909 |
| Restructured doubtful and bad | 689,847 | (318,673) | 371,174 | 49,841 | 1,297,350 | - | - | 1,347,191 |
| | 48,690,523 | (34,757,059) | 13,933,464 | 1,346,554 | 22,901,487 | - | - | 24,248,041 |
| Collectively impaired | - | (6,401,544) | (6,401,544) | - | - | - | - | - |
| | 741,749,454 | (41,158,603) | 700,590,851 | 373,330,085 | 306,706,903 | 3,460,098 | 31,636,971 | 715,134,057 |

## b) Concentration Of Financial Assets By Industry Or Sector:

| | | | | | | | | | | December 31, 2011 | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sovereign LBP'000 | Financial Services LBP'000 | Real Estate Development LBP'000 | Manufacturing LBP'000 | Consumer Goods Trading LBP'000 | Real Estate Trading LBP'000 | Services LBP'000 | Private Individuals LBP'000 | Other LBP'000 | Loans Assessed Collectivity LBP'000 | Total LBP'000 |
| **Balance sheet Exposure:** | | | | | | | | | | | |
| Cash, compulsory reserves and Central Banks | 1,674,309,302 | - | - | - | - | - | - | - | - | - | 1,674,309,302 |
| Deposits with banks and financial institutions | - | 492,651,922 | - | - | - | - | - | - | - | - | 492,651,922 |
| Trading assets at fair value through profit or loss | 357,505,477 | 3,842,606 | - | - | - | - | - | - | - | - | 361,348,083 |
| Loans to banks | - | 91,429,994 | - | - | - | - | - | - | - | - | 91,429,994 |
| Loans and advances to customers | 302,988 | 191,687,459 | 176,782,476 | 89,943,081 | 125,066,643 | 2,914,602 | 105,681,083 | 214,943,877 | 7,255,409 | (9,949,766) | 904,627,852 |
| Loans and advances to related parties | - | - | - | - | - | - | 40,945,597 | - | - | - | 40,945,597 |
| Investment securities | 2,060,808,887 | - | - | - | - | - | - | - | - | - | 2,060,808,887 |
| Other assets | - | - | - | - | - | - | - | - | 3,668,105 | - | 3,668,105 |
| | 4,092,926,654 | 779,611,981 | 176,782,476 | 89,943,081 | 125,066,643 | 2,914,602 | 146,626,680 | 214,943,877 | 10,923,515 | (9,949,766) | 5,629,789,743 |
| **Off-Balance sheet Risks** | | | | | | | | | | | |
| Documentary and commercial letters of credit | - | 275,042,010 | - | - | - | - | - | - | - | - | 275,042,010 |
| Guarantees and standby letters of credit | - | 72,038,019 | - | - | - | - | - | - | - | - | 72,038,019 |
| Forward Contracts | - | 22,395,579 | - | - | - | - | - | - | - | - | 22,395,579 |
| | - | 369,475,608 | - | - | - | - | - | - | - | - | 369,475,608 |

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | December 31, 2010 |
| | Sovereign | Financial Services | Real Estate Development | Manufacturing | Consumer Goods Trading | Real Estate Trading | Services | Private Individuals | Other | Loans Assessed Collectivity | Total |
| | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| **Balance sheet Exposure:** | | | | | | | | | | | |
| Cash, compulsory reserves and Central Banks | 958,250,566 | - | - | - | - | - | - | - | - | - | 958,250,566 |
| Deposits with banks and financial institutions | - | 268,341,148 | - | - | - | - | - | - | - | - | 268,341,148 |
| Trading assets | 569,876 | - | - | - | - | - | - | - | - | - | 569,876 |
| Loans to banks | 1,581,654,501 | 68,404,853 | - | - | - | - | - | - | - | - | 1,650,059,354 |
| Loans and advances to customers | 643,309 | 168,892,944 | 88,699,039 | 62,876,135 | 69,058,063 | 912,639 | 133,159,719 | 127,635,058 | 55,115,489 | (6,401,544) | 700,590,851 |
| Loans and advances to related parties | - | - | - | - | - | - | 39,697,295 | - | - | - | 39,697,295 |
| Investment securities | 1,171,229,950 | 2,254,316 | - | - | - | - | - | - | - | - | 1,173,484,266 |
| Other assets | - | - | - | - | - | - | - | - | 2,941,025 | - | 2,941,025 |
| | 3,712,348,202 | 507,893,261 | 88,699,039 | 62,876,135 | 69,058,063 | 912,639 | 172,857,014 | 127,635,058 | 58,056,514 | (6,401,544) | 4,793,934,381 |
| **Off-Balance sheet risks:** | | | | | | | | | | | |
| Documentary and commercial letters of credit | - | 123,727,438 | - | - | - | - | - | - | - | - | 123,727,438 |
| Guarantees and standby letters of credit | - | 70,974,801 | - | - | - | - | - | - | - | - | 70,974,801 |
| Forward contracts | - | 43,510,524 | - | - | - | - | - | - | - | - | 43,510,524 |
| | - | 238,212,763 | - | - | - | - | - | - | - | - | 238,212,763 |

## c) Concentration Of Assets And Liabilities By Geographical Area:

**December 31, 2011**

| | Lebanon LBP'000 | Middle East and Africa LBP'000 | North America LBP'000 | Europe LBP'000 | Other LBP'000 | Total LBP'000 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and Central Banks | 1,604,299,820 | 68,836,619 | - | 1,172,863 | - | 1,674,309,302 |
| Deposits with banks and financial institutions | 9,594,968 | 1,505,275 | 220,440,456 | 260,791,779 | 319,444 | 492,651,922 |
| Trading assets at fair value through profit or loss | 361,348,083 | - | - | - | - | 361,348,083 |
| Loans to banks | 91,429,994 | - | - | - | - | 91,429,994 |
| Loans and advances to customers | 766,368,998 | 117,300,083 | 301,500 | 20,657,271 | - | 904,627,852 |
| Loans and advances to related parties | 40,945,597 | - | - | - | - | 40,945,597 |
| Investment securities | 2,060,808,887 | - | - | - | - | 2,060,808,887 |
| Customers' liability under acceptances | 5,233,506 | - | - | - | - | 5,233,506 |
| Assets acquired in satisfaction of loans | 19,666,700 | - | - | - | - | 19,666,700 |
| Property and equipment | 43,256,131 | - | - | - | - | 43,256,131 |
| Intangible assets | 1,103,671 | - | - | - | - | 1,103,671 |
| Regulatory Blocked Fund | 4,500,000 | - | - | - | - | 4,500,000 |
| Other assets | 3,668,105 | - | - | - | - | 3,668,105 |
| Total Assets | 5,012,224,460 | 187,641,977 | 220,741,956 | 282,621,913 | 319,444 | 5,703,549,750 |
| LIABILITIES | | | | | | |
| Deposits and borrowings from banks | 27,949,756 | 31,923,401 | 2,341,718 | 12,357,900 | - | 74,572,775 |
| Customers' accounts at amortized cost | 3,651,754,735 | 752,622,378 | 30,430,482 | 632,207,289 | 41,744,819 | 5,108,759,703 |
| Related parties' accounts at amortized cost | 84,093,278 | - | - | - | - | 84,093,278 |
| Customers' acceptance liability | 5,233,506 | - | - | - | - | 5,233,506 |
| Other liabilities | 21,458,674 | - | - | - | - | 21,458,674 |
| Provisions | 6,461,100 | - | - | - | - | 6,461,100 |
| Total Liabilities | 3,796,951,049 | 784,545,779 | 32,772,200 | 644,565,189 | 41,744,819 | 5,300,579,036 |

**December 31, 2010**

| | Lebanon LBP'000 | Middle East and Africa LBP'000 | North America LBP'000 | Europe LBP'000 | Other LBP'000 | Total LBP'000 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and Central Banks | 927,772,312 | 29,868,167 | - | 610,087 | - | 958,250,566 |
| Deposits with banks and financial institutions | 3,705,935 | 3,088,498 | 13,919,957 | 247,560,483 | 66,275 | 268,341,148 |
| Trading assets | 569,876 | - | - | - | - | 569,876 |
| Loans to banks | 1,650,059,354 | - | - | - | - | 1,650,059,354 |
| Loans and advances to customers | 591,979,998 | 71,429,873 | 352,755 | 36,828,225 | - | 700,590,851 |
| Loans and advances to related parties | 39,697,295 | - | - | - | - | 39,697,295 |
| Investment securities | 1,173,484,266 | - | - | - | - | 1,173,484,266 |
| Customers' liability under acceptances | 16,158,555 | - | - | - | - | 16,158,555 |
| Assets acquired in satisfaction of loans | 16,854,329 | - | - | - | - | 16,854,329 |
| Property and equipment | 33,661,437 | - | - | - | - | 33,661,437 |
| Intangible assets | 911,493 | - | - | - | - | 911,493 |
| Other assets | 2,941,025 | - | - | - | - | 2,941,025 |
| Total assets | 4,457,795,875 | 104,386,538 | 14,272,712 | 284,998,795 | 66,275 | 4,861,520,195 |
| LIABILITIES | | | | | | |
| Deposits and borrowings from banks | 26,976,286 | 37,865,517 | - | 11,351,191 | - | 76,192,994 |
| Customers' accounts at amortized cost | 3,406,676,628 | 442,019,994 | 25,776,559 | 427,850,800 | 39,903,620 | 4,342,227,601 |
| Related parties' accounts at amortized cost | 76,104,785 | - | - | - | - | 76,104,785 |
| Customers' acceptance liability | 16,158,555 | - | - | - | - | 16,158,555 |
| Other liabilities | 16,516,152 | - | - | - | - | 16,516,152 |
| Provisions | 4,552,980 | - | - | - | - | 4,552,980 |
| Total Liabilities | 3,546,985,386 | 479,885,511 | 25,776,559 | 439,201,991 | 39,903,620 | 4,531,753,067 |

## B. Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities at a point of time.

### 1. Liquidity Risk Management

The Bank risk management and monitoring is based on the aggregate structure of the balance sheet through mitigating risks that are directly associated to the mismatch between maturities in the balance sheet and contingent liabilities. The Bank's financial position structure is run in a way aimed at maintaining diversification and lowering concentration among different sources of funds. All liquidity policies and procedures are subject to review and approval by ALCO.

## Residual Contractual Maturities Of Assets And Liabilities:

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

December 31, 2011

LBP Base Accounts

| | Accounts with no Maturity LBP'000'000 | Up to 3 Months LBP'000'000 | 3 Months to 1 Year LBP'000'000 | 1 to 3 Years LBP'000'000 | 3 to 5 Years LBP'000'000 | 5 to 10 Years LBP'000'000 | Total LBP'000'000 |
|---|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | | |
| Cash and Central Banks | 9,275 | 230,163 | 512,238 | - | - | - | 751,676 |
| Deposits with banks and financial institutions | (1,519) | 1,580 | - | - | - | - | 61 |
| Regulatory Blocked Fund | 4,500 | - | - | - | - | - | 4,500 |
| Trading assets at fair value through profit or loss | 1,246 | 161 | - | 101,383 | - | 181,565 | 284,355 |
| Loans to banks | - | - | 7,450 | 16,620 | 18,660 | 48,700 | 91,430 |
| Loans and advances to customers | 2,203 | 92,077 | 78,740 | 1,227 | 63 | - | 174,310 |
| Loans and advances to related parties | - | - | 899 | - | - | - | 899 |
| Investment securities | - | - | - | 1,274,798 | - | 5,999 | 1,280,797 |
| Assets acquired in satisfaction of loans | 641 | - | - | - | - | - | 641 |
| Property and equipment | 40,281 | - | - | - | - | - | 40,281 |
| Intangible assets | 780 | - | - | - | - | - | 780 |
| Other assets | 1,983 | - | - | - | - | - | 1,983 |
| | | | | | | | |
| Total Assets | 59,390 | 323,981 | 599,327 | 1,394,028 | 18,723 | 236,264 | 2,631,713 |
| | | | | | | | |
| **LIABILITIES** | | | | | | | |
| Deposits and borrowings from banks | - | 6,561 | - | - | - | - | 6,561 |
| Customers' accounts at amortized cost | 2,215 | 1,915,015 | 328,473 | 11,284 | - | - | 2,256,987 |
| Related parties' accounts at amortized cost | - | 39,698 | - | - | - | - | 39,698 |
| Other liabilities | 8,482 | - | - | - | - | - | 8,482 |
| Provisions | 5,609 | - | - | - | - | - | 5,609 |
| | | | | | | | |
| Total Liabilities | 16,306 | 1,961,274 | 328,473 | 11,284 | - | - | 2,317,337 |
| | | | | | | | |
| Maturity Gap | 43,084 | (1,637,293) | 270,854 | 1,382,744 | 18,723 | 236,264 | 314,376 |

| December 31, 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|
| F/Cy Base Accounts | | | | | | | |
| | Accounts with no Maturity LBP'000'000 | Up to 3 Months LBP'000'000 | 3 Months to 1 Year LBP'000'000 | 1 to 3 Years LBP'000'000 | 3 to 5 Years LBP'000'000 | 5 to 10 Years LBP'000'000 | Total LBP'000'000 |
| **ASSETS** | | | | | | | |
| Cash and Central Banks | 29,487 | 290,704 | 602,442 | - | - | - | 922,633 |
| Deposits with banks and financial institutions | 998 | 491,593 | - | - | - | - | 492,591 |
| Trading assets at fair value through profit or loss | 76 | 893 | - | - | 3,818 | 72,206 | 76,993 |
| Loans and advances to customers | 12,000 | 110,288 | 579,793 | 12,517 | 5,953 | 9,767 | 730,318 |
| Loans and advances to related parties | - | - | 40,046 | - | - | - | 40,046 |
| Investment securities | - | - | 178,862 | 258,509 | 72,992 | 269,649 | 780,012 |
| Customers' liability under acceptances | - | 3,472 | 1,762 | - | - | - | 5,234 |
| Assets acquired in satisfaction of loans | 19,026 | - | - | - | - | - | 19,026 |
| Property and equipment | 2,975 | - | - | - | - | - | 2,975 |
| Intangible assets | 324 | - | - | - | - | - | 324 |
| Other assets | 1,685 | - | - | - | - | - | 1,685 |
| Total Assets | 66,571 | 896,950 | 1,402,905 | 271,026 | 82,763 | 351,622 | 3,071,837 |
| **LIABILITIES** | | | | | | | |
| Deposits and borrowings from banks | 28 | 60,444 | 7,540 | - | - | - | 68,012 |
| Customers' accounts at amortized cost | 2,011 | 2,682,848 | 160,869 | 6,045 | - | - | 2,851,773 |
| Related parties' accounts at amortized cost | - | 44,395 | - | - | - | - | 44,395 |
| Liability under acceptances | - | 3,472 | 1,762 | - | - | - | 5,234 |
| Other liabilities | 12,976 | - | - | - | - | - | 12,976 |
| Provisions | 852 | - | - | - | - | - | 852 |
| Total Liabilities | 15,867 | 2,791,159 | 170,171 | 6,045 | - | - | 2,983,242 |
| Maturity Gap | 50,704 | (1,894,209) | 1,232,734 | 264,981 | 82,763 | 351,622 | 88,595 |

December 31, 2010

LBP Base Accounts

| | Accounts with no Maturity LBP'000'000 | Up to 3 Months LBP'000'000 | 3 Months to 1 Year LBP'000'000 | 1 to 3 Years LBP'000'000 | 3 to 5 Years LBP'000'000 | Over 5 Years LBP'000'000 | Total LBP'000'000 |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash and Central Banks | 8,182 | 278,455 | - | - | - | - | 286,637 |
| Deposits with banks and financial institutions | (1,521) | 35 | - | - | - | - | (1,486) |
| Loans to banks | - | 705 | 1,660 | 14,120 | 1,328,059 | 305,515 | 1,650,059 |
| Loans and advances to customers | (5,108) | 47,701 | 39,728 | 362 | 157 | 5 | 82,845 |
| Loans and advances to related parties | - | - | 940 | - | - | - | 940 |
| Investment securities | - | 161 | 64,063 | 168,797 | 177,368 | 4,896 | 415,285 |
| Assets acquired in satisfaction of loans | 637 | - | - | - | - | - | 637 |
| Property and equipment | 30,836 | - | - | - | - | - | 30,836 |
| Intangible assets | 550 | - | - | - | - | - | 550 |
| Other assets | 1,875 | - | - | - | - | - | 1,875 |
| Total Assets | 35,451 | 327,057 | 106,391 | 183,279 | 1,505,584 | 310,416 | 2,468,178 |
| LIABILITIES | | | | | | | |
| Deposits and borrowings from banks | - | 15,138 | - | - | - | - | 15,138 |
| Customers' accounts at amortized cost | - | 1,835,813 | 306,621 | 11,358 | 200 | - | 2,153,992 |
| Related parties' accounts at amortized cost | - | 15,559 | - | - | - | - | 15,559 |
| Other liabilities | 7,709 | - | - | - | - | - | 7,709 |
| Provisions | 3,859 | - | - | - | - | - | 3,859 |
| Total Liabilities | 11,568 | 1,866,510 | 306,621 | 11,358 | 200 | - | 2,196,257 |
| Maturity Gap | 23,883 | (1,539,453) | (200,230) | 171,921 | 1,505,384 | 310,416 | 271,921 |

December 31, 2010

F/Cy Base Accounts

| | Accounts with no Maturity LBP'000'000 | Up to 3 Months LBP'000'000 | 3 Months to 1 Year LBP'000'000 | 1 to 3 Years LBP'000'000 | 3 to 5 Years LBP'000'000 | Over 5 Years LBP'000'000 | Total LBP'000'000 |
|---|---|---|---|---|---|---|---|
| ASSETS | | | | | | | |
| Cash, and Central Banks | 24,786 | 527,961 | 118,867 | - | - | - | 671,614 |
| Deposits with banks and financial institutions | 4,411 | 265,416 | - | - | - | - | 269,827 |
| Trading assets | - | 570 | - | - | - | - | 570 |
| Loans and advances to customers | 13,508 | 207,963 | 393,463 | 2,435 | 377 | - | 617,746 |
| Loans and advances to related parties | - | - | 38,757 | - | - | - | 38,757 |
| Investment securities | - | 1,114 | 33,715 | 354,430 | 200,045 | 168,895 | 758,199 |
| Customers' liability under acceptances | - | 14,524 | 1,635 | - | - | - | 16,159 |
| Assets acquired in satisfaction of loans | 16,217 | - | - | - | - | - | 16,217 |
| Property and equipment | 2,825 | - | - | - | - | - | 2,825 |
| Intangible assets | 361 | - | - | - | - | - | 361 |
| Other assets | 1,066 | - | - | - | - | - | 1,066 |
| Total Assets | 63,174 | 1,017,548 | 586,437 | 356,865 | 200,422 | 168,895 | 2,393,341 |
| LIABILITIES | | | | | | | |
| Deposits and borrowings from banks | - | 61,055 | - | - | - | - | 61,055 |
| Customers' accounts at amortized cost | - | 2,042,507 | 143,383 | 2,195 | 151 | - | 2,188,236 |
| Related parties' accounts at amortized cost | - | 60,546 | - | - | - | - | 60,546 |
| Liability under acceptances | - | 14,524 | 1,634 | - | - | - | 16,158 |
| Other liabilities | 8,807 | - | - | - | - | - | 8,807 |
| Provisions | 694 | - | - | - | - | - | 694 |
| Total Liabilities | 9,501 | 2,178,632 | 145,017 | 2,195 | 151 | - | 2,335,496 |
| Maturity Gap | 53,673 | (1,161,084) | 441,420 | 354,670 | 200,271 | 168,895 | 57,845 |

### Concentration Of Liabilities By Counterparty:

Information regarding the concentration of liabilities by counterparty is disclosed under the respective notes to the financial statements.

## C. Market Risks

Market Risk is the risk that the fair value or future cash flows of the financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, and loan diversification.

The Bank manages market risks through a framework that defines the global activity and individual limits and sensitivity analysis.

### 1. Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect the value of financial instruments or expected cash flows from income generating financial assets and liabilities. The Bank is exposed to interest rate risk as a result of mismatches or gaps in the amounts of financial assets and liabilities.

Large amounts of the Bank's financial assets, primarily investments in certificates of deposits and Lebanese government bonds in Lebanese pounds and foreign currencies, carry fixed interest rates, whereas customers' accounts and loans and advances to customers are re-priced on a regular basis which, consequently, leads to major risks from the mismatch between the sources and uses of funds, and in its turn increases interest rate risk.

Income sensitivity is the effect of the assumed changes in the interest rate on the net interest revenues for a specific year on the non-trading assets and liabilities. Analysis of various banking currency positions is made through concentrations by currencies and, resulting sensitivity is disclosed in thousands of Lebanese pounds and segregated between financial assets and liabilities subject to variable and fixed interest rates.

#### • Exposure to interest rate risk

Below is a summary of the Bank's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate broken down between Lebanese Pound and foreign currencies base accounts:

Below is a summary of the Bank's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Lebanese Pounds base accounts:**

| | December 31, 2011 | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | LBP Base Accounts | | | | | | | | | | | | | |
| | | Floating Interest Rate | | | | | | Fixed Interest Rate | | | | | | |
| | Non-Interest Earning LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Grand Total LBP'000 000 |
| ASSETS | | | | | | | | | | | | | | |
| Cash and Central Banks | 10,881 | 151,295 | - | - | - | - | 151,295 | 78,868 | 510,632 | - | - | - | 589,500 | 751,676 |
| Deposits with banks and | | | | | | | | | | | | | | |
| financial institutions | (1,519) | 110 | - | - | - | - | 110 | 1,470 | - | - | - | - | 1,470 | 61 |
| Trading assets at fair value | | | | | | | | | | | | | | |
| through profit or loss | 161 | - | - | - | - | - | - | 1,246 | - | 101,383 | - | 181,565 | 284,194 | 284,355 |
| Loans and advances to customers | (8,525) | - | - | - | - | - | - | 102,805 | 78,740 | 1,227 | 63 | - | 182,835 | 174,310 |
| Loans and advances to related parties | - | - | - | - | - | - | - | - | 899 | - | - | - | 899 | 899 |
| Investment securities | - | - | - | - | - | - | - | 141 | - | 1,274,657 | - | 5,999 | 1,280,797 | 1,280,797 |
| Assets acquired in satisfaction of loans | 641 | - | - | - | - | - | - | - | - | - | - | - | - | 641 |
| Property and equipment | 40,281 | - | - | - | - | - | - | - | - | - | - | - | - | 40,281 |
| Blocked Regulatory fund | 4,500 | - | - | - | - | - | - | - | - | - | - | - | - | 4,500 |
| Intangible assets | 780 | - | - | - | - | - | - | - | - | - | - | - | - | 780 |
| Other assets | 1,983 | - | - | - | - | - | - | - | - | - | - | - | - | 1,983 |
| Total Assets | 49,183 | 151,405 | 7,450 | 16,620 | 18,660 | 48,700 | 242,835 | 184,530 | 590,271 | 1,377,267 | 63 | 187,564 | 2,339,695 | 2,631,713 |
| LIABILITIES | | | | | | | | | | | | | | |
| Deposits and borrowings from banks | - | - | - | - | - | - | - | 6,561 | - | - | - | - | 6,561 | 6,561 |
| Customers' accounts | | | | | | | | | | | | | | |
| at amortized cost | 159,347 | - | - | - | - | - | - | 1,757,884 | 328,473 | 11,283 | | | 2,097,640 | 2,256,987 |
| Related parties' accounts | | | | | | | | | | | | | | |
| at amortized cost | - | - | - | - | - | - | - | 39,698 | - | - | - | - | 39,698 | 39,698 |
| Other liabilities | 8,482 | - | - | - | - | - | - | - | - | - | - | - | - | 8,482 |
| Provisions | 5,609 | - | - | - | - | - | - | - | - | - | - | - | - | 5,609 |
| Total Liabilities | 173,438 | - | - | - | - | - | - | 1,804,143 | 328,473 | 11,283 | - | - | 2,143,899 | 2,317,337 |
| Interest rate gap position | (124,255) | 151,405 | 7,450 | 16,620 | 18,660 | 48,700 | 242,835 | (1,619,613) | 261,798 | 1,365,984 | 63 | 187,564 | 195,796 | 314,376 |

Below is a summary of the Bank's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Foreign Currency base accounts:**

| | | | | | | | | | | | | | | December 31, 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | | | F/Cy Base Accounts |
| | | Floating Interest Rate | | | | | | Fixed Interest Rate | | | | | | |
| | Non-Interest Earning LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Grand Total LBP'000 000 |
| ASSETS | | | | | | | | | | | | | | |
| Cash and Central Banks | 29,487 | 57,465 | - | - | - | - | 57,465 | 233,239 | 602,442 | - | - | - | 835,681 | 922,633 |
| Deposits with banks and financial institutions | 998 | 124,488 | - | - | - | - | 124,488 | 367,105 | - | - | - | - | 367,105 | 492,591 |
| Trading assets at fair value through profit or loss | 76 | - | - | - | - | - | - | 893 | - | - | 3,818 | 72,206 | 76,917 | 76,993 |
| Loans and advances to customers | 12,000 | - | - | - | - | - | - | 110,288 | 579,793 | 12,517 | 5,953 | 9,767 | 718,318 | 730,318 |
| Loans and advances to related parties | - | - | - | - | - | - | - | - | 40,046 | - | - | - | 40,046 | 40,046 |
| Investment securities | - | - | - | - | - | - | - | - | 178,862 | 258,509 | 72,992 | 269,649 | 780,012 | 780,012 |
| Customers' liability under acceptances | - | - | - | - | - | - | - | 3,472 | 1,762 | - | - | - | 5,234 | 5,234 |
| Assets acquired in satisfaction of loans | 19,026 | - | - | - | - | - | - | - | - | - | - | - | - | 19,026 |
| Property and equipment | 2,975 | - | - | - | - | - | - | - | - | - | - | - | - | 2,975 |
| Intangible assets | 324 | - | - | - | - | - | - | - | - | - | - | - | - | 324 |
| Other assets | 1,685 | - | - | - | - | - | - | - | - | - | - | - | - | 1,685 |
| Total Assets | 66,571 | 181,953 | - | - | - | - | 181,953 | 714,997 | 1,402,905 | 271,026 | 82,763 | 351,622 | 2,823,313 | 3,071,837 |
| LIABILITIES | | | | | | | | | | | | | | |
| Deposits and borrowings from banks | 28 | - | - | - | - | - | - | 60,444 | 7,540 | - | - | - | 67,984 | 68,012 |
| Customers' accounts at amortized cost | 519,217 | - | - | - | - | - | - | 2,165,642 | 160,869 | 6,045 | - | - | 2,332,556 | 2,851,773 |
| Related parties' accounts at amortized cost | - | - | - | - | - | - | - | 44,395 | - | - | - | - | 44,395 | 44,395 |
| Liability under acceptances | - | - | - | - | - | - | - | 3,472 | 1,762 | - | - | - | 5,234 | 5,234 |
| Other liabilities | 12,976 | - | - | - | - | - | - | - | - | - | - | - | - | 12,976 |
| Provisions | 852 | - | - | - | - | - | - | - | - | - | - | - | - | 852 |
| Total Liabilities | 533,073 | - | - | - | - | - | - | 2,273,953 | 170,171 | 6,045 | - | - | 2,450,169 | 2,983,242 |
| Interest rate gap position | (466,502) | 181,953 | - | - | - | - | 181,953 | (1,558,956) | 1,232.734 | 264,981 | 82,763 | 351,622 | 373,144 | 88,595 |

Below is a summary of the Bank's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Lebanese Pounds base accounts:**

| December 31, 2010 – LBP Base Accounts | | Floating Interest Rate | | | | | | Fixed Interest Rate | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-Interest Earning LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Grand Total LBP'000 000 |
| **ASSETS** | | | | | | | | | | | | | | |
| Cash and Central Banks | 8,182 | 237,955 | - | - | - | - | 237,955 | - | 40,500 | - | - | - | 40,500 | 286,637 |
| Deposits with banks and financial institutions | (1,521) | 35 | - | - | - | - | 35 | - | - | - | - | - | - | (1,486) |
| Loans to banks | - | - | - | - | - | - | - | - | 2,365 | 14,120 | 1,328,059 | 305,515 | 1,650,059 | 1,650,059 |
| Loans and advances to customers | (5,108) | - | - | - | - | - | - | - | 87,429 | 362 | 157 | 5 | 87,953 | 82,845 |
| Loans and advances to related parties | - | - | - | - | - | - | - | - | 940 | - | - | - | 940 | 940 |
| Investment securities | 161 | - | - | - | - | - | - | - | 64,063 | 168,797 | 177,368 | 4,896 | 415,124 | 415,285 |
| Assets acquired in satisfaction of loans | 637 | - | - | - | - | - | - | - | - | - | - | - | - | 637 |
| Property and equipment | 30,836 | - | - | - | - | - | - | - | - | - | - | - | - | 30,836 |
| Intangible assets | 550 | - | - | - | - | - | - | - | - | - | - | - | - | 550 |
| Other assets | 1,875 | - | - | - | - | - | - | - | - | - | - | - | - | 1,875 |
| Total Assets | 35,612 | 237,990 | - | - | - | - | 237,990 | - | 195,297 | 183,279 | 1,505,584 | 310,416 | 2,194,576 | 2,468,178 |
| **LIABILITIES** | | | | | | | | | | | | | | |
| Deposits and borrowings from banks | - | 15,138 | - | - | - | - | 15,138 | - | - | - | - | - | - | 15,138 |
| Customers' accounts at amortized cost | 132,751 | - | - | - | - | - | - | - | 2,009,683 | 11,358 | 200 | - | 2,021,241 | 2,153,992 |
| Related parties' accounts at amortized cost | - | - | - | - | - | - | - | - | 15,559 | - | - | - | 15,559 | 15,559 |
| Liability under acceptances | - | - | - | - | - | - | - | - | - | - | - | - | - | - |
| Other liabilities | 7,709 | - | - | - | - | - | - | - | - | - | - | - | - | 7,709 |
| Provisions | 3,859 | - | - | - | - | - | - | - | - | - | - | - | - | 3,859 |
| Total Liabilities | 144,319 | 15,138 | - | - | - | - | 15,138 | - | 2,025,242 | 11,358 | 200 | - | 2,036,800 | 2,196,257 |
| Interest rate gap position | (108,707) | 222,852 | - | - | - | - | 222,852 | - | (1,829,945) | 171,921 | 1,505,384 | 310,416 | 157,776 | 271,921 |

Below is a summary of the Bank's interest rate gap position on assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing and between **Foreign Currency base accounts:**

| December 31, 2010 – F/Cy Base Accounts | | Floating Interest Rate | | | | | | Fixed Interest Rate | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Non-Interest Earning LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Up to 3 Months LBP'000 000 | 3 Months to 1 Year LBP'000 000 | 1 to 3 Years LBP'000 000 | 3 to 5 Years LBP'000 000 | Over 5 Years LBP'000 000 | Total LBP'000 000 | Grand Total LBP'000 000 |
| **ASSETS** | | | | | | | | | | | | | | |
| Cash and Central Banks | 24,786 | - | - | - | - | - | - | 527,961 | 118,867 | - | - | - | 646,828 | 671,614 |
| Deposits with banks and financial institutions | 4,411 | - | - | - | - | - | - | - | 265,416 | - | - | - | 265,416 | 269,827 |
| Trading assets | - | - | - | - | - | - | - | - | 570 | - | - | - | 570 | 570 |
| Loans and advances to customers | 13,508 | - | - | - | - | - | - | 207,963 | 393,463 | 2,435 | 377 | - | 604,238 | 617,746 |
| Loans and advances to related parties | - | - | - | - | - | - | - | - | 38,757 | - | - | - | 38,757 | 38,757 |
| Investment securities | - | - | - | - | - | - | - | 1,114 | 33,715 | 354,430 | 200,045 | 168,895 | 758,199 | 758,199 |
| Customers' liability under acceptances | - | - | - | - | - | - | - | 14,524 | 1,635 | - | - | - | 16,159 | 16,159 |
| Assets acquired in satisfaction of loans | 16,217 | - | - | - | - | - | - | - | - | - | - | - | - | 16,217 |
| Property and equipment | 2,825 | - | - | - | - | - | - | - | - | - | - | - | - | 2,825 |
| Intangible assets | 361 | - | - | - | - | - | - | - | - | - | - | - | - | 361 |
| Other assets | 1,066 | - | - | - | - | - | - | - | - | - | - | - | - | 1,066 |
| Total Assets | 63,174 | - | - | - | - | - | - | 751,562 | 852,423 | 356,865 | 200,422 | 168,895 | 2,330,167 | 2,393,341 |
| **LIABILITIES** | | | | | | | | | | | | | | |
| Deposits and borrowings from banks | - | - | - | - | - | - | - | 61,055 | - | - | - | - | 61,055 | 61,055 |
| Customers' accounts at amortized cost | 258,150 | - | - | - | - | - | - | 1,784,357 | 143,383 | 2,195 | 151 | - | 1,930,086 | 2,188,236 |
| Related parties' accounts at amortized cost | - | - | - | - | - | - | - | 60,546 | - | - | - | - | 60,546 | 60,546 |
| Liability under acceptances | - | - | - | - | - | - | - | 14,524 | 1,634 | - | - | - | 16,158 | 16,158 |
| Other liabilities | 8,807 | - | - | - | - | - | - | - | - | - | - | - | - | 8,807 |
| Provisions | 694 | - | - | - | - | - | - | - | - | - | - | - | - | 694 |
| Total Liabilities | 267,651 | - | - | - | - | - | - | 1,920,482 | 145,017 | 2,195 | 151 | - | 2,067,845 | 2,335,496 |
| Interest rate gap position | (204,477) | - | - | - | - | - | - | (1,168,920) | 707,406 | 354,670 | 200,271 | 168,895 | 262,322 | 57,845 |

## 2. Foreign Exchange Risk

Currency risk represents the risk of change in the value of financial instruments due to changes in foreign exchange rates.

Below is the carrying value of assets and liabilities segregated by major currencies to reflect the Bank's exposure to foreign currency exchange risk at year end:

**December 31, 2011**

| | LBP LBP'000 | USD C/V in LBP LBP'000 | EURO C/V in LBP LBP'000 | GBP C/V in LBP LBP'000 | Other Currencies C/V in LBP LBP'000 | Total LBP'000 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and Central Banks | 751,677,499 | 622,680,687 | 285,943,320 | 28,315 | 13,979,481 | 1,674,309,302 |
| Deposits with banks and | | | | | | |
| financial institutions | 60,971 | 225,820,194 | 250,905,849 | 544,429 | 15,320,479 | 492,651,922 |
| Trading assets at fair Value | | | | | | |
| through profit or Loss | 284,355,281 | 76,992,802 | - | - | - | 361,348,083 |
| Loans to banks | 91,429,994 | - | - | - | - | 91,429,994 |
| Loans and advances to customers | 174,311,060 | 687,195,195 | 35,722,081 | 5,624,531 | 1,774,985 | 904,627,852 |
| Loans and advances to related parties | 899,248 | 39,993,139 | 52,969 | 241 | - | 40,945,597 |
| Investment securities | 1,280,797,602 | 704,886,338 | 73,343,111 | - | 1,781,836 | 2,060,808,887 |
| Customers' liability under acceptances | - | 2,748,459 | 2,454,136 | - | 30,911 | 5,233,506 |
| Assets acquired in satisfaction of loans | 640,985 | 19,025,715 | - | - | - | 19,666,700 |
| Property and equipment | 40,280,598 | 1,021,331 | 264,428 | - | 1,689,774 | 43,256,131 |
| Intangible assets | 779,372 | - | 152,431 | - | 171,868 | 1,103,671 |
| Regulatory Blocked Fund | 4,500,000 | - | - | - | - | 4,500,000 |
| Other assets | 1,975,141 | 3,239,972 | 1,573,864 | (12,323,390) | 9,127,088 | 3,592,675 |
| Total Assets | 2,631,707,751 | 2,383,603,832 | 650,412,189 | (6,125,874) | 43,876,422 | 5,703,474,320 |

| LIABILITIES | | | | | | |
|---|---|---|---|---|---|---|
| Deposits and borrowings from banks | 6,561,654 | 64,614,694 | 3,390,042 | 1 | 6,384 | 74,572,775 |
| Customers' accounts at amortized cost | 2,256,987,549 | 2,182,906,979 | 629,633,615 | 18,515,797 | 20,715,763 | 5,108,759,703 |
| Related parties' accounts at amortized cost | 39,697,976 | 32,298,031 | 12,095,555 | 1,689 | 27 | 84,093,278 |
| Liability under acceptances | - | 2,748,459 | 2,454,136 | - | 30,911 | 5,233,506 |
| Other liabilities | 12,654,272 | 6,566,949 | 1,882,366 | 9,583 | 345,504 | 21,458,674 |
| Provisions | 5,608,781 | 852,319 | - | - | - | 6,461,100 |
| Total Liabilities | 2,321,510,232 | 2,289,987,431 | 649,455,714 | 18,527,070 | 21,098,589 | 5,300,579,036 |
| | | | | | | |
| Currencies to be delivered | - | (12,916,265) | (7,756,330) | - | (22,827,644) | (43,500,239) |
| Currencies to be received | - | 10,401,116 | 7,015,694 | 12,323,878 | 13,834,981 | 43,575,669 |
| | - | (2,515,149) | (740,636) | 12,323,878 | (8,992,663) | 75,430 |
| Net on-balance sheet financial position | 310,197,519 | 91,101,252 | 215,839 | (12,329,066) | 13,785,170 | 402,970,714 |

**December 31, 2010**

| | LBP LBP'000 | USD C/V in LBP LBP'000 | EURO C/V in LBP LBP'000 | GBP C/V in LBP LBP'000 | Other Currencies C/V in LBP LBP'000 | Total LBP'000 |
|---|---|---|---|---|---|---|
| ASSETS | | | | | | |
| Cash and Central Banks | 286,636,465 | 524,070,739 | 145,273,471 | 38,362 | 2,231,529 | 958,250,566 |
| Deposits with banks | | | | | | |
| and financial institutions | (1,485,940) | 21,521,596 | 211,362,178 | 3,746,898 | 33,196,416 | 268,341,148 |
| Trading assets | - | 569,876 | - | - | - | 569,876 |
| Loans to banks | 1,650,059,354 | - | - | - | - | 1,650,059,354 |
| Loans and advances to customers | 82,844,723 | 566,814,803 | 24,546,304 | 8,055,151 | 18,329,870 | 700,590,851 |
| Loans and advances to related parties | 569,553 | 39,122,706 | 5,036 | - | - | 39,697,295 |
| Investment securities | 415,285,374 | 691,610,948 | 66,587,944 | - | - | 1,173,484,266 |
| Customers' liability under acceptances | - | 9,535,908 | 6,622,647 | - | - | 16,158,555 |
| Assets acquired in satisfaction of loans | 636,985 | 16,217,344 | - | - | - | 16,854,329 |
| Property and equipment | 30,836,236 | 839,647 | 1,628,977 | - | 356,577 | 33,661,437 |
| Intangible assets | 550,205 | - | 221,802 | - | 139,486 | 911,493 |
| Other assets | 1,875,463 | 50,396,322 | (76,311,187) | (19,766,415) | 46,475,307 | 2,669,490 |
| | | | | | | |
| Total Assets | 2,467,808,418 | 1,920,699,889 | 379,937,172 | (7,926,004) | 100,729,185 | 4,861,248,660 |

| LIABILITIES | | | | | | |
|---|---|---|---|---|---|---|
| Deposits and borrowings from banks | 15,138,309 | 61,004,425 | 42,177 | - | 8,083 | 76,192,994 |
| Customers' accounts at amortized cost | 2,153,991,492 | 1,633,902,508 | 514,989,726 | 31,648,212 | 7,695,663 | 4,342,227,601 |
| Related parties' accounts at amortized cost | 15,558,550 | 50,081,774 | 10,462,388 | 2,040 | 33 | 76,104,785 |
| Liability under acceptances | - | 9,535,908 | 6,622,647 | - | - | 16,158,555 |
| Other liabilities | 7,709,328 | 8,266,754 | 450,737 | 24,555 | 64,778 | 16,516,152 |
| Provisions | 3,858,949 | 694,031 | - | - | - | 4,552,980 |
| | | | | | | |
| Total Liabilities | 2,196,256,628 | 1,763,485,400 | 532,567,675 | 31,674,807 | 7,768,557 | 4,531,753,067 |
| | | | | | | |
| Currencies to be delivered | - | (71,211,628) | (10,735,014) | (10,184,070) | (81,515,373) | (173,646,085) |
| Currencies to be received | - | 21,635,011 | 87,078,669 | 29,965,847 | 35,238,093 | 173,917,620 |
| | - | (49,576,617) | 76,343,655 | 19,781,777 | (46,277,280) | 271,535 |
| Net on balance sheet financial position | 271,551,790 | 107,637,872 | (76,286,848) | (19,819,034) | 46,683,348 | 329,767,128 |

## 42. Fair Value Of Financial Assets And Liabilities

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

- The fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices; an illiquidity discount, at variable degrees based on circumstances, is applied for prices quoted in inactive market, to compensate for illiquidity factor.

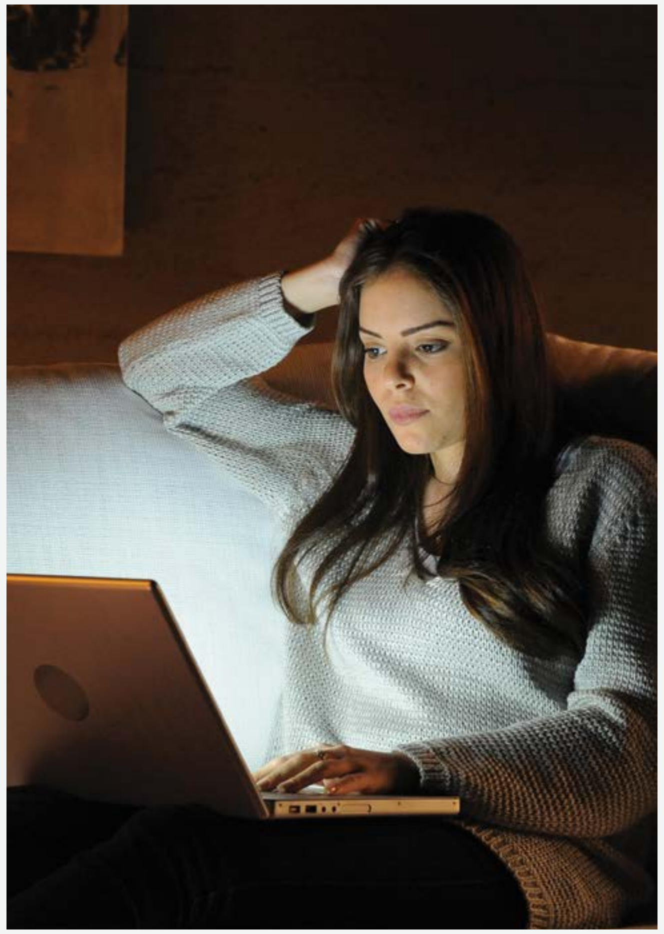
- The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments;

- The fair value of derivative instruments is calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives; and the fair value of financial guarantee contracts is determined using option pricing models where the main assumptions are the probability of default by the specified counterparty extrapolated from market-based credit information and the amount of loss, given the default.

The summary of the Bank's classification of each class of financial assets and liabilities covered by IAS 39 and IFRS 9, and their fair values are as follows:

| | December 31, 2011 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Trading Assets LBP'000 | Trading Assets at Fair Value Through Profit or Loss LBP'000 | Amortized Cost LBP'000 | Loans and Receivables LBP'000 | Other Accounts at Amortized Cost LBP'000 | Total Carrying Value LBP'000 | Total Fair Value LBP'000 |
| FINANCIAL ASSETS | | | | | | | |
| Cash and Central Banks | - | - | - | - | 1,674,309,302 | 1,674,309,302 | 1,674,309,302 |
| Deposits with banks and financial institutions | - | - | - | - | 492,651,922 | 492,651,922 | 492,651,922 |
| Trading assets at fair value through profit or loss | - | 361,348,083 | - | - | - | 361,348,083 | 361,348,083 |
| Loans and advances to customers | - | - | - | 904,627,852 | - | 904,627,852 | 905,551,240 |
| Loans and advances to related parties | - | - | - | 40,945,597 | - | 40,945,597 | 40,945,597 |
| Investment securities | - | - | 2,060,808,887 | - | - | 2,060,808,887 | 2,156,547,604 |
| Total | - | 361,348,083 | 2,060,808,887 | 945,573,449 | 2,166,961,224 | 5,534,691,643 | 5,631,353,748 |
| FINANCIAL LIABILITIES | | | | | | | |
| Deposits and borrowings from banks | - | - | - | - | 74,572,775 | 74,572,775 | 74,572,775 |
| Customers' accounts at amortized cost | - | - | - | - | 5,108,759,703 | 5,108,759,703 | 5,110,081,735 |
| Related parties' accounts at amortized cost | - | - | - | - | 84,093,278 | 84,093,278 | 84,093,278 |
| Total | - | - | - | - | 5,267,425,756 | 5,267,425,756 | 5,268,747,788 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| | | | | | | | December 31, 2010 |
| | Trading Assets LBP'000 | Available-for-Sale LBP'000 | Amortized Cost LBP'000 | Loans and Receivables LBP'000 | Other Accounts at Amortized Cost LBP'000 | Total Carrying Value LBP'000 | Total Fair Value LBP'000 |
| FINANCIAL ASSETS | | | | | | | |
| Cash and Central Banks | - | - | - | - | 958,250,566 | 958,250,566 | 958,250,566 |
| Deposits with banks and financial institutions | - | - | - | - | 268,341,148 | 268,341,148 | 268,341,148 |
| Trading assets | 569,876 | - | - | - | - | 569,876 | 569,876 |
| Loans to banks | - | - | - | - | 1,650,059,354 | 1,650,059,354 | 1,650,059,354 |
| Loans and advances to customers | - | - | - | 700,590,851 | - | 700,590,851 | 704,367,984 |
| Loans and advances to related parties | - | - | - | 39,697,295 | - | 39,697,295 | 39,697,295 |
| Investment securities | - | 654,596,203 | 518,888,063 | - | - | 1,173,484,266 | 1,150,836,256 |
| Total | 569,876 | 654,596,203 | 518,888,063 | 740,288,146 | 2,876,651,068 | 4,790,993,356 | 4,772,122,479 |
| FINANCIAL LIABILITIES | | | | | | | |
| Deposits and borrowings from banks | - | - | - | - | 76,192,994 | 76,192,994 | 76,192,994 |
| Customers' accounts at amortized cost | - | - | - | - | 4,342,227,601 | 4,342,227,601 | 4,342,372,149 |
| Related parties' accounts at amortized cost | - | - | - | - | 76,104,785 | 76,104,785 | 76,104,785 |
| Liability under acceptances | - | - | - | - | 16,158,555 | 16,158,555 | 16,158,555 |
| Total | - | - | - | - | 4,510,683,935 | 4,510,683,935 | 4,510,828,483 |



The following table provides an analysis of financial instruments that are measured subsequently to initial recognition at fair value, grouped into levels 1 to 3 based on the degree to which the fair value is observable;

| | December 31, 2011 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| FINANCIAL ASSETS | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Trading assets at fair value through profit or loss: | | | | |
| Quoted equity securities | 893,409 | - | - | 893,409 |
| Lebanese Government bonds | - | 72,328,474 | - | 72,328,474 |
| Certificates of deposit issued by the Central Bank of Lebanon | - | 278,339,732 | - | 278,339,732 |
| | 893,409 | 350,668,206 | - | 351,561,615 |
| Unquoted equity securities | | | | 2,949,197 |
| | | | | 354,510,812 |

| | December 31, 2010 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| FINANCIAL ASSETS | LBP'000 | LBP'000 | LBP'000 | LBP'000 |
| Trading assets: | | | | |
| Lebanese Government bonds | - | - | 569,876 | 569,876 |
| | - | - | 569,876 | 569,876 |
| Available-for-sale investment securities: | | | | |
| Quoted equity securities | 2,093,994 | - | - | 2,093,994 |
| Lebanese treasury bills | - | - | 191,590,543 | 191,590,543 |
| Lebanese Government bonds | - | 241,860,333 | - | 241,860,333 |
| Certificates of deposit issued by the Central Bank of Lebanon | - | 166,378,898 | 34,060,455 | 200,439,353 |
| Certificates of deposits issued by commercial banks | - | - | 6,905,856 | 6,905,856 |
| | 2,093,994 | 408,239,231 | 232,556,844 | 642,890,079 |
| Unquoted equity securities | | | | 160,322 |
| | | | | 643,620,277 |

The basis for the determination of the estimated fair values with respect to financial instruments carried at amortized cost and for which quoted market prices are not available is summarized as follows:

### (a) Deposits with Central Bank and financial inswtitutions:

The fair value of current deposits (including non-interest earning compulsory deposits with Central Banks), and overnight deposits is their carrying amount. The estimated fair value of fixed interest earning deposits with maturities or interest reset dates beyond one year from the balance sheet date is based on the discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

### (b) Loans and advances to customers and to banks:

The estimated fair value of loans and advances to customers is based on the discounted amount of expected future cash flows determined at current market rates.

### (c) Held-to-maturity investment securities:

The estimated fair value of held-to-maturity investment securities is based on current yield curve appropriate for the remaining period to maturity.

### (d) Deposits and borrowings from banks and customers' deposits:

The fair value of deposits with current maturity or no stated maturity is their carrying amount. The estimated fair value on other deposits is based on the discounted cash flows using interest rates for new deposits with similar remaining maturity.

### (e) Other borrowings and certificates of deposit:

The estimated fair value of other borrowings and certificates of deposits is the discounted cash flow based on a current yield curve appropriate for the remaining period to maturity.

## 43. Approval Of The Financial Statements

The financial statements for the year ended December 31, 2011 were approved for issuance by the Board of Directors on May 22, 2012.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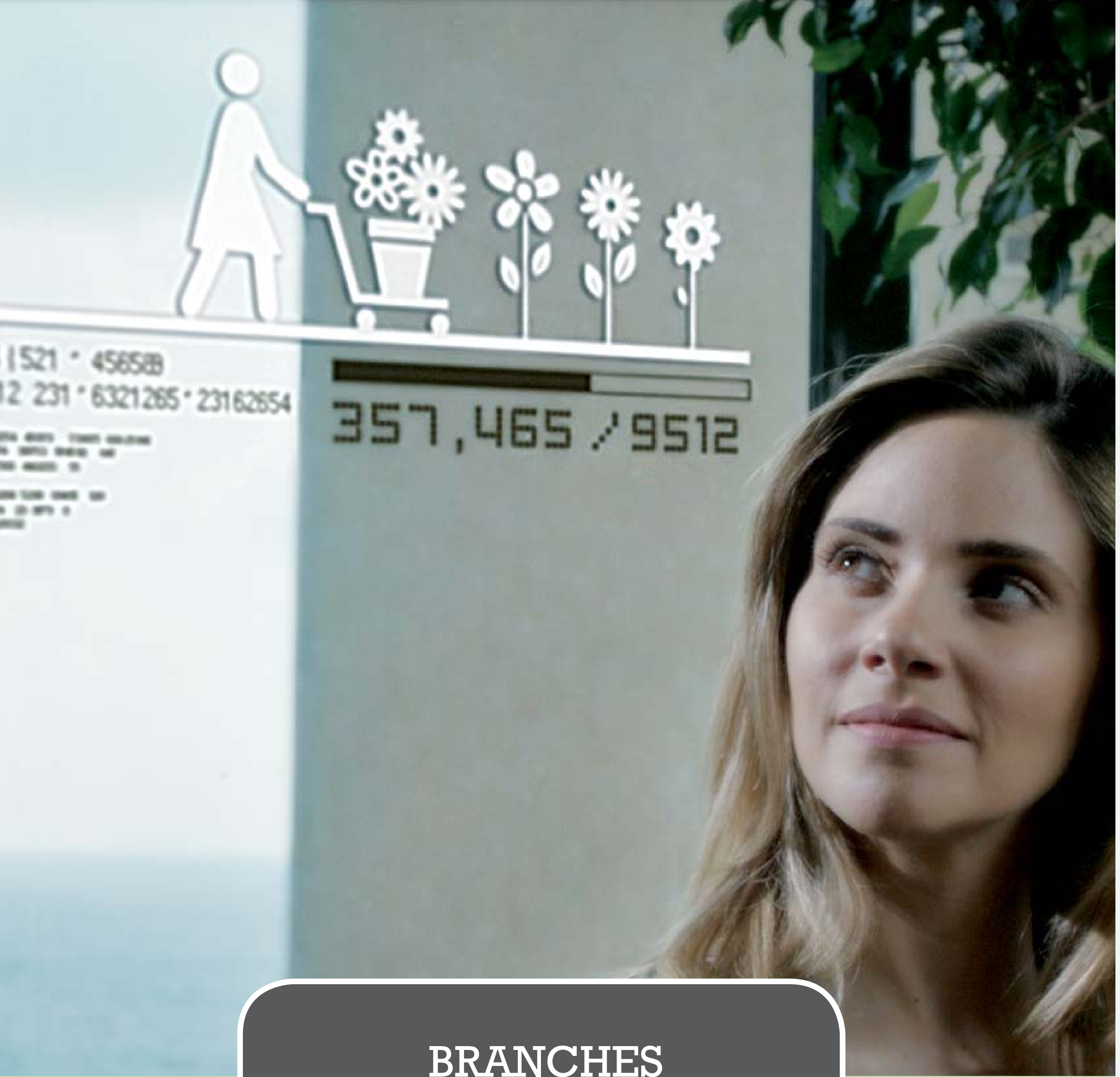
3214 12 231 * 6321265 * 23162654
357,465 / 9512




# BRANCHES

## BRANCH NETWORK 2011

### CURRENT GEOGRAPHICAL REPRESENTATION OF IBL BANK

The Bank currently has nineteen local operational branches: seven branches along with the Head-Office are located in the Greater Beirut region, four branches in the North of Lebanon, two branches in the South of Lebanon, five branches in the Mount Lebanon area and one branch in the Bekaa.

In the past few years, the Bank expanded its branch network by opening seventeen new branches, seven of which resulted from the acquisition of BCP Oriel Bank in 1999. In 2002, the Bank opened a new branch in the region of Kobayat (North Lebanon). During 2004, the Bank opened two branches, one in Chtaura (Bekaa) and one in Tyr (South of Lebanon), and during the first quarter of 2005, the Bank opened a new branch in Hazmieh (Baabda).

In addition, and in order to ensure a wider presence on the Lebanese territory, two new branches were inaugurated during 2008, one in Verdun (Beirut) and one in Antélias (Mount Lebanon) and a new branch was inaugurated in 2009 in Elissar (Mount Lebanon). In 2011, two new branches were added to the Bank's network one in Balamand (North Lebanon) and one in Byblos (Mount Lebanon) .Recently,a new branch began to operate in the region of Jnah ( Beirut).

In july 2006, the Bank established one representative office in Erbil in the Kurdistan region of the north of Iraq. Following to the more than satisfactory results of our representative office in Erbil, the Board of Directors decided to leverage our first mover advantage in Iraq and to upgrade our representative office in Erbil into a Full Branch that started its operations during 2008. Furthermore, the Bank has obtained the License to open and operate a new branch in Baghdad – Iraq, which started its operations during 2010.

Following to the successful ventures abroad, IBL Bank decided to open a branch in Europe. In November 2007, the Central Bank of Cyprus has granted IBL Bank the License to operate in Limassol - Cyprus. In 2008, our Branch started its operations on Makarios III Avenue in Limassol.

Finally, the Board of Directors has decided to set up the sister bank IBL Invest's Head-Office in Verdun – Beirut.

The Bank sees its branches abroad as a mean to diversify its stream of deposits, investments and revenues. In fact, consequent to the opening of European and Arab offices, the Bank is aiming to attract deposits and banking business through the important Lebanese and Arab communities in these regions.

## HEADQUARTERS

Charles Malek Avenue - Al Ittihadiah Bldg
P.O.Box 11-5292 Beirut
Phone: (01) 200350 - 334102
Fax: 961 01 204524
Call Center (04) 727244
Swift code: INLELBBE
E-mail: ibl@ibl.com.lb
Domain: www.ibl.com.lb

## BRANCHES IN LEBANON

### BEIRUT AND SUBURBS

**ACHRAFIEH**

Charles Malek Avenue - Al Ittihadiah Bldg
P.O.Box 11-5292 Beirut
Phone: (01) 200350 - 334102
Fax: 961 01 204524
Manager: Mr. Béchara Mattar

**HAMRA**

Maamari Sourati Street
P.O.Box 113-6553 - Hamra
Phone (01) 743006/7 - 347822/3
Fax: (01) 350608
Manager: Mr. Abdel Kader Tawil

**MOUSSAITBEH**

Mar-Elias Street, New Center
P.O.Box 11-5292 Beirut
Phone: (01) 707109 - 313414
Fax: (01) 304727
Manager: Mr. Mohamad Osseiran

**DORA**

Dora Blvd. - Ghantous Bldg
5th Floor P.O.Box 90263 Dora
Phone (01) 260556 - 260530 / 5
Fax: (01) 255111
Manager: Mr. Ayad Boustany

**BAUCHRIEH**

St. Joseph Hospital Street
Bakhos Bldg.
P.O.Box 11-5292 - Beirut
Phone: (01) 249031 - 248990
Fax: (01) 249031
Manager: Mr. Nabil Abou Jaoude



**ANTELIAS**

Bouldoukian - Garden Tower Bldg
P.O.Box 11-5292 Beirut
Phone: (04) 407043 - 406916 - 406993
Manager: Mr. Fady Nader

**VERDUN**

Rachid Karame Street
P.O.Box 11-5292- Beirut
Phone: (01) 797320 / 1/ 2/ 3/ 4
Manager: Mr. Abdel Rahman Zeidan

**JNAH**

Adnan Al Hakim Street
Near Monoprix - Al Rawan Bldg, GF
PO Box 11-5292 Beirut
Phone: (01) 843442 - Fax: (01) 843449
Manager: Mr. Jules Haidar

### OTHER REGIONS

**JOUNIEH**

Serail Street - Bechara Menassa Bldg
P.O.Box: 1820 Jounieh
Phone & Fax: (09) 915715 - 918438
Manager: Mr. Joseph Chehwan

**SAIDA**

P.O.Box 11-5292 Beirut
Phone: (07) 723909 - 725701
Fax: (07) 732273
Jezzine Street, Near EDL Building
Manager: Mr. Hassan Hachicho

**TRIPOLI**

Boulevard Street – Islamic Hospital Bldg
P.O.Box: 240 Tripoli
Phone (06) 440450 - 628228/9
Fax: (06) 628229
Manager: Mr. Hamed Raad

**KOBAYAT**

Place Zouk Kobayat
Mtanios Mekhael Bldg
P.O.Box 11-5292 Beirut
Phone: (06) 351951/5
Fax: (06) 351956
Manager: Mr. Assaad Obeid

BRANCHES

## BATROUN

Main Street - Zakaria Bldg
P.O.Box 11-5292 Beirut
Tel: (06) 642218 / 740552
Fax No: (06) 643218
Manager: Mr. Kisra Bassil

## CHTAURA

Main Road – Kikano Bldg
P.O.Box 11-5292 Beirut
Phone: (08) 546802/3/4
Fax: (08) 546801
Manager: Mr. Iskandar Joanny

## TYRE

Boulevard Maritime
P.O.Box 11-5292 Beirut
Phone: (07) 346813 - 11
Fax: (07) 346804
Manager: Mr. Youssef Chebli

## HAZMIEH

International Road – Beirut Direction
P.O.Box 11-5292 Beirut
Phone: (05) 952801/2/3
Fax: (05) 952804
Manager: Mr. Charbel Helou

## ELYSSAR

Mazraat Yashou - Main road
Ziad Yashoui Bldg.
P.O. Box 11- 5292 Beirut
Phone: (04) 916029/31/32
Fax: (04) 916034
Manager: Mr. Jean-Pierre Abi Doumeth

## BALAMAND

Balamand – Main Street – Al Kourah – Lebanon
P.O.Box 11-5292 Beirut
Phone: (06) 933041
Fax: (06) 933038
Manager: Mr. Walid Salem

## JBEIL

Voie 13, Kordahi Bldg
P.O.Box 11-5292 Beirut
Phone: (09) 543992
Fax: (09) 543994
Manager: Mr. Rabih Abi Ghosn

# BRANCHES ABROAD

## IRAQ - ERBIL

DAR building, Ainkawa road
Mahala 319, Bakhteary
Erbil – IRAQ
Phone: +964 66 2251342
Direct: +964 66 2561512
Mobile:+964 750 424376
Swift: INLELBBE
Manager: Miss Ishtar Zulfa

## IRAQ - BAGHDAD

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Street No 18, Building No 24
Baghdad – Iraq
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Swift: INLELBBE
http: // www.ibl.com.lb
e-mail: baghdad@ibl.com.lb
Manager: Mr. Michel Assaf

## CYPRUS – LIMASSOL

IDEAL building, 1st Floor,
214 Arch, Makarios III Avenue
3030 Limassol, CYPRUS .
P.O.BOX 54273
3722 Limassol - CYPRUS
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Fax: +357 25 504450
Manager: Mrs Ghada Christofides

# IBL INVESTMENT BANK SAL
## HEADQUARTERS

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Fax: (01) 792038
Deputy General Manager:
Mr. William George

IBL BANK SAL