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Annual Report 2011

FIRST NATIONAL BANK S.A.L.

Annual Report 2011

CONTENT

CHAIRMAN’S LETTER

2011 was another successful year in regard to the monetary stability in Lebanon despite the unstable political climate in the region. Real GDP recorded a positive growth of 1% to 2%.
FNB maintained healthy financial growth indicators in terms of balance sheet footings and net income backed by continuous customer satisfaction.
Total Assets, as reflected in the consolidated balance sheet of the FNB Group, reached US$2.8 billion, up by 11.3% compared to 2010, which was mainly funded by Customers' Deposits which increased by 15.3% to reach US$2.3 billion. The Banking Sector Assets grew by 9% with deposits showing a growth of 7.9%.
Loans and Advances to Customers increased by approximately 23% with an increase of the ratio of loans to deposits from approximately 31.4% to 33.5% in 2011 compared to 2010. This reflects our strategy of developing commercial business as well as building corporate and retail loan portfolios through FNB and its subsidiaries CFC and MECG while maintaining a healthy and conservative ratio compared to the industry in general and to the peer group in particular.
Net Income reached US$16.4 million, representing steady growth of 11.6% compared to 2010, excluding non-recurring revenue booked in that year.
Moreover, the board has adopted a solid corporate governance structure, in line with international and local standards, aimed at enhancing operational excellence and improving capacity for revenue generation for our shareholders and creating an environment that fosters transparency and accountability. The Nomination and Remuneration Committee, a new board committee, has been added to the existing audit and risk management committees to assist the board in fulfilling its oversight responsibilities including recruitment and remuneration of board members, among other responsibilities.
Concentrating on our customers' needs and preferences, a significant part of the year has been dedicated to implementing change and making improvements to become even more customer focused. We remain committed to our customers by anticipating and responding to their needs through focused attention and feedback and developing mutually beneficial, long term and successful relationships. Such efforts have led to a better understanding of their preferences, thus creating new opportunities for them with FNB. Central to the success of these efforts was the continuous improvement of the wide range of outstanding financial products and services offered by the commercial, corporate, retail, private and investment banking units of FNB Group within the overall e-banking backbone.
In addition, a fundamental milestone was achieved by adopting a four year funding strategy to further strengthen our capital base and exceed BASEL III related regulatory requirements.
Another key goal for 2011 was to implement a reward system and performance measurement program for our staff in order to maintain high levels of motivation in delivering quality service.
I would like to take this opportunity to thank our shareholders for their continued trust in the future of the FNB Group as we remain committed to the pursuit of sustainable long term value for their investments.
Furthermore, I would like to express my sincere gratitude to our customers for their trust and for giving us the opportunity to serve them and meet their financial goals, and would like to thank our employees for their remarkable efforts over the past year. Those tremendous efforts allowed the FNB Group to surpass the expected results. I firmly believe that FNB's talent will continue to be the driver of FNB's success for many years to come, coupled with an opportunity to achieve professional goals. Looking ahead, I am convinced that due to the actions taken in 2011, fruitful years are yet to come and that FNB is on the right path to a prosperous future.

Chairman of the Board

CORPORATE GOVERNANCE

STATUTORY BODY

The corporate governance guidelines, adopted by First National Bank, provide a framework to regulate the relationships between shareholders, supervisors and management.
A clear separation between the oversight, vision setting, supervision and execution is reflected in the corporate governance structure.
The board makes every effort to balance the interest of its shareholders, customers, employees and suppliers.
Furthermore, the board ensures effective governance, supervises the management of the bank's business and affairs, and exercises reasonable business judgment on behalf of the bank. In all actions taken by the board, the members act on a fully informed basis, in good faith, with due diligence, keeping in mind the best interests of the bank. In discharging their obligation, board members rely, among other things, on the honesty and integrity of the bank's senior management and its outside advisors and external auditors.

Chairman

The Chairman and Vice Chairman of the Board are appointed by the Board of Directors for a maximum period of three years renewable term. The Chairman may delegate some or all of his authority to another person who operates under his supervision, but remains responsible for the acts and performance of his delegates. The Deputy General Managers and Assistant General Managers are endorsed by the board upon the recommendation of the Chairman. They assist the Chairman in the daily operations of the bank. The Chairman has extensive powers to execute resolutions adopted by the shareholders at the Ordinary or Extraordinary General Assembly and to represent the bank in its different activities.

Board of Directors

The Board of Directors consists of nine elected members and is chaired by Mr. Rami El Nimer. The election of the members takes place at the Annual General Assembly of Shareholders for a maximum period of three years term. Board members need General Assembly authorization to be elected members in other entities with similar business activities. The renewal of this authorization is mandatory at each Annual General Assembly of Shareholders.

The Board of Directors of First National Bank is composed of the following 9 members:

Mr. Rami Refaat El Nimer is an experienced banker who has many notable achievements in the banking industry.

He has served as a Director and Chairman for the bank since March 2001. Additionally, Mr. El Nimer holds other corporate responsibilities within the business community.

Mr. Khaled Abdallah Al Sagar is the Vice-Chairman of the bank. He has been a Director at FNB since June 1996. Mr. Al Sagar held the role of Chairman of the Board for a three year term starting April 3, 1998 until March 23, 2001. He is an active member of the Al Sager Group, a leading merchant and industrial conglomerate in Kuwait.

Promotion des Investissements S.A.L. (Holding) has been represented on the board through its Chairman since April 2000. It is a Lebanese holding company that primarily invests its financial and industrial concerns in Lebanon.

Mr. Abdallah Saoud Al Humaidhi has been a Director of the bank since June 1996. He is also a member of the Board of Directors of the Arab Banking Corporation in Bahrain, representing the government of Kuwait. Mr. Al Humaidhi is the Chairman and Managing Director of Commercial Facilities Company K.S.C., and a Board Member of the Chamber of Industry & Commerce in Kuwait, in addition to other Kuwaiti organizations.

Mr. Arfan Khalil Ayass has been a Director for the bank since August 2009. He is a member of the American Institute of Certified Public Accountants, the Lebanese Society of Certified Public Accountants and the Arab Society of Accountants. Mr. Ayass is currently a faculty member of the Lebanese University and Hariri Canadian University.

Mr. Tamim Saleh Al Sahli has been a board member since April 2000. He is a Lebanese businessman.

Mr. Roland Elias Haraoui has been a board member since December 2001. He is a Lebanese businessman with an exceptional leadership profile.

Almuttahida Lil Istithmar (Lebanon) S.A.L (Holding) has been elected, through its representative, as a board member since 2004. It is a Lebanese holding company that invests its financial and industrial concerns in Lebanon.

Invest Bank P.S.C has been represented at the board since February 2007. Invest Bank is a commercial bank based in the Emirate of Sharjah since 1975. The bank's shares are 100% publicly owned, listed and traded on the Abu Dhabi Securities Market.

MANAGEMENT

General Management

Mr. Rami Refaat El Nimer
Chairman - General Manager

Mr. Elias Salim Baz
General Manager

Mr. Najib Michel Semaan
General Manager

Mr. George Nassib Aouad
Advisor to Chairman

Mr. Ghaithan Subhi Tayara
Deputy General Manager

Mr. Mahmoud Gerge Francis
Assistant General Manager - Branch Management Department

Mr. Tony Wannes Dabbaghian
Assistant General Manager

Heads of Departments

Headquarters - Senior Managers

Mr. Robert H. El Haddad
Internal Audit Department

Mr. Adam H. Mansour
Compliance & Review Department

Mr. Antoine C. Wakim
Chief Financial Officer

Mr. Raymond N. Yazbeck
Credit Administration

Headquarters – Managers

Mr. George F. Abi Hanna
Human Resource Department

Mr. George K. Abi Karam
Lawyer - Legal Department

Mrs. Amina H. Bizri
Anti-Money Laundering Department

Mr. John N. Chalouhi
Risk Management Department

Mr. Wassim M. Daouk
Corporate Banking Department

Ms. Nada F. El Zein
Credit Review Department

Mr. Joseph E. Estephan
Recovery & Restructuring Department

Mrs. Soumaya Y. Haris
Treasury - Capital Market Department

Mr. Salim L. Karroum
Operations Department

Mr. Marwan B. Khawand
Information Technology Department

Mr. Maher G. Mezher
Marketing Department

Mr. Elie M. Rahal
Trade Finance Department

Mr. Assaad K. Saliba
Treasury - Foreign Exchange Department

Mr. Adonis F. Shehayeb
Deputy Manager - Management Information System Department

Mr. Khalil K. Badran
Senior Officer - Administration Department

Mr. Georges K. Boustany
Senior Officer - IT Security Department

Mrs. Carine N. Jbeily
Senior Officer - Retail Credit Department

Mrs. Marie-Rose E. Kallas
Senior Officer - Small and Medium Enterprises Banking Department

Consultants

Me. Sakher C. El Hachem
Legal Consultant

Mr. Safa A. Al Janoudy
Consultant to Chairman - Foreign Affairs

Abou Sleiman and Partners
Legal Consultant

Me. Rawi B. Kanaan
Legal Consultant

Mr. Mohamad S. Osman
Consultant

Mr. Nabil M. Soubra
Consultant to Chairman - Foreign Affairs

Saade, Debs and Partners
Legal Consultant

Auditors

Deloitte & Touche
Fiduciaire du Moyen-Orient

Branch Managers

Mr. Ghassan R. Abou Zahr
Saida Branch

Mr. Wajih S. Akkari
Verdun Branch

Mr. Joseph M. Azoury
Jounieh Branch

Mr. Ziad A. Baadarani
Tarik El Jdideh - Sabra Branch

Mr. Mahmoud A. Berjawi
Haret Hreik Branch

Mr. Abed S. Chami
Halba Branch

Mr. Jean G. Chehadeh
Hazmieh Branch

Mr. Mohamad H. Chokr
Chtoura Branch

Mr. Youssef H. El Zoghbi
Jdeideh Branch

Mrs. Rania K. Qubaa
Assistant Manager - Mazraa Branch

Mr. Firas A. Abi Farraj
Senior Officer - Aley Branch

Mr. Hussein G. Fakhreddine
Jnah Branch

Mr. Issam H. Ghosn
Nabatieh Branch

Mr. Antoine G. Hafez
Allenby Branch - Main Branch

Mr. Ahmad Saoud A. Hajar
Tripoli Branch

Mr. Fouad H. Hamadeh
Choueifat Branch

Mr. Ziad E. Kanaan
Antelias Branch

Mr. Elie H. Khalil
Zouk Mousbeh Branch

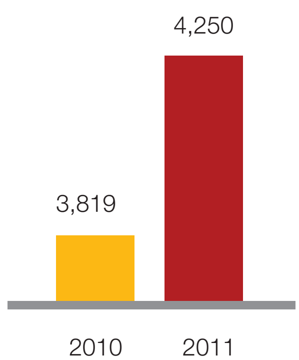
Mr. Nabil H. Serhan
Mais El Jabal Branch

Mr. Erik P. Vasdekis
Achrafieh Branch

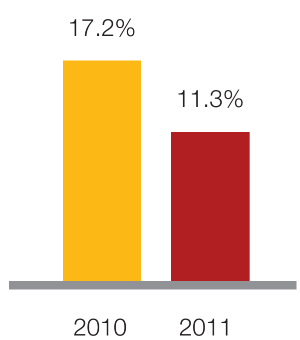
Mrs. Rola S. Zaghloul
Hamra Branch

KEY FIGURES OF FNB GROUP

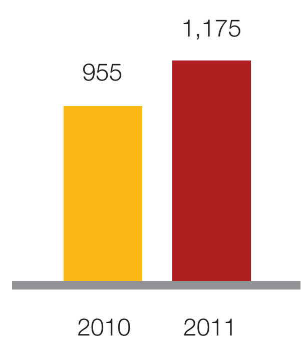
in billions of LBP



Assets



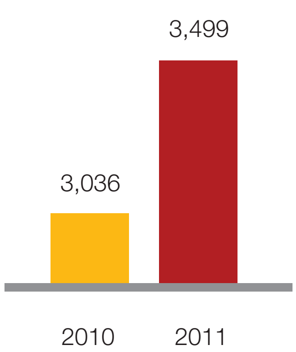
% Growth of Assets



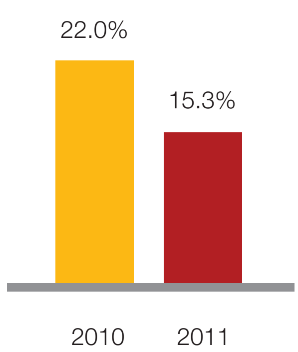
Loans & Advances

KEY FIGURES OF FNB GROUP

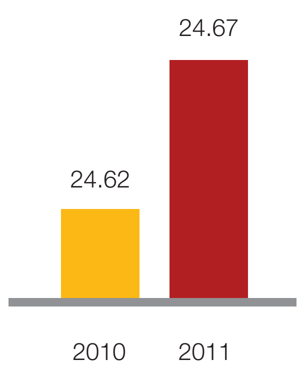
in billions of LBP



Deposits

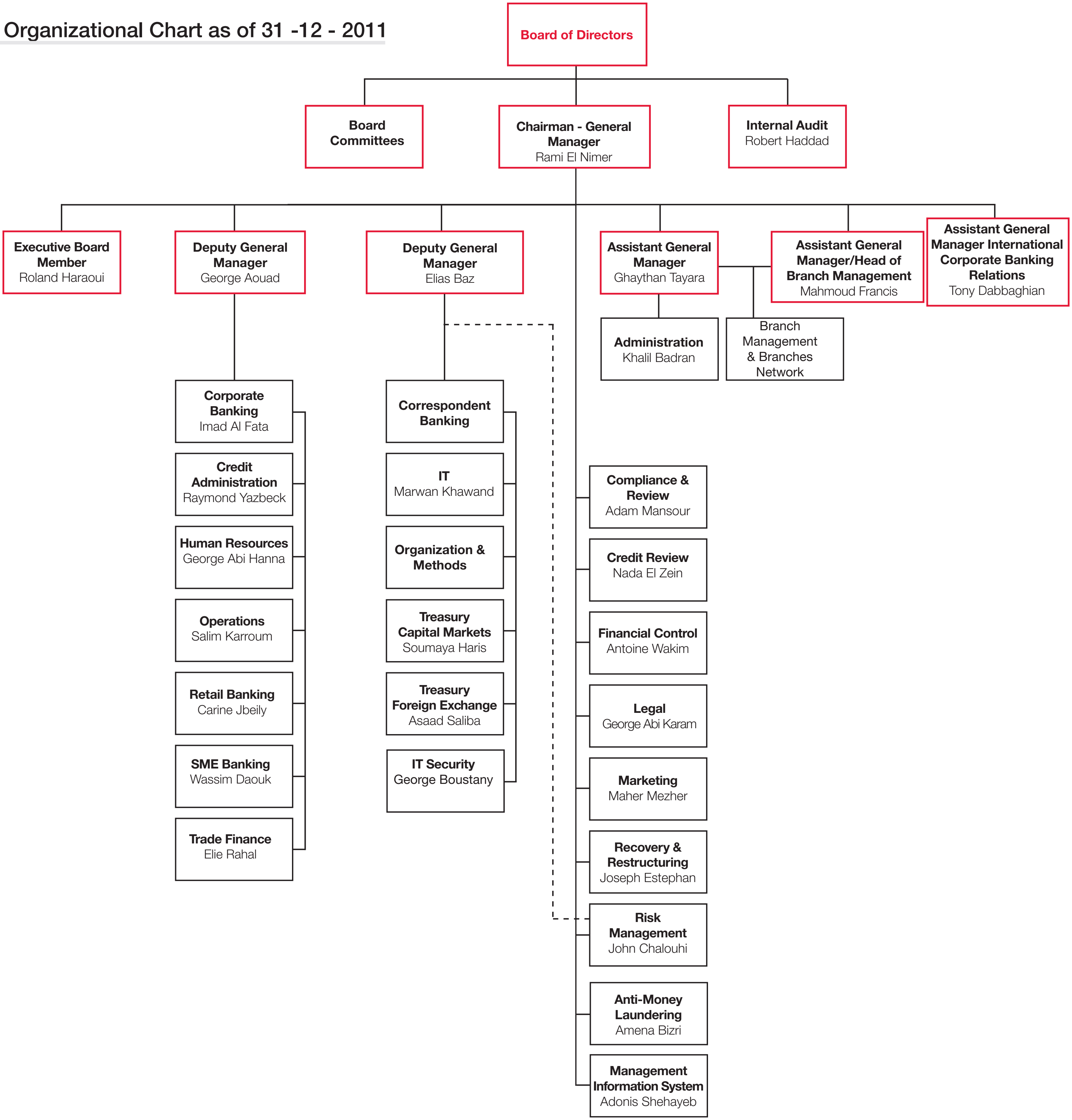


% Growth of Deposits



Net Income

Organizational Chart as of 31 -12 - 2011



Management Discussion & Analysis

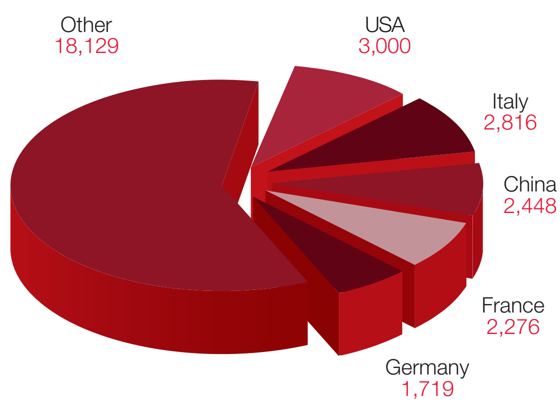
The management discussion and analysis highlights key information regarding the bank. The terms “the bank”, “FNB”, ”we”, ”us”, and “our”, used here without other qualifying description, will refer to First National Bank S.A.L. The term “group” will refer to FNB consolidated (with Middle East Capital Group “MECG” and Capital Finance Company “CFC”). All statements of financial position are consolidated, unless otherwise stated, and are based on the audited consolidated statements of the external auditor, Deloitte.

Operating Environment

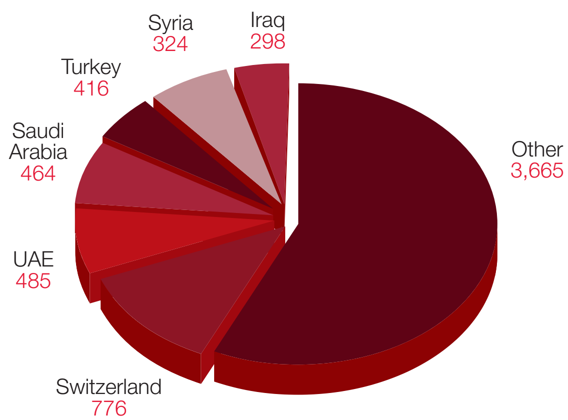
Economic Indicators

The Lebanese economic growth in 2011 has been affected by the ongoing political concerns and the sector’s stagnation in the region, resulting in a slow deceleration compared to previous years. The coincident indicator that reflects the general state of the economy reached 265.5, marking a 3.9% growth from last year’s figure of 255.5; the real GDP growth was estimated at a level of 1.5% by the IMF. The trade deficit marked a 13.2% increase with a rise of 12.2% and 8.8% in imports and exports, respectively. According to the Ministry of Finance figures, the Net Public Debt recorded LBP 69,879 billion at year end and the Debt-to-GDP ratio sustained its yearly improvement to register 133%. The inflation rate, driven by the weak growth in the money supply (5.5%), attained approximately 5.7%. Conversely, several sectors marked an upward trend such as the increase of 6.2% in cement deliveries, 6.95% in the total value of cleared checks, 5.5% increase in maritime port freight activity, and a slight increase of 1.8% in passenger flow. Despite these constructive facts, the regional turmoil has influenced the other economic sectors; construction permits dropped off by 6.8% in 2011 compared to a 22.79% boost in 2010, and the number of ships in the Beirut Port declined by 5.2% year-on-year. Also, the electricity production decreased by 0.5%.

Imports by Origin in 2011
in billions LBP



Exports by Destination in 2011
in billions LBP

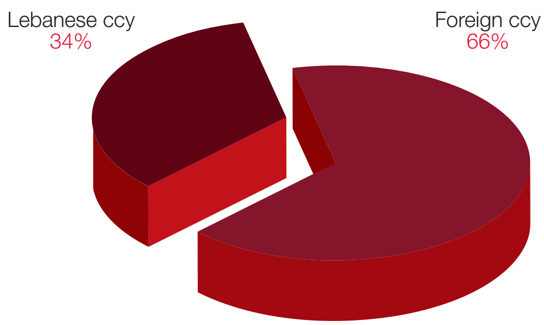


Source: BDL Monthly Bulletin, December 2011

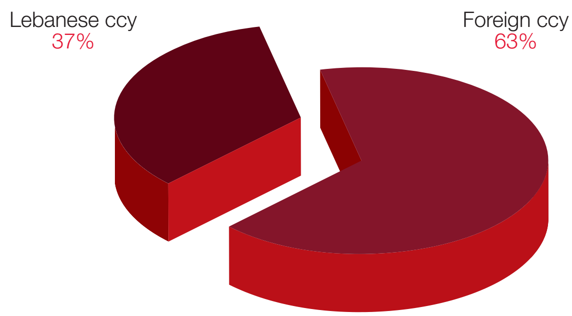
Banking Sector

The consolidated Statement of Financial Position for the commercial banks expanded to 9.04% in 2011 compared to 11.9% in 2010, and reached LBP 211,918 billion. Total resident and non-resident private sector deposits recorded LBP 174,439 billion, increasing by 7.94%. The dollarization rate of Bank Deposits surged to 66% by December 2011 from 63% at the end of 2010.

Deposits by currency in 2011

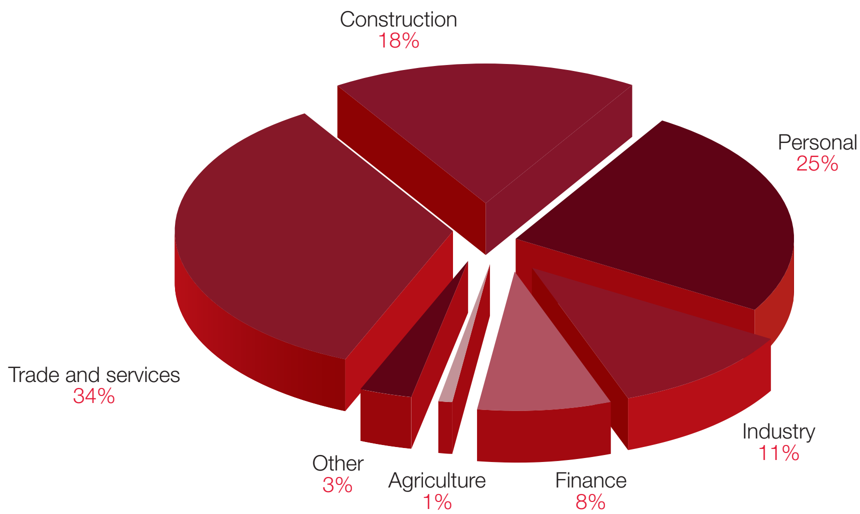


Deposits by currency in 2010



Similarly, Loans and Advances to the private sector increased by an annual 12.7% versus 23.1% in 2010, amounting to LBP 59,358 billion in 2011.

Loans & Advances by Sector in 2011



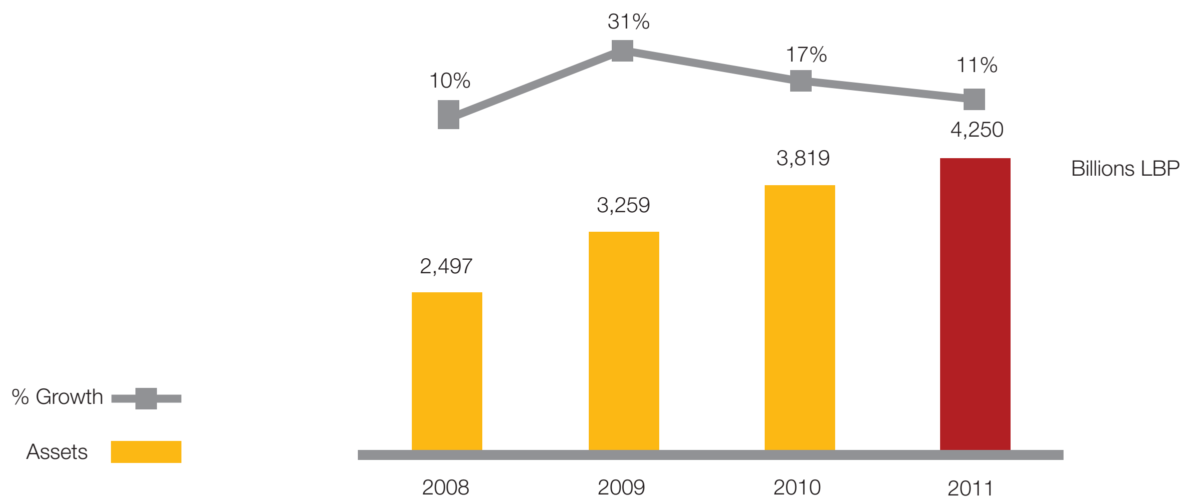
Source: BDL Monthly Bulletin, December 2011

FNB GROUP PERFORMANCE

In thousands of LBP	2008	2009	2010	2011
Assets	2,496,946,024	3,258,722,095	3,818,725,634	4,250,333,287
Loans and advances to customers	561,398,553	676,055,390	954,522,772	1,174,715,608
Customers' deposits	1,915,861,304	2,487,720,953	3,035,712,315	3,499,403,491
Shareholders' equity	157,971,466	244,660,670	291,553,068	269,965,639
Net income	13,312,260	14,702,909	24,617,005	24,671,879
Number of branches	18	19	21	21
Number of staff	357	425	529	556
Ratios				
Loans to deposits	29.30%	27.18%	31.44%	33.57%
Net doubtful loans/Total loans	3.44%	2.42%	0.31%	0.77%
Loan loss provisions/Gross loans	10.98%	10.14%	8.95%	7.78%
Net doubtful loans/Equity	12.22%	6.67%	1.00%	3.33%
Gross doubtful loans/Gross loans	14.04%	12.31%	9.23%	8.49%
Average equity to assets	6.25%	7.00%	7.58%	6.96%
Efficiency:				
Interest received to av. assets	6.37%	6.02%	5.91%	5.59%
Interest paid to av. assets	4.81%	4.67%	4.15%	3.95%
Interest paid to interest received	75.54%	77.56%	70.21%	70.61%
Spread	1.56%	1.35%	1.76%	1.64%
Cost to net financial income	66.68%	68.82%	61.89%	61.25%
Profitability:				
ROAA	0.56%	0.51%	0.70%	0.61%
ROAE	9.38%	7.84%	9.18%	8.79%

Total Assets

The consolidated assets of FNB Group as of December 31, 2011 amounted to approximately LBP 4,250 billion (USD 2.82 billion), showing an increase of 11.3% from LBP 3,819 billion as of December 31, 2010.

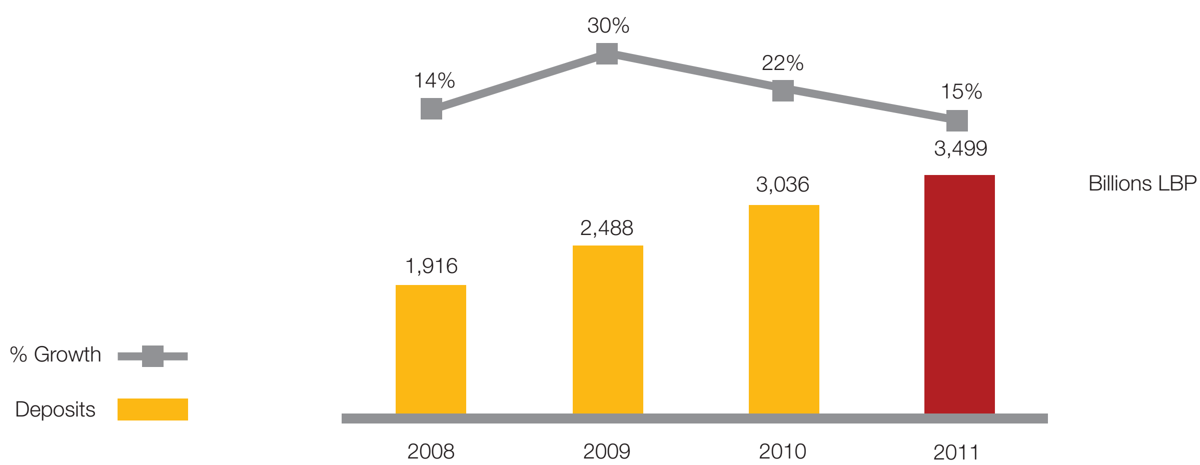


SOURCES OF FUNDS

The FNB Group's source of funding comes mainly from deposits from customers representing 82% of total sources. Other sources of funds are from banks and financial institutions which represent 10%, equity 6% and other sources 2%.

Deposits from Customers

On December 31, 2011, the group had accumulated sums of LBP 3,499 billion (USD 2,321 million) in customers' deposits as compared to LBP 3,036 billion (USD 2,014 million) in 2010, reflecting a growth rate of 15.3%.



Dollarization

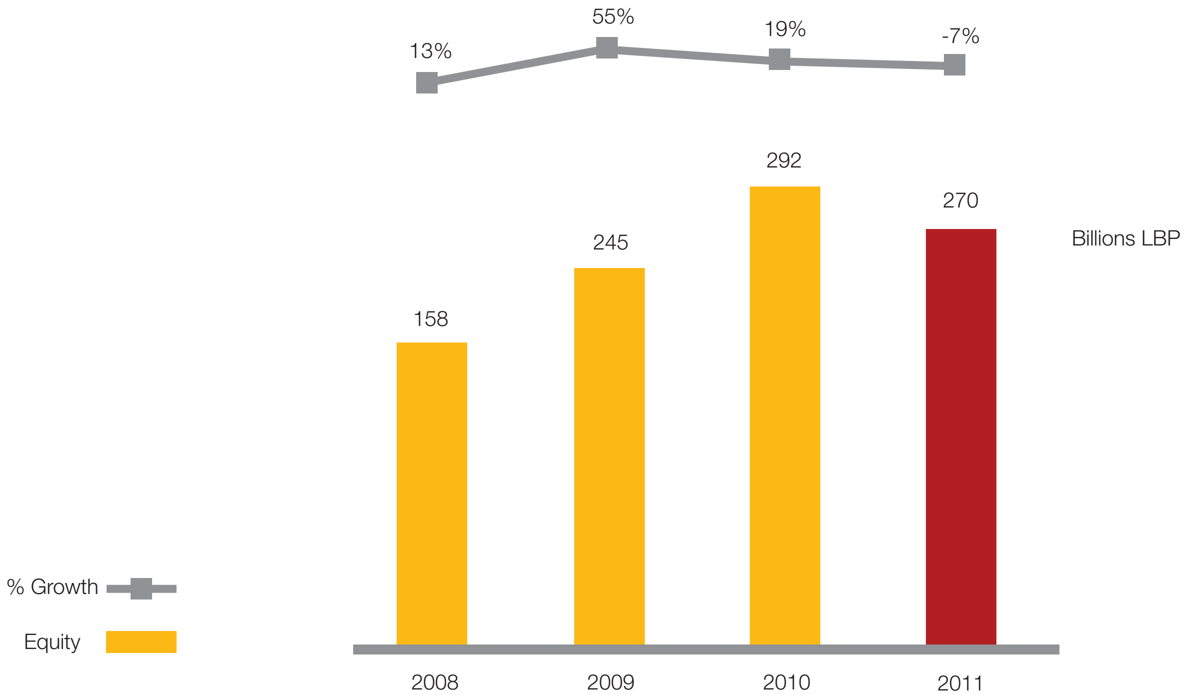
Deposits in Lebanese pounds increased by 0.25% in 2011, from LBP 1,136 billion as of December 31, 2010 to LBP 1,139 billion as of December 31, 2011, while deposits in foreign currency increased by 24.26% from LBP 1,900 billion as of December 31, 2010 to LBP 2,360 billion as of December 31, 2011. The dollarization ratio in 2011 has increased to 67% as compared to 63% in 2010.

Banks and Financial Institutions

As of December 31, 2011, deposits and borrowings from banks and financial institutions equaled LBP 418 billion.

Equity

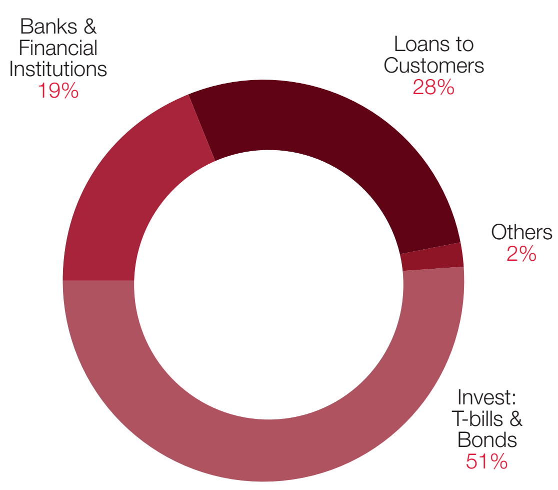
As of December 31, 2011, the group Shareholders' Equity stood at LBP 270 billion (USD 179 million) compared to LBP 292 billion (USD 193 million) as of December 31, 2010.



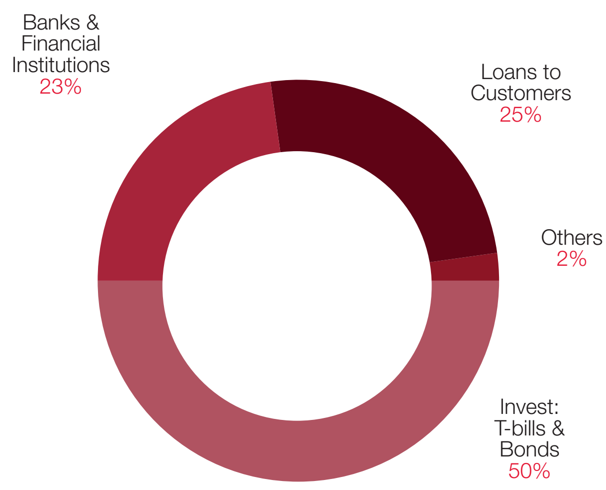
USES OF FUNDS

The FNB Group's use of funding is classified in 3 main categories: Investments (T-bills & Bonds), Banks and Financial Institutions, and Loans and Advances to Customers.

Uses of funds in 2011

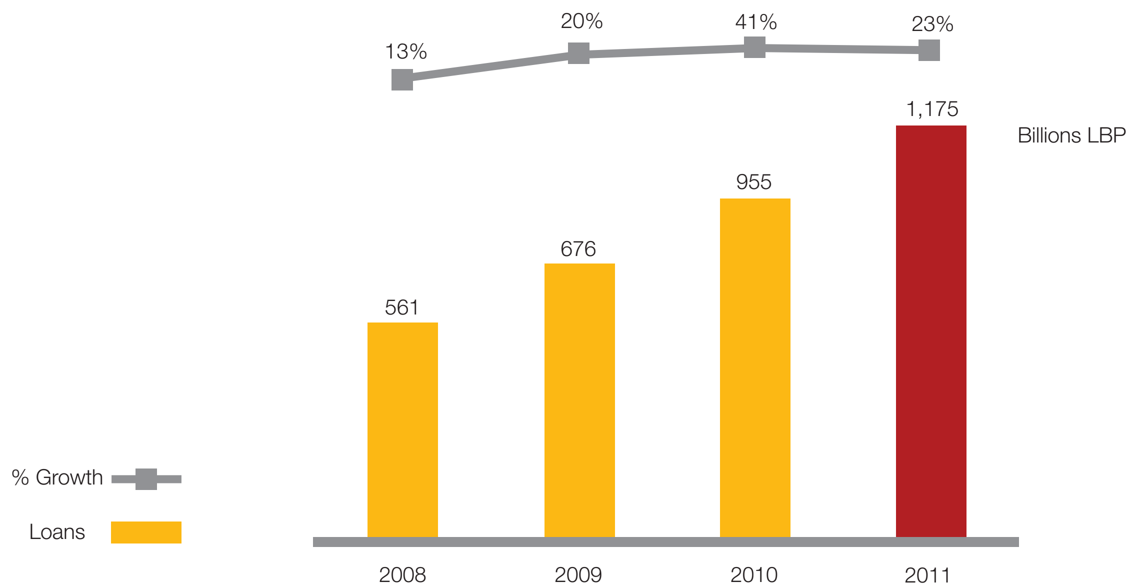


Uses of funds in 2010

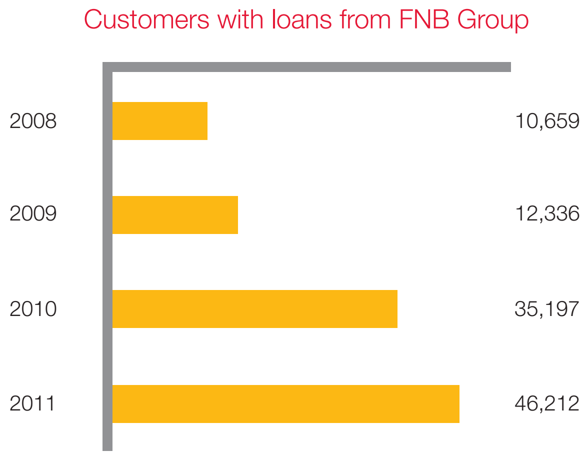


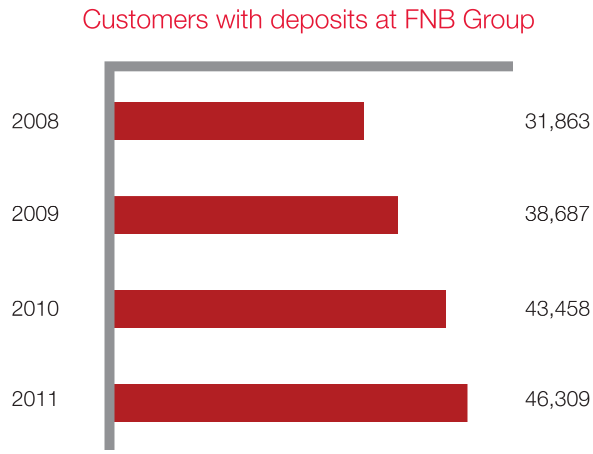
Loans and Advances to Customers

The group was also successful in developing its retail and commercial lending sector. Loans and Advances to Customers increased by LBP 220 billion (USD 146 million) during 2011 to reach LBP 1,175 billion (USD 779 million) as of December 31, 2011, reflecting a growth rate of 23%.



a. Number of Customers at the End of 2011

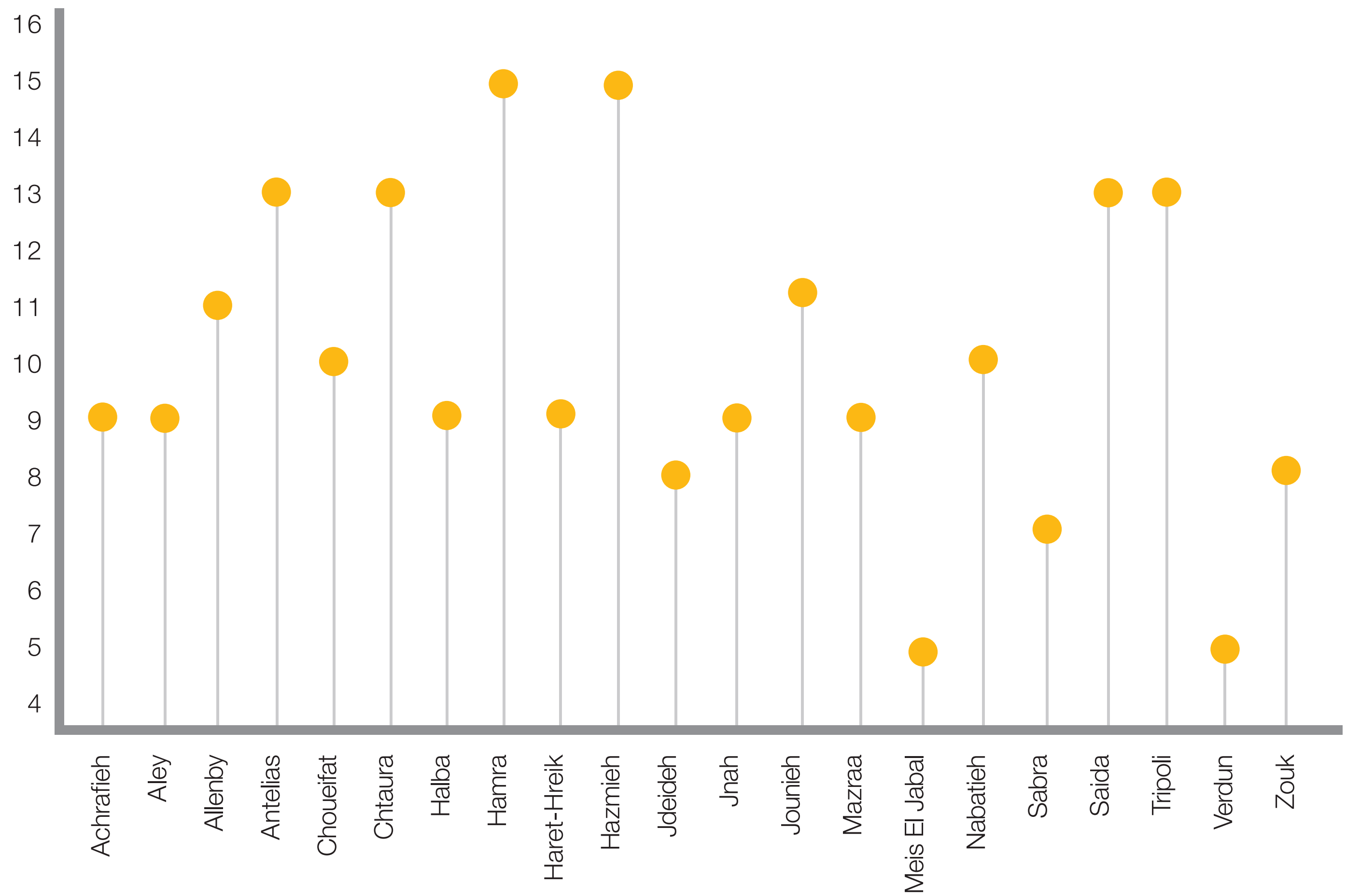




b. Branches and ATMs

The bank operates 22 ATMs within the 21 branches and 16 additional free-standing ATMs in order to allow banking access throughout Lebanon.

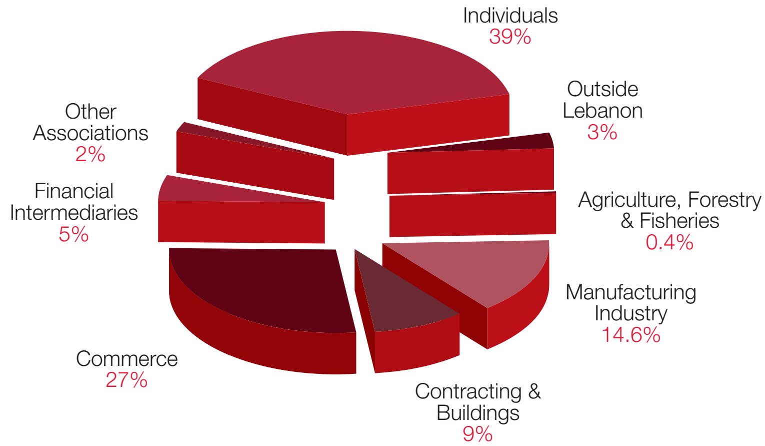
Branches by number of employees



List of free-standing ATMs

Zouk	(EDL) Electricité Du Liban	**Manara**	Military Beach
Kadicha	(EDL) Electricité Du Liban	**Jounieh**	Military Beach
Gemmayze	(EDL) Electricité Du Liban	**Jdeideh**	Mazda Company
Tabarja	Aquamarina	**Clemenceau**	CFC
Aintoura	Aintoura St. Joseph School		
Riyak	Riyak Hospital		
Saida	Riad el Solh St.		
Mekalles	OTV Bldg		
Museum	General Security		
Aadlieh	General Security		
Hamra	Makdessi St.		
Raouche	Riviera Hotel		

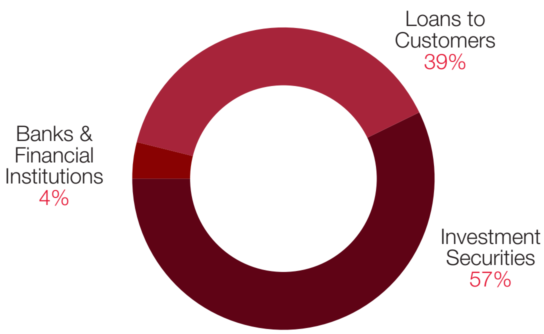
c. Loan Portfolio by Economic Sector in 2011



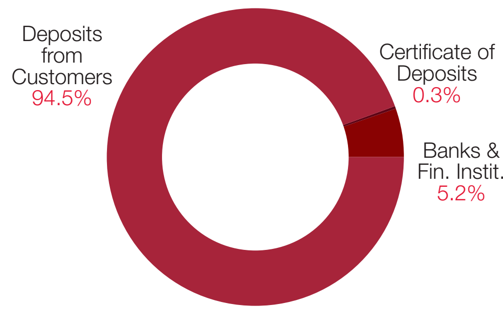
PROFITABILITY

As of December 31, 2011, the group reported a net income of LBP 24.67 billion (USD 16.4 million) as compared to LBP 24.62 billion (USD 16.3 million) at the end of 2010, reflecting an annual growth rate of 0.2%.
The distribution of both interest income and interest expense is illustrated below:

Interest Income 2011



Interest Expense 2011



Net Fees and Commissions reached LBP 3.3 billion as of December 31, 2011. In addition, operating income reached LBP 5 billion as of December 31, 2011 compared to LBP 12 billion as of December 31, 2010, with a yearly decline of 63%.

CAPITAL MEASUREMENT

The FNB Group complies with the capital requirements set forth by the Central Bank of Lebanon, the bank's main regulator, to preserve the bank's liabilities and to monitor and maintain a strong capital base.
Risk weighted assets and capital are examined periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

	2011	2010
Capital adequacy ratio Basel II	7.78%	9.48%

Compliance and Review

The Compliance and Review Department (CRD), established in 2009, centralizes the control and review processes at FNB to aid the organization in achieving its mission and profitability goals. The CRD regulates the policies, processes, and tasks of the organization to ensure efficiency of operations, quality of reporting, and compliance with applicable laws and regulations.

Compliance and Review consists of four interrelated components. These are:

Control Environment:
Sets the tone of the organization, influencing the control consciousness of its employees.

Control Activities:
Monitors policies and procedures that ensure management directives are met. Control activities occur throughout the organization, at all levels and in all functions. They include a range of activities such as approvals, authorizations, verifications, reconciliations, reviews of operating performance, asset security, and segregation of duties.

Information and Communication:
Identifies pertinent information that must be analyzed, assessed, and communicated in an efficient form and timeframe. Information systems produce reports containing operational, financial, and compliance-related information that enables it to properly function and control the business. They manage not only internally generated data, but also information regarding external events that affect the business, activities, and conditions necessary to conduct informed decision-making and external reporting.

Monitoring:
Occurs through the observation of internal control systems via a process that assesses the quality of the system's performance over a period of time. This is accomplished through ongoing monitoring activities, separate evaluations, or a combination of the two procedures. Ongoing monitoring occurs in the standard course of operations. Internal control is most effective when controls are built into the entity's infrastructure and are a part of the foundation of the enterprise. Built-in controls support quality and empowerment initiatives, avoid unnecessary costs, and enable quick responses to changing conditions.

The CRD is comprised of the following units:
1- Treasury Review Unit
2- Reconciliation Unit
3- Credit Monitoring and Review Unit
4- Regulatory Compliance Unit
5- Branch Review and Control Unit
6- Operations and Review Unit

FICB

Over the last years, First National Bank succeeded in developing solid international banking activities. A global network of correspondent banking relationship with the major International Banks has been created on bilateral basis to better serve and support the growing needs of our bank's customers, corporates and institutions.

The correspondent Banking department manages International Banking Activities. Our main objective is to render excellent and wide range of services.

Our services include Clearing of Checks, Funds Transfer, Documentary Letters of Credit, Documentary Collections, Letters of Guarantee in addition to Financial Markets Services, Trading Activities, Treasury Management, Foreign Exchange and Multicurrency Payments.

Marketing

During 2011, there were many significant achievements in the Marketing Department. In an effort to offer the latest electronic banking technology and emerging as a pioneer in the banking industry, we launched the SMS banking service, which allows customers to track their banking transactions via SMS notifications. Perceived as a successful step to promote the service, an innovative 3D movie, which was a first of its kind in the banking sector, was displayed and synchronized on all branch LCDs. Aiming to offer our customers a convenient way to locate our branches and ATMs, we developed and uploaded illustrative maps on our website. We also improved our SEO (Search Engine Optimization) through a strategic tactical campaign. In addition, new off-premises ATMs were installed to widen the network of delivery channels.

FNB started the implementation of the Customer Relationship Management in pursuit of customer satisfaction which, in turn, builds cost-effective business models. Furthermore, we launched the new Income Compensation bancassurance product, an insurance policy which offers the client a daily indemnity throughout his stay in the hospital due to illness or accidental injury.

In line with FNB's commitment towards Corporate Social Responsibility, we participated in social activities and enhanced the bank's exposure. We supported the local community by sponsoring social and public events such as the Walk with Al Younbouh which supports a rehabilitation center for people with special needs, the Spring of Beirut with the Samir Kassir Foundation, the Chess Tournament of Amicale des Freres, and the Handicapped Women's Association Gala Dinner. In addition, the outdoor film festival by Le Laboratoire d'Art and the INJAZ Association, which provides educational initiatives for Lebanese youth, also received support from the bank.

Moreover, FNB and l'Academie Libanaise des Beaux Arts (ALBA) sponsored Parade, a modern ballet performed at the Baalbeck International Festival in June of 2011. FNB supported this initiative because it believes in the role of arts and on-stage performance in building one's personality. The bank also sponsored the Ideaz Prize yearly TV show on MTV, which is dedicated to finding the best young entrepreneurs in Lebanon who present new and innovative ideas. FNB's support of this program reaffirms its belief in encouraging innovation and creativity.

Information Technology

First National Bank continues to provide a wide range of outstanding financial services and products based on the latest technologies in order to respond to the changing needs and preferences of its customers.

The IT Department at FNB made significant progress during 2011 in regard to technology upgrades and system renovations. Major achievements included the installation of new servers, the upgrade of the Windows server operating system, the deployment of Exchange server 2010, and the adoption of the Hyper-V virtualization platform. Considered a pioneer bank in the MENA region, Microsoft highlighted FNB's achievements on its website.

Throughout 2011, the IT Department implemented an outward clean payment system, a deal compensation and FX netting application, a message manager swift interface, a Cash Transaction Slip Management system, an SMS push service, a MasterCard Un-embossed product, and a new interface with Capital Finance Company to automate credit cards payments.

Furthermore, the IT Department upgraded the EuroNet Integrated Transaction Management and Card Management systems, the Anti-Money Laundering module, the Risk Based Approach module, the Nostro Reconciliation system, and the documents archiving management system.

In addition, another strategic milestone was achieved. The IT Department acquired a new IBM server to reduce the end-of-day processing time and accommodate the bank's organic growth.

The exchange e-mail server was upgraded, providing high availability and facilitating mobile synchronizing advantages. Moreover, the IT Department has renovated most of the branches' network cabling, upgraded communication links, provided failover redundancy connections, and installed WAN optimization devices between the head office and IT datacenter. In addition, the IT Department installed new ATM machines and implemented the ATM Eye Solution to protect and track the usage of ATM machines.

Finally, IT security was also reinforced by installing several security systems and devices.

Treasury

FNB Treasury and Capital Markets provide a wide range of financial advisory, securities brokerage, trading activities and capital market offerings while maintaining a code of ethics which involve integrity, objectivity, confidentiality and competency.
The Treasury Department provides innovative solutions, professional services, and full access to the world's money market and capital markets, as well as FX through prime international banks and financial institutions. FNB is considered a market maker in trading Lebanese government Eurobonds. It is also active in the GCC and international fixed income markets.

The bank's comprehensive international currency advisory service offers advice on all the major currencies.
The foreign exchange advisors create customized solutions to meet the currency requirements of customer portfolios based on expert research for active traders and typical hedgers.
For active traders, FNB helps monitor movements in the currency markets using the margin trading service and net open positions. Limit orders can be placed to give elements of protection in volatile markets.
FNB protects the value of customers' international portfolios by hedging currency positions using spot, forward transactions or OTC options.

Human Resources Department

Throughout 2011, the HR department implemented a new performance management strategy. This includes, but not limited to, new performance appraisal strategy, innovative talent management, individual learning and development plans and new compensation and benefits policies.

- The new performance appraisal strategy was designed based on key performance indicators along with a core competency framework.

- The talent management initiative determines the potential and measures the performance of each individual. Furthermore, the new talent management methodology is designed to retain and attract new talents, thereby creating the proper engagement culture and improving the work environment.

- The individual learning and development plan was established to ease delivery and support the achievements of staff members.

Internal Audit

Internal Audit Function:

The Internal Audit plays the vital role of providing an internal checking mechanism by conducting comprehensive and independent professional audits and consulting services throughout all divisions and entities within the FNB Group. It aids the Group in accomplishing its objectives by adding value to the organization, and through evaluating and improving the effectiveness of control and governance processes. The Internal Audit also assists management in maintaining proper controls over the Group's assets while adding value to the overall business performance, displaying uniformity, comparability, and transparency. In addition, it ensures adherence to sound policies, procedures, overall control, compliance, and corporate governance within the FNB Group.

The Internal Audit Department uses a risk-based audit approach that includes compliance audit, financial audit, control audit, performance audit, and procedural audit. The department has extensive experience and knowledge concerning auditing techniques, and is composed of dynamic, qualified, and skilled staff.

While the Internal Audit function is guided by the Central Bank's regulations, the Internal Audit coverage exceeds these requirements and rigorously complies with international internal auditing standards and those related to other professional organizations. The Internal Audit operates in accordance with an approved Internal Audit Charter that is regularly updated and clearly specifies the reporting level, mission, and scope of work of the Internal Audit Department.

The Internal Audit Department is independent of the management of the FNB Group and is supervised by the Head of Internal Audit who reports to the Audit Committee. The Internal Audit Department is structured around specialized audit sections that audit the activities of the business units. These sections include the Branches Audit, Departmental Audit, and IT Audit; they also include the audit of FNB subsidiaries.

The staff and management of the Internal Audit Department stay abreast of the constant changes in the audit and control fields through internal and external training sessions pertaining to different business and banking topics. They regularly tackle new areas in which to introduce improvements to the existing controls and to the audit methodology. Employees of the Internal Audit Department are authorized to have unrestricted access to all functions, records, property, and personnel.

Achievements and Future Plans:

During the past year, all branches and several departments in the head office, in addition to several systems and applications including network devices, were audited.

As for the coming year, the Internal Audit Department intends to increase the depths of the audits, identify new areas, and keep abreast of changes, new regulations, internal and external requirements, and new standards. New software audit tools will be introduced during the year to automate, manage, track, maintain and standardize the work and reporting of the Internal Audit Department.

CONSOLIDATED FINANCIAL STATEMENTS AND AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

Year Ended December 31, 2011

To the Shareholders
First National Bank S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of First National Bank S.A.L. and its Subsidiaries (the "Group"), 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 consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 consolidated financial statements, within the framework of banking laws in Lebanon. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

Beirut, Lebanon, May 7, 2012

Deloitte & Touche

Fiduciaire du Moyen-Orient

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		December 31,	
ASSETS	Notes	2011 LBP'000	2010 LBP'000
Cash and central bank	6	518,633,670	512,617,089
Deposits with banks and financial institutions	7	257,053,839	358,622,067
Trading assets at fair value through profit or loss	8	25,648,472	3,973,484
Investment securities	9	2,169,692,203	1,899,661,009
Loans to banks	10	17,629,177	7,877,603
Loans and advances to customers	11	1,174,715,608	954,522,772
Due from an associate	14	164,918	675,239
Customers' liability under acceptances	12	13,328,063	9,153,012
Investment in an associate	14	423,377	424,665
Assets acquired in satisfaction of loans	15	4,824,182	4,961,411
Property and equipment	16	35,574,627	32,600,193
Other assets	17	10,709,643	11,671,278
Regulatory blocked fund	18	1,500,000	1,500,000
Intangible assets		55,852	86,156
Goodwill	13	20,379,656	20,379,656
Total assets		**4,250,333,287**	**3,818,725,634**
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK			
Guarantees and standby letters of credit	37	126,176,777	94,232,835
Documentary and commercial letters of credit	37	31,106,955	23,107,511
Forward exchange contracts	37	75,287,599	58,100,512
FIDUCIARY ASSETS	38	339,350,757	267,821,323

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		December 31,	
		2011	2010
LIABILITIES	**Notes**	**LBP'000**	**LBP'000**
Deposits and borrowings from banks and financial institutions	19	417,519,777	387,498,273
Customers' deposits at amortized cost	20	3,499,403,491	3,035,712,315
Liability under acceptances	12	13,328,063	9,153,012
Certificates of deposit	21	5,782,837	5,795,808
Soft loan from Central Bank of Lebanon	22	-	44,843,983
Other liabilities	23	37,809,420	37,984,716
Provisions	24	6,524,060	6,184,459
Total liabilities		**3,980,367,648**	**3,527,172,566**
EQUITY			
Share capital	25	131,439,820	131,439,820
Additional paid-in capital	25	28,173,355	28,173,355
Preferred shares	26	22,605,000	22,605,000
Legal reserve	27	6,873,957	4,321,792
Reserve for general banking risks	27	18,653,110	13,918,280
Reserve for assets acquired in satisfaction of loans	15	1,700,173	1,180,991
Cumulative change in fair value of investment securities	28	(961,608)	41,876,512
Retained earnings		36,397,168	23,014,484
Profit for the year		24,660,651	24,608,867
Equity attributable to owners of the Bank		269,541,626	291,139,101
Non-controlling interests	29	424,013	413,967
Total Equity		**269,965,639**	**291,553,068**
Total Liabilities and Equity		**4,250,333,287**	**3,818,725,634**

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF INCOME

	Notes	Year ended December 31, 2011 LBP'000	2010 LBP'000
Interest income	30	225,630,155	209,043,775
Interest expense	31	(159,315,638)	(146,766,456)
Net interest income		66,314,517	62,277,319
Fee and commission income	32	10,405,967	9,505,357
Fee and commission expense	33	(7,116,167)	(5,181,136)
Net fee and commission income		3,289,800	4,324,221
Net interest and gain and loss on financial assets at fair value through profit or loss	34	6,064,849	183,837
Other operating income (net)	35	4,609,225	12,322,965
Net financial revenues		80,278,391	79,108,342
Write-back of provisions (provision) for impairment of loans and advances to customers (net)	11	1,594,776	(4,911,582)
Write-off of doubtful loans and advances to customers		(2,960,728)	(10,164)
Net financial revenues after impairment charge		78,912,439	74,186,596
Staff costs		(28,672,281)	(27,515,979)
Administrative expenses		(16,478,978)	(16,353,394)
Depreciation and amortization	36	(3,502,978)	(3,290,166)
Other (income)/expense, (net)		323,152	(241,317)
Negative goodwill	13	-	2,406,432
Net (loss)/gain on disposal of property		(55,089)	576,943
Net (loss)/gain on disposal of assets acquired in satisfaction of loans	15	(400,455)	315,069
Profit before income tax		30,125,810	30,084,184
Income tax expense		(5,453,931)	(5,467,179)
Profit for the year		24,671,879	24,617,005
Attributable to:			
Equity holders of the Bank		24,660,651	24,608,867
Non-controlling interests		11,228	8,138
		24,671,879	24,617,005

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2011 LBP'000	2010 LBP'000
Profit for the year	24,671,879	24,617,005
Other comprehensive income:		
Net change in fair value of financial assets through profit or loss/available-for-sale securities	(1,131,303)	9,265,658
Net change in fair value recycled to profit and loss	-	(8,717,444)
Amortization of change in fair value of securities reclassified to held to maturity	-	46,743
Deferred tax	169,695	(75,330)
Other comprehensive income	(961,608)	519,627
Total comprehensive income	23,710,271	25,136,632
Attributable to:		
Equity owners of the Bank	23,699,043	25,125,804
Non-controlling interest	11,228	10,828
	23,710,271	25,136,632

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Equity Attributable to Owners of the Group				
	Share Capital LBP'000	Additional Paid-in-Capital LBP'000	Preferred Shares LBP'000	Legal Reserve LBP'000	Reserve for General Banking Risks LBP'000
Balances at January 1, 2010	115,000,000	17,298,563	22,605,000	2,885,758	9,791,276
Capital increase	16,439,820	-	-	-	-
Additional paid in capital	-	10,874,792	-	-	-
Allocation of 2009 profit	-	-	-	1,436,034	4,127,004
Dividends paid (Note 40)	-	-	-	-	-
Reserve for assets acquired in satisfaction of loans	-	-	-	-	-
Write back of provision for foreclosed assets	-	-	-	-	-
Total comprehensive income year 2010	-	-	-	-	-
Difference in exchange	-	-	-	-	-
Balances at December 31, 2010	131,439,820	28,173,355	22,605,000	4,321,792	13,918,280
Effect of IFRS9 early adoption (Note 5)	-	-	-	-	-
Restated balance	131,439,820	28,173,355	22,605,000	4,321,792	13,918,280
Allocation of 2010 profit	-	-	-	2,552,165	4,734,830
Dividends paid (Note 40)	-	-	-	-	-
Reserve for assets acquired in satisfaction of loans	-	-	-	-	-
Write back of provision of assets acquired in satisfaction of loans	-	-	-	-	-
Total comprehensive income year 2011	-	-	-	-	-
Difference in exchange	-	-	-	-	-
Balances at December 31, 2011	131,439,820	28,173,355	22,605,000	6,873,957	18,653,110

Reserve for Assets Acquired in Satisfaction of loans	Cumulative Change in in Fair Value of Investment Securities	Retained Earnings	Profit for the Year	Equity Attributable to Owners of the Bank	Non-controlling Interests	Total Equity
LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
548,263	41,359,575	20,067,846	14,699,223	244,255,504	405,166	244,660,670
-	-	-	-	16,439,820	-	16,439,820
-	-	-	-	10,874,792	-	10,874,792
-	-	9,136,185	(14,699,223)	-	-	-
-	-	(5,561,034)	-	(5,561,034)	-	(5,561,034)
1,034,987	-	(1,034,987)	-	-	-	-
(402,259)	-	402,259	-	-	-	-
-	516,937	-	24,608,867	25,125,804	10,828	25,136,632
-	-	4,215	-	4,215	(2,027)	2,188
1,180,991	41,876,512	23,014,484	24,608,867	291,139,101	413,967	291,553,068
-	(41,876,512)	4,522,098	-	(37,354,414)	-	(37,354,414)
1,180,991	-	27,536,582	24,608,867	253,784,687	413,967	254,198,654
-	-	17,321,872	(24,608,867)	-	-	-
-	-	(7,911,763)	-	(7,911,763)	-	(7,911,763)
521,836	-	(521,836)	-	-	-	-
(2,654)	-	2,654	-	-	-	-
-	(961,608)	-	24,660,651	23,699,043	11,228	23,710,271
-	-	(30,341)	-	(30,341)	(1,182)	(31,523)
1,700,173	(961,608)	36,397,168	24,660,651	269,541,626	424,013	269,965,639

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Year ended December 31, 2011 LBP'000	2010 LBP'000
Cash flows from operating activities:			
Profit for the year		24,671,879	24,617,005
Adjustments for:			
Depreciation and amortization	36	3,502,978	3,290,166
Amortization of change in fair value of securities reclassified as held to maturity		-	(46,743)
Provision for write-off of impaired loans and advances to customers		(1,365,952)	4,921,746
Loss/(gain) on sale of property and equipment		55,089	(576,943)
Loss/(gain) on sale of assets acquired in satisfaction of loans		400,455	(315,069)
Change in fair value and gain on sale of trading assets	34	953,431	228,167
Provisions		771,995	1,608,426
Interest on certificate of deposit		(12,971)	-
Share in profit/(loss) of an associate	35	1,288	(190,757)
Net change in loans to banks		(9,959,050)	10,967,854
Net change in compulsory reserve		34,583,897	86,793,048
Net change in loans and advances to customers		(210,377,248)	(195,884,653)
Net change in customers' deposits		463,691,176	547,991,362
Net change in placements with banks		(41,468,167)	60,627,055
Net change in other assets and intangible assets		410,020	485,629
Net change in other liabilities		(206,820)	1,563,370
Settlement of provisions		(232,394)	(446,990)
Deposits and borrowings from banks and financial institutions		104,317,818	(86,387,866)
Net cash generated by operating activities		369,737,424	459,244,807
Cash flows from investing activities:			
Net change in investment in an associate		510,321	-
Net change in investment securities		(341,359,996)	(256,355,586)
Acquisition of a subsidiary	13	-	(30,780,700)
Purchase of and advances on property and equipment		(5,875,075)	(3,751,133)
Proceeds from disposal of property and equipment		94,189	166,685
Proceeds from disposal of assets acquired in satisfaction of loans		1,301,804	3,996,311
Net cash used in investing activities		(345,328,757)	(286,724,423)
Cash flows from financing activities:			
Certificates of deposit		-	(6,269,809)
Soft loan from Central Bank of Lebanon		(44,843,983)	-
Dividend distribution		(7,911,763)	(5,561,034)
Net cash used in financing activities		(52,755,746)	(11,830,843)
Net change in cash and cash equivalents		(28,347,079)	160,689,541
Cash and cash equivalents - Beginning of year		152,087,650	(19,850,703)
Cash from acquired subsidiary	13	-	11,248,812
Cash and cash equivalents - End of year	41	123,740,571	152,087,650

SEE ACCOMPANYING NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

First National Bank S.A.L. (the "Bank") is a Lebanese joint stock company registered in the Commercial Register under the Number 67480 and in the Central Bank of Lebanon list of banks under number 108. The Bank carries out a full range of banking services through a network of twenty one branches in various Lebanese regions. The consolidated financial statements of the Bank as at December 31, 2011 comprise the Bank and its subsidiaries, Middle East Capital Group and its Subsidiaries ("MECG") and Capital Finance Company S.A.L. ("CFC") and are hereafter referred to as (the "Group").

The Bank's headquarters are located in Beirut, Lebanon.

2. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

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 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 derivatives 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 profit or loss.

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 profit or loss.

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); IAS 34; 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.

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
- 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.	July 1, 2011
- 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

	Effective for Annual Periods Beginning on or After
- 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.	January 1, 2013
- 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.	July 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, 2012
- 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
- 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.	January 1, 2013

- IAS 28 Investment in Associates and Joint Ventures* (as revised in 2011): As a consequence of the new IFRS 11 and 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates.The amendment becomes effective for annual periods beginning on or after January 1, 2013.

*In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, consisting of 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 Interpretations 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 First National Bank S.A.L. incorporate the financial statements of the Bank and enterprises controlled by the Bank (Subsidiaries). The Bank and its subsidiaries (the “Group”) have the same financial reporting year and use consistent accounting policies. 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 as at December 31, 2011 comprise:

Company Name	Country of Incorporation	Date of Incorporation/ Acquisition	Percentage of Ownership	Business Activity
Capital Finance Company S.A.L.	Lebanon	January 8, 2010	100%	Retail loans
Middle East Capital Group Limited (MECG Group)	Guernsey	December 8, 1995	98.92%	Finance
Subsidiaries of MECG Group:				
Middle East Capital Group Holding S.A.L.	Lebanon	December 1, 1995	100%	Holding Company
Middle East Capital Group S.A.L.	Lebanon	August 3, 1996	100%	Finance
Middle East Capital Group (Offshore) S.A.L.	Lebanon	July 22, 1996	100%	Finance
Middle East Capital Asset Management Limited	Guernsey	March 19, 1999	100%	Dormant Company
MECG Development S.A.L.	Lebanon	July 28, 2005	99%	Management Company

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 Group 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 Group.

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. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs other than those associated with the issue of debt or equity securities are generally recognized in profit or loss as incurred.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Goodwill:

Goodwill arising on an acquisition of a business is carried at cost. Refer to Note 3B for the measurement of goodwill at initial recognition. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses, if any.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognized for goodwill is not reversed in a subsequent period.

D. 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 profit or loss 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 profit or loss 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 profit or loss.

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.

E. 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 profit or loss.

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.

F. 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.

G. 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 Group'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 Group's own equity instruments.

The component parts of compound instruments (convertible notes) issued by the Group 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 Group'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.

H. 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.

I. 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.

J. 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.

K. Derivative Financial Instruments:

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date.The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- is not measured at fair value with changes in fair value recognized in profit or loss.
- is not an asset within the scope of IFRS 9 (Policy effective January 1, 2011)

Hedge Accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

L. 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.

M. Investments in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.
Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

N. 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	15%
Furniture equipment and computers	8%
Vehicles	10%

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 profit or loss.

O. Intangible Assets (Other than Goodwill)

Intangible assets other than goodwill, are amortized on a straight-line basis over the period of 3 years. Intangible assets are subject to impairment testing.

P. Assets acquired in satisfaction of loans:

Policy applicable to Group entities: 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.

Q. Operating Lease Agreements:

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated statement of income on a straight line basis over the lease term.

R. 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 profit or loss, 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.

S. 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.

T. 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.

U. 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).
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income, dividend income, realized and unrealized fair value changes and foreign exchange differences on financial assets designated at fair value through profit or loss and on trading assets at fair value through profit or loss are presented separately in the income statement.

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 revenues.

V. 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.

W. 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.

X. 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, demand and time deposits from banks.

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 3I. 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 goodwill:

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

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 these Group's investment 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 as at amortized cost under IFRS 9:

	Previous classification under IAS 39	Classification/ Designation under IFRS 9	Carrying amount under IAS 39 at December 31,2010 LBP'000	Carrying amount under IFRS 9 at January 1, 2011 LBP'000
Equity securities	Available for sale	Fair value through other comprehensive income	6,246,051	6,246,051
Equity securities	Available for sale	Fair value through profit or loss	29,440,158	29,440,158
Lebanese Treasury Bills	Available for sale	Amortized cost	307,261,144	293,259,676
Lebanese Government Bonds	Available for sale	Amortized cost	224,938,376	225,771,598
Lebanese Government Bonds	Available for sale	Fair value through profit or loss	79,650,527	79,650,527
Certificates of deposit issued by Central Bank of Lebanon	Available for sale	Amortized cost	310,460,549	279,800,428
Certificates of deposit issued by Central Bank of Lebanon	Available for sale	Fair value through profit or loss	6,883,200	6,883,200
Certificates of deposit issued by local bank	Available for sale	Amortized cost	25,724,760	25,171,573
Corporate bonds and foreign banks	Available for sale	Amortized cost	53,737,150	55,791,731
Mutual Funds	Available for sale	Fair value through profit or loss	2,237,733	2,237,733
Foreign Government Bonds	Available for sale	Fair value through profit or loss	4,777,750	4,777,750
Corporate bonds	Available for sale	Fair value through profit or loss	19,756,891	19,756,891
Held-to-maturity investment securities	Held to maturity	Amortized cost	793,306,910	793,306,910
			1,864,421,199	1,822,094,226

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	23,014,484	41,876,512
Allocation to retained earnings of portion of change in fair value related to portfolio classified at fair value through profit or loss (net of deferred tax)	4,522,098	(4,522,098)
Offset of change in fair value related to portfolio classified at amortized cost	-	(37,354,414)
Reported balances - January 1, 2011	27,536,582	-

6. CASH AND CENTRAL BANK

	December 31, 2011 LBP'000	December 31, 2010 LBP'000
Cash on hand	21,361,692	20,913,394
Current accounts with Central Bank of Lebanon	65,588,022	122,192,880
Term placements with Central Bank of Lebanon	431,388,150	369,074,100
Accrued interest receivable	295,806	436,715
	518,633,670	512,617,089

Current accounts at Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pound in the amount of LBP 52 billion (LBP 87 billion as of December 31, 2010) computed on the basis of 25% and 15% of the weekly average of demand deposits and term deposits in Lebanese Pound respectively, in accordance with local banking regulations. This compulsory reserve is not available for use in the daily banking activities.

Term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP 407 billion (LBP 354 billion in 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, certificates of deposit and loans acquired from non-resident financial institutions with remaining maturity of less than one year.

Term placements with Central Bank of Lebanon bear the following maturities:

December 31, 2011

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2012	24,000,000	2.85	392,313,150	0.76
2014	-		15,075,000	1.47
	24,000,000		407,388,150	

December 31, 2010

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	15,000,000	2.82	263,624,100	0.81
2012	-		45,225,000	1.16
2014	-		45,225,000	1.15
	15,000,000		354,074,100	

Interest rates on term placements with the Central Bank of Lebanon are reset periodically.

7. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

	December 31,	
	2011 LBP'000	2010 LBP'000
Checks in course of collection	5,331,645	6,087,525
Current accounts with banks and financial institutions	69,900,209	104,223,801
Term placements with banks and financial institutions	171,225,054	240,481,841
Cash margin against facilities	9,221,864	7,404,070
Accrued interest receivable	1,375,067	424,830
	257,053,839	358,622,067

Cash margin against facilities represents cash margin against trade finance and foreign exchange transactions with non-resident banks. This margin bears a floating interest rate.

Term placements bear the following maturities:

	December 31, 2011			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2012	59,365,007	6.18	111,860,047	0.82
	59,365,007		111,860,047	

	December 31, 2010			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	29,961,408	5.42	183,770,433	1.51
2012	26,750,000	5.78	-	
	56,711,408		183,770,433	

8.TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	December 31,	
	2011 LBP'000	2010 LBP'000
Quoted equity securities	846,990	14,520,268
Unquoted equity securities	-	3,341,245
Mutual funds	-	1,904,877
Lebanese treasury bills	3,032,999	-
Lebanese Government bonds	-	2,588,872
Corporate bonds	-	3,134,330
	3,879,989	25,489,592
Accrued interest receivable	93,495	158,880
	3,973,484	25,648,472

The negative change in fair value of the trading assets at fair value through profit or loss amounted to LBP 953 million in 2011 (LBP 228 million in 2010) and is reflected in the consolidated statement of income under "Net interest and gain or loss on trading assets at fair value through profit or loss" (Note 34).

The change in fair value of trading assets amounted to LBP 228 million and is reflected in the consolidated statement of income under "Net interest and gain or loss on trading assets at fair value through profit or loss" (Note 34).

Trading assets at fair value through profit or loss were classified from available-for-sale investment securities upon the early adoption of IFRS 9 effective January 1, 2011 (Refer to Note 5).

9. INVESTMENT SECURITIES

This caption consists of the following:

	December 31, 2011			December 31, 2010		
	LBP LBP '000	Counter Value of F/Cy LBP '000	Total LBP '000	LBP LBP '000	Counter Value of F/Cy LBP '000	Total LBP '000
Financial assets at fair value through other comprehensive income (A)	-	5,114,748	5,114,748	-	-	-
Financial assets at amortized cost (B)	847,904,183	1,280,416,938	2,128,321,121	-	-	-
Accrued interest receivable	18,601,214	17,655,120	36,256,334	-	-	-
	866,505,397	1,298,072,058	2,164,577,455	-	-	-
Available-for-sale securities (C)	-	-	-	537,038,631	534,075,670	1,071,114,301
Accrued interest receivable	-	-	-	12,807,503	8,559,468	21,366,971
	-	-	-	549,846,134	542,635,138	1,092,481,272
Held-to-maturity securities (D)	-	-	-	364,137,182	429,169,728	793,306,910
Accrued interest receivable	-	-	-	6,916,509	6,956,318	13,872,827
	-	-	-	371,053,691	436,126,046	807,179,737
	866,505,397	1,303,186,806	2,169,692,203	920,899,825	978,761,184	1,899,661,009

A. Financial assets at fair value through other comprehensive income:

Financial assets at fair value through other comprehensive income outstanding at December 31, 2011 consist of the following:

	December 31, 2011			
	F/Cy Base Account			
	Amortized Cost LBP'000	Carrying Value LBP'000	Fair Value LBP'000	Change in Fair Value LBP'000
Equity shares	6,246,051	6,246,051	5,114,748	(1,131,303)
Deferred tax (Note 23)				169,695
				(961,608)

The change in fair value net of deferred tax in the amount of LBP 962 million is recorded under "Cumulative change in fair value of investment securities" under equity (Note 28).

B. Financial assets at amortized cost:

Financial assets at amortized cost outstanding at December 31, 2011 consist of the following:

	December 31, 2011				
	LBP		F/Cy		
	Amortized Cost LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Total Amortized Cost LBP'000
Lebanese Treasury bills	405,070,229	417,516,783	-	-	405,070,229
Lebanese Government bonds	-	-	877,027,469	893,784,395	877,027,469
Corporate bonds	-	-	99,333,151	99,676,519	99,333,151
Certificates of deposit issued by Central Bank of Lebanon	-	-	27,062,313	27,269,193	27,062,313
Certificates of deposit issued by local banks	442,833,954	464,862,566	276,994,005	271,333,868	719,827,959
	847,904,183	882,379,349	1,280,416,938	1,292,063,975	2,128,321,121

As of December 31, 2011, the Group had corporate bonds issued by non-resident banks, classified as financial assets at amortized cost and amounting to LBP 77 billion (USD 51 million) pledged against repurchase agreements with a non-resident bank (Note 19).

As of December 31, 2011, the Group had Lebanese treasury bills issued by the Central Bank of Lebanon classified as financial assets at amortized cost and amounting to LBP 2.7 billion pledged against a loan granted by the Central Bank of Lebanon (Note 19).

Certificates of deposit issued by Central Bank of Lebanon and classified as financial assets at amortized cost include certificates of deposit of aggregate book value of LBP 48.63 billion (USD 32,260,000) as at December 31, 2011 (LBP 54.94 billion c/v USD 36,444,122 as at December 31, 2010) maturing in 2015 with a put option exercisable at an early redemption value of 91.63% of par in year 2012. The Group follows the policy of providing for the difference of 8.37% between the nominal value and the early redemption value in 2012. Provision set up to 2011 year is reflected under “Other liabilities” and amounted to LBP 3.7 billion as at December 31, 2011 (LBP 2.4 billion for 2010) (Note 23).

During November 2011, the Group exchanged Lebanese Government bonds with book value amounting to LBP82billion having remaining maturities of approximately three months against Lebanese Government bonds having longer maturities. This exchange resulted in a gain in the amount of LBP 1.45 billion out of which LBP 635 million was recorded under “Other operating income” in the consolidated statement of income for the year ended December 31, 2011 (Note 35) and the remaining gain was deferred to be amortized over the remaining maturity.

Financial assets at amortized cost were classified from available-for-sale and held-to-maturity investment securities upon the adoption of IFRS 9 effective January 1, 2011 (Note 5).

Financial assets at amortized cost are segregated over their remaining periods to maturity as follows:

	December 31, 2011						
	LBP			Foreign Currency (C/V LBP)			
Remaining Period to Maturity	**Nominal Value LBP '000**	**LBP Amortized Cost LBP '000**	**Fair Value LBP'000**	**Nominal Value LBP '000**	**Amortized Cost LBP'000**	**Fair Value LBP'000**	**Total Amortized Cost LBP'000**
Lebanese treasury bills:							
Up to one year	155,100,000	155,848,408	161,369,170	-	-	-	155,848,408
1 to 3 years	80,500,000	81,491,795	85,373,450	-	-	-	81,491,795
3 to 5 years	57,045,000	58,045,707	59,589,769	-	-	-	58,045,707
5 to 10 years	108,392,290	109,684,319	111,184,394	-	-	-	109,684,319
	401,037,290	405,070,229	417,516,783	-	-	-	405,070,229
Lebanese government bonds:							
Up to one year	-	-	-	46,659,598	46,678,992	46,792,886	46,678,992
1 to 3 years	-	-	-	50,400,939	52,037,482	51,773,649	52,037,482
3 to 5 years	-	-	-	109,620,687	123,625,350	124,595,719	123,625,350
5 to 10 years	-	-	-	548,290,501	560,568,047	577,789,017	560,568,047
more than 10 years	-	-	-	95,169,984	94,117,598	92,833,124	94,117,598
	-	-	-	850,141,709	877,027,469	893,784,395	877,027,469
Corporate bonds:							
Up to one year	-	-	-	4,104,400	4,119,858	3,825,177	4,119,858
1 to 3 years	-	-	-	15,075,000	15,075,000	14,745,913	15,075,000
3 to 5 years	-	-	-	42,923,634	42,874,765	44,941,901	42,874,765
5 to 10 years	-	-	-	38,874,015	37,263,528	36,163,528	37,263,528
	-	-	-	100,977,049	99,333,151	99,676,519	99,333,151
Certificates of deposits issued by central bank of Lebanon:							
Up to one Year	-	-	-	27,021,938	27,062,313	27,269,193	27,062,313
	-	-	-	27,021,938	27,062,313	27,269,193	27,062,313
Certificates of deposits issued by Lebanese banks:							
Up to one year	38,000,000	38,000,000	38,520,572	-	-	-	38,000,000
1 year to 3 years	280,000,000	288,187,755	309,824,153	30,150,000	30,176,115	30,933,389	318,363,870
3 years to 5 years	42,000,000	44,350,440	43,640,078	218,677,950	246,817,890	240,400,479	291,168,330
5 years to 10 years	69,000,000	72,295,759	72,877,763	-	-	-	72,295,759
	429,000,000	442,833,954	464,862,566	248,827,950	276,994,005	271,333,868	719,827,959
Total	830,037,290	847,904,183	882,379,349	1,226,968,646	1,280,416,938	1,292,063,975	2,128,321,121

C. Available-for-sale investment securities

This caption consists of the following:

	December 31, 2010						
	LBP			Foreign Currencies			
	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 Carrying Fair Value LBP'000
Quoted equity securities	-	-	-	28,414,744	27,770,353	(644,391)	27,770,353
Unquoted equity securities at cost	34,167	34,167	-	7,881,689	7,881,689	-	7,915,856
Mutual funds	-	-	-	3,045,150	2,237,733	(807,417)	2,237,733
Lebanese treasury bills	293,741,101	307,261,144	13,520,043	-	-	-	307,261,144
Lebanese Government bonds	-	-	-	299,119,109	304,588,915	5,469,806	304,588,915
Corporate bonds	-	-	-	75,049,202	73,494,041	(1,555,161)	73,494,041
Foreign Government bonds	-	-	-	4,892,591	4,777,750	(114,841)	4,777,750
Certificates of deposit issued by Central Bank of Lebanon	205,047,661	229,743,320	24,695,659	81,062,143	87,600,429	6,538,286	317,343,749
Certificates of deposit issued by local banks	-	-	-	25,171,573	25,724,760	553,187	25,724,760
	498,822,929	537,038,631	38,215,702	524,636,201	534,075,670	9,439,469	1,071,114,301

Available-for-sale investment securities were classified to trading assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortized cost upon the early adoption of IFRS 9, effective January 1, 2011 (Note 5).

Fixed income securities classified as available-for-sale mature as follows:

	December 31, 2010					
	LBP			Counter Value of F/Cy		
Remaining Period to Maturity	Nominal Value LBP'000	Amortized Cost LBP '000	Net Carrying Fair Value LBP '000	Nominal Value LBP '000	Amortized Cost LBP '000	Net Carrying Fair Value LBP '000
Lebanese treasury bills:						
Up to one year	254,000,000	254,457,515	265,654,263	-	-	-
1 year to 3 years	36,100,000	36,367,983	38,684,208	-	-	-
3 years to 5 years	2,800,000	2,915,603	2,922,673	-	-	-
	292,900,000	293,741,101	307,261,144	-	-	-
Lebanese Government bonds:						
Up to one year	-	-	-	35,780,512	35,973,245	35,967,893
1 year to 3 years	-	-	-	61,295,966	62,878,420	62,718,188
3 years to 5 years	-	-	-	39,899,003	40,579,861	42,320,955
5 years to 10 years	-	-	-	121,419,704	128,268,417	133,029,724
Beyond 10 years	-	-	-	28,464,616	31,419,166	30,552,155
	-	-	-	286,859,801	299,119,109	304,588,915
Foreign government bonds						
3 years to 5 years	-	-	-	4,974,750	4,892,591	4,777,750
	-	-	-	4,974,750	4,892,591	4,777,750
Corporate bonds:						
1 year to 3 years	-	-	-	19,179,300	19,211,753	18,616,175
3 years to 5 years	-	-	-	7,920,125	8,013,012	7,415,332
5 years to 10 years	-	-	-	45,111,938	44,309,567	44,092,978
Beyond 10 years	-	-	-	3,495,520	3,514,870	3,369,556
	-	-	-	75,706,883	75,049,202	73,494,041
Certificates of deposit issued by Central Bank of Lebanon:						
1 year to 3 years	109,000,000	112,540,751	124,568,164	30,150,000	30,198,703	30,264,570
3 years to 5 years	86,000,000	86,197,534	98,662,350	48,631,950	50,863,440	57,335,859
Beyond 10 years	6,000,000	6,309,376	6,512,806	-	-	-
	201,000,000	205,047,661	229,743,320	78,781,950	81,062,143	87,600,429
Certificates of deposit issued by local banks:						
1 year to 3 years	-	-	-	25,212,938	25,171,573	25,724,760
	-	-	-	25,212,938	25,171,573	25,724,760
	493,900,000	498,788,762	537,004,464	471,536,322	485,294,618	496,185,895

D. Held-to-maturity investment securities

	December 31, 2010				
	LBP		Foreign Currencies		Total
	Amortized Cost LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	Amortized Cost LBP'000
Lebanese treasury bills	300,178,463	313,178,620	-	-	300,178,463
Lebanese Government bonds	-	-	313,235,402	322,093,393	313,235,402
Corporate bonds	-	-	37,687,500	41,528,761	37,687,500
Certificates of deposit issued by Central Bank of Lebanon	63,958,719	64,773,347	77,922,678	74,933,485	141,881,397
Certificates of deposit issued by local banks	-	-	324,148	340,607	324,148
	364,137,182	377,951,967	429,169,728	438,896,246	793,306,910

As of December 31, 2010, the Group had held-to-maturity Lebanese Government bonds amounting to LBP 47.36 billion pledged against a soft loan granted by the Central Bank of Lebanon (Note 22).

As of December 31, 2010, the Group had held-to-maturity corporate bonds issued by non-resident banks amounting to LBP 61.81 billion (USD 41 million) pledged against repurchase agreements with non-resident banks (Note 19).

Held-to-maturity investment securities were classified to financial assets at amortized cost upon the early adoption of IFRS 9, effective January 1, 2011 (Note 5)

Held-to-maturity investements are segregated over remaining period to maturity as follows:

	December 31, 2010					
	LBP			Counter Value of F/Cy		
Remaining Period to Maturity	Redemption Value LBP '000	Carrying Value LBP '000	Fair Value LBP '000	Redemption Value LBP '000	Carrying Value LBP '000	Fair Value LBP '000
Lebanese treasury bills:						
Up to one year	57,609,520	57,620,390	62,331,141	-	-	-
1 year to 3 years	144,500,000	146,079,914	152,299,009	-	-	-
3 years to 5 years	81,500,000	83,083,194	87,185,959	-	-	-
From 5 to 10 years	13,350,000	13,394,965	11,362,511	-	-	-
	296,959,520	300,178,463	313,178,620	-	-	-
Lebanese Government bonds:						
Up to one year	-	-	-	45,021,488	45,773,768	45,249,178
1 year to 3 years	-	-	-	73,457,485	73,192,374	74,603,271
3 years to 5 years	-	-	-	6,122,848	5,897,926	6,117,180
5 years to 10 years	-	-	-	130,115,340	131,471,603	136,691,552
Beyond 10 years	-	-	-	55,867,950	56,899,731	59,432,212
	-	-	-	310,585,111	313,235,402	322,093,393
Corporate bonds:						
Up to one year	-	-	-	15,075,000	15,075,000	15,150,375
3 years to 5 years	-	-	-	22,612,500	22,612,500	26,378,386
	-	-	-	37,687,500	37,687,500	41,528,761
Certificates of deposit issued by Central Bank of Lebanon:						
1 year to 3 years	26,000,000	28,054,987	29,821,728	-	-	-
3 years to 5 years	15,000,000	15,059,629	15,671,917	66,330,000	77,922,678	74,933,485
5 years to 10 years	20,000,000	20,844,103	19,279,702	-	-	-
	61,000,000	63,958,719	64,773,347	66,330,000	77,922,678	74,933,485
Certificates of deposit issued by local banks:						
1 year to 3 years	-	-	-	301,500	324,148	340,607
	-	-	-	301,500	324,148	340,607
	357,959,520	364,137,182	377,951,967	414,904,111	429,169,728	438,896,246

10. LOANS TO BANKS

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

	December 31,	
	2011 LBP'000	2010 LBP'000
Loans to banks	4,050,000	7,615,000
Discounted documentary letters of credit	13,537,843	207,476
Accrued interest receivable	41,334	55,127
	17,629,177	7,877,603

Loans to banks mature as follows:

	December 31, 2011	
	LBP LBP'000	Interest Rate %
2016	600,000	3.89
Beyond 5 years	3,450,000	4.09
	4,050,000	

	December 31, 2010			
	F/Cy Accounts		LBP Accounts	
Maturity	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	3,015,000	1.01	-	-
Beyond 5 years	-		4,600,000	5.31
	3,015,000		4,600,000	

Discounted documentary letters of credit represent the amount of import letters of credit discounted by customers in favor of the Group and carry short term maturities.

11.LOANS AND ADVANCES TO CUSTOMERS

	December 31,	
	2011 LBP'000	2010 LBP'000
Loans to customers	940,065,537	721,072,926
Loans and advances to related parties	33,704,070	92,110,282
Bills discounted (net)	191,019,700	126,636,575
Creditors accidentally debtors	6,460,026	9,436,962
Substandard loans (net of unearned interest)	3,290,503	1,928,996
Bad and doubtful debts (net of unrealized interest)	32,130,388	37,242,136
Less: Allowance for impairment	(18,030,168)	(20,796,779)
Provision for impairment of collectively assessed loans	(8,396,736)	(7,398,821)
	1,180,243,320	960,232,277
Less: Escrow account to cover shortage in provision	(5,527,712)	(5,709,505)
	1,174,715,608	954,522,772

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

	December 31, 2011			
	Loan Balance net of Unearned Interest LBP'000	**Unrealized Interest LBP'000**	**Impairment Allowance LBP'000**	**Carrying Value LBP'000**
Corporate customers	800,091,477	-	-	800,091,477
Retail customers:				
Car loans	82,563,809	-	-	82,563,809
Credit cards	19,197,680	-	-	19,197,680
Mortgage loans	98,915,577	-	-	98,915,577
Overdrafts	45,094,343	-	-	45,094,343
Personal loans and other	125,386,447	-	-	125,386,447
Substandard loans	5,342,376	(2,051,873)	-	3,290,503
Doubtful loans	102,775,733	(70,645,345)	(18,030,168)	14,100,220
Less: Provisions for collectively assessed loans	-	-	(8,396,736)	(8,396,736)
	1,279,367,442	(72,697,218)	(26,426,904)	1,180,243,320

	December 31, 2010			
	Loan Balance net of Unearned Interest LBP'000	**Unrealized Interest LBP'000**	**Impairment Allowance LBP'000**	**Carrying Value LBP'000**
Corporate customers	642,148,378	-	-	642,148,378
Retail customers:				
Car loans	83,622,449	-	-	83,622,449
Credit cards	19,434,025	-	-	19,434,025
Mortgage loans	85,315,912	-	-	85,315,912
Overdrafts	4,730,320	-	-	4,730,320
Personal loans and other	114,005,661	-	-	114,005,661
Substandard loans	4,114,616	(2,185,620)	-	1,928,996
Doubtful loans	103,525,454	(66,283,318)	(20,796,779)	16,445,357
Less: Provisions for collectively assessed loans	-	-	(7,398,821)	(7,398,821)
	1,056,896,815	(68,468,938)	(28,195,600)	960,232,277

The approximate movement of unrealized interest during 2011 and 2010 is summarized as follows:

	2011	
	Substandard LBP'000	**Doubtful LBP'000**
Balance, January 1	2,185,620	66,283,318
Additions	362,449	10,854,609
Settlements/recoveries	(496,196)	(6,492,582)
Balance, December 31	2,051,873	70,645,345

	2010	
	Substandard LBP'000	**Doubtful LBP'000**
Balance, January 1	2,000,914	57,562,102
Additions from acquisition of a subsidiary	-	577,242
Additions	532,541	11,941,729
Settlements/recoveries	(205,107)	(3,940,483)
Transfers	(142,728)	142,728
Balance December 31	2,185,620	66,283,318

The approximate movement of allowance for impairment on loans and provision for impairment of collectively assessed loans is summarized as follows:

	2011	**2010**
	LBP'000	**LBP'000**
Balance, January 1	28,195,600	18,759,851
Additions from acquisition of a subsidiary	-	4,507,465
Additions	1,816,620	5,841,973
Recoveries	(3,411,396)	(628,891)
Write off	(43,990)	(97,789)
Transfer to off-balance sheet	(379,673)	(170,758)
Transfer from provision for contingencies	200,000	-
Effect of exchange rates fluctuation	49,743	(16,251)
Balance, December 31	26,426,904	28,195,600

The movement of escrow accounts, which represents cash provisions from shareholders, to cover any shortage in the allowance for impairment on certain classified loans and advances is summarized as follows:

	2011	2010
	LBP'000	LBP'000
Balance, January 1	5,709,505	6,566,988
Additions	259,192	286,710
Settlements	(440,985)	(842,693)
Write-back to income	-	(301,500)
Balance, December 31	5,527,712	5,709,505

12. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Group 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 statement of financial position for the same amount.

13. GOODWILL

This caption consists of the following:

	December 31,	
	2011 LBP'000	2010 LBP'000
Goodwill on acquisition of Société Bancaire du Liban ("SBL") (Note 17)	2,400,000	2,400,000
Goodwill on acquisition on Capital Finance Company S.A.L.	17,979,656	17,979,656
	20,379,656	20,379,656

The extraordinary general assembly of the Bank's shareholders held on January 8, 2010 approved the acquisition of 100% equity stake in Capital Finance Company S.A.L. for LBP 72.6 billion.

The fair value of the assets, liabilities and goodwill as at the date of acquisition, June 30, 2009 amounted to:

	LBP'000
Cash and deposits with banks	11,248,812
Loans to customers	104,346,656
Assets acquired in satisfaction of loans, property and equipment and other assets	4,570,314
Deposits and borrowings from banks	(653,712)
Account payable, other liabilities, provisions for income tax and provision for end of service indemnity	(10,876,172)
Term loan	(54,016,342)
Fair value for net stockholders equity	54,619,556
Goodwill	17,979,656
Acquisition price	72,599,212
Less: Settlement of loans pertaining to the group of companies of the main shareholder of the subsidiary	(14,503,900)
Increase in capital and additional paid in capital of the subsidiary	(27,314,612)
Amount paid at acquisition	30,780,700
Cash and deposits with banks	(11,248,812)
Net cash from acquisition	19,531,888

Furthermore, as a result of the acquisition, negative goodwill in the amount of LBP 2.4 billion representing the net results of the acquired subsidiary for the second half of the year 2009, as the recognition of the acquisition was delayed due to the delay in obtaining the approval of the Central Bank of Lebanon.

14. INVESTMENT IN AN ASSOCIATE

This section represents a 12.77% equity stake in Park View Realty Company S.A.L. as at December 31, 2011 and 2010:

	December 31,	
	2011 LBP'000	2010 LBP'000
Value of the investment	418,240	419,528
Accrued interest receivable	5,137	5,137
	423,377	424,665

The investment in Park View Realty S.A.L. is classified as an investment in an associate since the Group is represented on the investee's Board of Directors and significant influence is demonstrated in 2011 and 2010.

The Extraordinary General Assembly of shareholders of the associate held on June 8, 2010 approved the decrease of capital by decreasing the par value of each share from LBP 60,000 to LBP 1,700 per share. Accordingly, the Group decreased its investment in the associate by LBP 675 million against receivable from this associate as reflected in the consolidated statement of financial position. During 2011, the associate settled an amount of LBP 510 million and the outstanding receivable decreased to LBP 165 million as at December 31, 2011 reflected in the consolidated statement of financial position.

The movement of the investment in Park View Realty S.A.L. was as follows:

	2011	2010
	LBP'000	LBP'000
Balance, January 1	419,528	904,011
Decrease in investment	-	(675,239)
Share in (losses)/gains – (Note 35)	(1,288)	190,756
Balance, December 31	418,240	419,528

Accrued interest in the amount of LBP 5 million as at December 31, 2011 and 2010 represents unsettled interest receivable on bonds issued by the associate and redeemed in the year 2008.

15. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate properties and vehicles that have been acquired through enforcement of security over loans and advances to customers.

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

	2011	2010
	LBP'000	LBP'000
Cost:		
Balance at January 1,	5,017,294	4,407,432
Additions from acquisition of a subsidiary	-	2,278,020
Additions	1,565,030	1,940,281
Disposals	(1,702,259)	(3,608,439)
Balance at December 31,	4,880,065	5,017,294
Accumulated allowance for impairment:		
Balance at December 31,	(55,883)	(55,883)
Carrying amount at December 31	4,824,182	4,961,411

The acquisition of assets in settlement of loans is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits after deduction of legal reserves and reserves for general banking risk over a period of 5 years and accumulated under equity. This reserve was reduced to 5% when certain conditions linked to the restructuring of non performing loan's portfolio were met as per local banking regulations. During 2011, the Group appropriated LBP 522 million from 2010 profits (LBP 1.03 billion in 2010 from 2009 profits).

During 2011, the Group sold assets previously acquired in satisfaction of loans for an aggregate consideration of LBP 1.3 billion resulting in loss of LBP 400 million recorded under "Net (loss)/gain on disposal of assets acquired in satisfaction of loans" in the consolidated statement of income for the year ended December 31, 2011.

During 2010, the Group sold assets previously acquired in satisfaction of loans for an aggregate consideration of LBP 3.92 billion resulting in net gains of LBP 315 million recorded under "Net gain on disposal of property and equipment and assets acquired in satisfaction of loans" in the consolidated statement of income for the year ended December 31, 2010.

16. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2011 and 2010 was as follows:

	2011			
	Balance as at January 1, 2011 LBP'000	**Additions/ Transfer from Advance Payments LBP'000**	**Retirements LBP'000**	**Balance as at December 31, 2011 LBP'000**
Cost:				
Land	7,533,312	-	-	7,533,312
Buildings	13,162,244	-	-	13,162,244
Furniture, office and computer equipment	22,239,168	3,457,054	(799,392)	24,896,830
Vehicles	557,307	30,150	-	587,457
Improvements and installations	9,700,787	398,207	(41,267)	10,057,727
	53,192,818	3,885,411	(840,659)	56,237,570
Accumulated depreciation:				
Buildings	(2,662,925)	(310,476)	-	(2,973,401)
Furniture, office and computer equipment	(13,513,916)	(1,765,683)	667,171	(14,612,428)
Vehicles	(148,978)	(58,338)	-	(207,316)
Improvements and installations	(5,414,481)	(616,866)	24,210	(6,007,137)
	(21,740,300)	(2,751,363)	691,318	(23,800,282)
Net book value	31,452,518			32,437,288
Advance payment	1,147,675			3,137,339
	32,600,193			35,574,627

	2010				
	Balance as at January 1, 2010 LBP'000	Acquisition of of Subsidiary January 1, 2010 LBP'000	Additions/ Transfer from Advance Payments LBP'000	Retirements LBP'000	Balance as at December 31, 2010 LBP'000
Cost:					
Land	7,145,596	-	387,716	-	7,533,312
Buildings	13,357,338	-	184,056	(379,150)	13,162,244
Furniture, equipment and computer	19,098,864	990,382	2,245,364	(95,442)	22,239,168
Vehicles	447,619	-	193,094	(83,406)	557,307
Office improvement and installations	8,214,271	271,575	1,214,941	-	9,700,787
	48,263,688	1,261,957	4,225,171	(557,998)	53,192,818
Accumulated depreciation					
Buildings	(2,487,752)	-	(317,989)	142,816	(2,662,925)
Furniture, equipment and computer	(11,430,489)	(536,274)	(1,615,319)	68,166	(13,513,916)
Vehicles	(173,842)	-	(43,486)	68,350	(148,978)
Office improvement and installations	(4,600,073)	(252,696)	(561,712)	-	(5,414,481)
	(18,692,156)	(788,970)	(2,538,506)	279,332	(21,740,300)
Net book value	29,571,532				31,452,518
Advance payment	931,738				1,147,675
	30,503,270				32,600,193

The additions in furniture, office and computer equipment for 2011 mainly represent cost of new software and computer equipments.

The increase in advance payments represents the additional costs related to the renovation of seven branches.

Operating leases

Non-cancellable operating lease rentals are payable as follows:

	2011	2010
	LBP'000	LBP'000
Less than 1 year	540,984	406,350
Between 1 and 5 years	1,335,340	1,429,991
More than 5 years	-	792,419
	1,876,324	2,628,760

17. OTHER ASSETS

	December 31,	
	2011 LBP'000	2010 LBP'000
Deferred charges	456,553	564,782
Commissions receivable	-	583,424
Prepaid expenses	4,328,309	3,304,993
Refundable guarantee deposits	167,461	166,561
Stamps	92,143	81,805
Change in fair value of forward exchange contracts	32,969	341,945
Deferred charges on acquired bank	723,286	1,444,596
Other debit balances	5,576,032	5,850,282
Provision for doubtful receivables	(667,110)	(667,110)
	10,709,643	**11,671,278**

Commissions receivable outstanding as at December 31, 2010 represent commissions due from customers trading activities. These commissions were collected in 2011.

Deferred charges on acquired bank represent losses related to a bank (SBL) that was merged in previous years. These losses were compensated in the form of a soft loan from the Central Bank of Lebanon at a reduced interest rate. The Group amortizes these losses over the life of the soft loan against the net present value of the net future interest deferential earned (being the net of the interest earned on the mortgaged treasury bills against the interest paid on the soft loan). The Group obtained the approval of the Central Bank of Lebanon on the extention of the amortization period by 2 years to compensate for losses on the merger. The movement of deferred charges was as follows:

	LBP'000
Excess of acquisition cost over the acquired assets and liabilities of SBL	11,219,688
Transfer to goodwill (Note 13)	(2,400,000)
Accumulated amortization up to year-end 2009	(6,653,782)
	2,165,906
Amortization for 2010 (Note 36)	(721,310)
	1,444,596
Amortization for 2011 (Note 36)	(721,310)
	723,286

18. REGULATORY BLOCKED FUND

Regulatory blocked fund represents a non-interest earning compulsory deposit placed with the Lebanese Treasury upon establishment of "First National Bank S.A.L.". This deposit is refundable in case of cease of operations, according to article 132 of the Money and Credit Law.

19. DEPOSITS AND BORROWINGS FROM BANKS AND FINANCIAL INSTITUTIONS

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

	December 31,	
	2011 LBP'000	2010 LBP'000
Central Bank- Arab country	-	1,646,813
Current deposits of banks and financial institutions	39,097,530	15,146,683
Money market deposits – A	319,043,314	277,186,244
Short term borrowings – B	8,785,656	45,431,078
Sale and repurchase agreements – C	45,225,000	45,225,000
Other short term borrowings – D	3,740,824	1,193,289
Accrued interest payable	1,627,453	1,669,166
	417,519,777	**387,498,273**

A. The maturities of money market deposits are as follows:

	December 31, 2011			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
1st quarter of 2012	57,833,082	5.33	261,210,232	1.62

	December 31, 2010			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
1st quarter of 2011	22,187,911	5.01	254,998,333	1.29

B. The maturities of short term borrowings are as follows:

December 31, 2011

	F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate LBP'000
2012	4,669,852	1.49
2013	4,115,804	4.25
	8,785,656	

December 31, 2010

	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2011	3,450,000	6.24	41,981,078	1.86

Short term borrowings include LBP 4.67 billion as at December 31, 2011 (LBP 4.66 billion for 2010) representing withdrawals from the Arab Trade Finance Program. This credit facility has a limit to the extent of USD5million as at December 31, 2011 and 2010 granted to the Group on a yearly basis and maturing in the following year. The facility can be utilized by the Group to finance customers' imports and exports in Arab countries.

C. Sale and repurchase agreements consist of repurchase agreement contract with a non-resident bank maturing on March 20, 2013 in the amount of LBP45.23billion (C/V USD 30,000,000) bearing an interest rate of 4.22% against pledged Corporate bonds with a nominal value of USD 51,000,000 (LBP 76.9billion) classified under investment securities at amortized cost as at December 31, 2011 (LBP 62 billion classified under held-to-maturity investment securities as at December 31, 2010) (Note 9).

D. Other short term borrowings:

Other short borrowings represent loans managed by the Central Bank of Lebanon and financed by the European Investment Bank upon the agreement signed between the Lebanese Republic and the European Investment Bank on December 14, 1999. The purpose of these loans is to finance projects in the industrial sector.

During 2011, the Central Bank of Lebanon ("BDL") granted the Group a soft loan in the amount of LBP 2.7 billion in accordance with Decision number 6116 dated March 7, 1996. The loan proceeds are invested in Lebanese treasury bills for the same amount classified as at amortized cost and maturing in January 2016. The treasury bills are pledged in favor of BDL until full repayment of the loan. The present value of the net investment proceeds will be used to finance write offs of a debtor's exposure under credit facilities used to refinance construction of property and acquisition of equipment damaged during the July 2006 war. As of December 31, 2011, the loan was not yet provided to the customer. The interest differential between the investment in treasury bills and the soft loan and its related accrued interest will be deferred and netted against the financing granted to debtors.

The maturities of other short term borrowings are as follows:

	December 31, 2011			
	LBP Base Accounts		F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2012	-	-	120,666	4.35
2015	-	-	875,158	3.34
2016	2,745,000	-	-	
	2,745,000		995,824	

	December 31, 2010	
	F/Cy Base Accounts	
Maturity	Amount LBP'000	Average Interest Rate %
2012	236,026	4.35
2020	957,263	3.34
	1,193,289	

20. CUSTOMERS' DEPOSITS AT AMORTIZED COST

Deposits from customers are stated at amortized cost and are detailed as follows:

	December 31,	
	2011 LBP'000	2010 LBP'000
Current and demand deposits	267,002,710	248,389,554
Term deposits	494,433,727	425,268,564
Saving accounts	2,140,418,016	1,865,119,285
Related party deposits	120,888,371	85,966,658
Collateral against loans and advances - Related parties	31,126,503	88,569,064
Collateral against loans and advances – Customers	321,893,169	204,948,787
Fiduciary accounts	78,673,469	77,266,223
Margin on irrevocable letters of credit	15,939,427	14,916,227
Margins on letters of guarantee	9,215,787	9,106,368
	3,479,591,179	3,019,550,730
Accrued interest payable	19,812,312	16,161,585
	3,499,403,491	3,035,712,315

Deposits are allocated by brackets as follows:

	December 31, 2011			
	Deposits in LBP		Deposits in F/Cy	
	Total Deposits LBP'000	% to Total Deposits	Total Deposits LBP'000	% to Total Deposits
Related parties	48,698,796	4.27	103,316,078	4.38
Customers:				
Less than LBP 200 million	274,510,619	24.19	304,787,960	12.87
Between LBP 200 million and LBP 1.5 billion	342,735,524	30.06	623,582,733	26.44
More than LBP 1.5 billion	473,077,317	41.48	1,328,694,464	56.31
	1,090,323,460		2,257,065,157	
	1,139,022,256	100.00	2,360,381,235	100.00

	December 31, 2010			
	Deposits in LBP		Deposits in F/Cy	
	Total Depoits LBP'000	% to Total Deposits	Total Deposits LBP'000	% to Total Deposits
Related parties	41,509,120	3.65	133,029,621	7.00
Customers:				
Less than LBP 200million	317,714,838	27.96	347,339,263	18.28
Between LBP 200 million and LBP 1.5 billion	384,347,488	33.83	585,109,441	30.80
More than LBP 1.5 billion	392,567,118	34.56	834,095,426	43.92
	1,094,629,444		1,766,544,130	
	1,136,138,564	100.00	1,899,573,751	100.00

Customers' deposits include coded accounts as at December 31, 2011 amounting to LBP 18 billion (LBP 57 billion as at December 31, 2010). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956. Under the provisions of this article, the Group's management cannot reveal the identities of the depositors to third parties, including its independent auditors.

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

Year	Average Balance of Deposits LBP'000	Allocation of Deposits LBP %	F/Cy. %	Cost of Funds LBP'000	Average Interest Rate %
2011	3,234,102,222	33	67	150,628,490	4.65
2010	2,722,006,040	37	63	133,415,457	4.87
2009	2,154,896,676	35	65	117,915,225	5.47

Customers' deposits include an escrow account deposited by the former shareholders of Société Bancaire du Liban S.A.L. ("SBL") to cover any shortage in the transferred allowance for bad and doubtful debts accounts or for those accounts that needed to be downgraded at the merger date. The balance of this pledged deposit as at December 31, 2011 and 2010 amounted to USD207,000 equivalent to LBP312million. There has been no transfer to "Escrow account to cover shortage in provisions" under "Loans and advances" during 2011 and 2010. This escrow account earned interest at the rate of 3.22% during 2011 (3.26% during 2010).

21. CERTIFICATES OF DEPOSIT

	December 31, 2011		December 31, 2010	
	USD	C/V in LBP'000	USD	C/V in LBP'000
Nominal value	3,750,000	5,653,125	3,750,000	5,653,125
Accrued interest payable	86,045	129,712	94,649	142,683
Carrying amount	3,836,045	5,782,837	3,844,649	5,795,808

On February 20, 2010, the Group issued certificates of deposit with a nominal value amounting to USD 10 million (C/V LBP 15 billion) maturing on February 20, 2013 of which USD 3.75 million (C/V LBP 5.65 billion) were subscribed into. The certificates of deposit bear a fixed interest rate of 6.25% per annum.

22. SOFT LOAN FROM CENTRAL BANK OF LEBANON

On December 19, 2002, the Central Bank of Lebanon approved the merger between First National Bank S.A.L. and Société Bancaire du Liban S.A.L. and granted the Bank on January 23, 2003, an eight year soft loan in the amount of LBP 44.84 billion secured by pledged Lebanese Treasury bills amounting to LBP 47.36billion as of December 31, 2010 and classified as held-to-maturity (Note 9).

In January 2011, the soft loan matured and was fully settled. Interest expense amounted to LBP44million for the year ended December 31, 2011 (LBP1.4billion during 2010) reflected in the consolidated statement of income under "interest expense" (Note 31).

23. OTHER LIABILITIES

	December 31, 2011 LBP'000	December 31, 2010 LBP'000
Withheld taxes and other taxes payable	1,567,921	1,307,272
Income tax payable	1,427,660	1,207,970
Due to the National Social Security Fund	467,906	418,227
Checks and incoming payment orders in course of settlement	10,427,098	7,465,946
Accrued expenses	3,931,728	3,914,266
Provision for early redemption of investment securities (Note 9)	3,664,080	2,396,347
Deferred tax liability (Note28)	169,695	6,999,674
Deferred income	4,714,298	3,336,577
Commitment on subscribed capital	-	52,763
Due to insurance companies and collectors of bills	8,638,989	6,426,811
Sundry accounts payable	2,800,045	4,458,863
	37,809,420	37,984,716

The maturity of the dues to insurance companies and collectors of bills are allocated based on the maturity of the related outstanding loans and is as follows:

December 31, 2011

	Less than 1 year LBP'000	Between 1 and 2 years LBP'000	More than 2 years LBP'000	Total LBP'000
Insurance companies	3,154,604	1,953,632	1,897,473	7,005,709
Collectors of bills	1,024,484	342,786	216,556	1,583,826
Selling parties	42,977	-	-	42,977
Other payables	6,477	-	-	6,477
Total	4,228,542	2,296,418	2,114,029	8,638,989

December 31, 2010

	Less than 1 year LBP'000	Between 1 and 2 years LBP'000	More than 2 years LBP'000	Total LBP'000
Insurance companies	2,194,182	1,498,504	1,201,561	4,894,247
Collectors of bills	924,400	324,469	239,625	1,488,494
Selling parties	38,402	-	-	38,402
Other payables	5,668	-	-	5,668
Total	3,162,652	1,822,973	1,441,186	6,426,811

Deferred income includes unearned commission on insurance policies related to outstanding loans and maturing after year end. These unearned commissions are recognized to income over the term of the related loans. Furthermore, it includes file fees and difference on collection charges that are recognized as yield adjustment over the loan repayment period.

During 2010, the Bank's tax returns for the fiscal years 2006 through 2008 were examined by the tax authorities. As a result, additional taxes and penalties in the amount of LBP667million were levied and settled in 2012. Furthermore, the Bank's social security declarations for the fiscal years 2007 through 2010 were examined by the National Social Security Fund and charged the Bank penalties in the amount of LBP404million which were paid in 2011.

The Group's management does not anticipate significant additional tax and social security liabilities with regard to years still open for review related to the Bank and its subsidiaries.

24. PROVISIONS

Provisions consist of the following:

	December 31,	
	2011 LBP'000	2010 LBP'000
Provision for staff end-of-service indemnities	6,262,219	5,654,657
Provision for contingencies	260,056	523,612
Provision for foreign currency fluctuations	1,785	6,190
	6,524,060	6,184,459

The movement of the provision for staff end-of-service indemnities is as follows:

	2011 LBP'000	2010 LBP'000
Balance, January 1	5,654,657	3,927,294
Acquisition of subsidiary	-	521,937
Additions	771,995	1,317,808
Settlements	(164,433)	(112,382)
Balance, December 31	6,262,219	5,654,657

The movement of the provision for contingencies was as follows:

	2011 LBP'000	2010 LBP'000
Balance, January 1	523,612	210,046
Additions	-	313,566
Transferred to collective provision (Note 11)	(200,000)	-
Write off	(63,556)	-
Balance, December 31	260,056	523,612

25. SHARE CAPITAL

Capital consists of 13,143,982 shares of par value of LBP 10,000 each as at December 31, 2011 and 2010.

The Extraordinary General Assembly held on February 11, 2010 approved the increase of capital from LBP 115 billion to LBP 131 billion through the issuance of 1,643,982 nominal shares for LBP 10,000 each. Moreover, additional paid in capital on these shares in the amount of USD 4.388 per share, equivalent to an aggregate amount of LBP 10.87 billion was paid. This increase in capital was executed upon the full acquisition of Capital Finance Company S.A.L. shares approved by the Extraordinary General Assembly meeting held on January 8, 2010 (Note 13).
The Extraordinary General Assembly of the Bank approved in its meeting held on January 12, 2012 the increase of capital from LBP 131billion to LBP 155 billion through the issuance of 2,306,018 nominative shares of LBP 10,000 par value each.

26. PREFERRED SHARES

The Extraordinary General Assembly held on November 23, 2009 approved the issuance of 150,000 non-cumulative perpetual redeemable series 1 Preferred shares, with a nominal value of LBP 10,000 each, and an aggregate premium of USD14million on the entire issued shares. The preferred shares earn dividends of USD 4.25 each for the year 2009 and USD8.25 for the years thereafter.

27. RESERVES

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Law 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. This reserve should reach 1.25% of total risk weighted assets, off-balance sheet risk and global exchange position at year 10 and 2% of that amount at year 20. This reserve is constituted in Lebanese Pounds and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-balance sheet items. This reserve is not available for distribution.

28. CUMULATIVE CHANGE IN FAIR VALUE OF INVESTMENT SECURITIES

This caption comprises the following:

	December 31,	
	2011 LBP'000	2010 LBP'000
Cumulative change in fair value of financial assets at fair value through other comprehensive income/investment securities:		
- Investments designated at fair value through other comprehensive income (IFRS 9)	(1,131,303)	-
- Securities classified as available-for-sale	-	48,855,171
- Securities originally classified as available-for-sale and transferred during 2004 to held-to-maturity	-	171,015
Deferred tax asset (Note 23)	169,695	(7,149,674)
	(961,608)	41,876,512

The cumulative change in fair value of available-for-sale securities as at December 31, 2010 was partially reclassified to retained earnings and offset against investment securities upon the early adoption of IFRS9 effective January1, 2011 (Note 5).

29. NON-CONTROLLING INTERESTS

This caption comprises the following:

	December 31,	
	2011 LBP'000	2010 LBP'000
Capital	436,211	436,211
Legal reserves	9,019	-
Cumulative change in fair value of available-for-sale investment securities	-	2,690
Accumulated losses	(21,217)	(24,934)
	424,013	413,967

30. INTEREST INCOME

	2011 LBP'000	2010 LBP'000
Interest income from:		
Term deposits with Central Bank	3,252,648	2,458,760
Deposits with banks and financial institutions	5,295,522	4,303,478
Investment securities	127,900,078	124,733,465
Loans to banks	1,518,153	239,478
Loans and advances to customers	85,521,380	73,543,522
Loans and advances to related parties	2,142,374	3,765,072
	225,630,155	209,043,775

31. INTEREST EXPENSE

	2011 LBP'000	2010 LBP'000
Interest expense on:		
Deposits and borrowings from banks and financial institutions	8,302,983	11,462,131
Soft loan from Central Bank (Note 22)	43,816	1,454,101
Customer's deposits	144,374,037	127,299,027
Related parties' deposits	6,254,453	6,116,430
Certificates of deposit	340,349	434,767
	159,315,638	146,766,456

32.FEE AND COMMISSION INCOME

This caption consists of the following:

	2011 LBP'000	2010 LBP'000
Commission and documentary credits	999,823	393,823
Commission and letters of guarantee	1,059,936	997,358
Commission on certificates of deposit	25,223	22,208
Service fees on customers' transactions	5,917,668	6,561,025
Brokerage fees	2,138,917	1,249,625
Commission on transactions with banks	264,400	281,318
	10,405,967	9,505,357

33. FEE AND COMMISSION EXPENSE

This caption consists of the following:	2011 LBP'000	2010 LBP'000
Commission on transactions with banks	6,651,352	4,896,575
Commission on private banking transactions	464,815	284,561
	7,116,167	5,181,136

34. NET INTEREST AND GAIN AND LOSS ON TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	2011 LBP'000	2010 LBP'000
Interest income	1,561,311	412,004
Unrealized loss on trading assets at fair value through profit or loss / trading (net) – (Note 8)	(953,431)	(228,167)
Net realized gain on trading assets at fair value through profit or loss	5,456,969	-
	6,064,849	183,837

35. OTHER OPERATING INCOME

This caption consists of the following:

	2011 LBP'000	2010 LBP'000
Gain on sale of investment securities	635,264	8,717,444
Dividends received	477,603	306,096
Management and consulting fees income	150,750	525,985
Share in (losses)/gain of an associate (Note 14)	(1,288)	190,756
Net exchange gain	2,426,192	1,917,329
Other	920,704	665,355
	4,609,225	12,322,965

36. DEPRECIATION AND AMORTIZATION

This caption consists of the following:

	2011 LBP'000	2010 LBP'000
Depreciation of property and equipment (Note 16)	2,751,363	2,538,506
Amortization of deferred accounts for merged bank (Note 17)	721,310	721,310
Amortization of intangible assets	30,305	30,350
	3,502,978	3,290,166

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.

Forward exchange contracts outstanding as of December 31, 2011 and 2010 represent positions held for customers' accounts and at their risk. The Group entered into such instruments to serve the needs of customers, and these contracts are fully hedged by the Group.

38. FIDUCIARY ASSETS

Fiduciary assets are invested as follows:

	December 31, 2011		
	Resident LBP'000	Non-Resident LBP'000	Total LBP'000
Deposits with financial institutions	7,152,849	3,562,780	10,715,629
Debt securities	79,915,729	48,862,676	128,778,405
Equity securities	98,831,226	101,025,497	199,856,723
	185,899,804	153,450,953	339,350,757

	December 31, 2010		
	Resident LBP'000	Non-Resident LBP'000	Total LBP'000
Deposits with financial institutions	2,789,369	2,021,118	4,810,487
Debt securities	68,482,776	2,540,823	71,023,599
Equity securities	90,194,078	101,793,159	191,987,237
	161,466,223	106,355,100	267,821,323

39. BALANCES / TRANSACTIONS WITH RELATED PARTIES

	December 31, 2011 LBP'000	December 31, 2010 LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
Secured loans and advances	30,349,923	87,040,397
Unsecured loans and advances	3,354,147	5,069,885
Deposits	152,014,874	174,535,722
Indirect facilities	1,981,000	1,749,768

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction. Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP 27 billion (LBP 87 billion as of December 31, 2010). In addition, loans and advances were covered by real estate mortgages to the extent of LBP 6.7 billion as of December 31, 2011 (LBP 3.72 billion as of December 31, 2010).

Directors' and senior staff remuneration amounted to LBP3.5billion during 2011 (LBP 2.62 billion during 2010).

40. DIVIDENDS PAID

	2011 LBP'000	2010 LBP'000
Preferred shares – Series 1	1,865,531	961,034
Ordinary shares	6,046,232	4,600,000
	7,911,763	5,561,034

The general assembly of the Bank held on June 10, 2011 approved the dividends distribution of LBP 460 for each common share and USD 8.25 (c/v LBP 12,437) for each preferred share - Series 1.

The general assembly of the Bank held on June 24, 2010 approved the dividends distribution of LBP 400 for each common share and USD 4.25 (c/v LBP 6,407) for each preferred share - Series 1.

41. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2011 LBP'000	2010 LBP'000
Cash	21,361,692	20,913,394
Current accounts with Central Bank of Lebanon	13,602,640	35,394,832
Time deposits with Central Bank of Lebanon	148,140,153	158,212,500
Current accounts with banks and financial institutions and purchased checks	75,231,854	110,311,326
Time deposits with banks and financial institutions	130,518,736	166,666,416
Demand deposits from banks	(39,097,530)	(16,793,496)
Time deposits from banks	(226,016,974)	(322,617,322)
	123,740,571	152,087,650

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

The following operating, investment and financing activities, which represent non-cash items were excluded from the consolidated statement of cash flows as follows:

(a) Increase in assets acquired in satisfaction of loans for the amount of LBP 1.6 billion against loans and advances to customers for the year ended December 31, 2011 (LBP 1.9 billion for the year ended December 31, 2010).
(b) Decrease during 2011 in cumulative change in fair value of available-for-sale securities for the amount of LBP 42.8 billion against an increase in retained earnings in the amount of LBP 4.5 billion, an increase in investment securities in the amount of LBP37billion and an increase in deferred tax in the amount of LBP 170 million upon the early adoption of IFRS 9.
(c) Decrease in financial assets at fair value through profit or loss in the amount of LBP 10 billion for the year ended December 31, 2011 against increase in loans to customers.
(d) Decrease in available-for-sale securities in the amount of LBP 1,055 billion and decrease in held-to-maturity securities in the amount of LBP 807 billion for the year ended December 31, 2011 against increase in financial assets at fair value through profit or loss for LBP 144 billion, increase in financial assets at fair value through other comprehensive income for LBP 6.2 billion and increase in financial assets at amortized cost for LBP 1,712 billion upon the early adoption of IFRS 9.
(e) Decrease in loans and advances to customers for the amount of LBP 200 million for the year ended December 31, 2011 against transfer provisions for contingencies.

42. 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. Risk weighted assets and capital are monitored periodically to assess the quantum of capital available to support growth and optimally deploy capital to achieve targeted returns.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP 10 billion for the head office and LBP 500 million for each local branch and LBP 1.5 billion 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 monitors the adequacy of its capital using the methodology and ratios established by Central Bank of Lebanon. These ratios measure capital adequacy by comparing the Group's eligible capital with its balance sheet assets, commitments and contingencies, and notional amount of derivatives at a weighted amount to reflect their relative risk.

The Group's capital is split as follows:

Tier I Capital: Comprises share capital after deduction of treasury shares, 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 / financial assets classified through other comprehensive income.

Tier II Capital: Comprises qualifying subordinated liabilities, cumulative favorable change in fair value of available-for-sale securities / financial assets classified through other comprehensive income.

Certain investments in financial and non-financial institutions are ineligible and are deducted from Tier I and Tier II.

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.

Investments in associates are deducted from Tier I and Tier II capital.

The Group's capital adequacy ratio (Basle II) was as follows:

	2011 **In million of LBP**	**2010** **In million of LBP**
Total regulatory capital	222,659	224,340
Credit risk	2,688,044	2,249,048
Market risk	49,975	14,850
Operational risk	123,708	103,517
Risk-weighted assets and risk-weighted off-balance sheet items	2,861,727	2,367,415
Capital adequacy ratio	**7.78%**	**9.48%**

The Extraordinary General Assembly of the Bank approved in its meeting held on January 12, 2012 the increase of capital from LBP 131 billion to LBP 155 billion through the issuance of 2,306,018 nominative shares of LBP 10,000 par value each.

43. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

A – Credit Risk

Credit risk is the risk of financial loss to the Group if a counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance affecting a particular industry or geographical location.

1 – Management of credit risk

The Board of Directors has the responsibility to approve the Group's general credit policy as recommended by the Credit Committee. The Credit Committee has the responsibility for the development of the credit function strategy and implementing principles, frameworks, policies and limits.

2 – Measurement of credit risk

Policies and principles that the Group follows on loans and advances are included in "Management of Credit Risk" which stipulates the Group's general credit policy.

In measuring credit risk of loans and advances, the Group considers the following:

A. Managing credit risk based on the risk profile of the borrower, repayment source and the nature of the underlying collateral given current events and conditions.

B. Measuring credit risk through reviewing the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdues and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

In accordance with Central Bank of Lebanon circular No.58 the Group's customers are categorized into five classifications as described below:

Classification	Description	
1	Standard monitoring	Indicates that borrowers are able to honor their commitments and there is no reason to doubt their ability to repay principal and interest in full and in a timely manner. Some of the indicators related to this category are: continuous cash inflows, timely submission of financial statements and / or sufficient collateral.

2	Special monitoring (Watch list)	Indicates that borrowers are able to honor their current commitments, although repayment may be adversely affected by specific factors. Such borrowers are subject to special monitoring. Major characteristics of this category are: inadequate loan information such as annual financial statements availability, condition of and control over collateral held is questionable and/or declining profitability.
3	Substandard	Indicates that borrowers' ability to serve their commitments is in question. In this context, borrowers cannot depend on their normal business revenues to pay back principal and interest, i.e. losses may occur. The main characteristics of this category are severe decline in profitability and in cash inflows. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment.
4	Doubtful	Indicates that borrowers cannot honor their commitments in full and on time. Significant losses will be incurred even collateral held is invoked due to payment overdues. The net realizable value of collateral held is insufficient to cover payment of principal and interest. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly.
5	Bad	Indicates that commitments cannot be covered even after taking all possible measures and resorting to necessary legal procedures. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

If the debtor's default on the loan is temporary, management of the Group identifies and manages to work a plan to reschedule the payments due and/or obtain additional collateral before downgrading the loan to substandard or doubtful.

3- Risk mitigation policies

The Group 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
- Business other assets (such as inventories and accounts receivable)

4 – Financial assets with credit risk exposure and related concentrations

a) Exposure to credit risk and concentration by counterparty:

The tables below reflect the allocation of loans and advances to customers by bracket of exposure (escrow account excluded)

	December 31, 2011	
	LBP Base Accounts	F/Cy Base Accounts
Bracket	Amount LBP'000	Amount LBP'000
Related Party Customers:	6,287,099	27,416,971
Customers:		
Less than LBP 200 million	160,376,071	176,648,541
From LBP 200 million to LBP 1.5 billion	78,374,127	162,329,591
Over LBP 1.5 billion	102,561,089	466,249,831
	341,311,287	805,227,963
	347,598,386	832,644,934

	December 31, 2010	
	LBP Base Accounts	F/Cy Base Accounts
Bracket	Amount LBP'000	Amount LBP'000
Related Party Customers:	3,723,338	88,386,944
Customers:		
Less than LBP 200 million	144,048,329	187,187,739
From LBP 200 million to LBP 1.5 billion	62,416,425	117,378,825
Over LBP 1.5 billion	86,900,937	270,189,740
	293,365,691	574,756,304
	297,089,029	663,143,248

Loans and advances above LBP 200million relate to approximately 3% of the Group's customers.

Below are the details of the Group's exposure to credit risk with respect to loans and advances to customers:

	December 31, 2011		
	Net Exposure LBP'000	Provisions and Escrow Accounts LBP'000	Net Exposure LBP'000
Loans and advances	1,158,885,759	-	1,158,885,759
(Regular and watch list)	1,158,885,759	-	1,158,885,759
Overdue loans and advances (Regular and watch list):			
Between 30 and 60 days	1,622,913	-	1,622,913
Between 60 and 90 days	2,641,918	-	2,641,918
Between 90 and 180 days	2,093,170	-	2,093,170
More than 180 days	6,005,573	-	6,005,573
	12,363,574	-	12,363,574
Loans individually impaired			
Substandard	3,290,503	-	3,290,503
Doubtful	32,130,388	(18,030,168)	14,100,220
	35,420,891	(18,030,168)	17,390,723
Provision for impairment of collectively assessed loans and escrow accounts	-	(13,924,448)	(13,924,448)
	1,206,670,224	(31,954,616)	1,174,715,608

December 31, 2011

Segregated by Type of Guarantee				
Real Estate Mortgage LBP'000	Pledged Funds LBP'000	Bank and personal Guarantees LBP'000	Unsecured and Other Guarantees LBP'000	Total LBP'000
275,848,537	324,841,289	114,696,035	443,499,898	1,158,885,759
275,848,537	324,841,289	114,696,035	443,499,898	1,158,885,759
1,537,838	34,276	11,744	39,055	1,622,913
1,584,069	111,684	8,955	937,210	2,641,918
1,630,318	140,860	53,034	268,958	2,093,170
4,193,310	135,760	61,581	1,614,922	6,005,573
8,945,535	422,580	135,314	2,860,145	12,363,574
1,936,586	353,706	179,169	821,042	3,290,503
15,309,629	573,633	6,290,417	(8,073,459)	14,100,220
17,246,215	927,339	6,469,586	(7,252,417)	17,390,723
-	-	-	-	(13,924,448)
302,040,287	326,191,208	121,300,935	439,107,626	1,174,715,608

	December 31, 2010		
	Net Exposure LBP'000	Provisions and Escrow Accounts LBP'000	Net Exposure LBP'000
Loans and advances (Regular and watch list)	940,263,933	-	940,263,933
Overdue loans and advances (Regular and watch list):			
Between 30 and 60 days	806,446	-	806,446
Between 60 and 90 days	2,351,821	-	2,351,821
Between 90 and 180 days	1,051,510	-	1,051,510
More than 180 days	4,783,035	-	4,783,035
	8,992,812	-	8,992,812
Loans individually impaired			
Substandard	1,928,996	-	1,928,996
Doubtful	37,242,136	(20,796,779)	16,445,357
	39,171,132	(20,796,779)	18,374,353
Provision for impairment of collectively assessed loans and escrow accounts	-	(13,108,326)	(13,108,326)
	988,427,877	(33,905,105)	954,522,772

December 31, 2010

	Segregated by Type of Guarantee				
	Real Estate Mortgage LBP'000	Pledged Funds LBP'000	Bank and personal Guarantees LBP'000	Unsecured and Other Guarantees LBP'000	Total LBP'000
	237,288,600	184,185,238	81,912,075	436,878,020	940,263,933
	428,651	106,849	33,282	237,664	806,446
	1,672,863	147,933	82,849	448,176	2,351,821
	749,662	10,347	65,639	225,862	1,051,510
	3,018,810	43,763	122,050	1,598,412	4,783,035
	5,869,986	308,892	303,820	2,510,114	8,992,812
	1,896,764	353,706	426,190	(747,664)	1,928,996
	17,133,583	401,254	867,290	(1,956,770)	16,445,357
	19,030,347	754,960	1,293,480	(2,704,434)	18,374,353
	-	-	-	-	(13,108,326)
	262,188,933	185,249,090	83,509,375	436,683,700	954,522,772

b) Concentration of financial assets and liabilities by geographical area:

	December 31, 2011					
	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
Financial Assets						
Cash and central bank	518,633,670	-	-	-	-	518,633,670
Deposits with banks and financial institutions	78,521,374	21,584,760	3,886,305	153,061,400	-	257,053,839
Trading assets at fair value through profit or loss	18,665,119	822,156	1,887,480	4,273,717	-	25,648,472
Investment securities	2,071,308,772	5,114,748	-	93,268,683	-	2,169,692,203
Loans to banks	16,090,165	-	-	1,539,012	-	17,629,177
Loans and advances to customers	1,125,864,987	41,543,672	7,513	6,232,732	1,066,704	1,174,715,608
Due from an associate	164,918	-	-	-	-	164,918
Customer's liability under acceptance	13,328,063	-	-	-	-	13,328,063
Other assets	5,110,352	-	-	-	-	5,110,352
Total	3,847,687,420	69,065,336	5,781,298	258,375,544	1,066,704	4,181,976,302
Financial Liabilities						
Deposits and borrowings from banks and financial institutions	115,386,869	234,274,859	4,278	66,596,646	1,257,125	417,519,777
Customers' deposits at amortized cost	3,011,747,250	380,243,554	18,212,029	55,853,501	33,347,157	3,499,403,491
Liability under acceptances	13,328,063	-	-	-	-	13,328,063
Certificates of deposit	5,782,837	-	-	-	-	5,782,837
Other liabilities	13,695,051	-	-	-	-	13,695,051
Total	3,159,940,070	614,518,413	18,216,307	122,450,147	34,604,282	3,949,729,219

December 31, 2010						
	Lebanon LBP'000	Middle East & Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
Financial Assets						
Cash and central bank	512,617,089	-	-	-	-	512,617,089
Deposits with banks and financial institutions	140,239,364	43,730,177	23,257,916	150,576,805	817,805	358,622,067
Trading assets at fair value through profit or loss	3,973,484	-	-	-	-	3,973,484
Investment securities	1,777,737,511	7,812,579	5,264,445	108,846,474	-	1,899,661,009
Loans to banks	4,859,557	-	-	3,018,046	-	7,877,603
Loans and advances to customers	926,225,716	21,878,958	5,535	6,330,288	82,275	954,522,772
Due from an associate	675,239	-	-	-	-	657,239
Customer's liability under acceptance	9,153,012	-	-	-	-	9,153,012
Other assets	5,525,117	-	-	-	-	5,525,117
Total	3,381,006,089	73,421,714	28,527,896	268,771,613	900,080	3,752,627,392
Financial Liabilities						
Deposits and borrowings from banks and financial institutions	56,856,315	260,711,514	178,699	69,751,745	-	387,498,273
Customers' deposits at amortized cost	2,710,609,539	239,827,147	9,812,435	40,512,992	34,950,202	3,035,712,315
Liability under acceptances	9,153,012	-	-	-	-	9,153,012
Certificates of deposit	5,795,808	-	-	-	-	5,795,808
Soft loan from Central Bank of Lebanon	44,843,983	-	-	-	-	44,843,983
Other liabilities	13,819,143	-	-	-	-	13,819,143
Total	2,841,077,800	500,538,661	9,991,134	110,264,737	34,950,202	3,496,822,534

B – Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

1- Management of liquidity risk

Liquidity management involves maintaining ample and diverse funding capacity, liquid assets and other sources of cash to accommodate fluctuations in asset and liability levels. Through ALCO, the Board of Directors is responsible for establishing the liquidity policy which includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met;
- Maintenance of a portfolio of liquid and marketable assets;
- Diversification of funding; and
- Maintenance of adequate contingency plans.

2- Exposure to liquidity risk

The Group ensures that its local entities are in compliance with the liquidity limits in Lebanese Pound and foreign currencies as established by the Central Bank of Lebanon.

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

	December 31, 2011		
	Lebanese Pounds Base Accounts		
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
FINANCIAL ASSETS			
Cash and central bank	62,600,161	24,006,723	-
Deposits with banks and financial institutions	1,025,490	61,782,130	-
Trading asset at fair value through profit or loss	-	34,168	-
Investment securities	-	43,000,000	186,568,107
Loans to banks	-	41,334	-
Loans and advances to customers	(16,868,429)	78,183,696	22,344,275
Due from an associate	164,919	-	-
Other assets	4,678,406	-	-
Total Assets	51,600,547	207,048,051	208,912,382
FINANCIAL LIABILITIES			
Deposits and borrowings from banks and financial institutions	-	39,091,598	19,250,000
Customers' deposits at amortized cost	11,965,795	1,106,080,670	20,975,791
Other liabilities	5,808,557	-	-
Total Liabilities	17,774,352	1,145,172,268	40,225,791
Maturity Gap	33,826,195	(938,124,217)	168,686,591

December 31, 2011			
Lebanese Pounds Base Accounts			
1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
-	-	-	86,606,884
-	-	-	62,807,620
-	-	-	34,168
360,500,000	99,045,000	177,392,290	866,505,397
-	600,000	3,450,000	4,091,334
45,819,924	33,507,443	182,201,305	345,188,214
-	-	-	164,919
-	-	-	4,678,406
406,319,924	133,152,443	363,043,595	1,370,076,942
-	2,745,000	-	61,086,598
-	-	-	1,139,022,256
-	-	-	5,808,557
-	2,745,000	-	1,205,917,411
406,319,924	130,407,443	363,043,595	164,159,531

December 31, 2011			
	Foreign Currency Base Accounts		
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
FINANCIAL ASSETS			
Cash and central bank	24,349,553	272,002,233	75,375,000
Deposits with banks and financial institutions	79,567,024	95,835,445	18,843,750
Trading assets at fair value through profit or loss	19,855,388	-	-
Investment securities	-	98,672,389	55,331,722
Loans to banks	-	13,537,843	-
Loans and advances to customers	(45,786,650)	488,474,672	138,309,185
Customers' liability under acceptances	13,328,063	-	-
Other assets	431,946	-	-
Total	91,745,324	968,522,582	287,859,657
FINANCIAL LIABILITIES			
Deposits and borrowings from banks and financial institutions	15,888,486	279,493,102	14,951,434
Customers' deposits at amortized cost	45,267,818	2,276,933,102	22,701,691
Liability under acceptances	13,328,063	-	-
Certificates of deposit	-	129,712	-
Other liabilities	7,886,494	-	-
Total	82,370,861	2,556,555,916	37,653,125
Maturity Gap	9,374,463	(1,588,033,334)	250,206,532

	December 31, 2011			
	Foreign Currency Base Accounts			
	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
	-	60,300,000	-	432,026,786
	-	-	-	194,246,219
	45,225	483,755	5,229,936	25,614,304
	95,625,935	371,222,266	682,334,494	1,303,186,806
	-	-	-	13,537,843
	120,705,922	58,780,805	69,043,460	829,527,394
	-	-	-	13,328,063
	-	-	-	431,946
	216,377,082	490,786,826	756,607,890	2,811,899,361
	45,225,000	-	875,157	356,433,179
	15,478,624	-	-	2,360,381,235
	-	-	-	13,328,063
	5,653,125	-	-	5,782,837
	-	-	-	7,886,494
	66,356,749	-	875,157	2,743,811,808
	150,020,333	490,786,826	755,732,733	68,087,553

December 31, 2010

	Lebanese Pounds Base Accounts		
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
FINANCIAL ASSETS			
Cash and central bank	101,667,017	15,000,000	-
Deposits with banks and financial institutions	3,628,196	28,106,779	2,250,000
Trading assets at fair value through profit or loss	-	-	-
Investment securities	12,841,670	74,284,426	255,906,737
Loans to banks	-	51,893	-
Loans and advances to customers	(17,432,441)	49,127,560	32,017,766
Due from an associate	675,239	-	-
Other assets	4,734,498	-	-
Total	106,114,179	166,570,658	290,174,503
FINANCIAL LIABILITIES			
Deposits and borrowings from banks and financial institutions	4,324,780	23,756,113	-
Customers' deposits at amortized cost	14,077,082	990,487,521	100,001,042
Soft loan from Central Bank of Lebanon	3,983	44,840,000	-
Other liabilities	8,539,654	-	-
Total	26,945,499	1,059,083,634	100,001,042
Maturity Gap	79,168,680	(892,512,976)	190,173,461

December 31, 2010

Lebanese Pounds Base Accounts			
1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
-	-	-	116,667,017
23,750,000	3,030,493	-	60,765,468
-	3,104,093	-	3,104,093
337,387,272	199,727,846	40,751,874	920,899,825
-	-	4,600,000	4,651,893
47,928,327	18,715,831	165,589,427	295,946,470
-	-	-	675,239
-	-	-	4,734,498
409,065,599	224,578,263	210,941,301	1,407,444,503
-	-	-	28,080,893
31,572,919	-	-	1,136,138,564
-	-	-	44,843,983
-	-	-	8,539,654
31,572,919	-	-	1,217,603,094
377,492,680	224,578,263	210,941,301	189,841,409

	December 31, 2010		
	Foreign Currency Base Accounts		
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
FINANCIAL ASSETS			
Cash and central bank	41,875,972	203,324,100	60,300,000
Deposits with banks and financial institutions	66,191,653	220,948,643	10,716,303
Trading assets	869,391	-	-
Investment securities	48,107,493	6,956,318	96,816,661
Loans to banks	-	210,710	3,015,000
Loans and advances to customers	(67,671,022)	426,613,584	122,942,222
Customers' liability under acceptances	9,153,012	-	-
Other assets	790,619	-	-
Total	99,317,118	858,053,355	293,790,186
FINANCIAL LIABILITIES			
Deposits and borrowings from banks and financial institutions	18,773,160	291,232,017	2,993,913
Customers' deposits at amortized cost	69,399,118	1,487,498,675	267,491,905
Liability under acceptance	9,153,012	-	-
Certificate of Deposits	142,683	-	-
Other liabilities	5,279,489	-	-
Total	102,747,462	1,778,730,692	270,485,818
Maturity Gap	(3,430,344)	(920,677,337)	23,304,368

December 31, 2010

Foreign Currency Base Accounts

1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
45,225,000	45,225,000	-	395,950,072
-	-	-	297,856,599
-	-	-	869,391
210,840,215	211,847,000	404,193,497	978,761,184
-	-	-	3,225,710
107,087,935	47,224,712	22,378,871	658,576,302
-	-	-	9,153,012
-	-	-	790,619
363,153,150	304,296,712	426,572,368	2,345,182,889
45,461,027	-	957,263	359,417,380
73,902,678	1,281,375	-	1,899,573,751
-	-	-	9,153,012
5,653,125	-	-	5,795,808
-	-	-	5,279,489
125,016,830	1,281,375	957,263	2,279,219,440
238,136,320	303,015,337	425,615,105	65,963,449

C – Market Risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

1- Currency Risk:

The Group carries on exchange risk associated with the effects of fluctuations in prevailing foreign currency exchange rates on its financial position and cash flows. The Bank takes preventive measures against this risk on setting up limits on the level of exposure by currency and in total for both overnight and intra-day positions in line with the limits authorized by the regulatory authorities.

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

	December 31, 2011				
	LBP LBP'000	USD LBP'000	Euro LBP'000	Other LBP'000	Total LBP'000
ASSETS					
Cash and central bank	86,606,884	357,041,929	73,728,093	1,256,764	518,633,670
Deposits with banks and financial institutions	62,807,619	49,871,243	81,015,538	63,359,439	257,053,839
Trading assets at fair value through profit or loss	34,168	23,103,120	50,416	2,460,768	25,648,472
Investment securities	866,505,397	1,227,714,408	71,340,944	4,131,454	2,169,692,203
Loans to banks	4,091,334	11,922,184	1,547,932	67,727	17,629,177
Loans and advances to customers	345,235,942	795,120,397	27,651,465	6,707,804	1,174,715,608
Due from an associate	164,919	-	-	-	164,919
Customers' liability under acceptances	-	8,306,349	5,021,714	-	13,328,063
Investment in an associate	-	423,376	-	-	423,376
Assets acquired in satisfaction of loans	-	4,824,182	-	-	4,824,182
Property and equipment	34,896,962	677,665	-	-	35,574,627
Other assets	9,735,844	(22,114,933)	34,644,704	(7,819,780)	14,445,835
Regulatory blocked fund	1,500,000	-	-	-	1,500,000
Intangible assets	55,852	-	-	-	55,852
Goodwill	20,379,656	-	-	-	20,379,656
Total Assets	1,432,014,577	2,456,889,920	295,000,806	70,164,176	4,254,069,479
LIABILITIES					
Deposits and borrowings from banks and financial institutions	61,086,598	288,023,908	60,729,916	7,679,355	417,519,777
Customers' deposits at amortized cost	1,139,022,256	2,076,713,306	227,513,641	56,154,288	3,499,403,491
Liability under acceptance	-	8,306,349	5,021,714	-	13,328,063
Certificate of deposits	-	5,782,837	-	-	5,782,837
Other liabilities	12,854,360	24,239,975	638,717	76,368	37,809,420
Provisions	6,447,086	76,974	-	-	6,524,060
Total Liabilities	1,219,410,300	2,403,143,349	293,903,988	63,910,011	3,980,367,648
Currencies to be delivered	-	31,306,498	9,270,384	34,710,717	75,287,599
Currencies to be received	(3,693,375)	(4,589,171)	(43,915,088)	(26,826,157)	(79,023,791)
	(3,693,375)	26,717,327	(34,644,704)	7,884,560	(3,736,192)
Net assets	208,910,902	80,463,898	(33,547,886)	14,138,725	269,965,639

	December 31, 2010				
ASSETS	**LBP LBP'000**	**USD LBP'000**	**Euro LBP'000**	**Other LBP'000**	**Total LBP'000**
Cash and central bank	116,667,017	360,909,557	33,435,312	1,605,203	512,617,089
Deposits with banks and financial institutions	60,765,468	124,308,394	107,403,651	66,144,554	358,622,067
Trading assets	3,104,093	869,391	-	-	3,973,484
Investment securities	920,899,825	921,166,308	53,795,740	3,799,136	1,899,661,009
Loans to banks	4,651,893	3,225,710	-	-	7,877,603
Loans and advances to customers	295,946,470	628,567,314	24,892,867	5,116,121	954,522,772
Due from an associate	675,239	-	-	-	675,239
Customers' liability under acceptances	-	5,960,438	3,192,574	-	9,153,012
Investment in an associate	-	424,665	-	-	424,665
Assets acquired in satisfaction of loans	-	4,961,411	-	-	4,961,411
Property and equipment	32,346,049	254,144	-	-	32,600,193
Other assets	6,387,499	(7,704,591)	8,665,013	3,981,412	11,329,333
Regulatory blocked fund	1,500,000	-	-	-	1,500,000
Intangible assets	86,156	-	-	-	86,156
Goodwill	20,379,656	-	-	-	20,379,656
Total Assets	1,463,409,365	2,042,942,741	231,385,157	80,646,426	3,818,383,689

LIABILITIES					
Deposits and borrowings from banks and financial institutions	28,080,893	286,016,229	65,528,174	7,872,977	387,498,273
Customers' deposits at amortized cost	1,136,138,564	1,701,814,264	144,601,419	53,158,068	3,035,712,315
Liability under acceptances	-	5,960,438	3,192,574	-	9,153,012
Certificates of deposit	-	5,795,808	-	-	5,795,808
Soft loan from Central Bank of Lebanon	44,843,983	-	-	-	44,843,983
Other liabilities	16,651,588	21,030,952	235,896	66,280	37,984,716
Provisions	6,110,501	73,958	-	-	6,184,459
Total Liabilities	1,231,825,529	2,020,691,649	213,558,063	61,097,325	3,527,172,566
Currencies to be delivered	150,750	4,758,649	18,356,474	35,176,586	58,442,459
Currencies to be received	-	(17,762,143)	(9,707,558)	(30,630,813)	(58,100,514)
	150,750	(13,003,494)	8,648,916	4,545,773	341,945
Net Assets	231,734,586	9,247,598	26,476,010	24,094,874	291,553,068

2- Exposure to Interest Rate Risk:

The Group is exposed to various risks associated with the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. The Group is exposed to interest rate risk as a result of mismatches or gaps in the amounts of assets and liabilities that mature or re-price in a given period. The Group manages this risk by matching the re-pricing of assets and liabilities through risk management strategies regularly reviewed by the asset and liability committee.

Below is a summary of the Group's interest 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 Pound and foreign currencies base accounts:

	December 31, 2011				
	Lebanese Pound				
	Fixed Interest Rate				
	Not Subject to Interest LBP'000	Up to 3 months LBP'000	3 to 12 months LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000
FINANCIAL ASSETS					
Cash and central bank	62,600,161	24,006,723	-	-	-
Deposits with banks and financial institutions	1,025,490	61,782,130	-	-	-
Trading asset at fair value through profit or loss	34,168	-	-	-	-
Investment securities	-	43,000,000	186,568,107	360,500,000	89,045,000
Loans to banks	-	41,334	-	-	600,000
Loans and advances to customers	(16,868,429)	77,527,925	17,424,817	33,138,913	19,079,363
Due from an associate	164,919	-	-	-	-
Other assets	4,678,406	-	-	-	-
Total Assets	51,634,715	206,358,112	203,992,924	393,638,913	108,724,363
FINANCIAL LIABILITIES					
Deposits and borrowings from banks and financial institutions	-	39,091,598	19,250,000	-	2,745,000
Customers' deposits at amortized cost	11,965,795	987,167,550	136,770,769	3,118,142	-
Other liabilities	5,808,557	-	-	-	-
Total Liabilities	17,774,352	1,026,259,148	156,020,769	3,118,142	2,745,000
Interest rate gap position	33,860,363	(819,901,036)	47,972,155	390,520,771	105,979,363

December 31, 2011

Lebanese Pound

Floating Interest Rate

Over 5 years LBP'000	Total LBP'000	Up to 3 months LBP'000	3 to 12 months LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000	Over 5 years LBP'000	Total LBP'000	Grand Total LBP'000
-	24,006,723	-	-	-	-	-	-	86,606,884
-	61,782,130	-	-	-	-	-	-	62,807,620
-	-	-	-	-	-	-	-	34,168
173,392,290	852,505,397	-	-	-	10,000,000	4,000,000	14,000,000	866,505,397
3,450,000	4,091,334	-	-	-	-	-	-	4,091,334
91,018,326	238,189,344	655,771	4,919,458	12,681,011	14,428,080	91,182,979	123,867,299	345,188,214
-	-	-	-	-	-	-	-	164,919
-	-	-	-	-	-	-	-	4,678,406
267,860,616	1,180,574,928	655,771	4,919,458	12,681,011	24,428,080	95,182,979	137,867,299	1,370,076,942
-	61,086,598	-	-	-	-	-	-	61,086,598
-	1,127,056,461	-	-	-	-	-	-	1,139,022,256
-	-	-	-	-	-	-	-	5,808,557
-	1,188,143,059	-	-	-	-	-	-	1,205,917,411
267,860,616	(7,568,131)	655,771	4,919,458	12,681,011	24,428,080	95,182,979	137,867,299	164,159,531

	December 31, 2011				
	Foreign Currency				
	Fixed Interest Rate				
	Not Subject to Interest LBP'000	Up to 3 months LBP'000	3 to 12 months LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000
FINANCIAL ASSETS					
Cash and central bank	24,349,553	226,777,233	30,150,000	-	-
Deposits with banks and financial institutions	79,567,024	95,835,445	18,843,750	-	-
Trading asset at fair value through profit or loss	19,855,388	-	-	45,225	483,755
Investment securities	76,218,176	22,454,213	55,331,722	80,550,935	371,222,266
Loans to banks	-	13,537,843	-	-	-
Loans and advances to customers	(45,786,650)	487,283,001	102,836,332	73,673,407	27,208,812
Customers› liability under acceptances	13,328,063	-	-	-	-
Other assets	431,946	-	-	-	-
Total Assets	167,963,500	845,887,735	207,161,804	154,269,567	398,914,833
FINANCIAL LIABILITIES					
Deposits and borrowings from banks and financial institutions	-	295,381,588	14,951,434	45,225,000	-
Customers' deposits at amortized cost	45,267,818	2,276,933,102	22,701,691	15,478,624	-
Liability under acceptances	13,328,063	-	-	-	-
Certificates of deposit	-	129,712	-	5,653,125	-
Other liabilities	7,886,494	-	-	-	-
Total Liabilities	66,482,375	2,572,444,402	37,653,125	66,356,749	-
Interest rate gap position	101,481,125	(1,726,556,667)	169,508,679	87,912,818	398,914,833

		December 31, 2011						
		Foreign Currency						
		Floating Interest Rate						
Over 5 years LBP'000	Total LBP'000	Up to 3 months LBP'000	3 to 12 months LBP'000	1 to 3 years LBP'000	3 to 5 years LBP'000	Over 5 years LBP'000	Total LBP'000	Grand Total LBP'000
-	256,927,233	45,225,000	45,225,000	-	60,300,000	-	150,750,000	432,026,786
-	114,679,195	-	-	-	-	-	-	194,246,219
5,229,936	5,758,916	-	-	-	-	-	-	25,614,304
682,334,494	1,211,893,630	-	-	15,075,000	-	-	15,075,000	1,303,186,806
-	13,537,843	-	-	-	-	-	-	13,537,843
1,614,335	692,615,887	1,191,671	35,472,853	47,032,515	31,571,993	67,429,125	182,698,157	829,527,394
-	-	-	-	-	-	-	-	13,328,063
-	-	-	-	-	-	-	-	431,946
689,178,765	2,295,412,704	46,416,671	80,697,853	62,107,515	91,871,993	67,429,125	348,523,157	2,811,899,361
875,157	356,433,179	-	-	-	-	-	-	356,433,179
-	2,315,113,417	-	-	-	-	-	-	2,360,381,235
-	-	-	-	-	-	-	-	13,328,063
-	5,782,837	-	-	-	-	-	-	5,782,837
-	-	-	-	-	-	-	-	7,886,494
875,157	2,677,329,433	-	-	-	-	-	-	2,743,811,808
688,303,608	381,916,729	46,416,671	80,697,853	62,107,515	91,871,993	67,429,125	348,523,157	68,087,553

	December 31, 2010				
	Lebanese Pound				
	Fixed Interest Rate				
	Not Subject to Interest LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000
FINANCIAL ASSETS					
Cash and central bank	101,667,017	15,000,000	-	-	-
Deposits with banks and financial institutions	3,628,196	28,106,779	2,250,000	23,750,000	3,030,493
Trading assets at fair value through profit or loss	-	-	-	-	3,104,093
Investment securities	19,758,179	67,367,917	255,906,736	337,387,273	199,727,846
Loans to banks	51,893	-	-	-	-
Loans and advances to customer	(17,432,441)	48,402,032	16,579,980	30,946,448	10,137,480
Due from an associate	675,239	-	-	-	-
Other assets	4,734,498	-	-	-	-
Total Assets	113,082,581	158,876,728	274,736,716	392,083,721	215,999,912
FINANCIAL LIABILITIES					
Deposits and borrowings from banks and financial institutions	4,324,780	23,756,113	-	-	-
Customers' deposits at amortized cost	14,077,082	990,487,521	100,001,042	31,572,919	-
Soft loan from Central Bank of Lebanon	3,983	44,840,000	-	-	-
Other liabilities	8,539,654	-	-	-	-
Total liabilities	26,945,499	1,059,083,634	100,001,042	31,572,919	-
Interest rate gap position	86,137,082	(900,206,906)	174,735,674	360,510,802	215,999,912

December 31, 2010

Lebanese Pound

		Floating Interest Rate						
Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Grand Total LBP'000
-	15,000,000	-	-	-	-	-	-	116,667,017
-	57,137,272	-	-	-	-	-	-	60,765,468
-	3,104,093	-	-	-	-	-	-	3,104,093
40,751,874	901,141,646	-	-	-	-	-	-	920,899,825
4,600,000	4,600,000	-	-	-	-	-	-	4,651,893
70,269,453	176,335,393	725,528	15,437,786	16,981,879	8,578,351	95,319,974	137,043,518	295,946,470
-	-	-	-	-	-	-	-	675,239
-	-	-	-	-	-	-	-	4,734,498
115,621,327	1,157,318,404	725,528	15,437,786	16,981,879	8,578,351	95,319,974	137,043,518	1,407,444,503
-	23,756,113	-	-	-	-	-	-	28,080,893
-	1,122,061,482	-	-	-	-	-	-	1,136,138,564
-	44,840,000	-	-	-	-	-	-	44,843,983
-	-	-	-	-	-	-	-	8,539,654
-	1,190,657,595	-	-	-	-	-	-	1,217,603,094
115,621,327	(33,339,191)	725,528	15,437,786	16,981,879	8,578,351	95,319,974	137,043,518	189,841,409

	December 31, 2010				
	Foreign Currency				
	Fixed Interest Rate				
	Not Subject to Interest LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000
FINANCIAL ASSETS					
Cash and central bank	41,875,972	203,324,100	-	-	-
Deposits with banks and financial institutions	66,191,653	220,948,643	10,716,303	-	-
Trading assets at fair value through profit or loss	869,391	-	-	-	-
Investment securities	55,063,811	-	81,741,661	195,765,215	211,847,000
Loans to banks	3,234	207,476	-	-	-
Loans and advances to customers	(67,671,022)	424,511,269	93,174,347	67,526,327	24,617,230
Customers' liability under acceptances	9,153,012	-	-	-	-
Other assets	790,619	-	-	-	-
Total Assets	106,276,670	848,991,488	185,632,311	263,291,542	236,464,230
FINANCIAL LIABILITIES					
Deposits and borrowings from banks and financial institutions	18,773,160	291,232,017	2,993,913	45,461,027	-
Customers' deposits at amortized cost	68,626,774	1,487,498,675	267,491,905	73,902,678	1,281,375
Liability under acceptance	9,153,012	-	-	-	-
Certificate of deposits	142,683	-	-	5,653,125	-
Other liabilities	5,279,489	-	-	-	-
Total Liabilities	101,975,118	1,778,730,692	270,485,818	125,016,830	1,281,375
Interest rate gap position	4,301,552	(929,739,204)	(84,853,507)	138,274,712	235,182,855

		December 31, 2010						
		Foreign Currency						
		Floating Interest Rate						
Over 5 Years LBP'000	Total LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000	1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000	Grand Total LBP'000
-	203,324,100	60,300,000	-	45,225,000	45,225,000	-	150,750,000	395,950,072
-	231,664,946	-	-	-	-	-	-	297,856,599
-	-	-	-	-	-	-	-	869,391
404,193,497	893,547,373	-	15,075,000	15,075,000	-	-	30,150,000	978,761,184
-	207,476	-	3,015,000	-	-	-	3,015,000	3,225,710
2,274,968	612,104,141	2,102,315	29,767,875	39,561,608	22,607,482	20,103,903	114,143,183	658,576,302
-	-	-	-	-	-	-	-	9,153,012
-	-	-	-	-	-	-	-	790,619
406,468,465	1,940,848,036	62,402,315	47,857,875	99,861,608	67,832,482	20,103,903	298,058,183	2,345,182,889
957,263	340,644,220	-	-	-	-	-	-	359,417,380
-	1,830,174,633	-	-	-	-	-	-	1,898,801,407
-	-	-	-	-	-	-	-	9,153,012
-	5,653,125	-	-	-	-	-	-	5,795,808
-	-	-	-	-	-	-	-	5,279,489
957,263	2,176,471,978	-	-	-	-	-	-	2,278,447,096
405,511,202	(235,623,942)	62,402,315	47,857,875	99,861,608	67,832,482	20,103,903	298,058,183	66,735,793

45. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The Group's classification, according to IFRS 9 in 2011 and IAS 39 in 2010, of each class of financial assets and liabilities and their fair values are as follows:

	December 31, 2011		
FINANCIAL ASSETS	Trading LBP'000	Available-for-Sale LBP'000	Held-to-Maturity LBP'000
Cash and central bank	-	-	-
Deposits with banks and financial institutions	-	-	-
Trading assets at fair value through profit or loss	25,648,472	-	-
Investment securities	-	5,114,748	-
Loans to banks	-	-	-
Loans and advances to customers	-	-	-
Due from an associate	-	-	-
Customers' liability under acceptances	-	-	-
Other assets	-	-	-
Total	25,648,472	5,114,748	-
FINANCIAL LIABILITIES			
Deposits and borrowings from banks and financial institutions	-	-	417,519,777
Customers' deposits at amortized cost	-	-	-
Liability under acceptance	-	-	-
Certificates of deposit	-	-	5,782,837
Other liabilities	-	-	-
Total	-	-	423,302,614

December 31, 2011

Loans and Receivables LBP'000	Amortized Cost LBP'000	Carrying Value LBP'000	Fair Value LBP'000
518,633,670	-	518,633,670	518,633,670
257,053,839	-	257,053,839	257,053,839
-	-	25,648,472	25,648,472
-	2,164,577,455	2,169,692,203	2,215,814,406
17,629,177	-	17,629,177	17,629,177
1,174,715,608	-	1,174,715,608	963,801,152
164,918	-	164,918	164,918
-	13,328,063	13,328,063	13,328,063
-	5,110,352	5,110,352	5,110,352
1,968,197,212	2,183,015,870	4,181,976,302	4,017,184,049
-	-	417,519,777	417,519,777
-	3,499,403,491	3,499,403,491	3,499,403,491
-	13,328,063	13,328,063	13,328,063
-	-	5,782,837	5,782,837
-	13,695,051	13,695,051	13,695,051
-	3,526,426,605	3,949,729,219	3,949,729,219

	December 31, 2010		
	Trading LBP'000	Available-for-Sale LBP'000	Held-to-Maturity LBP'000
FINANCIAL ASSETS			
Cash and central bank	-	-	-
Deposits with banks and financial institutions	-	-	-
Trading assets at fair value through profit or loss	3,973,484	-	-
Investment securities	-	1,092,481,272	807,179,737
Loans to banks	-	-	-
Loans and advances to customers	-	-	-
Due from an associate	-	-	-
Customers› liability under acceptance	-	-	-
Other assets	-	-	-
Total	3,973,484	1,092,481,272	807,179,737
FINANCIAL LIABILITIES			
Deposits and borrowings from banks and financial institutions	-	-	387,498,273
Customers' deposits at amortized cost	-	-	-
Certificates of deposit	-	-	5,795,808
Liability under acceptance	-	-	-
Soft loan from Central Bank of Lebanon	-	-	44,843,983
Other liabilities	-	-	-
Total	-	-	438,138,064

December 31, 2010			
Loans and Receivables LBP'000	Amortized Cost LBP'000	Carrying Value LBP'000	Fair Value LBP'000
512,617,089	-	512,617,089	512,617,089
358,622,067	-	358,622,067	358,622,067
-	-	3,973,484	3,973,484
-	-	1,899,661,009	1,923,202,312
7,877,603	-	7,877,603	7,877,603
954,522,772	-	954,522,772	722,626,950
675,239	-	675,239	675,239
-	9,153,012	9,153,012	9,153,012
-	5,525,117	5,525,117	5,525,117
1,834,314,770	14,678,129	3,752,627,392	3,544,272,873
-	-	387,498,273	387,498,273
-	3,035,712,315	3,035,712,315	3,035,712,315
-	-	5,795,808	5,795,808
-	9,153,012	9,153,012	9,153,012
-	-	44,843,983	44,843,983
-	13,819,143	13,819,143	13,819,143
-	3,058,684,470	3,496,822,534	3,496,822,534

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 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000
Trading assets at fair value through profit or loss:				
Quoted equity securities	14,520,268	-	-	14,520,268
Mutual funds	1,904,877	-	-	1,904,877
Lebanese government bonds	-	-	2,588,872	2,588,872
Corporate bonds	3,134,330	-	-	3,134,330
	19,559,475	-	2,588,872	22,148,347
Financial assets at fair value through other comprehensive income				
Quoted equity securities	5,114,758	-	-	5,114,758
	5,114,758	-	-	5,114,758
Unquoted equity securities at cost				3,341,245
				30,604,350

December 31, 2010

	Level 1 LBP'000	Level 2 LBP'000	Level 3 LBP'000	Total LBP'000
Trading Assets:				
Lebanese treasury bills	-	3,126,494	-	3,126,494
Quoted equity securities	846,990	-	-	846,990
	846,990	3,126,494	-	3,973,484
Available-for-sale investment securities:				
Quoted equity securities	29,428,603	-	-	29,428,603
Funds	-	2,237,733	-	2,237,733
Lebanese treasury bills	-	307,261,144	-	307,261,144
Lebanese Government bonds	-	-	304,588,915	304,588,915
Foreign Government bonds	4,777,750	-	-	4,777,750
Corporate bonds	71,835,791	-	-	71,835,791
Certificates of deposit issued by Lebanese banks	-	-	25,724,760	25,724,760
Certificates of deposit issued by the Central Bank of Lebanon	-	229,743,320	87,600,429	317,343,749
	106,042,144	539,242,197	417,914,104	1,063,198,445
Unquoted equity securities at cost				7,915,856
				1,071,114,301

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 institutions:

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. Financial assets at amortized cost:

The estimated fair value of financial assets at amortized cost 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.

46. APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended December 31, 2011 were approved by the Board of Directors in its meeting held on May 4 , 2012.

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Tarik Jdideh, Main Road – Sabra St. Ajlan & Zein Bldg.
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Baalbeck
Under Establishment

Correspondent Banks

Correspondent	Country	Currency
Bank of New York - New York	USA	USD
Bank of New York - Tokyo	Japan	JPY
Barclays Bank PLC - London	UK	GBP
Cairo Amman Bank - Amman	Jordan	JOD & USD
Commerz Bank - Frankfurt am Main	Germany	EUR
Credit Suisse - Zurich	Switzerland	CHF
Danske Bank - Copenhagen	Denmark	DKK
DNB Nor Bank ASA - Oslo	Norway	NOK
Gulf Bank K.S.C. - Kuwait	Kuwait	KWD & USD
ING Belgium NV/SA - Brussels	Belgium	EUR
Intesa Sanpaolo SPA - Milan	Italy	EUR
Investbank PSC - Sharjah	UAE	AED
MashreqBank PSC - Dubai City	UAE	USD
People's Bank - Colombo	Srilanka	AED
Qatar National Bank - Doha	Qatar	QAR &USD
Saudi Hollandi Bank - Riyadh	Saudi Arabia	SAR& USD
Skandinaviska Enskilda Banken AB - Stockholm	Sweden	SEK
Standard Chartered- New York	USA	USD
Wells Fargo Co. - New York	USA	USD
Westpac Banking Corporation - Sydney	Australia	AUD
Industrial and Commercial Bank of China	China	USD