



OUR UNIFIED STRUCTURE IS THE KEY TO OUR SUCCESS  
2012 FNB ANNUAL REPORT



**Annual Report 2012**

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CHAIRMAN'S LETTER

During the past three years, the FNB Group was seriously engaged in reviewing its business focus to be more customer-centric and accordingly, more responsive to customer needs and preferences. At the same time, the Group was facing distinct challenges in maintaining growth momentum and enhancing efficiency in addition to building a robust platform within a stronger corporate governance structure. These efforts occurred in the midst of geopolitical events in the region that left a major impact on the political and economic situation in Lebanon with an uncertain outlook. I trust that the banking sector will prevail against the storm given the collective wisdom gathered over the last decades at the regulator and management levels of the many banks in Lebanon. As for FNB, 2012 was a milestone in terms of translating this vision and strategy into concrete action.

During the first quarter of the year, and in an effort to institutionalize the activities of the bank, the Board approved the appointment of two senior executives to fill the role of General Manager. Mr. Elias Baz was appointed General Manager for support and control functions, and Mr. Najib Semaan was appointed General Manager for the business lines. This separation between the front and back functions provided an environment of stronger checks and balances yet maintained complementarity of efforts among senior management for the overall advancement of the bank.

The change in senior management, among other factors, had a significant impact on the bank's financial figures and corporate governance structure. The FNB Group maintained a solid and fast growth during 2012. Total Assets grew by 19.9% to reach \$3.3 billion, up from \$2.8 billion, funded mainly by Customers' Deposits which increased by 15.6% to reach \$2.7 billion. Loans and Advances to Customers also increased by 11.4% with a ratio of Loans to Deposits of approximately 32.3% in 2012. Furthermore, Net Income reached \$19.6 million up from \$16.4 million, representing a significant growth rate of 19.6% achieved while enhancing the Net Liquidity Ratio in foreign currencies which stood at the end of the year at 18.6% compared to 12.5% in 2011. The above growth rates of the FNB Group were systematically above those of the Alpha Group of Banks which reflected an increase of Assets by 8.4%, Deposits by 8.3%, and Net Income by 7.8%.

Furthermore, during 2012, the corporate governance structure was modified by the revision of all committee membership and thus strengthened accountability and transparency. The bank also revised its compliance and anti-money laundering framework to ensure that the interest of its stakeholders is properly protected. Moreover, a comprehensive and consistent

risk culture is being built among the different entities of the Group in line with international risk standards adding another level of assurance and further strengthening the bank's resilience.

The FNB Group continues to be fully committed to better serve its customers in the most efficient and effective way possible while taking advantage of available technological development. The strategy in this respect is to transform the IT activities to become a business enabler within an enterprise architecture platform that would improve decision making, enable rapid change, and reduce solution delivery time leading to enhanced customer satisfaction. In addition to the traditional personal relationships with clients, FNB launched a set of initiatives in the IT delivery channels to establish stronger digital relationships with its customers in an environment requiring virtual means of communication. These initiatives do not undermine the personal relationships that traditionally characterize the bank but rather enrich them and take advantage of the legacy in this respect.

Looking ahead, we continue to monitor the challenges in the banking sector and the current events in the region. We are certain that the bank will meet its objectives in delivering quality services and successfully fulfilling its mission, counting on the confidence of our customers, the trust of our shareholders, the leadership of our Board, and the commitment and dedication of our employees.

Chairman of the Board

CORPORATE GOVERNANCE

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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. 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 General Managers, Deputy General Manager 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 renewable. 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 representative 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 Commerce & Industry 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 and the Lebanese Society of Certified Public Accountants. Mr. Ayass is currently a faculty member of Rafic Hariri 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

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### General Management

**Mr. Rami R. El Nimer**  
Chairman - General Manager

**Mr. Elias S. Baz**  
General Manager

**Mr. Najib M. Semaan**  
General Manager

**Mr. Ghaithan S. Tayara**  
Deputy General Manager

**Mr. Mahmoud G. Francis**  
Assistant General Manager

**Mr. Tony W. Dabbaghian**  
Assistant General Manager

**Mr. Robert H. El Haddad**  
Head of Internal Audit

**Mr. Antoine C. Wakim**  
Chief Financial Officer

## Head Office - Managers

### Headquarters - Senior Managers

**Mr. Adam H. Mansour**  
Compliance & Review Department

**Mr. Raymond N. Yazbeck**  
Credit Administration Department

**Mr. Nabil J. Semaan**  
Human Resource and Administration Departments

### Headquarters – Managers

**Me. George K. Abi Karam**  
Legal Department

**Mrs. Amina H. Bizri**  
AML Department

**Mr. John N. Chalouhi**  
Risk Management Department

**Mr. Wassim M. Daouk**  
Corporate Banking Department

**Ms. Nada F. El Zein**  
Credit Appraisal Department

**Mr. Joseph E. Estephan**  
Recovery & Restructuring Department

**Mrs. Soumaya Y. Haris**  
Treasury - Capital Market Department

**Mr. Assaad K. Saliba**  
Treasury - Foreign Exchange 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. Philippe A. Abou Azar**  
Small and Medium Enterprises Banking Department

**Mr. Antoine G. Hafez**  
National Business Development

**Mrs. Marie-Therese E. Obeid**  
International Corporate Credit Banking

## Consultants

**Me. Sakher C. El Hachem**  
Legal Consultant

**Abou Sleiman and Partners**  
Legal Consultant

**Me. Rawi B. Kanaan**  
Legal Consultant

**Saade, Debs and Partners**  
Legal Consultant

**Mr. George N. Aouad**  
Advisor to Chairman

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

**Mr. Charles W. Skaff**  
Advisor to General Manager

## Auditors

**Deloitte & Touche**  
Fiduciaire du Moyen-Orient

## Branch Managers

**Mr. Firas A. Abi Farraj**

Aley Branch

**Mr. Ghassan R. Abou Zahr**

Saida Branch

**Mr. Wajih S. Akkari**

Verdun Branch

**Mrs. Aline A. Ayoub**

Antelias 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

**Mr. Hussein G. Fakhreddine**

Jnah Branch

**Mr. Issam H. Ghosn**

Nabatieh Branch

**Mr. Ahmad Saoud A. Hajar**

Tripoli Branch

**Mr. Fouad H. Hamadeh**

Choueifat Branch

**Mrs. Nada A. Kanj**

Mazraat Yachouh Branch

**Mr. Elie H. Khalil**

Zouk Mousbeh Branch

**Mrs. Maya N. Nasr**

Ghazir Branch

**Mrs. Rania M. Qubaa**

Mazraa Branch

**Mr. Nabil H. Serhan**

Mais El Jabal Branch

**Mr. Mohamad S. Shreif**

Baalbeck Branch

**Mr. Erik P. Vasdekis**

Achrafieh Branch

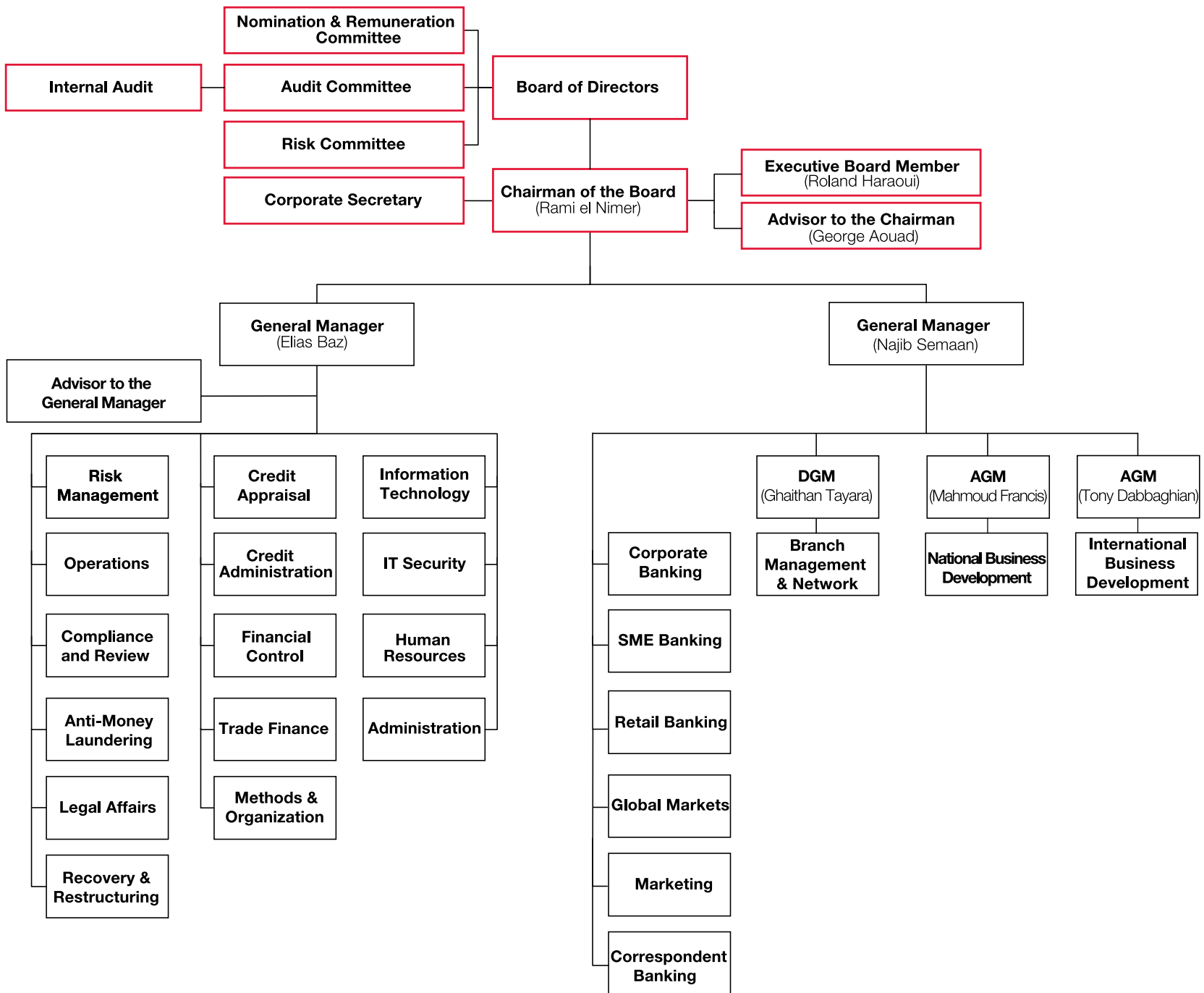
**Mrs. Rola S. Zaghloul**

Hamra Branch

**Mrs. Nadine A. Zaher**

Allenby Branch - Main Branch

# ORGANIZATIONAL CHART



## MANAGEMENT DISCUSSION & ANALYSIS

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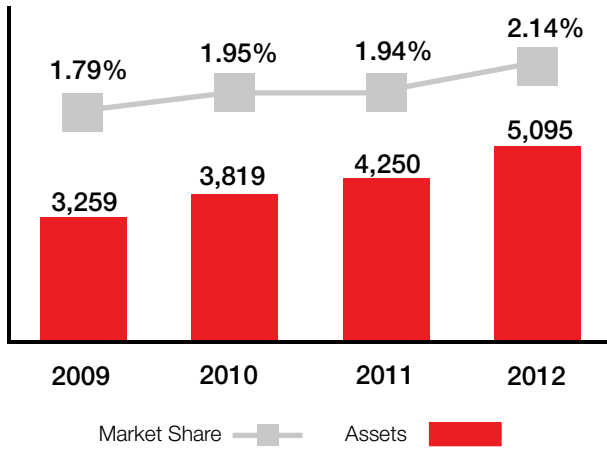
30 Financial and Non-Financial Developments



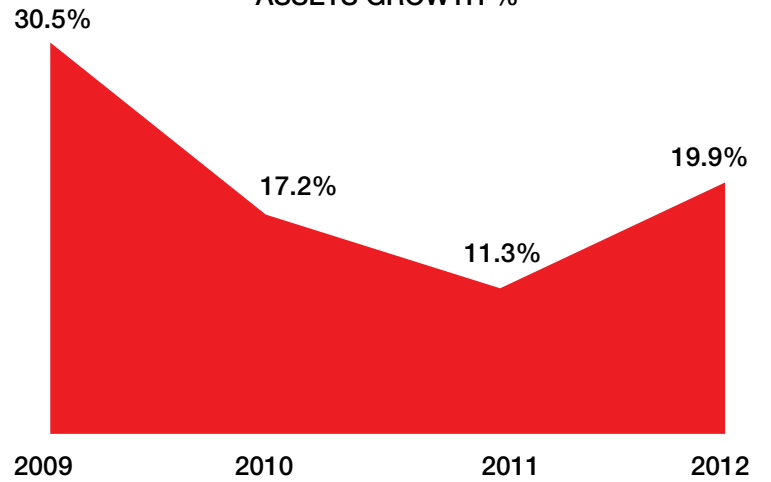
# KEY FIGURES OF THE FNB GROUP

IN BILLIONS OF LBP

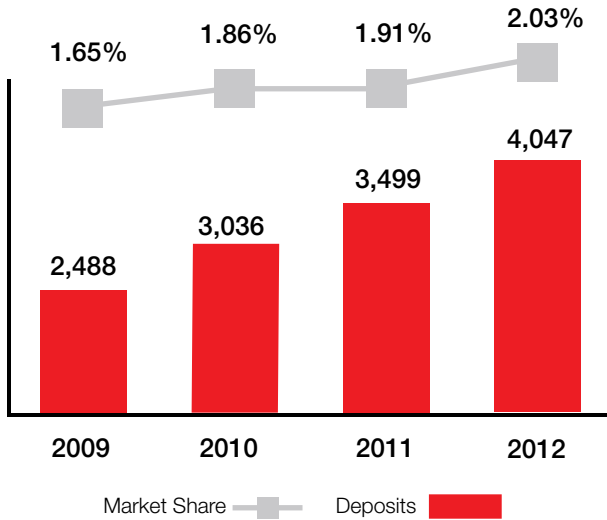
### ASSETS



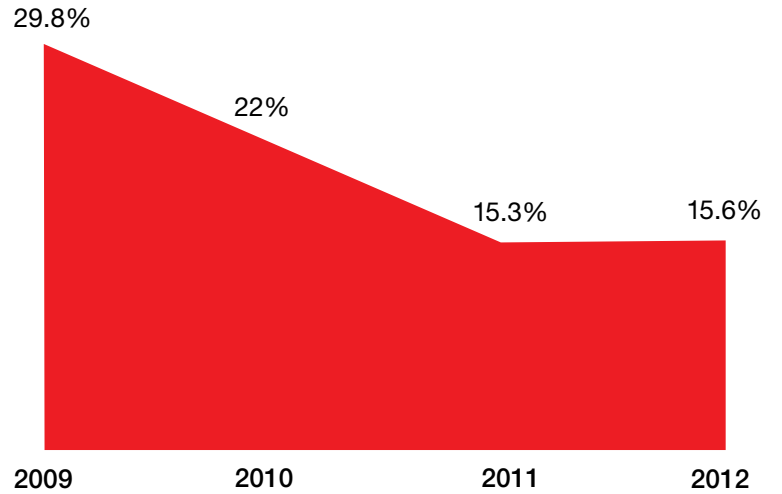
### ASSETS GROWTH %



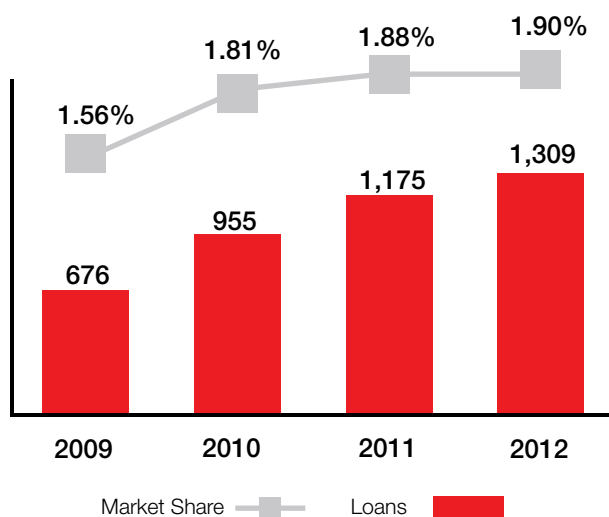
### DEPOSITS



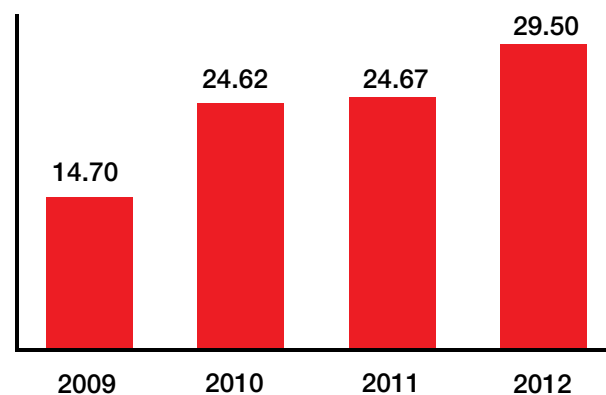
### DEPOSITS GROWTH %



## LOANS AND ADVANCES TO CUSTOMERS



## NET INCOME



## MANAGEMENT DISCUSSION AND ANALYSIS

### INTRODUCTION

First National Bank Group S.A.L. is a commercial bank operating in Lebanon categorized within the Alfa Group banks. As the economic studies of 2012 have indicated, FNB's expansion is remarkably ranked among the highest in Lebanon's banking industry. Founded in 1994, FNB has introduced a wide range of innovative products and upscale banking services to customers with a major focus on corporate, SME, individuals, and the public sector.

The acquisition of the Middle East Capital Group (MECG) in 2008 and the Capital Finance Company (CFC) in 2010 bolstered volume, encouraged development, and strengthened the Group's network coverage which led to opportunities throughout the MENA region and the world.

The management discussion and analysis display the consolidated key financial figures of the First National Bank S.A.L. and the main highlights of 2012. The charts will demonstrate the cyclical trend of FNB results to better address the information needs of the public and the regulators, specifically the stakeholders.

The terms "the bank" and "FNB," used without other qualifying descriptions, will refer to the 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 and are expressed in Lebanese pounds (LBP) unless otherwise stated, and are based on the audited consolidated statements of the external auditors, Deloitte & Touche and DFK Fiduciaire du Moyen-Orient.

All references to the banking sector refer to the 53 banks operating in Lebanese territory and all references to peer groups or market are those of the Alpha Group with total deposits exceeding 2 billion dollars each as per bank data financial statements.

## ECONOMIC ENVIRONMENT

Lebanese economic growth went through a contracted period over the past year. The ongoing skirmishes and negative repercussions following the Arab Spring, in addition to the internal political strife, have affected Lebanese investment activity and most importantly, trade and tourism.

The BDL coincident indicator that reflects the general state of the economy reached 262.5, showing a 1.13% decrease from last year's figure of 265.5. The real GDP growth of the country, estimated by the IMF, stood at 2% for the entire year, versus a 5.2% growth rate in 2011.

While a sluggish investor attitude has been observed in the market, resiliency in product consumption was supported by Lebanese expatriates and Syrian refugees spending.

The Consolidated Balance Sheet of Lebanese commercial banks attained an 8% growth rate compared to an advanced rate of 9% in 2011.

The inflows could not overcome the Lebanese trade deficit despite the heavy pressure on the Balance of Payments, stimulating a decrease in deficit to USD 1,536.9 million at year end from the reported USD 1,996.2 million in 2011. According to the Ministry of Finance figures, the Net Public Debt recorded LBP 74,045 billion at year end.

The Central Bank reserves in foreign currency evolved by 10.3% as per BDL publications, and the net exchange rate of Lebanese pounds against the dollar remained at LBP 1,507.5

Lebanese treasury bills, the least risky of all the financial instruments in the Lebanese financial market (although they are highly concentrated in the financial statements of Lebanese banks), witnessed a slight rise in interest rates during 2012 with 51 bps on yearly average.

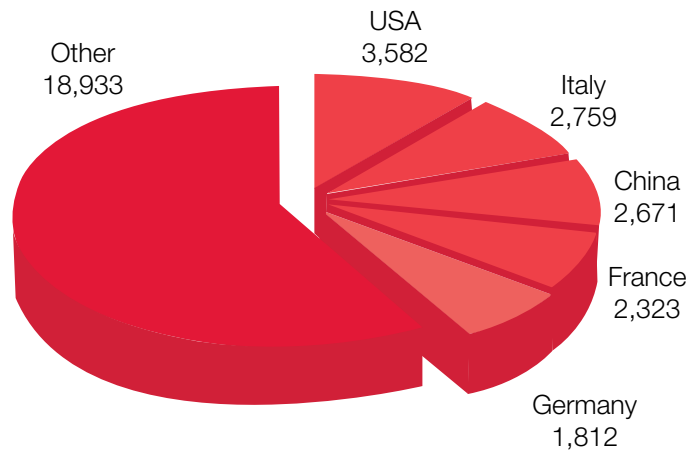
The stock of money and quasi money (M3) amplified to LBP 156,797 billion at the end of December 2012, of which 58.5% denominated in foreign currencies, thus increasing the money supply by 7% percent at the end of December 2011 (+5.5 percent in 2011).

The inflation rate, driven by the weak growth in the money supply, attained approximately 5.7%, the same as the statistics of the previous year.

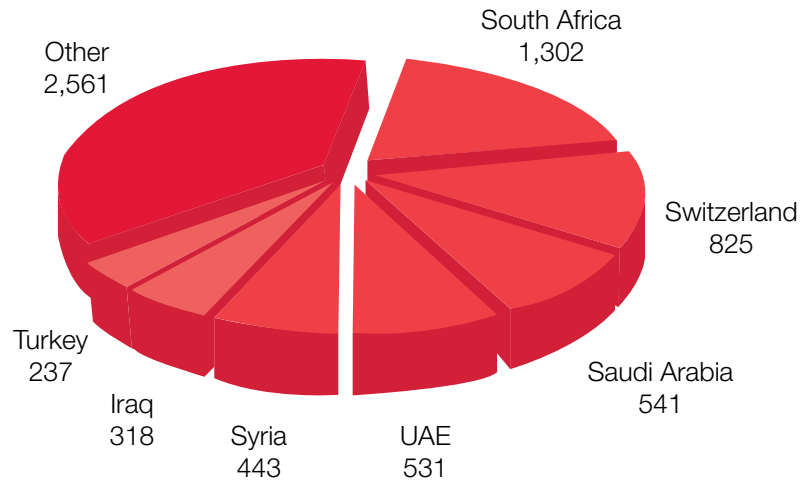
The Debt-to-GDP ratio sustained its yearly improvement to register 136%. Imports and exports attained an increase of 5.6% and 5.1%, respectively. Investors' indecisive attitudes halted the potential rise in cement deliveries, registering a 4.4% decrease in 2012 compared to a positive level of 6.2% attained in 2011.

The total consolidated assets of investment banks operating in Lebanon (including medium and long term credit banks) amounted to LBP 6,056 billion (around USD 4.0 billion) at the end of December 2012, thus decreasing by 3.8% from the end of December 2011.

**IMPORTS BY ORIGIN IN 2012**  
in billions of LBP



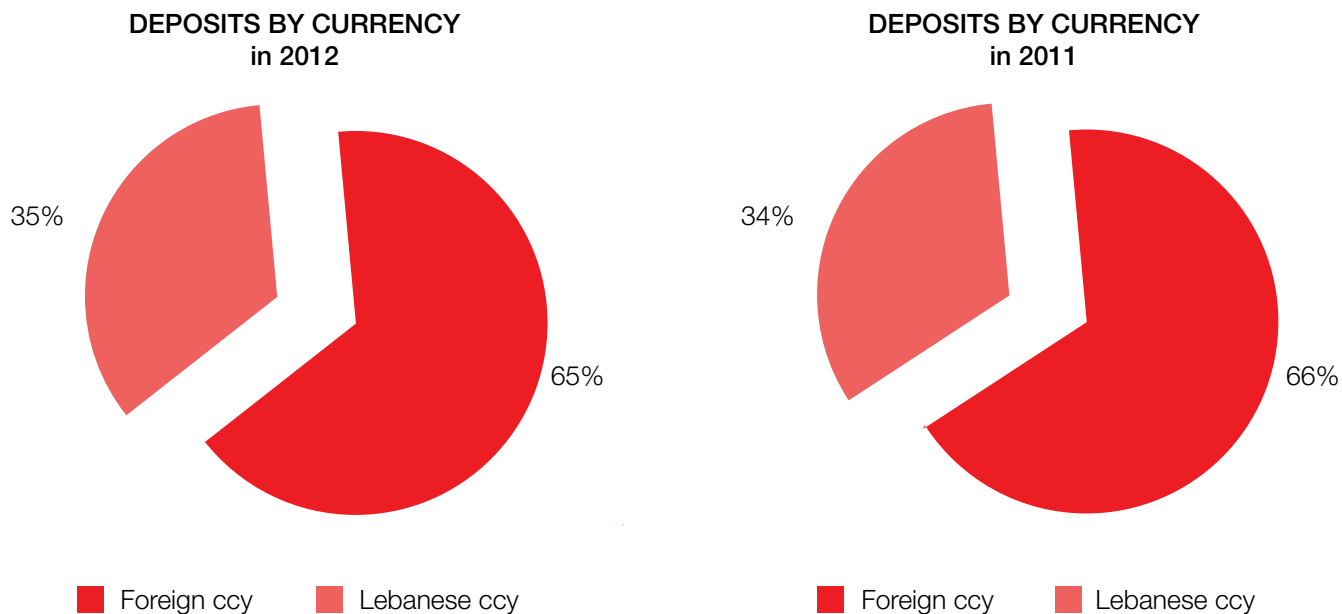
**EXPORTS BY DESTINATION IN 2012**  
in billions of LBP



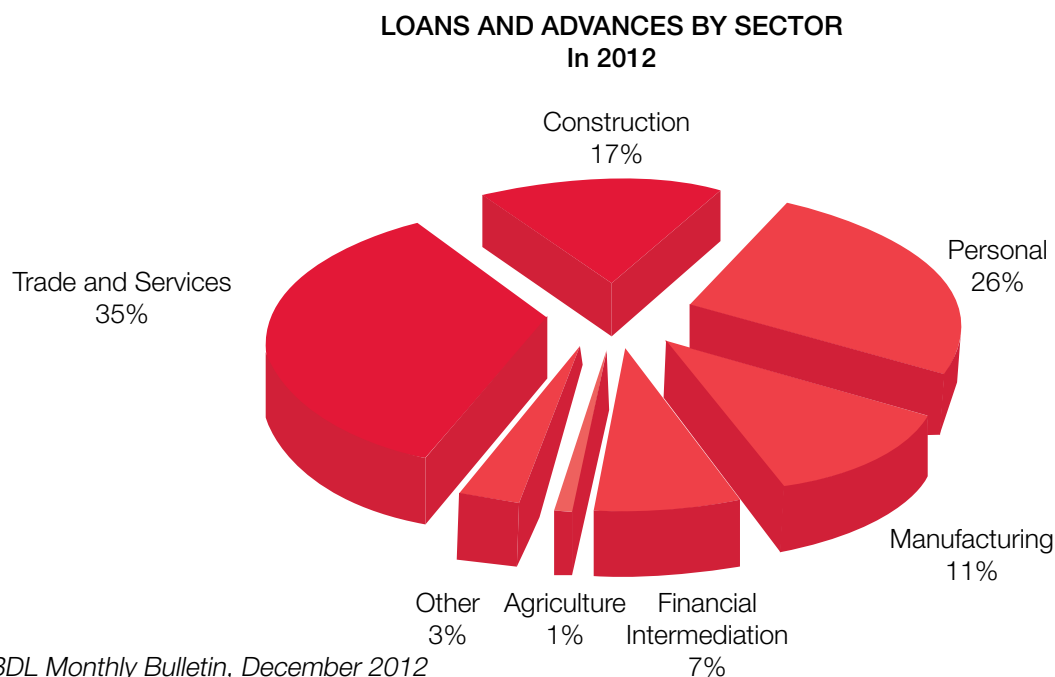
Source: Association of Banks in Lebanon. Economic Letter 2012

## BANKING SECTOR

The Consolidated Statement of Financial Position for the commercial banks expanded to 8% in 2012 compared to 9% in 2011, and reached LBP 228,963 billion. Total resident and non-resident private sector deposits with a slow increase in growth recorded LBP 188.4 billion, increasing by 8% in 2012 compared to 7.94% in 2011. The dollarization rate shows a decrease reaching 64.8% on average in December 2012 of total Bank Deposits from 65.9% at the end of 2011.



Loans and Advances to Customers also entered a contracted phase in 2012. Loans and Advances to the private sector increased by an annual 10.35% versus 12.7% in 2011, amounting to LBP 65,504 billion in 2012.



Source: BDL Monthly Bulletin, December 2012

## FNB GROUP PERFORMANCE

### KEY PERFORMANCE INDICATORS

#### Key Performance Metrics

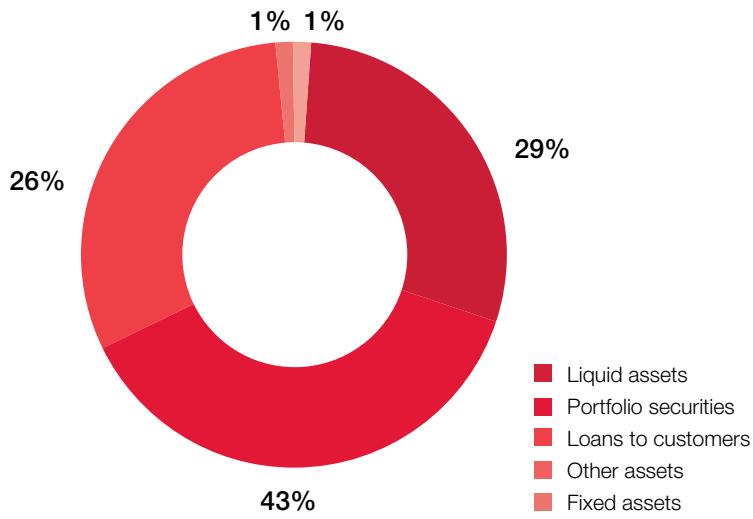
	2010	2011	2012
<b>Asset Quality</b>			
Loans to deposits	31.44%	33.57%	32.36%
Net doubtful loans/ Total loans	3.90%	2.74%	2.53%
Loan loss provisions/ Gross loans	9.01%	7.63%	6.93%
Net doubtful loans/ Equity	12.77%	11.90%	9.49%
Gross doubtful loans/ Gross loans	12.56%	10.16%	9.29%
<b>Capital Adequacy</b>			
Average shareholders' equity to assets	7.58%	6.96%	6.63%
Shareholders' equity to loans and acceptances	30.25%	22.72%	26.51%
<b>Profitability</b>			
ROAA	0.70%	0.61%	0.63%
ROAE	9.18%	8.79%	9.52%
Net interest income to average assets	1.77%	1.68%	1.77%
Total interest paid to total interest received	70.07%	70.12%	68.47%
Cost to income	59.13%	60.71%	60.07%

### FINANCIAL STATEMENTS

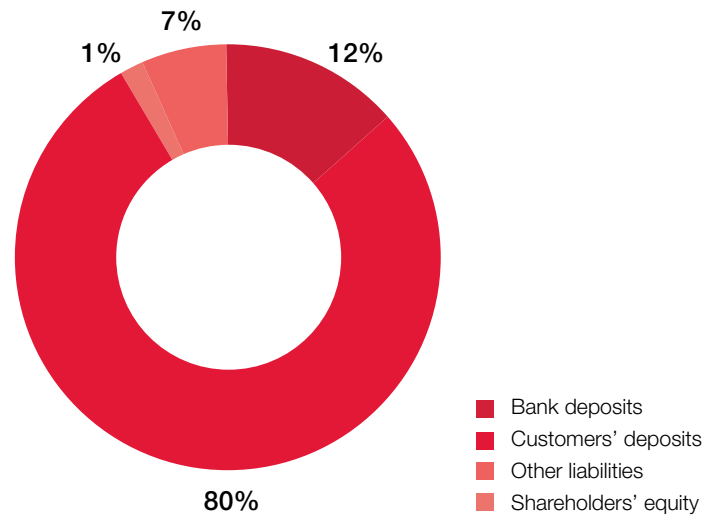
#### Balance Sheet (LBP Million)

	Dec-12	Dec-11	Variance	Growth (%)
Liquid assets	1,482,610	793,317	689,293	86.9%
Portfolio securities	2,208,998	2,195,924	13,074	0.6%
Loans to customers	1,309,322	1,174,716	134,606	11.5%
Other assets	46,879	50,220	(3,342)	-6.7%
Fixed assets	47,597	36,156	11,441	31.6%
<b>Total assets</b>	<b>5,095,406</b>	<b>4,250,333</b>	<b>845,073</b>	<b>19.9%</b>
Bank deposits	628,957	417,520	211,437	50.6%
Customers' deposits	4,046,670	3,499,403	547,267	15.6%
Other liabilities	69,906	63,444	6,462	10.2%
Shareholders' equity	349,873	269,966	79,907	29.6%
<b>Total Liabilities and Shareholders' Equity</b>	<b>5,095,406</b>	<b>4,250,333</b>	<b>845,073</b>	<b>19.9%</b>
<b>Number of branches</b>	<b>21</b>	<b>21</b>		
<b>Number of staff</b>	<b>556</b>	<b>567</b>		

### ASSETS BREAKDOWN

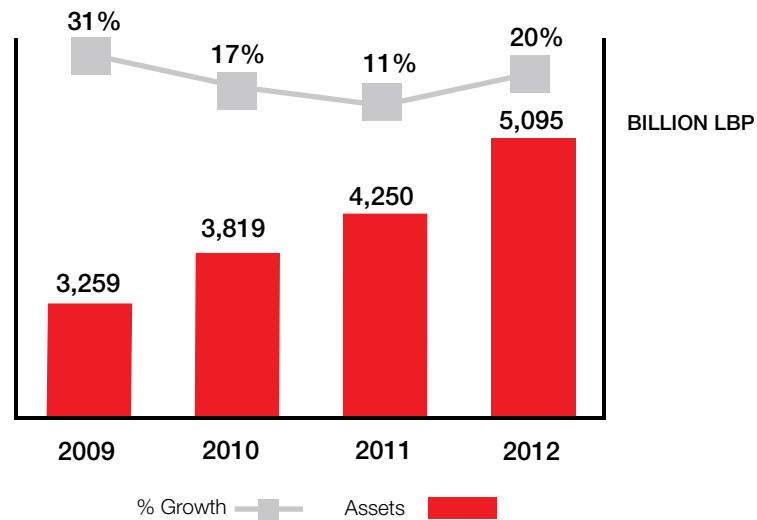


### LIABILITIES BREAKDOWN



### TOTAL ASSETS

The consolidated assets of the FNB Group as of December 31, 2012 amounted to approximately LBP 5,095 billion (USD 3.38 billion), a remarkable 20% increase, moving from LBP 4,250 billion as of December 31, 2011.

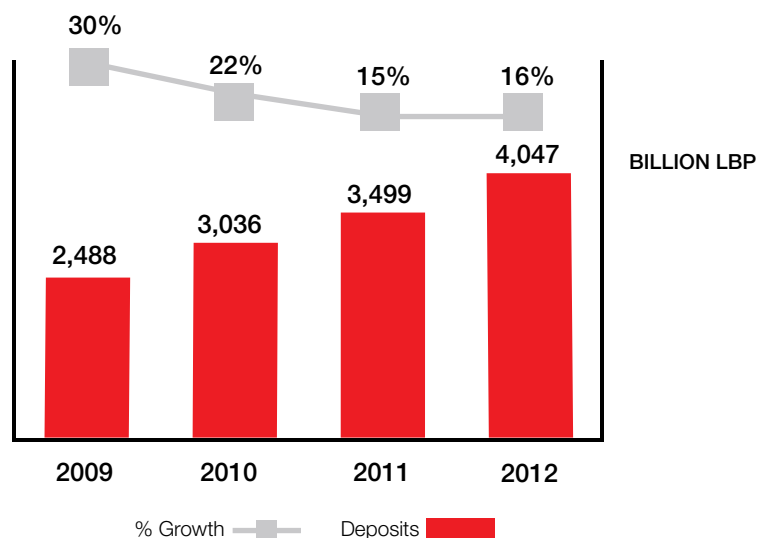


## SOURCES OF FUNDS

The FNB Group's source of funding comes mainly from deposits from customers representing approximately 80% of total sources. Other sources of funds are from banks and financial institutions which represent 12%, equity 6%, and other sources 2%.

### CUSTOMERS' DEPOSITS

On December 31, 2012, the group had accumulated a balance of LBP 4,047 billion (USD 2,684 million) in customers' deposits as compared to LBP 3,499 billion (USD 2,321 million) in 2010, reflecting a growth rate of 16%.



### Dollarization

Deposits in Lebanese pounds increased by 25.5% in 2012, from LBP 1,139 billion as of December 31, 2011 to LBP 1,429 billion as of December 31, 2012, while deposits in foreign currency increased by 11% from LBP 2,360 billion as of December 31, 2011 to LBP 2,618 billion in December 31, 2012. The dollarization ratio in 2012 decreased to 64.7% as compared to 67.45% in 2011.

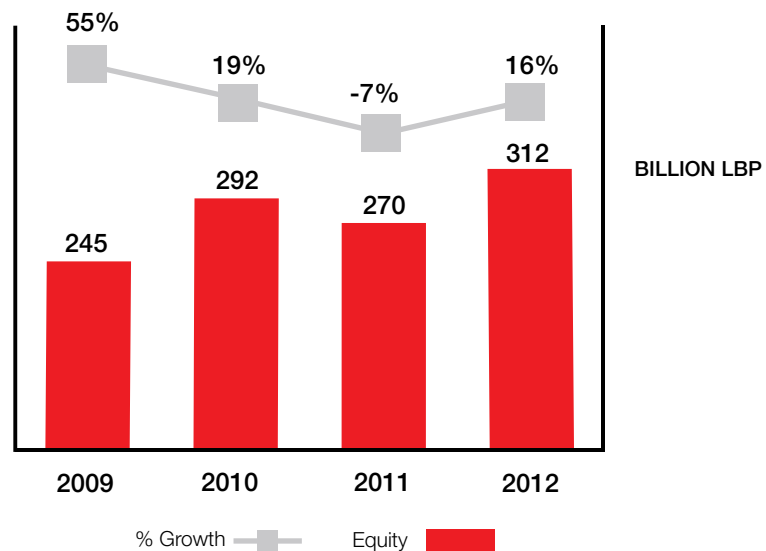
### BANKS AND FINANCIAL INSTITUTIONS

As of December 31, 2012, deposits and borrowings from banks and financial institutions equaled LBP 629 billion.



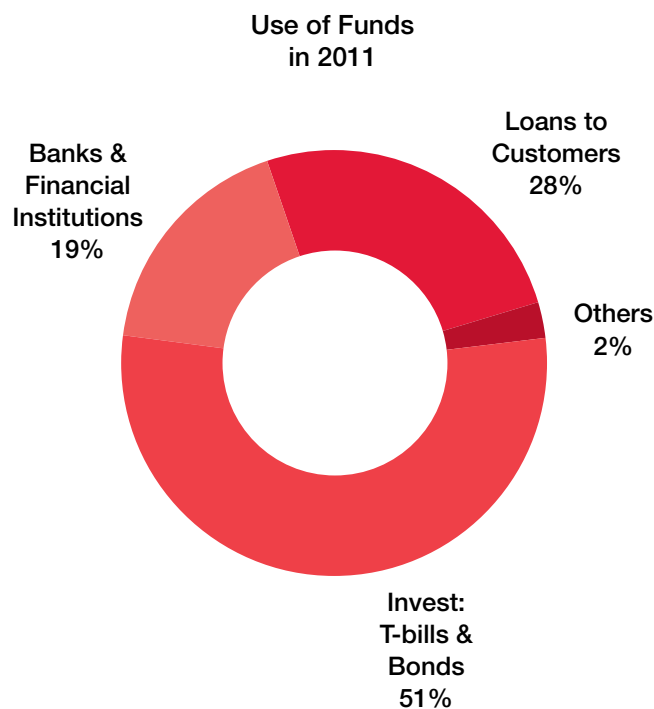
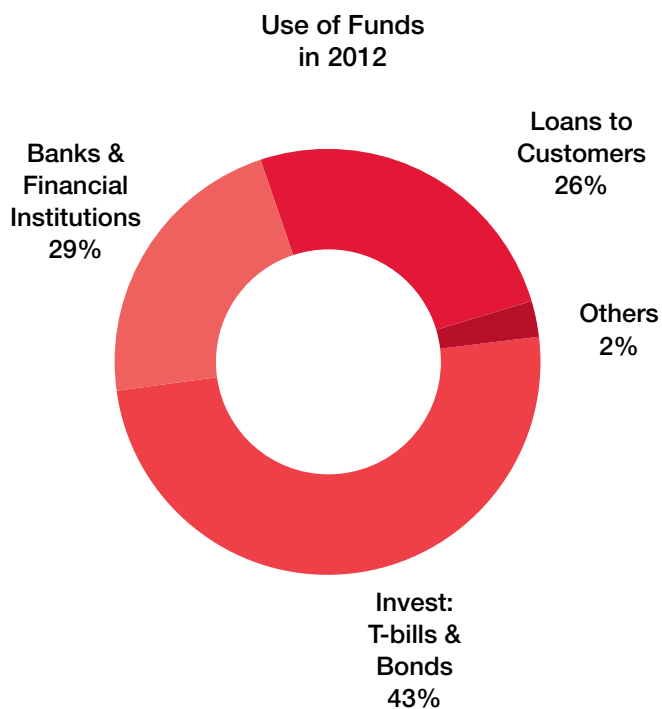
## EQUITY

As of December 31, 2012, the group Shareholders' Equity stood at LBP 312 billion (USD 207 million) compared to LBP 270 billion (USD 179 million) as of December 31, 2011.



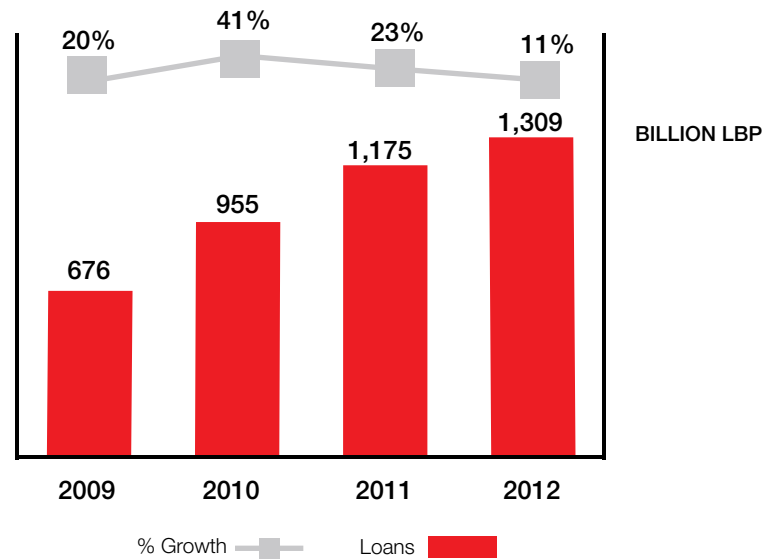
## USES OF FUNDS

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.



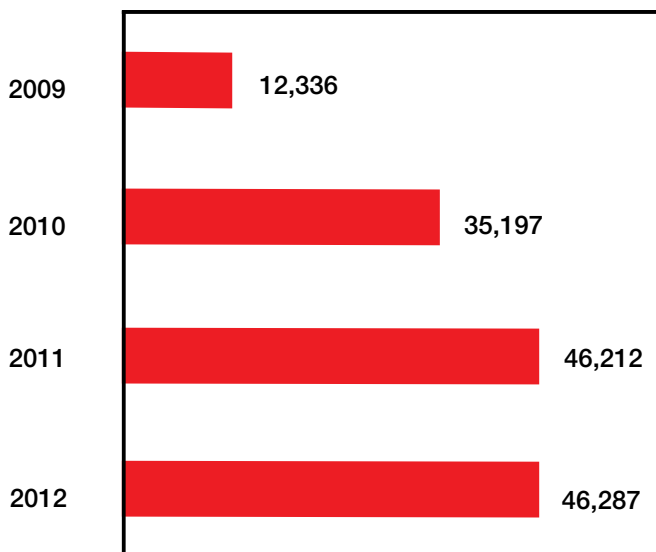
## LOANS AND ADVANCES TO CUSTOMERS

The Group was also successful in developing its retail, SME and corporate lending sector. Loans and Advances to Customers increased by LBP 135 billion (USD 89 million) during 2012 to reach LBP 1,309 billion (USD 869 million) as of December 31, 2012, reflecting a growth rate of 11.4%.

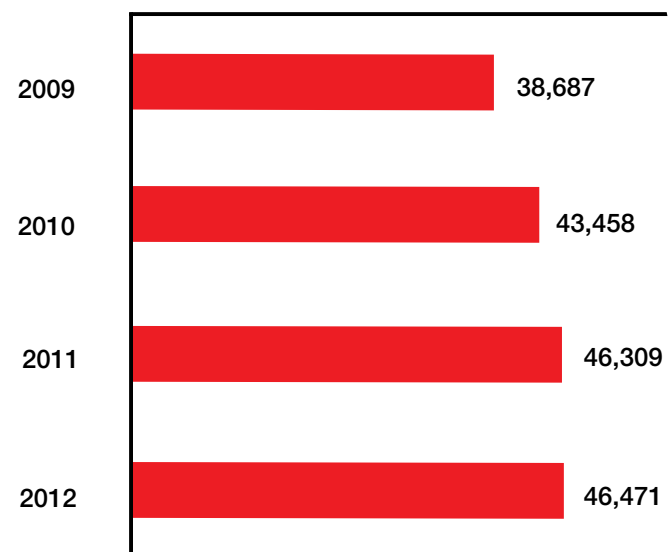


## Number of Customers at the End of 2012

Customers with Loans from FNB Group



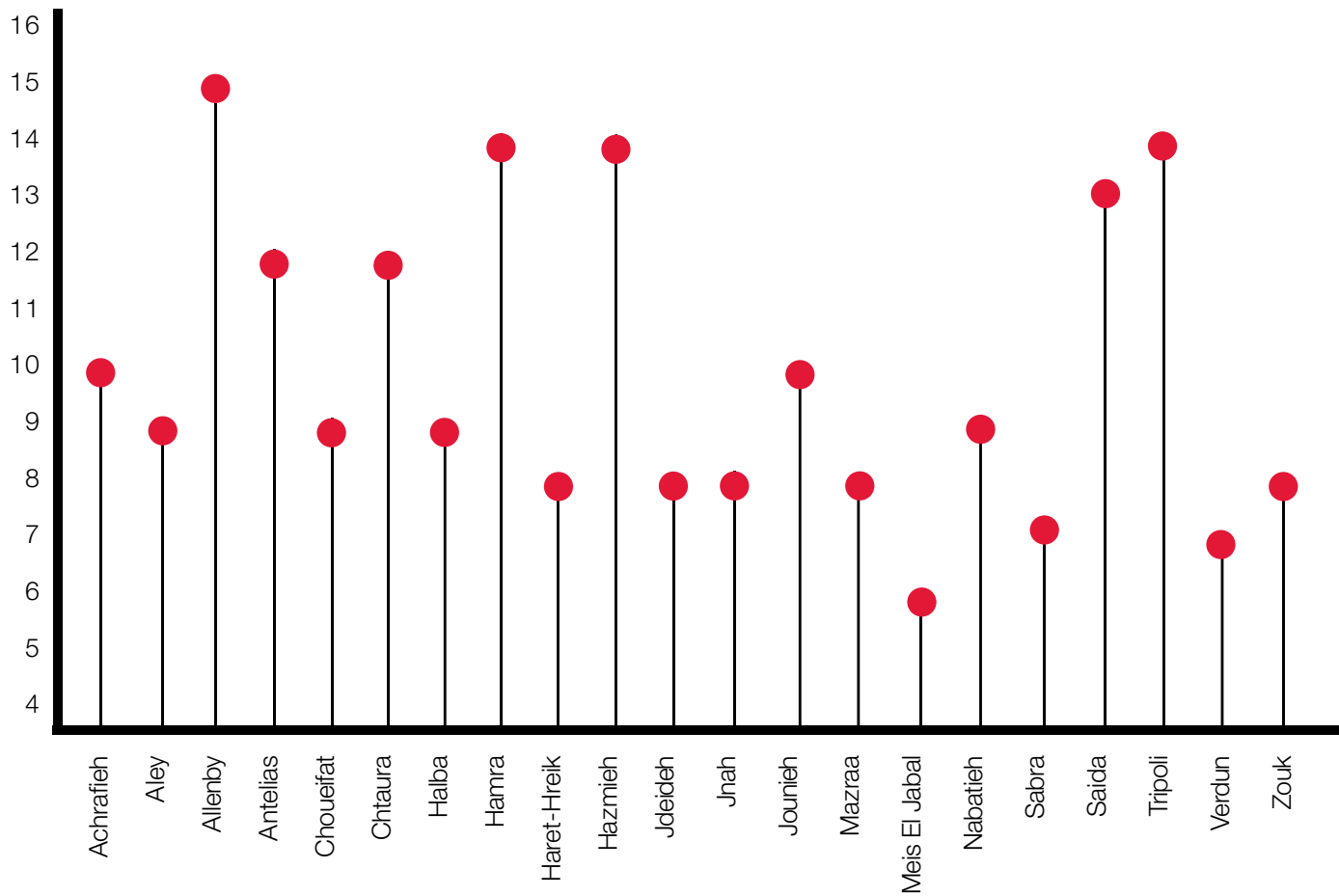
Customers with Deposits at FNB Group



## Branches and ATMs

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

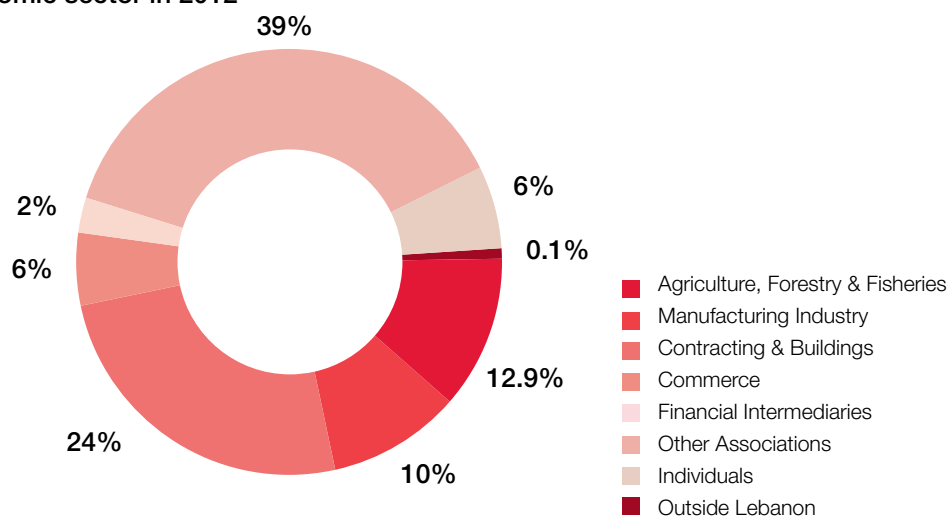
## Branches by Number of Employees



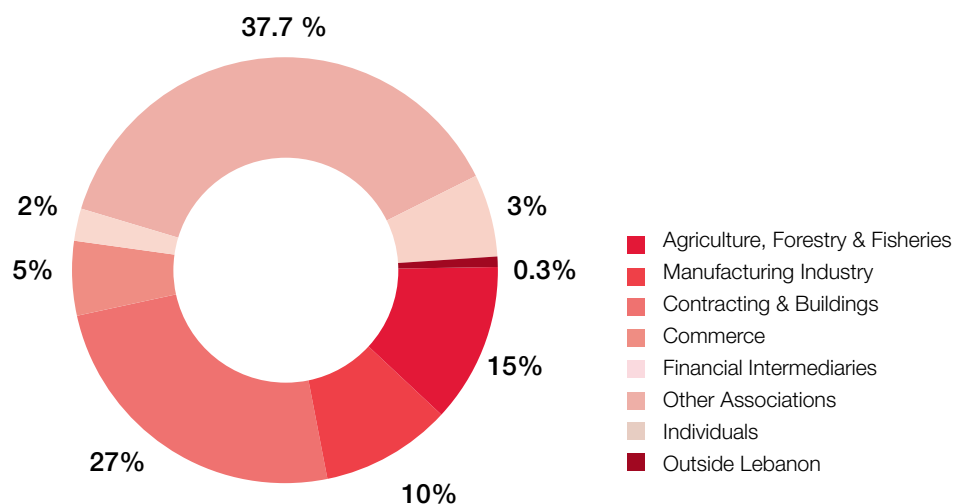
## LIST OF FREE-STANDING ATMS

Gemmayze	EDL Premises
Military Beach Manara	Main Road-Military Complex Bldg
Riviera Hotel	Manara- Main Road
Aqua Marina	Tabarja
General Security	Mathaf
General Security	Adlieh
Zouk Mosbeh	EDL Premises
OTV	Jisr El Basha-OTV Bldg
Aintoura	Saint Joseph College
Saida Souk	Riad El Solh Blvd- Bizri Bldg
Tripoli- Kadisha	EDL Premises
Riyak	Riyak Hospital- Main Entrance
Military Beach Jounieh	Jounieh Sea Road (ATCL Street)- Military Complex Bldg
Makdissy - Hamra	Makdissy Street- Beirut Bldg
CFC	Weavers Center- Clemenceau- Beirut
Mazda	Jdeideh - Roumieh Highway- Garages Street

Loan portfolio by economic sector in 2012



Loan portfolio by economic sector in 2011



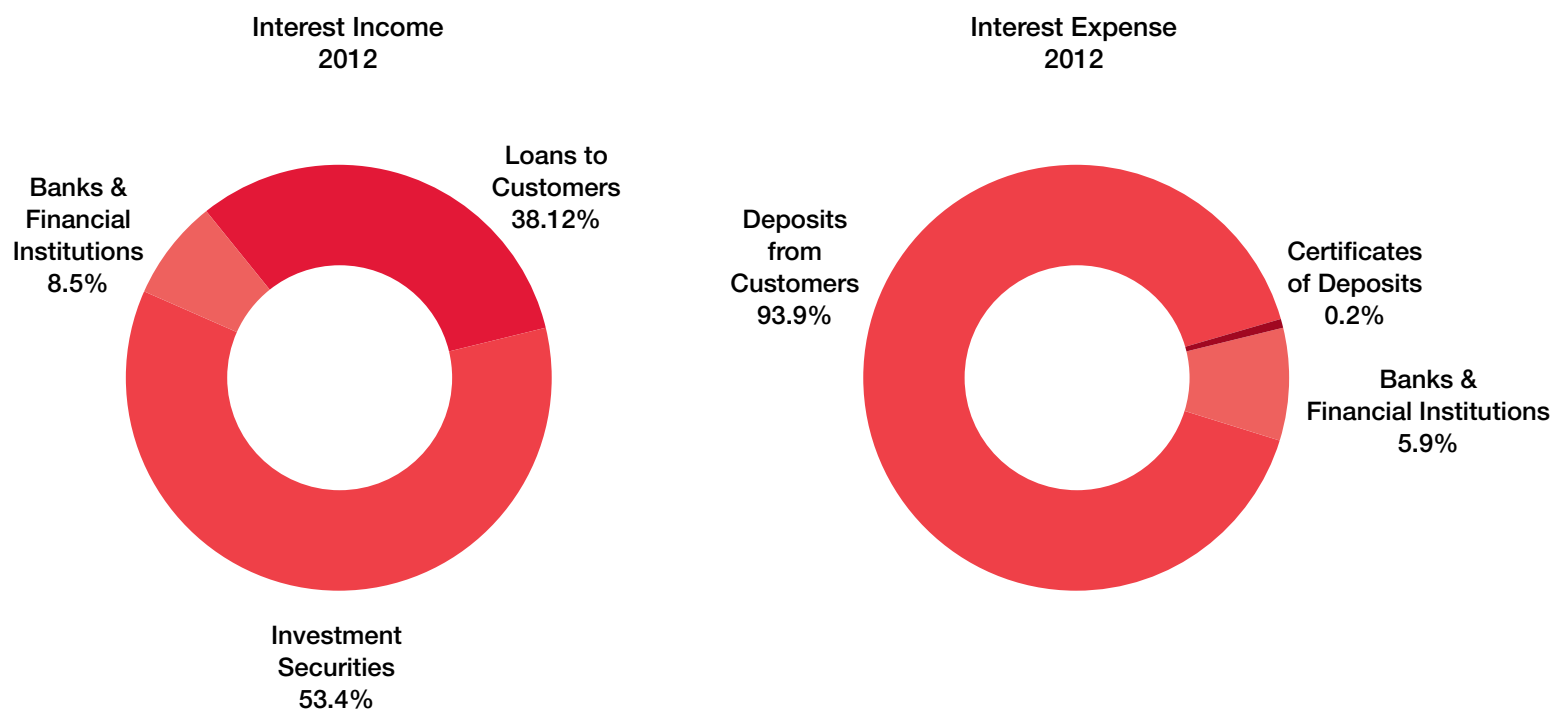
## PROFITABILITY

Despite the stagnation of the markets, the massive efforts employed by FNB members resulted in financial success. The footing of FNB Group recorded at December 31, 2012 a net income of LBP 29.5 billion (USD 19.6 million) as compared to LBP 24.67 billion (USD 16.4 million) at the end of 2011, reflecting an annual growth rate of 19.57%.

### Income statement (LBP million)

	Dec-12	Dec-11	Variance	Growth (%)
Interest income	81,173	66,315	14,858	22.4%
Non-interest income	21,131	13,831	7,300	52.8%
<b>Total Income</b>	<b>102,303</b>	<b>80,146</b>	<b>22,158</b>	<b>27.6%</b>
Operating expenses	(61,451)	(48,654)	(12,797)	26.3%
Loan loss provisions	(4,879)	1,595	(6,474)	-405.9%
Write-off of bad debts	(511)	(2,961)	2,450	82.7%
Tax	(5,962)	(5,454)	(509)	9.3%
<b>Total Expenses</b>	<b>(72,803)</b>	<b>(55,474)</b>	<b>(17,330)</b>	<b>31.2%</b>
<b>Net Income</b>	<b>29,500</b>	<b>24,672</b>	<b>4,828</b>	<b>19.6%</b>

The distribution of both interest income and interest expense is illustrated as follows:



Net Fees and Commissions reached LBP 8 billion as of December 31, 2012. In addition, operating income reached LBP 7.7 billion as of December 31, 2012 compared to LBP 4.4 billion as of December 31, 2011, with a yearly escalation of 75%.

## CAPITAL MEASUREMENT

The Central Bank of Lebanon addresses the regulatory capital requirements to assist the bank in preserving and monitoring a strong capital base. The FNB Group, operating under BDL jurisdictions, fully complies with this set of regulations (Basel II compliant and in line with Basel III approach optimization by the year 2015).

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

	2012	2011	2010
Capital adequacy ratio Basel II:	8.69%	7.78%	9.48%

## FINANCIAL AND NON-FINANCIAL DEVELOPMENTS

### MARKETING

In 2012, while aiming to offer a higher standard of customer service and satisfaction, the Marketing Department, as a pioneer in the banking sector, implemented the first phase of the Microsoft Dynamics Customer Relationship Management (CRM) by automating all tasks within and among the sections.

FNB became a worldwide reference in marketing after being included as a case study in Professor Kotler's academic textbook, "Principles of Marketing," due to the innovative Fertility, Stem Cells and Plastic Surgery Loans.

The department developed and launched a new corporate guideline book with the goal of unifying the bank's visual identity and enhancing its corporate image. In addition, the Marketing Department co-founded the FNB Team Club which is dedicated to the bank's staff and aims to enhance engagement and communication within the workplace.

In order to offer clients a convenient way to locate branches and ATMs, the maps on the website were updated with better illustrations. The web strategy was improved which increased the SEO (Search Engine Optimization) and the number of visits to the website.

For Bancassurance, there was a special summer campaign where clients were given one free monthly premium when applying for a retirement or education saving plan. Employees were also motivated by a new incentive scheme that was implemented in order to increase the sales of Bancassurance products.

FNB remained competitive in the market with its PCH Housing Loan which offered a very competitive interest rate with no filing fees. In addition, expert fees were borne by FNB. A special Subsidized Housing Loan was offered to General and Internal Security Forces.

FNB's Euro cards were upgraded to Premium cards (from Classic and Gold to Premium cards, Titanium and Platinum, respectively). After the launch of MCU, debit cards were upgraded from Maestro to MasterCard cards which contained embedded chips which were more secure and used worldwide.

The new Visa Infinite card, which targeted high-net worth segments, provided unparalleled services including multi-trip travel insurance, purchase protection and extended warranty insurance, and distinguished benefits such as concierge service and discounts.

In order to promote and increase the usage of the bank's credit cards, there was a draw in which loyal customers were eligible to win valuable prizes.

On the level of electronic banking, the SMS banking service showed considerable success since its launch at the end of 2011, and many new subscriptions were recorded during the year. A rise in online banking subscriptions was also recognized.

In line with FNB's commitment toward Corporate Social Responsibility, FNB participated in numerous events and activities throughout 2012 which enhanced the bank's exposure.

FNB supported a variety of educational endeavors because it believes in providing initiatives and opportunities for today's youth.

## COMPLIANCE & REVIEW

In 2012, the Compliance & Review Department played an increasingly integral and important role in managing the compliance and anti-money laundering risks of the bank given the developments in the financial environment locally, regionally and internationally.

Some of these developments involve the Office of Foreign Assets Control (OFAC), the European Union's sanctions on Syria and Iran, and the U.S. Treasury's Foreign Asset Tax Compliance Act (FATCA).

The mandate by the Banque Du Liban via Circular 128, introduced in late 2012, requires banks operating in Lebanon to establish a compliance department with specific requirements as to its mission, authority, staff qualifications, and structure.

In response, the CRD and the AML Units developed and successfully implemented policies and procedures to ensure compliance with the OFAC and EU sanctions on Syria and Iran. They also updated FNB's AML policies and procedures manual. These policies and procedures are regularly updated as new regulations are issued by the respective authorities locally, regionally and internationally on sanctions and AML topics.

In 2012, the bank contracted with Deloitte to act as consultants on the implementation of the FATCA project at FNB. The CRD and the AML Units conducted extensive training for the branches and the employees at the Head Office on the FATCA and AML regulations. The CRD prepared a detailed business plan to comply with BDL's Circular 128 and with Basel III doctrines for FNB and its subsidiaries, mainly the Middle East Capital Group (MECG).

The AML Unit automated the screening process of new customers against the well-established lists such the Designated Name Filtering System's (DNFS) and the Special Investigation Commission's (SIC).

The AML Unit also modified the Know-Your-Customer (KYC) to comply with the requirements of the Special Investigation Commission's Notification # 13, FATCA and the Risk Based Approach (RBA).

In 2013, the CRD and the AML Unit are expected to continue working on the above projects, centralize the compliance function for the FNB Group, and conduct the necessary training to spread the compliance and anti-money laundering cultures among the FNB Group's employees and management.



## TREASURY

As a leading financial institution providing a wide range of products and services, the FNB Treasury, consisting of FX, Money and Capital Markets (Global Markets Division), experienced several improvements in order to become more competitive within the market and enhance its professionalism. Throughout the year, the Treasury Department maintained a strict code of ethics which involves integrity, objectivity, confidentiality and competency.

During 2012, the Foreign Exchange Department at FNB focused on increasing its sales force. As a way to attract a larger volume of business and increase its client base, the FX team worked on developing several products such as the CLD (Credit Linked Deposit) and GLD (Gold Linked Deposit) in order to satisfy client needs in obtaining higher returns on deposits.

The Money Market section and Capital Market team opened new lines with counterparts while following a more conservative approach to investments and abiding by the regulator circulars. The Treasury Department consolidated the group's treasury positions which resulted in better management for both returns and risks. FNB emphasized the improvement of all ratios related to Treasury while enhancing profits and maintaining its role as a market maker in trading Lebanese government bonds.

Moving forward, the Treasury Department will continue to work to satisfy FNB's clients. It will adopt innovative techniques to make work more efficient while staying ahead of the competition. Moreover, the Treasury Department will strive to be a leader in the banking sector.

## INFORMATION TECHNOLOGY

Amid the challenges and rapid market changes, the IT Department increased the speed and reliability of financial operations which enabled the bank to meet its clients' high expectations.

There were many enhancements made to the functionality and usage of existing systems and applications, as well as the network and security infrastructure. The IT Department implemented new systems and applications to actively respond to continuously changing business requirements.

In line with the latest technology requirements, the IT Department focused its efforts on the efficiency and reliability of the quality of reporting by implementing new applications and products.

The IT Department emphasized improving and developing reports requested by Management, the Credit Review, and Credit Administration Departments. This led to increased efficiency and more accuracy in the planning and forecasting of projects.

In regard to green technology, the majority of daily reports were migrated to electronic distribution, thus saving cost, protecting the environment, and speeding access. In the same context, the majority of servers and systems were virtualized.

The IT Department concentrated on meeting client requirements by acquiring new ATM machines and renovating various branches while relocating others.

All branches were furnished with new scanners for the Laserfiche project which facilitates and accelerates the credit and trade finance operations (noting that the Laserfiche workflow was implemented and activated for SME).

Also, the new Mastercard unembossed product was launched, and it subsequently replaced Maestro cards.

## INTERNATIONAL CORPORATE CREDIT

Along with FNB's customer-oriented strategy, 2012 witnessed the establishment of the International Corporate Credit Banking Division with the goal of enhancing client services.

A wide range of tailor-made products and services were offered to assist customers in conducting international business, as well as managing their specific and increasingly complex financial needs.

During the past year, several cross border transactions and credit facilities were specifically structured to provide adequate banking solutions to customers operating in diverse industries and markets.

This dynamic development allowed the bank to offer its customers expert support in financial management despite the constantly changing international markets.

Another major accomplishment was the arrangement of a Risk Participation Loan to finance the expansion plan of one of FNB's prime customers. Furthermore, the ICC contributed to the successful closing of a private equity transaction that was monumental for the bank.

In the future, ICC is committed to continuous improvement, strategic expansion and growth to ensure that responsiveness and service quality exceed client expectations.

The International Corporate Credit Banking Division strives to develop long term mutually beneficial banking relationships with its clients, serving as their trusted advisors while expanding portfolios in new markets.

The aim is to provide added value to customers' international business, regardless of location, and together with them, achieve desired growth.

## INTERNAL AUDIT

The Internal Audit Department has extensive experience and knowledge in auditing techniques, and is composed of dynamic, qualified, and skilled staff:

All IT auditors are holders of CCNA (Cisco Certified Network Associate), CCNP Route (Cisco Certified Network Professional for Routing), and ISO/IEC 27001 Lead Implementer. While the majority of the audit staff successfully passed the examinations required by the Central Bank of Lebanon, the others are scheduled to take their exams in 2013.

Two received their degrees with distinction, while one earned the highest score at ESA (École Supérieure des Affaires) and CISI. The internal audit officer in charge of AML is CAMS-certified, one of very few in the bank.

During 2012, the Internal Audit Department successfully completed the planned audits within the mandated timeframe. All branches were duly audited with the exception of two branches (Tripoli and Halba) due to force majeure circumstances.

Moreover, the branch grading system was significantly improved by comparing results for each branch on a yearly basis and by comparing the findings and risk ratings of all branches.

While performing their assignments, the staff stayed 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 selected new areas to introduce improvements to the existing controls and to the audit methodology.

In 2013, the Internal Audit Department plans to increase the depth of its audits, identify new areas, and stay well-informed of updates and 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.

## RISK MANAGEMENT

As a leading financial institution providing a wide range of products and services, the FNB Group is exposed to a variety of risks that are inherent in carrying out daily business activities.

In 2012, the Board of Directors, through the Risk Committee, further enhanced risk management activity by consolidating the group-wide risk management. As a result, this fostered a strong and unified risk culture across the group leading to a higher level of accountability.

The department reviewed its existing Risk Management principles to be more aligned with the new risk management framework of the group. In addition, the Risk Management Department developed a risk education strategy to inform all employees about the new risk culture and risk-based approach adopted by the board.

During 2012, the Risk Management Department successfully completed the implementation of its loss event data collection system across the group. All incidents were reported in a timely manner and communicated to the relevant business unit.

## CORRESPONDENT BANKING

In the year 2012, the Correspondent Banking Department significantly participated in enhancing the bank's revenues by maintaining, developing and facilitating key relationships with local and international financial institutions in Lebanon and the region.

The Correspondent Banking Department expanded and developed a distinguished correspondent banking network to better serve the ongoing needs and preferences of the bank's corporate clients.

Furthermore, the Risk Management Department enhanced the Internal Capital Adequacy Assessment Process (ICAAP) and stress testing framework to include the bank's subsidiaries as per regulatory and Basel requirements in an effort to match its economic capital with the overall risks to which the group is exposed.

Moreover, the Risk Management Department supervised the development of a detailed policies and procedures manual covering its branch network.

This manual was created in the Risk and Control Self Assessment Workshops (RCSA) to better improve the efficiency and effectiveness of the processes and enhance internal controls. This is the first stage in a bank-wide process which will culminate in a complete and comprehensive policies and procedures manual.

Looking forward, the Risk Department will continue to build upon its solid risk management framework, to strengthen its risk culture, and better align risk appetite and risk management policies and practices throughout the group.

Furthermore, throughout the year 2012, the bank was very active in the secondary market business through a Master Risk Participation Agreement with selected major correspondent banks and significantly enhanced its trade finance activities.

Going forward, the Correspondent Banking Department will strive to broaden the circle of partner banks which will enable FNB to increase transaction volume while abiding by strict international rules and regulations.

CONSOLIDATED FINANCIAL  
STATEMENTS AND AUDITORS' REPORT

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## INDEPENDENT AUDITORS' REPORT

### Year Ended December 31, 2012

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, 2012, 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, 2012, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon, May 2, 2013

  
Deloitte & Touche

  
Fiduciaire du Moyen-Orient



## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31,

ASSETS	Notes	2012 LBP'000	2011 LBP'000
Cash and central bank	5	1,106,525,245	518,633,670
Deposits with banks and financial institutions	6	372,552,406	257,053,839
Trading assets at fair value through profit or loss	7	69,744,712	25,648,472
Loans to banks	8	3,532,663	17,629,177
Loans and advances to customers	9	1,309,322,180	1,174,715,608
Financial assets at fair value through other comprehensive income	10	2,415,724	5,114,748
Financial assets at amortized cost	11	2,136,262,064	2,164,577,455
Customers' liability under acceptances	12	10,353,714	13,328,063
Investment in and loan to an associate	13	575,036	583,158
Assets acquired in satisfaction of loans	14	3,898,676	4,824,182
Property and equipment	15	47,105,467	35,574,627
Intangible and other assets	16	11,238,010	10,770,632
Regulatory blocked fund	17	1,500,000	1,500,000
Goodwill	18	<u>20,379,656</u>	<u>20,379,656</u>
<b>Total Assets</b>		<u>5,095,405,553</u>	<u>4,250,333,287</u>
<b>FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK</b>			
Guarantees and standby letters of credit	35	65,511,569	81,683,437
Documentary and commercial letters of credit	35	36,861,852	31,106,955
Forward exchange contracts	35	35,400,660	75,287,599
<b>FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT</b>	36	391,363,092	339,350,757

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

December 31,

LIABILITIES	Notes	2012 LBP'000	2011 LBP'000
Deposits from banks and financial institutions	19	628,956,873	417,519,777
Customers' deposits and credit balances	20	4,046,669,967	3,499,403,491
Liability under acceptances	12	10,353,714	13,328,063
Certificates of deposit	21	5,782,837	5,782,837
Other liabilities	22	46,678,565	37,809,420
Provisions	23	<u>7,090,291</u>	<u>6,524,060</u>
Total liabilities		<u>4,745,532,247</u>	<u>3,980,367,648</u>
Deposits blocked for issuance of preferred shares	25	<u>37,687,500</u>	-
<b>EQUITY</b>			
Share capital	24	154,500,000	131,439,820
Additional paid-in capital	24	28,173,355	28,173,355
Preferred shares	25	22,605,000	22,605,000
Legal reserve	26	8,881,136	6,873,957
Reserve for general banking risks	26	24,376,564	18,653,110
Reserve for assets acquired in satisfaction of loans	26	1,423,669	1,700,173
Cumulative change in fair value of equity securities at fair value through other comprehensive income	10	(3,255,779)	(961,608)
Retained earnings		45,558,161	36,397,168
Profit for the year		<u>29,480,995</u>	<u>24,660,651</u>
Equity attributable to owners of the Bank		<u>311,743,101</u>	<u>269,541,626</u>
Non-controlling interests	27	<u>442,705</u>	<u>424,013</u>
Total Equity		<u>312,185,806</u>	<u>269,965,639</u>
<b>Total Liabilities and Equity</b>		<u>5,095,405,553</u>	<u>4,250,333,287</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED INCOME STATEMENT

Year ended December 31,

	Notes	2012 LBP'000	2011 LBP'000
Interest income	28	261,195,782	225,630,155
Interest expense	29	<u>(180,022,496)</u>	<u>(159,315,638)</u>
Net interest income		<u>81,173,286</u>	<u>66,314,517</u>
Fee and commission income	30	12,719,540	10,405,967
Fee and commission expense	31	<u>(4,725,150)</u>	<u>(7,116,167)</u>
Net fee and commission income		<u>7,994,390</u>	<u>3,289,800</u>
Net interest and gain and loss on financial assets at fair value through profit or loss	32	4,677,380	6,542,452
Other operating income (net)	33	<u>7,683,385</u>	<u>4,399,685</u>
Net financial revenues		101,528,441	80,546,454
Allowance for impairment of loans and advances to customers (net)	9	(4,879,390)	1,594,776
Write-off of bad debts		<u>(511,261)</u>	<u>(2,960,728)</u>
Net financial revenues after allowance for impairment		96,137,790	79,180,502
Staff costs		( 37,825,881)	(28,672,281)
Administrative expenses		(19,738,396)	(16,478,978)
Depreciation and amortization	34	(3,886,378)	(3,502,978)
Net gain/(loss) on disposal of assets acquired in satisfaction of loans	14	<u>775,020</u>	<u>(400,455)</u>
Profit before income tax		35,462,155	30,125,810
Income tax expense		<u>(5,962,468)</u>	<u>(5,453,931)</u>
Profit for the year		<u>29,499,687</u>	<u>24,671,879</u>
<b>Attributable to:</b>			
Owners of the Bank		29,480,995	24,660,651
Non-controlling interests		<u>18,692</u>	<u>11,228</u>
		<u>29,499,687</u>	<u>24,671,879</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended December 31,	
	2012 LBP'000	2011 LBP'000
Profit for the year	<u>29,499,687</u>	<u>24,671,879</u>
Other comprehensive income:		
Unrealized loss on financial assets at fair value through other comprehensive income	(2,699,024)	(1,131,303)
Deferred tax	<u>404,853</u>	<u>169,695</u>
Other comprehensive income	<u>(2,294,171)</u>	<u>(961,608)</u>
Total comprehensive income for the year	<u>27,205,516</u>	<u>23,710,271</u>
<b>Attributable to:</b>		
Owners of the Bank	27,186,824	23,699,043
Non-controlling interests	<u>18,692</u>	<u>11,228</u>
	<u>27,205,516</u>	<u>23,710,271</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	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, 2011	131,439,820	28,173,355	22,605,000	4,321,792	13,918,280
Effect of IFRS9 early adoption	-	-	-	-	-
	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 38)	-	-	-	-	-
Total comprehensive income for the year 2011	-	-	-	-	-
Write back of provision of assets acquired in satisfaction of loans	-	-	-	-	-
Difference in exchange	-	-	-	-	-
Balances at December 31, 2011	131,439,820	28,173,355	22,605,000	6,873,957	18,653,110
Increase in capital (Note 24)	23,060,180	-	-	-	-
Allocation of 2011 profit	-	-	-	2,007,179	5,723,454
Dividends paid (Note 38)	-	-	-	-	-
Write back of provision of assets acquired in satisfaction of loans	-	-	-	-	-
Total comprehensive income for the year 2012	-	-	-	-	-
Balances at December 31, 2012	<u>154,500,000</u>	<u>28,173,355</u>	<u>22,605,000</u>	<u>8,881,136</u>	<u>24,376,564</u>

THE ACCOMPANYING NOTES FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

Reserve for Assets Acquired in Satisfaction of loans LBP'000	Cumulative change in Fair Value of Investment Securities LBP'000	Retained Earnings LBP'000	Profit for the Year LBP'000	Equity Attributable to Owners of the Bank LBP'000	Non-controlling Interests LBP'000	Total Equity LBP'000
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
521,836	-	16,800,036	(24,608,867)	-	-	-
-	-	(7,911,763)	-	(7,911,763)	-	(7,911,763)
-	(961,608)	-	24,660,651	23,699,043	11,228	23,710,271
(2,654)	-	2,654	-	-	-	-
-	-	(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
-	-	-	-	23,060,180	-	23,060,180
106,546	-	16,823,472	(24,660,651)	-	-	-
-	-	(8,045,529)	-	(8,045,529)	-	(8,045,529)
(383,050)	-	383,050	-	-	-	-
-	(2,294,171)	-	29,480,995	27,186,824	18,692	27,205,516
<u>1,423,669</u>	<u>(3,255,779)</u>	<u>45,558,161</u>	<u>29,480,995</u>	<u>311,743,101</u>	<u>442,705</u>	<u>312,185,806</u>

## CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended December 31,

	Notes	2012 LBP'000	2011 LBP'000
<b>Cash Flow from operating activities:</b>			
<b>Profit for the year</b>		29,499,687	24,671,879
Adjustments for:			
Interest income		(261,195,782)	(225,630,155)
Interest expense		180,022,496	159,315,638
Income tax expense		(5,962,468)	(5,453,931)
Depreciation and amortization	34	3,886,378	3,502,978
Allowance for impairment of loans and advances to customers	9	4,879,390	1,594,776
Write-off of bad debts		511,261	(2,960,728)
Loss on disposal of equipment	33	18,444	55,089
(Gain)/loss on sale of assets acquired in satisfaction of loans	14	(775,020)	400,455
Change in fair value of financial asset at fair value through profit or loss	32	(846,807)	953,431
Provisions set up during the year	23	1,143,726	771,995
Interest on certificates of deposit		-	(12,971)
Share of loss of an associate	33	8,122	1,288
		(48,810,573)	(42,790,256)
Net change in loans to banks		14,129,177	(9,917,716)
Net change in compulsory reserve		(35,754,963)	34,583,897
Net change in loans and advances to customers		(133,919,909)	(205,653,724)
Net change in customers' deposits		524,925,141	443,878,864
Net change in term placements with banks		(627,464,397)	(39,797,294)
Net change in deposits from banks and financial institutions		209,366,135	367,804,869
Net change in other assets		(976,606)	410,020
Net change in other liabilities		7,944,147	(426,510)
Settlement of provisions	23	(577,495)	(232,394)
Net cash (used in)/generated from operations		(91,139,343)	547,859,756
Income tax paid		6,455,598	5,673,621
Interests received		245,681,961	219,194,424
Interests paid		(155,610,200)	(137,875,873)
Net cash generated by operating activities		<u>5,388,016</u>	<u>634,851,928</u>
<b>Cash flows from investing activities:</b>			
Net change in investing in an associate		-	510,321
Net change in investment securities		(14,934,042)	(341,359,996)
Purchase of property and equipment	15	(14,560,441)	(5,875,075)
Proceeds from disposal of property and equipment	15	38,860	94,189
Proceeds from disposal of assets acquired in satisfaction of loans	14	<u>2,649,920</u>	<u>1,301,804</u>
Net cash used in investing activities		<u>(26,805,703)</u>	<u>(345,328,757)</u>
<b>Cash flows from financing activities:</b>			
Proceeds from capital increase		23,060,180	-
Blocked deposits for issuance of preferred shares		37,687,500	-
Soft loan from Central Bank of Lebanon		-	(44,843,983)
Dividend distribution	38	(8,045,528)	(7,911,763)
Net cash generated by/ (used in) financing activities		<u>52,702,152</u>	<u>(52,755,746)</u>
Net increase in cash and cash equivalents		31,284,465	236,767,425
Cash and cash equivalents - Beginning of year		<u>388,855,075</u>	<u>152,087,650</u>
Cash and cash equivalents - End of year	39	<u>420,139,540</u>	<u>388,855,075</u>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## 1. GENERAL INFORMATION

First National Bank S.A.L. (the “Bank”) is a Lebanese joint stock company established in 1991 and 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 two branches in various Lebanese regions. The consolidated financial statements of the Bank as at December 31, 2012 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. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

### 2.1 New and revised Standards and Interpretations effective for the current period

There are no new Standards, amendments to Standards and Interpretations that are effective for the first time for the financial year beginning on January 1, 2012 that had a material impact on the Group’s consolidated financial statements.

### 2.2 New and revised IFRS(s) in issue but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after January 1, 2012 and have not been applied in preparing these consolidated financial statements, except for IFRS 9 *Financial Instruments* which was early applied by the Group during 2011 with date of initial application January 1, 2011. Those new and amended standards and interpretations which are applicable to the Group’s operations or might have an effect on the consolidated financial statements of the Group in the period of initial application are set out below:

- IFRS 10 *Consolidated Financial Statements* 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 *Associates and Joint Ventures* have been amended for the issuance of IFRS 10 and SIC-12 *Consolidation Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10 (Annual periods beginning on or after January 1, 2013).
- IFRS 11 *Joint Arrangements* 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 the parties to the joint arrangement, rather than its legal form. Joint control involves the contractual agreed sharing of control, and arrangements subject to joint control are classified as either a joint venture or a joint operation. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenues and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11 and SIC-13 *Jointly Control Entities* will be withdrawn upon the effective date of IFRS 11 (Annual periods beginning on or after 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. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.
- Amendment to IFRSs 10, 11 and 12 on transition guidance: These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. Effective for annual periods beginning on or after 1 January 2013.



- IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an ‘exit price’ notion and uses a ‘fair value hierarchy’, which results in a market-based, rather than entity-specific, measurement. IFRS 13 is applicable for 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. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

- Amendments to IAS 32 *Financial Instruments Presentation*: relating to application guidance on the offsetting of financial assets and financial liabilities. These amendments are effective for annual periods beginning on or after January 1, 2014, with retrospective application needed.

- Amendments to IFRS 7 *Financial Instruments Disclosures*: enhancing disclosures about offsetting of financial assets and liabilities. The amendments are effective for annual periods beginning on or after January 1, 2013, and disclosures should be provided retrospectively for all comparative periods.

- IAS 27 *Separate Financial Statements* (revised 2011) includes the requirements relating to separate financial statements and outlines the accounting requirements for dividends and contains numerous disclosure requirements. IAS 27 (revised 2011) is effective for annual periods beginning on or after January 1, 2013.

- IAS 28 *Associates and Joint Ventures* (revised 2011) includes the requirements for associates and joint ventures that have to be equity accounted following the issue of IFRS 11. IAS 28 (revised 2011) is effective for annual periods beginning on or after January 1, 2013.

- *Annual improvements to IFRSs 2009 – 2011 Cycle*. These include:

- Amendment to IAS 1 *Presentation of Items of Other Comprehensive Income*. The amendment requires to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently. Income tax on items of other comprehensive income is required to be allocated on the same basis. Also the amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS1, the “statement of comprehensive income” is renamed to “statement of profit or loss and other comprehensive income” and the income statement is renamed to “statement of profit or loss”. Amendment is effective for annual periods beginning on or after July 1, 2012.

- Amendments to IAS 32 *Financial Instruments*, clarify that income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction should be accounted for in accordance with IAS 12 *Income Taxes*. (Effective for annual periods beginning on or after January 1, 2013).

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### Statement of Compliance

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

#### Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments measured at fair value as set out in the accounting policies below.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

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). 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, 2012 and 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
<b>Subsidiaries of MECG Group:</b>				
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 Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the other entities of the Group.

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

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

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, 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:

The consolidated financial statements are presented in Lebanese Pounds ("LBP") which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar ("USD"). The exchange rate of the USD against the LBP has been constant for many years.

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.

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:

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 investment cost, 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 being the next reporting period.

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.

### 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 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 factor such as liquidity risk.

#### J. Impairment of Financial Assets:

Financial assets carried at amortized cost 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.

#### 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.

#### 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. 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:

	<u>Rates</u>
Buildings	2%
Office improvements and installations	15%
Furniture, fixtures and equipment	8%
Computer equipment	20%
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:

Intangible assets 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:

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 that 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 was 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 sum of the last basic salary and the monthly average of the last 12 months' remunerations, 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.

#### 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.
- 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 at fair value through profit or loss are presented separately in the consolidated 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.

#### 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. These differences 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.

### 4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, 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/her 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, uncertainty 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 that 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.

## 5. CASH AND CENTRAL BANK

	December 31,	
	2012 LBP'000	2011 LBP'000
Cash on hand	27,875,184	21,361,692
Current accounts with Central Bank of Lebanon	204,573,664	65,588,022
Term placements with Central Bank of Lebanon	866,090,050	431,388,150
Accrued interest receivable	<u>7,986,347</u>	<u>295,806</u>
	<u>1,106,525,245</u>	<u>518,633,670</u>

Current accounts at Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pound in the amount of LBP67billion (LBP31billion as of December 31, 2011) 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 LBP641billion (LBP407billion in 2011) 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, 2012**

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2013	-	-	130,205,800	0.38
2014	-	-	45,225,000	1.21
2015	-	-	52,762,500	0.81
2016	-	-	60,300,000	1.21
2017	-	-	352,596,750	1.52
2021	75,000,000	8.60	-	-
2022	<u>150,000,000</u>	8,60	-	-
	<u>225,000,000</u>		<u>641,090,050</u>	

**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	-	-	<u>15,075,000</u>	1.47
	<u>24,000,000</u>		<u>407,388,150</u>	

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

## 6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

December 31,

	2012 LBP'000	2011 LBP'000
Checks in course of collection	5,888,613	5,331,645
Current accounts with banks and financial institutions	105,624,663	69,900,209
Term placements with banks and financial institutions	250,906,686	171,225,054
Cash margin against facilities	9,232,474	9,221,864
Accrued interest receivable	<u>899,970</u>	<u>1,375,067</u>
	<u>372,552,406</u>	<u>257,053,839</u>

Cash margin against facilities represents cash margin against trade finance and foreign exchange transactions with non-resident banks.

Term placements bear the following maturities:

December 31, 2012

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2013	17,506,509	5.55	213,802,677	1.49
2014	-	-	<u>19,597,500</u>	2.21
	<u>17,506,509</u>		<u>233,400,177</u>	

December 31, 2011

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

## 7. TRADING ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	December 31,	
	2012 LBP'000	2011 LBP'000
Quoted equity securities	12,872,611	14,520,268
Unquoted equity securities	3,766,135	3,556,108
Lebanese treasury bills	44,199,147	-
Lebanese Government bonds	6,245,667	2,588,872
Certificates of deposit issued by the Central Bank of Lebanon	856,449	-
Corporate bonds	<u>997,157</u>	<u>4,824,344</u>
	68,937,166	25,489,592
Accrued interest receivable	<u>807,546</u>	<u>158,880</u>
	<u>69,744,712</u>	<u>25,648,472</u>

The change in fair value gain of the trading assets at fair value through profit or loss amounted to LBP846 million in 2012 (change in fair value loss of LBP953million in 2011) and is reflected in the consolidated income statement under "Net interest and gain or loss on trading assets at fair value through profit or loss" (Note 32).

## 8. LOANS TO BANKS

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

	December 31,	
	2012 LBP'000	2011 LBP'000
Loans to banks	3,500,000	4,050,000
Discounted documentary letters of credit	-	13,537,843
Accrued interest receivable	<u>32,663</u>	41,334
	<u>3,532,663</u>	<u>17,629,177</u>

Loans to banks mature as follows

	December 31, 2012	
	LBP LBP'000	Interest Rate %
2016	450,000	3.89
Beyond 5 years	<u>3,050,000</u>	3.75
	<u>3,500,000</u>	

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

## 9. LOANS AND ADVANCES TO CUSTOMERS

December 31,

	2012 LBP'000	2011 LBP'000
Loans and advances to customers	1,249,889,987	1,122,646,746
Loans and advances to related parties	43,204,979	33,704,070
Bills discounted (net)	3,415,513	8,438,491
Creditors accidentally debtors	4,880,385	6,460,026
Substandard loans (net of unearned interest)	7,568,629	3,290,503
Bad and doubtful debts (net of unearned interest)	33,189,750	32,130,388
Less: Allowance for impairment	(20,118,601)	(18,030,168)
Provision for impairment of collectively assessed loans	<u>(8,911,411)</u>	<u>(8,396,736)</u>
	1,313,119,231	1,180,243,320
Less: Pledged guarantee funds to cover shortage in provision	<u>(3,797,051)</u>	<u>(5,527,712)</u>
	<u>1,309,322,180</u>	<u>1,174,715,608</u>

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

December 31, 2012

	Loan Balance net of Deferred Interest LBP'000	Unearned Interest LBP'000	Impairment Allowance LBP'000	Carrying Value LBP'000
Corporate customers	762,468,483	-	-	762,468,483
Retail customers:				
Car loans	67,103,177	-	-	67,103,177
Credit cards	20,016,465	-	-	20,016,465
Mortgage loans	181,619,824	-	-	181,619,824
Overdrafts	61,754,551	-	-	61,754,551
Personal loans and other	208,428,365	-	-	208,428,365
Substandard loans	9,735,455	(2,166,826)	-	7,568,629
Doubtful loans	101,633,205	(68,443,456)	(20,118,601)	13,071,148
Less: Provisions for collectively assessed loans	-	-	<u>(8,911,411)</u>	<u>(8,911,411)</u>
	<u>1,412,759,525</u>	<u>(70,610,282)</u>	<u>(29,030,012)</u>	<u>1,313,119,231</u>



December 31, 2011

	Loan Balance net of Deferred Interest LBP'000	Unearned 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)
	<u>1,279,367,442</u>	<u>(72,697,218)</u>	<u>(26,426,904)</u>	<u>1,180,243,320</u>

The movement of unearned interest during 2012 and 2011 is summarized as follows:

2012

	Substandard Loans LBP'000	Doubtful Loans LBP'000
Balance, January 1	2,051,873	70,645,345
Additions	506,669	11,810,721
Settlements/recoveries	(391,716)	(14,012,610)
Balance, December 31	<u>2,166,826</u>	<u>68,443,456</u>

2011

	Substandard Loans LBP'000	Doubtful Loans 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	<u>2,051,873</u>	<u>70,645,345</u>

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

	<b>2012 LBP'000</b>	<b>2011 LBP'000</b>
Balance, January 1	26,426,904	28,195,600
Additions	8,087,189	1,816,620
Recoveries	(3,207,799)	(3,411,396)
Write offs	(115,607)	(43,990)
Transfer to off-balance sheet	(1,728,808)	(379,673)
Transfer to other liabilities	(431,867)	-
Transfer from provision for contingencies	-	200,000
Effect of exchange rates fluctuation	-	49,743
Balance, December 31	<u>29,030,012</u>	<u>26,426,904</u>

Pledged guarantee funds were deposited by the shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for certain classified loans and advances to customers. The movement of pledged guarantee fund during 2012 and 2011 is summarized as follows:

	<b>2012 LBP'000</b>	<b>2011 LBP'000</b>
Balance, January 1	5,527,712	5,709,505
Interest charged to income	202,272	259,192
Settlements	<u>(1,932,933)</u>	<u>(440,985)</u>
Balance, December 31	<u>3,797,051</u>	<u>5,527,712</u>

## 10. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

Financial assets at fair value through other comprehensive income outstanding at December 31, 2012 and 2011 consist of the following:

	<b>December 31, 2012</b>		
	<b>F/Cy Base Account</b>		<b>Cumulative Change in Fair Value LBP'000</b>
	<b>Cost LBP'000</b>	<b>Fair Value LBP'000</b>	
Quoted equity securities	<u>6,246,051</u>	<u>2,415,724</u>	(3,830,327)
Deferred tax (Note 16)			574,548
			<u>(3,255,779)</u>

December 31, 2011

	F/Cy Base Account		Cumulative Change in Fair Value LBP'000
	Cost LBP'000	Fair Value LBP'000	
Quoted equity securities	<u>6,246,051</u>	<u>5,114,748</u>	<u>(1,131,303)</u>
Deferred tax (Note 16)			<u>169,695</u>
			<u>(961,608)</u>

## 11. FINANCIAL ASSETS AT AMORTIZED COST

Financial assets at amortized cost outstanding at December 31, 2012 and 2011 consist of the following:

December 31, 2012

	LBP		F/Cy		Total Amortized Cost LBP'000
	Amortized Cost LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	
Lebanese treasury bills	533,481,790	557,352,027	-	-	533,481,790
Lebanese Government bonds	-	-	794,691,265	796,395,515	794,691,265
Certificates of deposit issued by Central Bank of Lebanon	410,068,553	431,417,778	258,118,662	253,177,156	668,187,215
Corporate bonds	-	-	94,361,351	101,017,462	94,361,351
Certificates of deposit issued by local banks	-	-	<u>8,996,612</u>	<u>6,651,982</u>	<u>8,996,612</u>
	943,550,343	988,769,805	1,156,167,890	1,157,242,115	2,099,718,233
Accrued interest receivable	<u>21,201,682</u>	<u>21,201,682</u>	<u>15,342,149</u>	<u>15,342,149</u>	<u>36,543,831</u>
	<u>964,752,025</u>	<u>1,009,971,487</u>	<u>1,171,510,039</u>	<u>1,172,584,264</u>	<u>2,136,262,064</u>

December 31, 2011

	LBP		F/Cy		Total Amortized Cost LBP'000
	Amortized Cost LBP'000	Fair Value LBP'000	Amortized Cost LBP'000	Fair Value 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
Certificates of deposit issued by Central Bank of Lebanon	-	-	27,062,313	27,269,193	27,062,313
Corporate bonds	-	-	99,333,151	99,676,519	99,333,151
Certificates of deposit issued by local banks	442,833,954	464,862,566	<u>276,994,005</u>	<u>271,333,868</u>	<u>719,827,959</u>
	<u>847,904,183</u>	<u>882,379,349</u>	<u>1,280,416,938</u>	<u>1,292,063,975</u>	<u>2,128,321,121</u>
Accrued interest receivable	<u>18,601,214</u>	<u>18,601,214</u>	<u>17,655,120</u>	<u>17,655,120</u>	<u>36,256,334</u>
	<u>866,505,397</u>	<u>900,980,563</u>	<u>1,298,072,058</u>	<u>1,309,719,095</u>	<u>2,164,577,455</u>

As of December 31, 2012, the Group had corporate bonds issued by non-resident banks, classified as financial assets at amortized cost and amounting to LBP74billion (USD49million) (LBP77million in 2011) pledged against repurchase agreements with a non-resident bank (Note 19).

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

Remaining Period to Maturity	LBP		
	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000
<b>Lebanese treasury bills:</b>			
Up to 1 year	25,500,000	25,500,130	26,301,135
1 year to 3 years	114,300,000	115,585,502	120,046,029
3 years to 5 years	195,131,458	195,852,880	202,198,753
5 years to 10 years	<u>194,042,290</u>	<u>196,543,278</u>	<u>208,806,110</u>
	<u>528,973,748</u>	<u>533,481,790</u>	<u>557,352,027</u>
<b>Lebanese Government bonds:</b>			
Up to 1 year	-	-	-
1 year to 3 years	-	-	-
3 years to 5 years	-	-	-
5 years to 10 years	-	-	-
More than 10 years	-	-	-
	-	-	-
<b>Certificates of deposit issued by Central Bank of Lebanon:</b>			
Up to 1 year	145,000,000	146,644,186	158,281,516
1 year to 3 years	135,000,000	137,280,557	145,768,470
3 years to 5 years	121,000,000	126,143,810	127,367,792
5 years to 10 years	-	-	-
	<u>401,000,000</u>	<u>410,068,553</u>	<u>431,417,778</u>
<b>Corporate bonds:</b>			
Up to 1 year	-	-	-
1 year to 3 years	-	-	-
3 years to 5 years	-	-	-
5 years to 10 years	-	-	-
More than 10 years	-	-	-
	-	-	-
<b>Certificates of deposit issued by Lebanese banks:</b>			
3 years to 5 years	-	-	-
	-	-	-
	<u>929,973,748</u>	<u>943,550,343</u>	<u>988,769,805</u>

December 31, 2012

Foreign Currency (C/V LBP)			Total Amortized Cost LBP'000
Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	
-	-	-	25,500,130
-	-	-	115,585,502
-	-	-	195,852,880
-	-	-	<u>196,543,278</u>
-	-	-	<u>533,481,790</u>
4,061,205	4,142,064	4,097,869	4,142,064
35,240,982	35,968,204	35,369,240	35,968,204
188,668,514	207,530,715	210,298,978	207,530,715
495,647,169	497,892,578	495,452,254	497,892,578
<u>49,417,358</u>	<u>49,157,704</u>	<u>51,177,174</u>	<u>49,157,704</u>
<u>773,035,228</u>	<u>794,691,265</u>	<u>796,395,515</u>	<u>794,691,265</u>
30,150,000	30,153,465	28,855,058	176,797,651
208,125,450	227,965,197	224,322,098	365,245,754
-	-	-	126,143,810
-	-	-	-
<u>238,275,450</u>	<u>258,118,662</u>	<u>253,177,156</u>	<u>668,187,215</u>
15,075,000	15,075,000	15,185,198	15,075,000
22,923,001	22,923,001	24,958,126	22,923,001
28,642,501	27,453,994	27,352,788	27,453,994
29,106,965	28,909,356	33,521,350	28,909,356
-	-	-	-
<u>95,747,467</u>	<u>94,361,351</u>	<u>101,017,462</u>	<u>94,361,351</u>
9,045,000	8,996,612	6,651,982	8,996,612
9,045,000	8,996,612	6,651,982	8,996,612
<u>1,116,103,145</u>	<u>1,156,167,890</u>	<u>1,157,242,115</u>	<u>2,099,718,233</u>

Remaining Period to Maturity	LBP		
	Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000
<b>Lebanese treasury bills:</b>			
Up to 1 year	155,100,000	155,848,408	161,369,170
1 year to 3 years	80,500,000	81,491,795	85,373,450
3 years to 5 years	57,045,000	58,045,707	59,589,769
5 years to 10 years	<u>108,392,290</u>	<u>109,684,319</u>	<u>111,184,394</u>
	<u>401,037,290</u>	<u>405,070,229</u>	<u>417,516,783</u>
<b>Lebanese Government bonds:</b>			
Up to 1 year	-	-	-
1 year to 3 years	-	-	-
3 years to 5 years	-	-	-
5 years to 10 years	-	-	-
More than 10 years	-	-	-
	-	-	-
<b>Certificates of deposit issued by Central Bank of Lebanon:</b>			
Up to 1 year	38,000,000	38,000,000	38,520,572
1 year to 3 years	280,000,000	288,187,755	309,824,153
3 years to 5 years	42,000,000	44,350,440	43,640,078
5 years to 10 years	<u>69,000,000</u>	<u>72,295,759</u>	<u>72,877,763</u>
	<u>429,000,000</u>	<u>442,833,954</u>	<u>464,862,566</u>
<b>Corporate bonds:</b>			
Up to 1 year	-	-	-
1 year to 3 years	-	-	-
3 years to 5 years	-	-	-
5 years to 10 years	-	-	-
	-	-	-
<b>Certificates of deposit issued by Lebanese banks:</b>			
Up to 1 year	-	-	-
	-	-	-
	-	-	-
Total	<u>830,037,290</u>	<u>847,904,183</u>	<u>882,379,349</u>

December 31, 2011

Foreign Currency (C/V LBP)			Total Amortized Cost LBP'000
Nominal Value LBP'000	Amortized Cost LBP'000	Fair Value LBP'000	
-	-	-	155,848,408
-	-	-	81,491,795
-	-	-	58,045,707
-	-	-	<u>109,684,319</u>
-	-	-	<u>405,070,229</u>
46,659,598	46,678,992	46,792,886	46,678,992
50,400,939	52,037,482	51,773,649	52,037,482
109,620,687	123,625,350	124,595,719	123,625,350
548,290,501	560,568,047	577,789,017	560,568,047
<u>95,169,984</u>	<u>94,117,598</u>	<u>92,833,124</u>	<u>94,117,598</u>
<u>850,141,709</u>	<u>877,027,469</u>	<u>893,784,395</u>	<u>877,027,469</u>
-	-	-	38,000,000
30,150,000	30,176,115	30,933,389	318,363,870
218,677,950	246,817,890	240,400,479	291,168,330
-	-	-	<u>72,295,759</u>
<u>248,827,950</u>	<u>276,994,005</u>	<u>271,333,868</u>	<u>719,827,959</u>
4,104,400	4,119,858	3,825,177	4,119,858
15,075,000	15,075,000	14,745,913	15,075,000
42,923,634	42,874,765	44,941,901	42,874,765
<u>38,874,015</u>	<u>37,263,528</u>	<u>36,163,528</u>	<u>37,263,528</u>
<u>100,977,049</u>	<u>99,333,151</u>	<u>99,676,519</u>	<u>99,333,151</u>
<u>27,021,938</u>	27,062,313	27,269,193	<u>27,062,313</u>
<u>27,021,938</u>	27,062,313	27,269,193	<u>27,062,313</u>
<u>1,226,968,646</u>	<u>1,280,416,938</u>	<u>1,292,063,975</u>	<u>2,128,321,121</u>



Foreign corporate bonds include LBP74billion (USD49million) as of December 31, 2012 (USD51million as of December 31, 2011) representing bonds deposited in guarantee to the favor of a foreign bank under sale and repurchase agreement contracts (Note19C).

As of December 31, 2012 and 2011, the Group had Lebanese treasury bills amounting to LBP2.7billion pledged against a soft loan granted by the Central Bank of Lebanon (Note 19D).

Certificates of deposit issued by the Central Bank of Lebanon include an aggregate amount of LBP33.56billion (Equivalent to USD22,260,000) (LBP48.63billion (Equivalent to USD32,260,000) as at December 31, 2011) 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. During 2012, the Group exercised the put option on part of these certificates of deposit with a nominal value of USD10million which resulted

in a gain of LBP3.7billion recognized under “Other operating income” in the consolidated income statement (Note 33). The remaining balance of these certificates of deposit will be held until maturity. The balance of the provision already set up in previous years amounting to LBP2.16billion as of December 31, 2012 and reflected under “Other liabilities” (Note 22) will be amortized over the remaining period to maturity.

During November 2011, the Group exchanged Lebanese Government bonds with carrying value of 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 LBP1.45billion out of which LBP635million was recognized under “Other operating income” in the consolidated income statement in 2011 (Note 33) and the remaining gain was deferred to be amortized over the remaining period to maturity.

## 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. INVESTMENT IN AND LOAN TO AN ASSOCIATE

This section represents a 12.77% equity stake in Park View Realty Company S.A.L. as at December 31, 2012 and 2011:

	December 31,	
	2012 LBP'000	2011 LBP'000
Value of the investment	410,118	418,240
Loan	<u>164,918</u>	<u>164,918</u>
	<u>575,036</u>	<u>583,158</u>

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 2012 and 2011.

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

	<b>2012 LBP'000</b>	<b>2011 LBP'000</b>
Balance, January 1	418,240	419,528
Group' share of associate losses – (Note 33)	<u>(8,122)</u>	<u>(1,288)</u>
Balance, December 31	<u>410,118</u>	<u>418,240</u>

#### **14. 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 2012 and 2011 was as follows:

	<b>2012 LBP'000</b>	<b>2011 LBP'000</b>
Balance at January 1	4,824,182	4,961,411
Additions	982,015	1,565,030
Disposals	(1,874,900)	(1,702,259)
Reversals	<u>(32,621)</u>	-
Balance at December 31	<u>3,898,676</u>	<u>4,824,182</u>

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 2012, the Group appropriated a reserve of LBP107million from 2011 profits (LBP522million in 2011 from 2010 profits).

During 2012, the Group sold assets acquired in satisfaction of loans for an aggregate consideration of LBP2.65billion resulting in net gains of LBP775million.

During 2011, the Group sold assets acquired in satisfaction of loans for an aggregate consideration of LBP1.3billion resulting in net loss of LBP400million.

## 15. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2012 and 2011 was as follows:

	Land LBP'000	Buildings LBP'000	Furniture, Office and Computer Equipment LBP'000
<b>Cost</b>			
Balance, January 1, 2011	7,533,312	13,162,244	22,239,168
Additions and transfers	-	-	3,457,054
Disposals	-	-	<u>(799,392)</u>
Balance, December 31, 2011	7,533,312	13,162,244	24,896,830
Additions and transfers	6,426,426	78,639	1,362,736
Disposals	-	-	<u>(819,724)</u>
Balance, December 31, 2012	<u>13,959,738</u>	<u>13,240,883</u>	<u>25,439,842</u>
<b>Accumulated Depreciation:</b>			
Balance, January 1, 2011	-	(2,662,925)	(13,513,916)
Depreciation expense	-	(310,476)	(1,765,683)
Eliminated on disposals	-	-	<u>667,171</u>
Balance, December 31, 2011	-	(2,973,401)	(14,612,428)
Depreciation expense	-	(311,325)	(1,943,246)
Eliminated on disposals	-	-	<u>762,420</u>
Balance, December 31, 2012	-	<u>(3,284,726)</u>	<u>(15,793,254)</u>
<b>Net Carrying Value:</b>			
December 31, 2012	<u>13,959,738</u>	<u>9,956,157</u>	<u>9,646,588</u>
December 31, 2011	<u>7,533,312</u>	<u>10,188,843</u>	<u>10,284,402</u>

The additions in furniture, office and computer equipment for 2012 mainly represent cost of new software and computer equipments.

The increase in advance payments represents the additional costs related to the establishment of three new branches in 2012 and to renovation of seven branches in 2011.

Vehicles LBP'000	Improvements and Installations LBP'000	Advance Payment LBP'000	Total LBP'000
557,307	9,700,787	1,147,657	54,340,475
30,150	398,207	1,989,682	5,875,093
-	(41,267)	-	(840,659)
587,457	10,057,727	3,137,339	59,374,909
23,310	1,111,644	5,557,686	14,560,441
-	-	-	(819,724)
<u>610,767</u>	<u>11,169,371</u>	<u>8,695,025</u>	<u>73,115,626</u>
(148,978)	(5,414,481)	-	(21,740,300)
(58,338)	(616,866)	-	(2,751,363)
-	24,210	-	691,381
(207,316)	(6,007,137)	-	(23,800,282)
(57,371)	(660,355)	-	(2,972,297)
-	-	-	762,420
<u>(264,687)</u>	<u>(6,667,492)</u>	<u>-</u>	<u>(26,010,159)</u>
<u>346,080</u>	<u>4,501,879</u>	<u>8,695,025</u>	<u>47,105,467</u>
<u>380,141</u>	<u>4,050,590</u>	<u>3,137,339</u>	<u>35,574,627</u>

## 16. INTANGIBLE AND OTHER ASSETS

December 31,

	2012 LBP'000	2011 LBP'000
Deferred charges	406,178	456,553
Prepaid expenses	5,917,970	4,328,309
Refundable guarantee deposits	167,461	167,461
Stamps	55,741	92,143
Change in fair value of forward exchange contracts	52,584	32,969
Deferred charges on acquired bank	-	723,286
Deferred tax assets	574,548	169,695
Intangible assets	491,128	581,810
Other debit balances	4,239,510	4,885,516
Provision for doubtful receivables	<u>(667,110)</u>	<u>(667,110)</u>
	<u>11,238,010</u>	<u>10,770,632</u>

The movement of intangible assets during 2012 and 2011 was as follows:

<b>Cost:</b>	<b><u>LBP'000</u></b>
Balance, January 1, 2011	1,424,793
Additions	<u>376,042</u>
Balance, December 31, 2011	1,800,835
Additions	<u>100,113</u>
Balance, December 31, 2012	<u>1,900,948</u>
<b>Accumulated Amortization:</b>	
Balance, January 1, 2011	(1,188,720)
Additions	<u>(30,305)</u>
Balance, December 31, 2011	(1,219,025)
Additions	<u>(190,795)</u>
Balance at December 31, 2012	<u>(1,409,820)</u>
<b>Net Carrying Value:</b>	
December 31, 2012	<u>491,128</u>
December 31, 2011	<u>581,810</u>

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 differential 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 extension 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 18)	(2,400,000)
Accumulated amortization up to year-end 2009	<u>(6,653,782)</u>
	2,165,906
Amortization for 2010	<u>(721,310)</u>
	1,444,596
Amortization for 2011 (Note 34)	<u>(721,310)</u>
	723,286
Amortization for 2012 (Note 34)	<u>(723,286)</u>
Balance as at December 31, 2012	≡

**17. 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.

**18. GOODWILL**

This caption consists of the following:

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Goodwill on acquisition of Société Bancaire du Liban ("SBL") (Note 16)	2,400,000	2,400,000
Goodwill on acquisition of Capital Finance Company S.A.L. in 2009	<u>17,979,656</u>	<u>17,979,656</u>
	<u>20,379,656</u>	<u>20,379,656</u>

## 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,

	2012 LBP'000	2011 LBP'000
Current deposits of banks and financial institutions	165,425,213	39,097,530
Money market deposits – A	390,818,415	319,043,314
Short term borrowings – B	21,881,996	8,785,656
Borrowings under sale and repurchase agreements – C	45,225,000	45,225,000
Other short term borrowings – D	3,535,288	3,740,824
Accrued interest payable	<u>2,070,961</u>	<u>1,627,453</u>
	<u>628,956,873</u>	<u>417,519,777</u>

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

December 31, 2012

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2013	69,976,026	4.62	315,566,139	1.32
2014	2,261,250	5.25	-	-
2015	<u>3,015,000</u>	5.25	-	-
	<u>75,252,276</u>		<u>315,566,139</u>	

December 31, 2011

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2012	<u>57,833,082</u>	5.33	<u>261,210,232</u>	1.62

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

December 31, 2012		
Maturity	F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %
2013	<u>21,881,996</u> <u>21,881,996</u>	4.75

December 31, 2011		
Maturity	F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %
2012	4,669,852	1.49
2013	<u>4,115,804</u> <u>8,785,656</u>	4.25

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 USD30,000,000) bearing an interest rate of 4.36% against pledged corporate bonds issued by foreign banks with a nominal value of USD49,000,000 (LBP74billion) (USD51million in 2011) classified under financial assets at amortized cost as at December 31, 2012 and 2011.

D. Other short term borrowings consist of the following:

December 31,		
	2012 LBP'000	2011 LBP'000
Loan from the European Investment Bank	790,288	995,824
Soft loan from the Central Bank of Lebanon	<u>2,745,000</u>	<u>2,745,000</u>
	<u>3,535,288</u>	<u>3,740,824</u>

Borrowings from the European Investment Bank are 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 LBP2.7billion 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 the write-off of a debtor’s exposure under credit facilities used to refinance the construction of property and acquisition of equipment damaged during the July 2006 war.

The maturities of other short term borrowings are as follows:

**December 31, 2012**

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount LBP'000	Average Interest Rate %	Amount LBP'000	Average Interest Rate %
2016	2,745,000	2.20	-	-
2020	-	-	<u>790,288</u>	3.34
	<u>2,745,000</u>		<u>790,288</u>	

**December 31, 2011**

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

## 20. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

Customers' deposits and credit balances are stated at amortized cost and are detailed as follows:

December 31,		
	2012 LBP'000	2011 LBP'000
Current and demand deposits	303,007,553	267,002,710
Term deposits	528,523,552	494,433,727
Saving accounts	2,462,327,238	2,140,418,016
Related party deposits	142,489,195	120,888,371
Collateral against loans and advances - Related parties	50,681,184	31,126,503
Collateral against loans and advances – Customers	321,026,753	321,893,169
Fiduciary accounts	188,628,313	78,673,469
Margins for irrevocable letters of credit	14,208,416	15,939,427
Margins on letters of guarantee	<u>13,436,428</u>	<u>9,215,787</u>
	4,024,328,632	3,479,591,179
Accrued interest payable	<u>22,341,335</u>	19,812,312
	<u>4,046,669,967</u>	<u>3,499,403,491</u>

Customers' deposits include coded accounts as at December 31, 2012 amounting to LBP19billion (LBP18billion as at December 31, 2011). 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.

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, 2012 and 2011 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 2012 and 2011. This escrow account earned interest at the rate of 3.21% during 2012 (3.22% during 2011).

Deposits are allocated by brackets as follows:

December 31, 2012				
	Deposits in LBP		Deposits in F/Cy	
	Total Deposits LBP'000	% to Total Deposits	Total Deposits LBP'000	% to Total Deposits
Related parties	<u>95,580,785</u>	6.90	<u>93,786,809</u>	3.60
Customers:				
Less than LBP 200million	357,460,046	25.00	408,539,154	15.60
Between LBP 200million and LBP 1.5billion	420,073,417	29.40	764,407,260	29.20
More than LBP 1.5billion	<u>554,629,834</u>	38.70	<u>1,352,192,662</u>	51.60
	<u>1,332,163,297</u>	-	<u>2,525,139,076</u>	-
	<u>1,427,744,082</u>	<u>100.00</u>	<u>2,618,925,885</u>	<u>100.00</u>

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	<u>48,698,796</u>	4.27	<u>103,316,078</u>	4.38
Customers:				
Less than LBP 200million	274,510,619	24.19	304,787,960	12.87
Between LBP 200million and LBP 1.5billion	342,735,524	30.06	623,582,733	26.44
More than LBP 1.5billion	<u>473,077,317</u>	41.48	<u>1,328,694,464</u>	56.31
	<u>1,090,323,460</u>	-	<u>2,257,065,157</u>	-
	<u>1,139,022,256</u>	<u>100.00</u>	<u>2,360,381,235</u>	<u>100.00</u>

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		Cost of Funds LBP'000	Average Interest Rate %
		LBP%	F/Cy %		
2012	3,798,554,565	34	66	168,980,911	4.37
2011	3,242,234,623	33	67	150,628,490	4.65
2010	2,755,797,949	37	63	134,177,989	4.87

## 21. CERTIFICATES OF DEPOSIT

	December 31, 2012		December 31, 2011	
	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	<u>86,045</u>	<u>129,712</u>	<u>86,045</u>	<u>129,712</u>
Carrying amount	<u>3,836,045</u>	<u>5,782,837</u>	<u>3,836,045</u>	<u>5,782,837</u>

On February 20, 2010, the Group issued certificates of deposit with a nominal value amounting to USD10million (C/V LBP15billion) maturing on February 20, 2013 of which USD3.75million (C/V LBP5.65billion) were subscribed into. The certificates of deposit bear a fixed interest rate of 6.25% per annum. Interest expenses of these certificate of deposits amounted to LBP396million during 2012 (LBP340million during 2011).

## 22. OTHER LIABILITIES

December 31,

	2012 LBP'000	2011 LBP'000
Withheld taxes and other taxes payable	2,625,787	1,567,921
Corporate income tax payable	1,920,790	1,427,660
Due to the National Social Security Fund	534,024	467,906
Checks and incoming payment orders in course of settlement	6,832,854	10,427,098
Accrued expenses	7,901,915	3,931,728
Provision for early redemption of investment securities (Note 11)	2,167,457	3,664,080
Deferred income	6,975,888	4,714,298
Due to insurance companies and collectors of bills	10,363,228	8,638,989
Sundry accounts payable	<u>7,356,622</u>	<u>2,969,740</u>
	<u>46,678,565</u>	<u>37,809,420</u>

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, 2012

	Less than 1 year LBP'000	Between 1 and 2 years LBP'000	More than 2 years LBP'000	Total LBP'000
Insurance companies	3,676,124	2,422,338	2,175,515	8,273,977
Collectors of bills	1,085,628	422,758	264,418	1,772,804
Selling parties	207,675	-	-	207,675
Other payables	<u>108,772</u>	=	=	<u>108,772</u>
Total	<u>5,078,199</u>	<u>2,845,096</u>	<u>2,439,933</u>	<u>10,363,228</u>

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	<u>6,477</u>	=	=	<u>6,477</u>
Total	<u>4,228,542</u>	<u>2,296,418</u>	<u>2,114,029</u>	<u>8,638,989</u>

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.

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 Bank's accounts and tax returns remain subject to examination for tax authorities since 2009.

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.

### 23. PROVISIONS

Provisions consist of the following:

	December 31,	
	2012 LBP'000	2011 LBP'000
Provision for staff end-of-service indemnities	6,773,788	6,262,219
Provision for contingencies	311,682	260,056
Provision for foreign currency fluctuations	<u>4,821</u>	<u>1,785</u>
	<u>7,090,291</u>	<u>6,524,060</u>

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

	2012 LBP'000	2011 LBP'000
Balance, January 1	6,262,219	5,654,657
Additions	1,089,064	771,995
Settlements	<u>(577,495)</u>	<u>(164,433)</u>
Balance, December 31	<u>6,773,788</u>	<u>6,262,219</u>

The movement of the provision for contingencies was as follows:

	2012 LBP'000	2011 LBP'000
Balance, January 1	260,056	523,612
Additions	51,626	-
Transferred to provision for impairment of collectively assessed loans (Note 9)	-	(200,000)
Write offs	-	<u>(63,556)</u>
Balance, December 31	<u>311,682</u>	<u>260,056</u>

## 24. SHARE CAPITAL

The Extraordinary General Assembly of the Bank approved in its meeting held on January 12, 2012 the increase of capital from LBP131billion to LBP154.5billion through the issuance of 2,306,018 nominative shares of LBP10,000 par value each, therefore, the Bank capital consists of 15,450,000 shares of par value of LBP10,000 each fully paid.

## 25. 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 LBP10,000 each, and an aggregate premium of USD14million on the entire issued shares. The preferred shares earn dividends of USD4.25 each for the year 2009 and USD8.25 for the years thereafter.

The Extraordinary General Assembly held on November 28, 2012 decided to issue 250,000 non-cumulative perpetual redeemable series 2 preferred shares with a nominal value of LBP10,000 each and an aggregate premium of LBP35.2billion (USD23.34million) on the entire issued shares to be paid in cash by the subscribers in accordance with the terms and conditions specified in the Extraordinary General Assembly indicated above. It is to be noted that the cash settlement was made by the subscribers during 2012 and deposited in an escrow account pending the completion of the required legal formalities to issue these shares.

## 26. 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.

## 27. NON-CONTROLLING INTERESTS

This caption comprises the following:

	December 31,	
	2012 LBP'000	2011 LBP'000
Capital	436,211	436,211
Legal reserves	10,700	9,019
Accumulated losses	<u>(4,206)</u>	<u>(21,217)</u>
	<u>442,705</u>	<u>424,013</u>

## 28. INTEREST INCOME

	2012 LBP'000	2011 LBP'000
<b>Interest income from:</b>		
Term deposits with Central Bank	18,437,322	3,252,648
Deposits with banks and financial institutions	2,938,673	5,295,522
Financial assets at amortized cost	139,604,546	127,900,078
Loans to banks	724,797	1,518,153
Loans and advances to customers	96,548,750	85,521,380
Loans and advances to related parties	<u>2,941,694</u>	<u>2,142,374</u>
	<u>261,195,782</u>	<u>225,630,155</u>

## 29. INTEREST EXPENSE

	2012 LBP'000	2011 LBP'000
<b>Interest expense on:</b>		
Deposits and borrowings from banks and financial institutions	10,645,145	8,302,983
Soft loan from Central Bank	-	43,816
Customer's deposits	159,492,024	144,374,037
Related parties' deposits	9,488,887	6,254,453
Certificates of deposit	<u>396,440</u>	<u>340,349</u>
	<u>180,022,496</u>	<u>159,315,638</u>

## 30. FEE AND COMMISSION INCOME

This caption consists of the following:

	2012 LBP'000	2011 LBP'000
Commission on documentary credits	1,593,513	999,823
Commission on letters of guarantee	1,044,048	1,059,936
Commission on certificates of deposit	28,992	25,223
Service fees on customers' transactions	7,287,008	5,917,668
Brokerage fees	2,512,818	2,138,917
Commission on transactions with banks	<u>253,161</u>	<u>264,400</u>
	<u>12,719,540</u>	<u>10,405,967</u>

### 31. FEE AND COMMISSION EXPENSE

This caption consists of the following:

	2012 LBP'000	2011 LBP'000
Commission on transactions with banks	4,171,668	6,651,352
Commission on private banking transactions	<u>553,482</u>	<u>464,815</u>
	<u>4,725,150</u>	<u>7,116,167</u>

### 32. NET INTEREST AND GAIN AND LOSS ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This caption consists of the following:

	2012 LBP'000	2011 LBP'000
Interest income	1,718,564	1,561,311
Unrealized gain/(loss) (Note 7)	846,807	(953,431)
Net realized gain on sold securities	1,213,326	5,456,969
Dividend income	<u>898,683</u>	<u>477,603</u>
	<u>4,677,380</u>	<u>6,542,452</u>

### 33. OTHER OPERATING INCOME (NET)

This caption consists of the following:

	2012 LBP'000	2011 LBP'000
Gain on exercising the call option on certificates of deposit issued by the Central Bank of Lebanon	3,741,564	-
Gain on exchange of Lebanese government bonds	-	635,264
Management and consulting fees income	-	150,750
Share of losses of an associate (Note 13)	(8,122)	(1,288)
Net loss on disposal of equipment	(18,444)	(55,089)
Net foreign exchange gains	3,121,254	2,426,192
Other	<u>847,133</u>	<u>1,243,856</u>
	<u>7,683,385</u>	<u>4,399,685</u>



### 34. DEPRECIATION AND AMORTIZATION

This caption consists of the following:

	2012 LBP'000	2011 LBP'000
Depreciation of property and equipment (Note 15)	2,972,297	2,751,363
Amortization of deferred accounts for merged bank (Note 16)	723,286	721,310
Amortization of intangible assets	<u>190,795</u>	<u>30,305</u>
	<u>3,886,378</u>	<u>3,502,978</u>

### 35. 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, 2012 and 2011 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.

### 36. FIDUCIARY DEPOSITS AND ASSETS UNDER MANAGEMENT

Fiduciary assets are invested as follows:

	December 31, 2012		
	Resident LBP'000	Non-Resident LBP'000	Total LBP'000
Deposits with financial institutions	13,082,363	3,082,020	16,164,383
Debt and equity securities	<u>229,043,439</u>	<u>146,155,270</u>	<u>375,198,709</u>
	<u>242,125,802</u>	<u>149,237,290</u>	<u>391,363,092</u>

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 and equity securities	<u>178,746,955</u>	<u>149,888,173</u>	<u>328,635,128</u>
	<u>185,899,804</u>	<u>153,450,953</u>	<u>339,350,757</u>

### 37. BALANCES / TRANSACTIONS WITH RELATED PARTIES

December 31,		
	2012 LBP'000	2011 LBP'000
<b>Shareholders, directors and other key management personnel and close family members:</b>		
Direct facilities and credit balances:		
Secured loans and advances	26,450,713	30,349,923
Unsecured loans and advances	16,754,266	3,354,147
Deposits	193,170,379	152,014,874
Indirect facilities	1,559,000	1,981,000

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 LBP38billion (LBP27billion as of December 31, 2011). In addition, loans and advances were covered by real estate mortgages to the extent of LBP5.4billion as of December 31, 2012 (LBP6.7billion as of December 31, 2011).

Directors' and senior staff remuneration amounted to LBP3.7billion during 2012 (LBP3.5billion during 2011).

### 38. DIVIDENDS PAID

December 31,		
	2012 LBP'000	2011 LBP'000
Preferred shares - Series 1	1,865,529	1,865,531
Ordinary shares	<u>6,180,000</u>	<u>6,046,232</u>
	<u>8,045,529</u>	<u>7,911,763</u>

The general assembly of the Bank held on June 4, 2012 approved the dividends distribution of LBP400 for each common share and USD8.25 (c/v LBP12,437) for each preferred share - Series 1.

The general assembly of the Bank held on June 10, 2011 approved the dividends distribution of LBP460 for each common share and USD8.25 (c/v LBP12,437) for each preferred share - Series 1.

### 39. CASH AND CASH EQUIVALENTS

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

	<b>December 31,</b>	
	<b>2012</b>	<b>2011</b>
	<b>LBP'000</b>	<b>LBP'000</b>
Cash	27,875,184	21,361,692
Current accounts with Central Bank of Lebanon	137,494,552	13,602,640
Time deposits with Central Bank of Lebanon	-	148,140,153
Current accounts with banks and financial institutions and purchased checks	111,513,276	75,231,854
Time deposits with banks and financial institutions	<u>143,256,528</u>	<u>130,518,736</u>
	<u>420,139,540</u>	<u>388,855,075</u>

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 LBP982million against loans and advances to customers for the year ended December 31, 2012 (LBP1.6billion for the year ended December 31, 2011).
- b- Decrease in change in fair value of financial assets at fair value through other comprehensive income in the amount of LBP2.3billion for the year ended December 31, 2012 (LBP962million for the year 2011) against decrease in financial assets at fair value through other comprehensive income in the amount of LBP2.7billion (LBP1.1billion during 2011) and increase in deferred tax asset in the amount of LBP405million (LBP170million in 2011).
- c- Decrease in provision for doubtful debts for the amount of LBP432million for the year ended December 31, 2012 against transfer to other liabilities.

### 40. CAPITAL MANAGEMENT

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

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 LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each branch abroad. In addition, the bank is required to observe the minimum capital adequacy ratio set by the regulator at 8% (Basle 2 Ratio).

The Group 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.

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.

**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.

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.

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

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

	December 31,	
	2012 In million of LBP	2011 In million of LBP
Total regulatory capital	<u>297,502</u>	<u>222,659</u>
Credit risk	3,186,287	2,688,044
Market risk	83,417	49,975
Operational risk	<u>153,020</u>	<u>123,708</u>
Risk-weighted assets and risk-weighted off-balance sheet items	<u>3,422,724</u>	<u>2,861,727</u>
<b>Capital adequacy ratio</b>	<b><u>8.69%</u></b>	<b><u>7.78%</u></b>

The Extraordinary General Assembly of the Bank approved in its meeting held on January 12, 2012 the increase of capital from LBP131billion to LBP155billion through the issuance of 2,306,018 nominative shares of LBP 10,000 par value each.

## 41. 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

Concentration of financial assets and liabilities by geographical area:

	December 31, 2012					
	Lebanon LBP'000	Middle East and Africa LBP'000	North America LBP'000	Europe LBP'000	Other LBP'000	Total LBP'000
<b>Financial Assets</b>						
Cash and central bank	1,091,999,480	-	-	-	14,525,765	1,106,525,245
Deposits with banks and financial institutions	158,186,278	36,072,214	11,921,009	135,255,613	31,117,292	372,552,406
Trading asset at fair value through profit or loss	68,345,490	977,031	82,124	340,067	-	69,744,712
Loans to banks	3,532,663	-	-	-	-	3,532,663
Loans and advances to customers	1,251,384,192	47,940,905	13,729	7,943,537	2,039,817	1,309,322,180
Financial assets at fair value through other comprehensive income	-	2,415,724	-	-	-	2,415,724
Financial assets at amortized cost	2,049,459,441	-	-	86,551,716	250,907	2,136,262,064
Customers' liability under acceptances	10,353,714	-	-	-	-	10,353,714
Other financial assets	<u>4,459,555</u>	=	=	=	=	<u>4,459,555</u>
Total	<u>4,637,720,813</u>	<u>87,405,874</u>	<u>12,016,862</u>	<u>230,090,933</u>	<u>47,933,781</u>	<u>5,015,168,263</u>
<b>Financial Liabilities</b>						
Deposits from banks and financial institutions	214,388,270	359,778,069	32,988	53,435,558	1,321,988	628,956,873
Customers' deposits	3,493,146,831	427,141,169	18,995,343	41,987,505	65,399,119	4,046,669,967
Liability under acceptances	10,353,714	-	-	-	-	10,353,714
Certificates of deposit	5,782,837	-	-	-	-	5,782,837
Other financial liabilities	<u>17,719,849</u>	=	=	=	=	<u>17,719,849</u>
Total	<u>3,741,391,501</u>	<u>786,919,238</u>	<u>19,028,331</u>	<u>95,423,063</u>	<u>66,721,107</u>	<u>4,709,483,240</u>

**December 31, 2011**

	<b>Lebanon LBP'000</b>	<b>Middle East and Africa LBP'000</b>	<b>North America LBP'000</b>	<b>Europe LBP'000</b>	<b>Other LBP'000</b>	<b>Total LBP'000</b>
<b>Financial Assets</b>						
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 asset at fair value through profit or loss	18,665,119	822,156	1,887,480	4,273,717	-	25,648,472
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
Financial assets at fair value through other comprehensive income	-	5,114,748	-	-	-	5,114,748
Financial assets at amortization cost	2,071,308,772	-	-	93,268,683	-	2,164,577,455
Customers' liability under acceptance	13,328,063	-	-	-	-	13,328,063
Other financial assets	<u>5,085,946</u>	-	-	-	-	<u>5,085,946</u>
	<u>3,847,498,096</u>	<u>69,065,336</u>	<u>5,781,298</u>	<u>258,375,544</u>	<u>1,066,704</u>	<u>4,181,786,978</u>
<b>Financial Liabilities</b>						
Deposits from banks and financial institutions	115,386,869		4,278	66,596,646	1,257,125	417,519,777
Customers' deposits	3,011,747,250		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 financial liabilities	<u>11,608,729</u>		-	-	-	<u>11,608,729</u>
	<u>3,157,853,748</u>		<u>18,216,307</u>	<u>122,450,147</u>	<u>34,604,282</u>	<u>3,947,642,897</u>

## **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 financial liabilities segregated by maturity:

December 31, 2012			
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
<b>Financial Liabilities</b>			
Deposits and borrowings from banks and financial institutions	85,271,067	290,800,071	244,074,197
Customers' deposits	52,103,790	3,233,455,928	641,649,706
Liability under acceptances	10,353,714	-	-
Certificates of deposit	129,712	5,653,125	-
Other financial liabilities	<u>7,356,621</u>	<u>1,900,608</u>	<u>3,177,590</u>
Total	<u>155,214,904</u>	<u>3,531,809,732</u>	<u>888,901,493</u>
December 31, 2011			
	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
<b>Financial Liabilities</b>			
Deposits and borrowings from banks and financial institutions	15,888,486	318,584,700	34,201,434
Customers' deposits	57,233,613	3,383,013,772	43,677,482
Liability under acceptances	13,328,063	-	-
Certificates of deposit	-	129,712	-
Other financial liabilities	<u>2,969,740</u>	-	<u>4,228,542</u>
Total	<u>89,419,902</u>	<u>3,701,728,184</u>	<u>82,107,458</u>

December 31, 2012

1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
	-	3,535,288	628,956,873
5,276,250	1,742,817	-	4,046,669,967
117,717,726	-	-	10,353,714
-	-	-	5,782,837
-	<u>2,439,933</u>	-	<u>17,719,849</u>
<u>2,845,097</u>			
<u>125,839,073</u>	<u>4,182,750</u>	<u>3,535,288</u>	<u>4,709,483,240</u>

December 31, 2011

1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
45,225,000	2,745,000	875,157	417,519,777
15,478,624	-	-	3,499,403,491
-	-	-	13,328,063
5,653,125	-	-	5,782,837
<u>2,296,418</u>	<u>2,114,029</u>	-	<u>11,608,729</u>
<u>68,653,167</u>	<u>4,859,029</u>	<u>875,157</u>	<u>3,947,642,897</u>

## C – Market Risks

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, 2012

	LBP LBP'000	USD LBP'000	EURO LBP'000	OTHER LBP'000	TOTAL LBP'000
<b>Assets</b>					
Cash and central bank	319,957,275	519,696,013	262,826,239	4,045,718	1,106,525,245
Deposits with banks and financial institutions	18,275,501	242,244,302	47,843,558	64,189,045	372,552,406
Trading asset at fair value through profit or loss	44,960,434	24,561,776	46,141	176,361	69,744,712
Loans to banks	3,532,663	-	-	-	3,532,663
Loans and advances to customers	381,448,165	886,724,734	35,489,334	5,659,947	1,309,322,180
Financial assets at fair value through other comprehensive income	-	2,415,724	-	-	2,415,724
Financial assets at amortized cost	965,396,109	1,123,721,666	47,144,289	-	2,136,262,064
Customers' liability under acceptances	-	8,474,429	1,879,285	-	10,353,714
Investment in an associate	575,036	-	-	-	575,036
Assets acquired in satisfaction of loans	5,248	3,893,428	-	-	3,898,676
Property and equipment	40,552,050	6,553,417	-	-	47,105,467
Other assets	5,852,197	5,385,813	-	-	11,238,010
Regulatory blocked fund	1,500,000	-	-	-	1,500,000
Goodwill	<u>20,379,656</u>	-	-	-	<u>20,379,656</u>
				<u>74,071,071</u>	<u>5,095,405,553</u>
Total	<u>1,802,434,334</u>	<u>2,823,671,302</u>	<u>395,228,846</u>		
<b>Liabilities</b>					
Deposits and borrowings from and banks financial institutions	74,753,394	462,591,946	82,733,095	8,878,438	628,956,873
Customers' deposits at amortized cost	1,428,561,065	2,242,204,840	314,232,020	61,672,042	4,046,669,967
Liability under acceptances	-	8,474,429	1,879,285	-	10,353,714
Certificates of deposit	-	5,782,837	-	111,485	5,782,837
Other liabilities	15,431,630	30,775,133	360,317	-	46,678,565
Provisions	<u>7,088,695</u>	<u>1,596</u>	-	-	<u>7,090,291</u>
				<u>70,661,965</u>	<u>4,745,532,247</u>
Total	<u>1,525,834,784</u>	<u>2,749,830,781</u>	<u>399,204,717</u>		
Currencies to be delivered	-	(13,371,123)	(8,295,631)	(14,103,243)	(35,769,997)
Currencies to be received	<u>367,688</u>	<u>9,870,776</u>	<u>13,255,996</u>	<u>12,328,121</u>	<u>35,822,581</u>
	<u>367,688</u>	<u>(3,500,347)</u>	<u>4,960,365</u>	<u>(1,775,122)</u>	<u>52,584</u>
Net assets	<u>276,967,238</u>	<u>70,340,174</u>		<u>1,633,984</u>	<u>349,925,890</u>

**December 31, 2011**

	<b>LBP LBP'000</b>	<b>USD LBP'000</b>	<b>EURO LBP'000</b>	<b>OTHER LBP'000</b>	<b>TOTAL LBP'000</b>
<b>Assets</b>					
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 asset at fair value through profit or loss	34,168	23,103,120	50,416	2,460,768	25,648,472
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
Financial assets at fair value through other comprehensive income	-	5,114,748	-	-	5,114,748
Financial assets at amortized cost	866,505,397	1,222,599,660	71,340,944	4,131,454	2,164,577,455
Customers' liability under acceptances	-	8,306,349	5,021,714	-	13,328,063
Investment in and loans to an associate	583,158	-	-	-	583,158
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	6,060,701	4,709,931	-	-	10,770,632
Regulatory blocked fund	1,500,000	-	-	-	1,500,000
Goodwill	<u>20,379,656</u>	-	-	-	<u>20,379,656</u>
<b>Total</b>	<u>1,428,701,821</u>	<u>2,483,291,408</u>	<u>260,356,102</u>	<u>77,983,956</u>	<u>4,250,333,287</u>
<b>Liabilities</b>					
Deposits and borrowings from and banks 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 acceptances	-	8,306,349	5,021,714	-	13,328,063
Certificates of deposit	-	5,782,837	-	-	5,782,837
Other liabilities	12,854,360	24,239,975	638,717	76,368	37,809,420
Provisions	<u>6,447,086</u>	<u>76,974</u>	-	-	<u>6,524,060</u>
<b>Total</b>	<u>1,219,410,300</u>	<u>2,403,143,349</u>	<u>293,903,988</u>	<u>63,910,011</u>	<u>3,980,367,648</u>
Currencies to be delivered	-	31,306,498	9,270,384	34,710,717	75,287,599
Currencies to be received	<u>(3,693,375)</u>	<u>(4,589,171)</u>	<u>(43,915,088)</u>	<u>(26,826,157)</u>	<u>(79,023,791)</u>
	<u>(3,693,375)</u>	<u>26,717,327</u>	<u>(34,644,704)</u>	<u>7,884,560</u>	<u>(3,736,192)</u>
<b>Net assets</b>	<u>205,598,146</u>	<u>106,865,386</u>	<u>(68,192,590)</u>	<u>21,958,505</u>	<u>266,229,447</u>

**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, 2012

	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
<b>Financial Assets</b>			
Cash and central bank	240,435,195	-	130,205,800
Deposits with banks and financial institutions	126,610,276	151,201,970	75,142,660
Trading asset at fair value through profit or loss	17,446,293	-	-
Loans to banks	32,663	-	-
Loans and advances to customers	(88,255,902)	652,419,694	73,951,042
Financial assets at fair value through other comprehensive income	2,415,724	-	-
Financial assets at amortized cost	36,543,831	52,150,000	169,364,845
Customer's liability under acceptances	10,353,714	-	-
Other financial assets	<u>4,459,555</u>	-	-
Total	<u>350,041,349</u>	<u>855,771,664</u>	<u>448,664,347</u>
<b>Financial Liabilities</b>			
Deposits and borrowings from banks and financial institutions	159,830,996	218,501,392	241,812,947
Customer's deposit at amortized cost	55,906,575	3,229,653,143	641,649,706
Liability under acceptances	10,353,714	-	-
Certificates of deposit	129,712	5,653,125	-
Other Financial liabilities	<u>17,719,849</u>	-	-
Total	<u>243,940,846</u>	<u>3,453,807,660</u>	<u>883,462,653</u>

December 31, 2012

1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
97,987,500	412,896,750	225,000,000	1,106,525,245
19,597,500	-	-	372,552,406
856,449	18,907,182	32,534,788	69,744,712
-	450,000	3,050,000	3,532,663
285,485,473	137,677,163	248,044,710	1,309,322,180
-	-	-	2,415,724
539,722,461	556,981,399	781,499,528	2,136,262,064
-	-	-	10,353,714
-	-	-	<u>4,459,555</u>
<u>943,649,383</u>	<u>1,126,912,494</u>	<u>1,290,129,026</u>	<u>5,015,168,263</u>
5,276,250	-	3,535,288	628,956,873
117,717,726	1,742,817	-	4,046,669,967
-	-	-	10,353,714
-	-	-	5,782,837
-	-	-	<u>17,719,849</u>
<u>122,993,976</u>	<u>1,742,817</u>	<u>3,535,288</u>	<u>4,709,483,240</u>

December 31, 2011

	Not Subject to Maturity LBP'000	Up to 3 Months LBP'000	3 to 12 Months LBP'000
<b>Financial Assets</b>			
Cash and central bank	86,949,714	296,008,956	75,375,000
Deposits with banks and financial institutions	82,212,895	155,997,194	18,843,750
Trading asset at fair value through profit or loss	19,855,388	34,168	-
Loans to banks	-	13,579,177	-
Loans and advances to customers	(75,068,328)	544,243,900	157,566,949
Financial assets at fair value through other comprehensive income	5,114,748	-	-
Financial assets at amortized cost	71,103,428	65,454,213	241,899,829
Customer's liability under acceptances	13,328,063	-	-
Other financial assets	<u>5,085,946</u>	-	-
Total	<u>208,581,854</u>	<u>1,075,317,608</u>	<u>493,685,528</u>
<b>Financial Liabilities</b>			
Deposits and borrowings from banks and financial institutions	15,888,486	318,584,700	34,201,434
Customer's deposit at amortized cost	57,233,613	3,383,013,772	43,677,482
Liability under acceptances	13,328,063	-	-
Certificates of deposit	-	129,712	-
Other Financial liabilities	<u>2,969,740</u>	-	<u>4,228,542</u>
Total	<u>89,419,902</u>	<u>3,701,728,184</u>	<u>82,107,458</u>

December 31, 2011

1 to 3 Years LBP'000	3 to 5 Years LBP'000	Over 5 Years LBP'000	Total LBP'000
-	60,300,000	-	518,633,670
-	-	-	257,053,839
45,225	483,755	5,229,936	25,648,472
-	600,000	3,450,000	17,629,177
210,066,713	61,835,273	276,071,101	1,174,715,608
-	-	-	5,114,748
456,125,935	470,267,266	859,726,784	2,164,577,455
-	-	-	13,328,063
-	-	-	<u>5,085,946</u>
<u>666,237,873</u>	<u>593,486,294</u>	<u>1,144,477,821</u>	<u>4,181,786,978</u>
45,225,000	2,745,000	875,157	417,519,777
15,478,624	-	-	3,499,403,491
-	-	-	13,328,063
5,653,125	-	-	5,782,837
<u>2,296,418</u>	<u>2,114,029</u>	-	<u>11,608,729</u>
<u>68,653,167</u>	<u>4,859,029</u>	<u>875,157</u>	<u>3,947,642,897</u>



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:

<b>December 31, 2012</b>				
	<b>Level 1 LBP'000</b>	<b>Level 2 LBP'000</b>	<b>Level 3 LBP'000</b>	<b>Total LBP'000</b>
<b>Financial assets at fair value through profit or loss:</b>				
Quoted equity securities	12,872,611	-	-	12,872,611
Unquoted equity securities	-	-	3,766,135	3,766,135
Lebanese treasury bills	-	44,199,147	-	44,199,147
Lebanese Government bonds	-	6,245,667	-	6,245,667
Certificate of deposits issued by Central Bank of Lebanon	-	856,449	-	856,449
Corporate bonds	-	<u>997,157</u>	-	<u>997,157</u>
	<u>12,872,611</u>	<u>52,298,420</u>	<u>3,766,135</u>	<u>68,937,166</u>
<b>Financial assets at fair value through other comprehensive income:</b>				
Quoted equity securities	<u>2,415,724</u>	=	=	<u>2,415,724</u>

<b>December 31, 2011</b>				
	<b>Level 1 LBP'000</b>	<b>Level 2 LBP'000</b>	<b>Level 3 LBP'000</b>	<b>Total LBP'000</b>
<b>Financial assets at fair value through profit or loss:</b>				
Quoted equity securities	14,520,268	-	-	14,520,268
Unquoted equity securities	-	-	3,556,108	3,556,108
Lebanese Government bonds	-	2,588,872	-	2,588,872
Corporate bonds	<u>3,134,330</u>	-	-	<u>3,134,330</u>
	<u>17,654,598</u>	<u>2,588,872</u>	<u>3,556,108</u>	<u>23,799,578</u>
<b>Financial assets at fair value through other comprehensive income:</b>				
Quoted equity securities	<u>5,114,758</u>	=	=	<u>5,114,758</u>

#### **42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS**

The consolidated financial statements for the year ended December 31, 2012 were approved by the Board of Directors in its meeting held on February 19, 2013.

ADDRESSES

## Head Office

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P.O.Box: 16-5192 Achrafieh

Beirut - Lebanon

Tel: (01) 963000 - 977040

Call Center: 1244

Fax: (01) 973090

Swift: FINKLBBE

Telex no. 48627 FNBB

Website: www.fnb.com.lb

## Branches

### Main Branch - Allenby

Beirut Central District, Allenby Street, Marfaa .147

Tel: (01) 963000 - 977040 - 1244

Fax: (01) 973036

### Hamra

Hamra Street, Immobilia Bldg.

Tel: (01) 738502/3 - 340440- 738499 - 354799

Fax: (01) 749894

### Aley

Bakaa, Riyad Fakih Center

Tel/Fax: (05) 556020/1/2/3

### Hazmieh

Jisr El Bacha Road, International Key Bldg.

Tel: (05) 455673/4/6/7

Fax: (05) 457838

### Choueifat

Old Saida Road (Deir Koubel Exit),

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### Antelias

Hage Center, Antelias

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### Mazraa

Main Road, Khaled Al Ashi Bldg.

Tel: (01) 314340 - 314339 - 305219 - 305220

Fax: (01) 302527

### Jnah – Marriott

Jnah, Golden Tulip Galleria Hotel, Ground Floor

Tel: (01) 858310/1/3

Fax: (01) 858312

### Halba

Akkar, Al Saha, Center Masoud

Tel: (06) 693661/2/7

Fax: (06) 693665

### Mais Al Jabal

Al Saha, Doulany Bldg.

Tel: (03) 399334 - (07) 865800/1/3

Fax: (07) 865802

### Achrafieh

Sassine Square, Michel Sassine Bldg., Ground Floor

Tel: (01) 200452/3/4

Fax: (01) 200455

### Verdun

Ain El Tineh Square, Achour Center

Tel: (01) 785601 - 797401 - 785576

Fax: (01) 785575

### Jdeideh

La Sagesse Street

Tel: (01) 870151 - 870164 - 894007

Fax: (01) 898007

### Tripoli

Sahat El Nour, Jimayzat Street, Moujamaa Tripoli Bldg.

Tel: (06) 432974 - 434974 - 447539

Fax: (06) 431713

### Saida

Deckerman Area, Jezzine Street, Golden Tower Bldg.

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Fax: (07) 727704

### Jounieh

Fouad Chehab Street (Serail St.), Al Turk Bldg.

Tel: (09) 645001/2/5

Fax: (09) 645003

### Nabatieh

Nabatieh, Habboush, Nabatieh Road, Haidar Center

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Fax:(07) 531983

**Haret Hreik**

Haret Hreik, Hadi Nasrallah Road, Abou Taam Bldg.  
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 Fax : (01) 276516

**Jdeita**

Jdeita, Bekaa, Main Road, Naim Nassar Bldg.  
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 Fax: (08) 542205

**Zouk Mosbeh**

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 Fax: (09) 225539

**Tarik Jdideh – Sabra**

Tarik Jdideh, Main Road, Sabra St. Ajlan & Zein Bldg.  
 Tel: (01) 843801/2/3  
 Fax: (01) 843804

**Mazraat Yachouh**

Mazraat Yachouh, Elissar, Main Road, Irani Bldg., Meten  
 Tel: (04) 928560/1/2/3  
 Fax: (04) 928570

**Baalbeck**

Baalbeck, Bikaa, Douress Exit, Main Road, Lakkis Bldg.  
 Tel: (08) 378701/2/3/4  
 Fax: (08) 378705

**Ghazir**

Keserwan, Main Road Kfarehbab Ghazir, Jacques Khoury Bldg.  
 Tel: (09) 856271/3/4/5  
 Fax: (09) 856279

**FNB's Active Correspondent Banks****Correspondent**

Westpac Banking Corporation - Sydney  
 ING Belgium NV/SA - Brussels  
 Commerzbank - FFT  
 Industrial and Commercial Bank of China  
 Danske Bank - Copenhagen  
 Commerzbank - Frankfurt am Main  
 Intesa Sanpaolo SPA - Milan  
 Bank of New York - Tokyo  
 Cairo Amman Bank - Amman  
 Gulf Bank K.S.C. - Kuwait  
 DNB Nor Bank ASA - Oslo  
 Qatar National Bank - Doha  
 Saudi Hollandi Bank - Riyadh  
 People's Bank - Colombo  
 Skandinaviska Enskilda Banken AB - Stockholm  
 Credit Suisse - Zurich  
 Emirates NBD - Dubai  
 Investbank PSC - Sharjah  
 Mashreq Bank PSC - Dubai City  
 Barclays Bank PLC - London  
 Bank of New York - New York  
 Standard Chartered- New York  
 Wells Fargo Bank N.A. - New York

**Country**

Australia  
 Belgium  
 Canada  
 China  
 Denmark  
 Germany  
 Italy  
 Japan  
 Jordan  
 Kuwait  
 Norway  
 Qatar  
 Saudi Arabia  
 Sri Lanka  
 Sweden  
 Switzerland  
 UAE  
 UAE  
 UAE  
 UK  
 USA  
 USA  
 USA



