Annual Report 2011

BSL

Annual Report 2011

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Chairman's Letter

Ramsay El Khoury
Chairman

Dear esteemed shareholders and customers,

Political domestic uncertainty and regional political instability have contributed to a strong fall in the trade and investment flows in Lebanon in 2011: most indicators confirm the overall weakness in the economy, such as the decline of GDP growth from 7% to 1.5%, and the current account and commercial balance deficits. The continuous predicament in the global financial markets and the absence of government reforms have continued to weigh on the Lebanese financial and banking sectors.

Amidst adverse regional and domestic market conditions, BSL bank maintained in 2011 its conservative investment strategy aiming at enhancing its overall risk and liquidity profile, while providing a stronger operating performance. The Bank posted net profits of USD 5.1 million, a substantial increase of 11% from 2010 profits. Net interest income increased by 20%, while revenues from commissions increased by 11%. BSL expanded its loan portfolio by 17%, with a special emphasis on retail lending. The Bank's performance was characterized by a growth record in the line with the market benchmarks and averages.

BSL has launched in 2011 a large investment program in order to acquire the latest information technologies enabling the Bank to maintain the highest quality standards and to exceed customer expectations. We have continued to enhance our product mix and diversified services to customers and we expect to expand our product range further in the coming two years.

We have and will continue to embrace corporate governance culture and to enforce discipline, ethics and transparency rules across the institution. The Board of Directors has been entrusted in 2011 with additional monitoring responsibilities and activity oversees, through various board committees, the Bank's performance and activities.

We have continued during 2011 to instill the image of conservative solid bank, known by all BSL counterparts. More than ever, we are strongly committed to the implementation of a strict risk management policy while combating money laundering.

BSL is and has been active partner in the Lebanese society for the past century. As part of our corporate social responsibility conviction, we have worked in the past year towards the continuous advancement of the community we live in. Notwithstanding the sponsoring of various cultural events and welfare organizations, our social responsibility encompasses our products offering as we continue to make sure that all products and services, including environmental product programs, are designed and restricted for the benefit of customers and community.

I take this opportunity to express my deepest gratitude for all those who enabled the Bank to rise successfully in the midst of adverse market conditions. Thank you all.

Ramsay A. EL Khoury
Chairman

Management & Directors

BSL BANK SAL BOARD OF DIRECTORS

Mr. Ramsay A. El Khoury – Chairman
Mrs. Mia El Khoury Ayoub
S.E. Joseph Chaoul
Me. Michel Tueini
Mr. Georges Hatem
Mr. Henri Nachawati
Mr. Riad Mansour
Mr. Antoine Menhem
Mr. Youssef Ghosn

GENERAL MANAGER

Mr. Selim Stephan

LEGAL COUNSELOR

Me. Joseph Naim

AUDITORS

Messrs KPMG
Messrs PricewaterhouseCoopers

INTERNAL AUDIT

Mr. Allam Sleiman

COMPLIANCE AND CONTROL UNIT

Mr. Jean Kassab

MANAGERS

Mrs. Rita Zein - Administrative Manager
Mr. Camille Choueiry - Commercial Banking Manager
Mr. Antoine Menhem - Operations Manager
Mr. Fady Abou Diwan - Credit / Risk Manager
Mr. Antoine Daoud - Financial Manager
Mrs. Maya Azzi - Capital Markets and Treasury Manager
Mr. Mansour Saouma - IT Manager
Mrs. Huguette Rayess - Commercial Banking Manager
Mr. Kamal Abi Fadel - Commercial Banking Manager

Independent Auditor's Report

CONSOLIDATED FINANCIAL STATEMENTS

Saba House Bldg,
Block B & C,
Said Freiha Street,
Hazmieh, Lebanon
P.O.Box: 11-3155
Beirut - Lebanon

Beirut Central District
Lazarieh Building –
Bloc 01- 6th floor
P.O.Box: 11-8270
Beirut - Lebanon

INDEPENDANT AUDITOR'S REPORT

To the shareholders of
Societe Nouvelle de la Banque de Syrie et du Liban S.A.L.

We have audited the accompanying consolidated financial statements of Societe Nouvelle de la Banque de Syrie et du Liban S.A.L.("the Bank") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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. The procedures selected depend on our 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 Group'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 Group'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 give a true and fair view of the consolidated financial position of the Bank as at 31 December 2011, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Lebanese Banking Laws and Regulations.

KPMG
7 May 2012
Beirut, Lebanon

PricewaterhouseCoopers

Consolidated statement of financial position
As at 31 December

In millions of Lebanese Pound	NOTE	2011	2010
ASSETS			
Cash and balances with Central Bank	7	184,027	181,413
Due from banks and financial institutions	8	136,847	196,395
Net loans and advances to customers	9	152,792	130,645
Loans and advances to related parties	9, 32	868	856
Debtors by acceptances		1,245	3,061
Investment securities	10	725,061	639,899
Investment properties	11	18,175	18,443
Revaluation reserve of investment properties	12	4,604	4,642
Property and equipment	13	29,546	30,382
Revaluation reserve of properties	12	2,493	2,493
Intangible fixed assets		95	110
Assets classified as held for sale	14	4,354	6,668
Other assets	15	3,807	4,158
Total assets		**1,263,914**	**1,219,165**
LIABILITIES			
Deposits from banks and financial institutions	16	4,104	7,169
Deposits from customers	17	1,083,179	1,030,611
Deposits from related parties	32	47,429	47,173
Engagement by acceptances		1,245	3,061
Current income tax liabilities		847	1,426
Other liabilities	18	4,651	3,774
Retirement benefit obligations	19	4,205	3,890
Total liabilities		**1,145,660**	**1,097,104**
EQUITY			
Share capital	20	46,920	46,920
Reserves	21	58,506	64,676
Retained earnings		1,486	-
Profit for the year		7,598	6,774
Total equity		**114,510**	**118,370**
Non-controlling interests		**3,744**	**3,691**
Total equity		**118,254**	**122,061**
Total liabilities and equity		**1,263,914**	**1,219,165**

The notes on pages 24 to 63 are an integral part of these consolidated financial statements.
The consolidated financial statements were authorized for issue by the Chairman of the Board of Directors on 7 May 2012.

Consolidated statement of comprehensive income
For the year ended 31 December

In millions of Lebanese Pound	NOTE	2011	2010
Interest and similar income	22	68,774	63,183
Interest and similar expense	22	(47,806)	(45,425)
Net interest and similar income		**20,968**	**17,758**
Fee and commission income	23	3,855	3,586
Fee and commission expense		(221)	(180)
Net fee and commission income		**3,634**	**3,406**
Net recoveries on loans and advances to customers	**24**	**1,751**	**1,999**
Net gain on trading activities	25	659	206
Net gain on investment securities	26	1,282	3,095
Net gain on foreign exchange		480	377
Other operating income	27	1,603	536
Net revenues		**30,377**	**27,377**
Personnel expenses	28	(10,255)	(9,233)
Depreciation and amortization expenses		(2,239)	(2,103)
Administrative expenses	29	(8,329)	(7,396)
Profit before income tax		**9,554**	**8,645**
Income tax expense	30	(1,903)	(1,859)
Profit for the year		**7,651**	**6,786**
Other comprehensive income			
Net change in fair value of investment securities		30	2,640
Total other comprehensive income for the year		**30**	**2,640**
Total comprehensive income for the year		**7,681**	**9,426**
Profit attributable to:			
Equity holders of the Bank		7,598	6,774
Non-controlling interests		53	12
Profit for the year		**7,651**	**6,786**
Total comprehensive income attributable to:			
Equity holders of the Bank		7,628	9,414
Non-controlling interests		53	12
Total comprehensive income for the year		**7,681**	**9,426**

The notes on pages 24 to 63 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended 31 December 2011

In millions of LBP as of December 31st	Share capital	Capital reserves	Revaluation reserve accepted as supplementary capital
Balances at 1 January 2010	**46,920**	**14,902**	**4,601**
Total comprehensive income for the year			
Profit for the year	–	–	–
Other comprehensive income			
Net change in fair value of available-for-sale financial assets	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with owners, recorded directly in equity			
Increase of revaluation reserve accepted as supplementary capital	–	–	3,469
Transfer to reserves	–	5,538	–
Release of reserve for sale of assets held for sale	–	19	–
Reserve for capital increase	–	223	–
Total transactions with owners, recorded directly in equity	–	**5,780**	**3,469**
Balances at 31 December 2010	**46,920**	**20,682**	**8,070**

The notes on pages 24 to 63 are an integral part of these consolidated financial statements.

Revaluation reserve of real estate	Fair value reserve of investment securities	Reserve for assets classified as held for sale	Retained earnings	Profit for the year	Total	Non-controlling interests	Total equity
24,117	**10,988**	**1,378**	**–**	**5,827**	**108,733**	**3,679**	**112,412**
–	–	–	–	6,774	6,774	12	6,786
–	2,640	–	–	–	2,640	–	2,640
–	**2,640**	**–**	**–**	**6,774**	**9,414**	**12**	**9,426**
(3,469)	–	–	–	–	–	–	–
–	–	289	–	(5,827)	–	–	–
–	–	(19)	–	–	–	–	–
–	–	–	–	–	223	–	223
(3,469)	**–**	**270**	**–**	**(5,827)**	**223**	**–**	**223**
20,648	**13,628**	**1,648**	**–**	**6,774**	**118,370**	**3,691**	**122,061**

Consolidated statement of changes in equity
For the year ended 31 December 2011

In millions of LBP as of December 31st	Share capital	Capital reserves	Revaluation reserve accepted as supplementary capital
Balances at 1 January 2011	**46,920**	**20,682**	**8,070**
Impact of adoption of IFRS 9 at 1 January 2011	–	–	–
Restated balance at 1 January 2011	**46,920**	**20,682**	**8,070**
Total comprehensive income for the year			
Profit for the year	–	–	–
Other comprehensive income			
Net change in financial assets at fair value through other comprehensive income	–	–	–
Total comprehensive income for the year	–	–	–
Transactions with owners, recorded directly in equity			
Release of reserve for real estate revaluation	–	–	–
Transfer to retained earnings	–	–	–
Transfer to reserves	–	6,564	–
Release of reserve for sale of assets held for sale	–	–	–
Total transactions with owners, recorded directly in equity	–	**6,564**	–
Balances at 31 December 2011	**46,920**	**27,246**	**8,070**

The notes on pages 24 to 63 are an integral part of these consolidated financial statements.

Revaluation reserve of real estate	Fair value reserve of investment securities	Reserve for assets classified as held for sale	Retained earnings	Profit for the year	Total	Non-controlling interests	Total
20,648	**13,628**	**1,648**	**–**	**6,774**	**118,370**	**3,691**	**122,061**
–	(12,738)	–	1,486	–	(11,252)	–	(11,252)
20,648	**890**	**1,648**	**1,486**	**6,774**	**107,118**	**3,691**	**110,809**
–	–	–	–	7,598	7,598	53	7,651
–	30	–	–	–	30	–	30
–	**30**	**–**	**–**	**7,598**	**7,628**		**7,681**
(38)	–	–	–	–	(38)	–	(38)
–	–	–	6,774	(6,774)	–	–	–
–	–	210	(6,774)	–	–	–	–
–	–	(198)	–	–	(198)	–	(198)
(38)	**–**	**12**	**–**	**(6,774)**	**(236)**	**–**	**(236)**
20,610	**920**	**1,660**	**1,486**	**7,598**	**114,510**	**3,744**	**118,254**

Consolidated statement of cash flows
For the year ended 31 December

In millions of Lebanese Pound	NOTE	2011	2010
Cash flows from operating activities			
Profit for the year		7,651	6,786
Adjustments for:			
Depreciation and amortization expenses		2,239	2,103
Net recoveries on loans and advances to customers	24	(1,751)	(1,999)
Net gain on sale of investment securities	26	(1,104)	(2,907)
Net gain on sale of property and equipment		(86)	–
Net gain on sale of assets classified as held for sale	27	(802)	–
Net charge of the year on retirement benefit obligations		365	–
Net interest income	22	(20,968)	(17,758)
Income tax expense	30	1,903	1,859
		(12,553)	(11,916)
Change in balances with Central Bank	7	(256)	(13,988)
Change in due from banks and financial institutions	8	18,534	(34,737)
Change in net loans and advances to customers		(20,392)	(6,904)
Change in loans and advances to related parties		(12)	(856)
Change in other assets	15	351	78
Change in deposits from banks and financial institutions	16	(3,065)	(3,908)
Change in deposits from customers and related parties	17, 32	52,824	93,588
Change in other liabilities	18	877	(1,641)
		36,308	19,716
Interest received		68,834	63,192
Interest paid		(47,808)	(45,846)
Retirement benefit obligations paid		(48)	(71)
Income tax paid		(2,482)	(1,230)
Net cash generated from operating activities		**54,804**	**35,761**
Cash flows from investing activities			
Acquisition of investment securities		(278,821)	(138,626)
Acquisition of property and equipment	13	(977)	(2,439)
Transfers from revaluation reserve of properties	11	(151)	–
Proceeds from maturity and sale of investment securities		183,547	129,269
Proceeds from sale of property and equipment		95	–
Proceeds from sale of assets held for sale		2,918	283
Net cash used in investing activities		**(93,389)**	**(11,513)**
Net (decrease) increase in cash and cash equivalents		**(38,585)**	**24,248**
Cash and cash equivalents at 1 January		182,400	158,152
Cash and cash equivalents at 31 December	**31**	**143,815**	**182,400**

The notes on pages 24 to 63 are an integral part of these consolidated financial statements.

Off balance sheet items
As at 31 December

In millions of Lebanese Pound	2011	2010
Financing Commitments		
Financing commitments given to customers	59,062	44,324
Guarantees		
Guarantees given to banks and financial institutions	3,730	1,564
Guarantees received from banks and financial institutions	2,636	1,354
Guarantees given to customers	8,929	11,189
Guarantees received from customers	393,418	328,394
Operations in foreign currencies		
Foreign currencies to receive	841	40
Foreign currencies to deliver	828	40
Contingencies on legal disputes	**8,501**	**17,064**
Fiduciary deposits	**151**	**151**
Bad loans fully provided for	**64,469**	**57,948**

Notes to the consolidated financial statements as at and for the year ended 31 December 2011

(1) REPORTING ENTITY

Societe Nouvelle de la Banque de Syrie et du Liban S.A.L. (the "Bank") is a company established in 1962 and domiciled in Lebanon. It is registered under No.12510 in the Lebanese Commercial Register and listed under No. 68 at the Central Bank. The Bank's head office is located in the Banks' Street in Downtown Beirut. The consolidated financial statements of the Bank comprise the Bank and its subsidiaries (together referred to as "the Group"). The Group is involved in corporate and retail banking services and real estate investment.

(2) BASIS OF PREPARATION

(a) Statement of compliance

Lebanese Banking laws and regulations requires financial statements to be prepared in accordance with International Financial Reporting Standards ("IFRS"). The Central Bank of Lebanon and the Banking Control Commission (the "Banking Regulators") also issue Circulars relating to the measurement, accounting treatment and presentation of financial statements. The Group prepares financial statements in accordance with IFRS except when a relevant Circular issued by the Banking Regulators requires otherwise. The most significant departures from IFRS in the preparation of these consolidated financial statements are summarized below:

- Interest is suspended on doubtful and substandard loans.
- Measurement and classification of assets acquired in settlement of debt.
- Revaluation of certain properties are not depreciated.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Financial assets held for trading are measured at fair value (policy applicable prior to 1 January 2011);
- Financial assets designated at fair value through profit or loss are measured at fair value;
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest are measured at fair value (policy applicable from 1 January 2011);
- Available-for-sale financial assets are measured at fair value (policy applicable prior to 1 January 2011);
- Assets classified as held for sale are measured at fair value at the date of acquisition.
- Investment properties are measured at revalued amounts determined in 1995.

(c) Functional and presentation currency

These consolidated financial statements are presented in Lebanese Pounds (LBP), which is the Group's functional currency. All financial information presented in LBP has been rounded to the nearest million.

(d) Use of estimates and judgments

The preparation of the consolidated financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the year in which the estimate is revised and in any future years affected.

Information about significant areas of estimation uncertainty and critical judgment in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements are described in notes 4 and 5.

(e) Changes in accounting policies

Financial assets and liabilities (early adoption of IFRS 9)
The Group has early adopted IFRS 9 Financial Instruments issued in October 2010 with a date of initial application of 1 January 2011. IFRS 9 (2010) requires that an entity classifies its financial assets as subsequently measured at either amortized cost or fair value depending on the entity's business model for managing the financial assets and the contractual cash flow characteristics of financial assets. These changes in accounting policy are applied on a retrospective basis, except as described below, from January 1, 2011 without restatement of prior periods.

Differences between the carrying amounts of financial assets resulting from the adoption of IFRS 9 are recognized in opening retained earnings for the year ended 31 December 2011; i.e. as at 1 January 2011 (refer to note 6).

Impact of change in accounting policy
In accordance with the transitional provisions of IFRS 9 (2010), the classification of financial assets that the Group adopted at the date of initial application was based on the facts and circumstances of the business model in which the financial assets were held at that date. As a result of the application of IFRS 9 (2010), LBP 12,738 million was classified at 1 January 2011 from the fair value reserve (in equity) to investment securities (in assets). The impact of this change was due to reclassification of certain securities from available-for-sale to financial assets measured at amortized cost (LBP 12,020 million) and to financial assets at fair value through profit or loss (LBP 718 million).

For more information and details on the new classification see notes 3, 5, 6 and 10.

(3) SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and have been applied consistently by the Group except as explained in note 2(e), which addresses changes in accounting policies.

Certain comparable amounts in the consolidated financial statements have been reclassified to conform with the current year's presentation.

(a) Basis of consolidation

(i) Subsidiaries
Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

(ii) Loss of control
Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, and non-controlling interest 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.

(iii) Transactions eliminated on consolidation
Intra-group balances, and income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency transactions

Transactions in foreign currencies are translated to the functional currency of the Group at the spot exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the spot exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the spot exchange rate at the end of the year. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated into the functional currency at the spot exchange rate at the date that the fair value was determined. Foreign currency differences arising on translation are recognized in profit or loss, except for the differences arising on translation of equity instrument classified at fair value through other comprehensive income. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(c) Interest

Interest income and expense are recognized in the profit or loss using the effective interest method, except for interest on substandard and impaired loans and advances for which interest is suspended until actual realization of the interest income. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Group estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes discounts or premiums that are an integral part of the effective interest rate.

Interest income and expense presented in the statement of comprehensive income include:

- Interest on financial assets and liabilities measured at amortised cost calculated on an effective interest rate basis.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Group's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in the "Net gain on trading activities" in the statement of comprehensive income.

Prior to 1 January 2011 interest income on available-for-sale investment securities calculated on an effective interest basis was also included in interest income.

(d) Fees and commissions

Fees and commission income, including account servicing fees, investment management fees, sales commission and placement fees, are recognized as the related services are performed.

Fees and commission expense relates mainly to transaction and service fees, which are expensed as the services are received.

(e) Net gain on trading activities

Net gain on trading activities comprises gains less losses related to trading assets and liabilities, and includes all realized fair value changes, interest and dividends.

(f) Dividends

Dividend income is recognized when the right to receive income is established. Dividends are reflected as a component of "Net gain on investment securities" in the statement of comprehensive income.

(g) Lease payments

Payments made under operating lease are recognized in profit or loss on a straight-line basis over the term of the lease.

(h) Income tax expense

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to income taxes levied by the same authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Additional income tax that arises from the distribution of dividends of the Group is recognized at the same time as the liability to pay the related dividend is recognized.

(i) Financial assets and liabilities

(i) Recognition and measurement

The Group initially recognizes loans and advances to customers and customers' deposits on the date at which they are originated. Regular way purchases and sales of financial assets are recognized at the trade date at which the Group commits to purchase or sell the assets. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

(ii) Classification

Financial assets - policy applicable from 1 January 2011

At inception a financial asset is classified as measured at amortized cost or fair value.
The Group initially recognizes financial assets on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets are initially measured at fair value. If the financial assets are not subsequently measured at fair value through profit or loss, then the initial measurement includes transaction costs that are directly attributable to the asset's acquisition or origination. The Group subsequently measures financial assets at either at amortized cost or fair value.

Financial assets measured at amortized cost

Financial asset is subsequently measured at amortized cost using the effective interest method and net of any impairment loss, if:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

If a financial asset does not meet both of these conditions, then it is measured at fair value.

Financial assets measured at fair value

Financial assets other than those classified as financial assets measured at amortized cost are subsequently measured at fair value with all changes in fair value recognized in profit or loss.

However, for investments in equity instruments that are not held for trading, the Group may elect at initial recognition to present gains and losses in other comprehensive income. For instruments measured at fair value through other comprehensive income, gains and losses are never reclassified to profit or loss and no impairments are recognized in profit or loss. Dividends earned from such investments are recognized in profit or loss unless the dividends clearly represent a repayment of part of the cost of the investment.

Note 6 also sets out reconciliation between financial asset classes and measurement categories.

Financial assets - Policy applicable prior to 1 January 2011

At inception a financial asset was classified in one of the following categories:

- Loans and receivables;
- Held to maturity;
- Available-for-sale; or
- At fair value through profit or loss and within the category as:
  - Held for trading; or
  - Designated at fair value through profit or loss.

See accounting policies 3(j), (k), (l) and (m).

The Group designated financial assets at fair value through profit or loss in the following circumstances:

- The assets were managed, evaluated and reported internally on a fair value basis;
- The designation eliminated or significantly reduced an accounting mismatch, which would otherwise have arisen.

Note 6 sets out the amount of each class of financial asset that has been designated at fair value through profit or loss. A description of the basis for each designation is set out in the note for the relevant asset class.

Trading assets were not reclassified subsequent to their initial reconciliation, except that non-derivative trading assets, other than those designated at fair value through profit or loss upon initial recognition, may have been reclassified out of the fair value through profit or loss, i.e. trading category, if they were no longer held for the purpose of being sold or repurchased in the near term and either of the conditions below were met.

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held for trading at initial recognition), then it may be reclassified if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.
- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

A financial asset that was classified as available-for-sale that would have met the definition of loans and receivables if it had not been designated as available-for-sale, may be reclassified out of the available-for-sale category to the loans and receivables category if the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Note 6 also sets out reconciliation between financial asset classes and measurement categories.

Financial liabilities

The Group classifies its financial liabilities as measured at amortized cost. See accounting policies 3(k) and (s).
Note 6 also sets out reconciliation between financial liability classes and measurement categories.

(iii) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial assets in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Group is recognized as a separate asset or liability in the statement of financial position. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the consideration received (including any new asset obtained less any new liability assumed) is recognized in profit or loss. In addition, prior to 1 January 2011 any cumulative gain or loss that had been recognized in other comprehensive income was also recognized in profit or loss.

The Group enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized. Transfers of assets with retention of all

or substantially all risks and rewards include, for example, securities lending and repurchase transitions.
In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset for liability is recognized for the servicing contract, depending on whether the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

The Group derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Retained interests are measured at amortized cost or fair value with fair value changes recognized in profit or loss. Prior to 1 January 2011, retained interests were primarily recognized in available-for-sale-investment securities and measured at fair value.

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

Income and expenses are presented on a net basis when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Group's trading activities.

(v) Amortized cost measurement
The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

(vi) Fair value measurement
Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Group measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Group establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models. The chosen valuation techniques makes maximum use of market inputs, relies as little as possible on estimates specific to the Group, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Group calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instruments at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Any difference between the fair value at initial recognition and the amount that would be determined at that date using a valuation technique in a situation in which the valuation is dependent on unobservable parameters is not recognized in profit or loss immediately but is recognized over the life of the instrument on an appropriate basis or when the instrument is redeemed, transferred or sold, or the fair value becomes observable.

Assets and long positions are measured at the bid price; liabilities and short positions are measured at the asking price. Where the Group has positions with offsetting risks, mid-market prices are used to measure the offsetting risk positions and a bid or asking price adjustment is applied only to the net open position as appropriate. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Group believes a third party market participant would take them into account in pricing a transaction.

(vii) Identification and measurement of impairment

Policy applicable from 1 January 2011

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at amortized cost are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Group considers evidence of impairment for loans and advances and investment securities measured at amortized cost at both specific and collective level. All individually significant loans and advances and investment securities measured at amortized cost are assessed for specific impairment. All individually significant loans and advances and investment securities measured at amortized cost found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and investment securities measured at amortized cost that are not individually significant are collectively assessed for impairment by grouping together loans and advances and investment securities with similar risk characteristics.

In assessing collective impairment, the Group uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible (see note 4).

Policy applicable prior to 1 January 2011

At each reporting date, the Group assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset, and that the loss event has an impact on the future cash flows of the assets that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or advance by the Group on terms that the Group would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Group, or economic conditions that correlate with defaults in the Group. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

The Group considers evidence of impairment for loans and advances at both specific and collective level. All individually significant loans and advances are assessed for specific impairment. All individually significant loans and advances found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances that are not individually significant are collectively assessed for impairment by grouping together loans and advances with similar risk characteristics.

In assessing collective impairment the Group uses statistical modeling of historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical modeling. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and advances. Interest on the impaired asset is suspended. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognized by transferring the cumulative loss that has been recognized in other comprehensive income to profit or loss as a reclassification adjustment. The cumulative loss that is reclassified from other comprehensive income to profit and loss is the difference between the acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed with the amount of the reversal recognized in profit or loss. However, any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income.

The Group writes off certain loans and advances and investment securities when they are determined to be uncollectible (see note 4).

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, unrestricted balances held with Central Bank and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value, and are used by the Group in the management of its short-term commitments.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

(k) Trading assets and liabilities

Trading assets and liabilities are those assets and liabilities that the Group acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognized and subsequently measured at fair value in the statement of financial position with transaction costs recognized in profit or loss.

(l) Loans and advances

Policy applicable from 1 January 2011

Loans and advances are non-derivative financial assets with fixed or determinable payments, other than investment securities, that are not held for trading.

Subsequent to initial recognition loans and advances are measured at amortized cost using the effective interest method, except when the Group recognizes the loans and advances at fair value through profit or loss as described in accounting policy 3(m) (ii).

Policy applicable prior to 1 January 2011

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Group does not intend to sell immediately or in the near term.

Loans and advances to customers, to banks and financial institutions and related banks and financial institutions are classified as loans and receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs and subsequently measured at their amortized cost using the effective interest method.

(m) Investment securities

Policy applicable from 1 January 2011

Subsequent to initial recognition investment securities are accounted for depending on their classification as either amortized cost or fair value through other comprehensive income.

Investment securities are measured at amortized cost using the effective interest method, if:

- They are held within a business model with an objective to hold assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest; and
- They have not been designated previously as measured at fair value through profit or loss.

The Group elects to present changes in fair value of certain investments in equity instruments held for strategic purposes in other comprehensive income. The election is irrevocable and is made on an instrument-by-instrument basis at initial recognition.

Gains and losses on such equity instruments are never reclassified to profit or loss and no impairment is recognized in profit or loss. Dividends are recognized in profit or loss unless they clearly represent a recovery of part of the cost of the investment, in which case they are recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Other investment securities are measured at fair value through profit or loss.

Policy applicable prior to 1 January 2011

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

(i) Held-to-maturity

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

Held-to-maturity investments are carried at amortised cost using the effective interest method. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- Sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value.
- Sales or reclassifications after the Group has collected substantially all of the asset's original principal.
- Sales or reclassifications attributable to non-recurring isolated events beyond the Group's control that could not have been reasonably anticipated.

(ii) Fair value through profit or loss

The Group designates some investment securities at fair value, with fair value changes recognized immediately in profit or loss.

(iii) Available-for-sale

Available-for-sale investments are non-derivative investments that are designated as available for sale or are not classified as another category of financial assets. Unquoted equity securities whose fair value cannot reliably be measured are carried at cost. All other available-for-sale investments are carried at fair value, except for Solidere shares received in exchange for property rights.

Fair value of Solidere shares received in exchange for property rights are accounted for in accordance with Circular 188 issued by the Banking Control Commission in which the carrying amount of these shares should not exceed their nominal value. Any revaluation losses on those shares are recognized in "Other creditors".

Interest income is recognized in profit or loss using the effective interest method. Dividend income is recognized in profit or loss when the Group becomes entitled to the dividend. Foreign exchange gains or losses on available-for-sale debt security investments are recognized in profit or loss.

Other fair value changes were recognized in other comprehensive income until the investment was sold or impaired, whereupon the cumulative gains and losses previously recognized in other comprehensive income were reclassified to profit or loss as a reclassification adjustment.

A non-derivative financial asset was reclassified from the available-for-sale category to the loans and receivables category if it otherwise would have met the definition of loans and receivables and if the Group had the intention and ability to hold that financial asset for the foreseeable future or until maturity.

(n) Property and equipment

(i) Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses, except for certain properties which were revalued in 1995 in accordance with the provisions of Law No. 282 dated 30 December 1993.

The increase of value of properties approved by the Central Bank is classified in equity under "revaluation reserve accepted as supplementary capital" with the corresponding amount in property and equipment less accumulated depreciation and impairment losses.

The increase of value of certain properties which was not approved by the Central Bank is classified in assets and equity under "revaluation reserve of other properties". This increase is not subject to depreciation.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The gain or loss on disposal of an item of property and equipment is determined by comparing the proceeds from disposal with the carrying amount of the item of tangible fixed assets, and are recognized net within other income in profit or loss.

(ii) Subsequent costs
The costs of day-to-day servicing of property and equipment are recognized in the profit or loss as incurred.

(iii) Depreciation
Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Land is not depreciated.

The estimated useful lives for the current and comparative years are as follows:

Buildings	50 years
Improvements	16.5 years
Computer equipment	5 years
Office equipment	12.5 years
Furnitures and fixtures	12.5 years
Vehicles	10 years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

(o) Assets classified as held for sale

Assets acquired through the enforcement of security over loans and advances to customers are accounted for in accordance with the Directives issued by the Banking Regulators.

(p) Intangible fixed assets

(i) Recognition and measurement
Other intangible assets that are acquired by the Group and have finite useful lives are measured at cost less accumulated amortization and accumulated impairment losses.

(ii) Amortization
Amortisation is based on the cost of an asset less its residual value.

Amortization is recognized in profit or loss on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use. The estimated useful lives for the current and comparative years are as follows:

Key money	10 years

(q) Investment properties

Investment property is property held either to earn rental income or for capital appreciation or for both. Investment property is measured at cost less accumulated depreciation and impairment losses. Investment properties are depreciated over a 50 years period (2010: 50 years period).

(r) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than investment property and deferred tax, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

The recoverable amount of an asset is the greater of its value in use and its fair value less cost to sell.

An impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there have been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognized.

(s) Deposits

Deposits from customers are the Group's main source of debt funding.

Deposits are initially measured at fair value plus any directly attributable transaction costs, and subsequently measured at their amortised cost using the effective interest method.

(t) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by using management's best estimates to the risk specific to the liability.

(u) Retirement benefit obligations

End of Service Indemnity (NSSF)

The Group provides for End-of-Service Indemnity (EoSI) to its employees, which varies according to each employee's final salary and length of service, subject to the completion of a minimum service period. The provision is calculated based on the difference between total indemnities due and total EoSI contributions paid to National Social Security Fund (NSSF). EoSI contributions paid to the NSSF represents 8.5% of employee benefits. The Group does not use the Projected Unit Credit method since the End-of-Service Indemnity is provided for adequately, consequently no interest and actuarial gains or losses are recognized.

End of Service Indemnity (Non-NSSF)

The Group provides for End-of-Service Indemnity (EoSI) to its employees not registered in the NSSF, which varies according to each employee's final salary and length of service. The provision is calculated based on 8.33% of employee benefits.

(v) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011 and have not been applied in preparing these financial statements. None of these will have effect on the financial statement of the Group.

(4) FINANCIAL RISK MANAGEMENT

(a) Introduction and overview

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

- Credit risk.
- Liquidity risk.
- Market risks.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment and oversight of the Group's risk management framework. The Board has established the Asset and Liability committee (ALCO) and the Credit and Operational Risk committee, which are responsible for developing and monitoring Group risk management policies in their specified areas. All committees report regularly to the Board on their activities.

The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Board is responsible for monitoring compliance with the Group's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Group. The Board is assisted in these functions by the Internal Audit Department. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Board.

(b) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's loans and advances to customers, banks and financial institutions and debt securities. For risk management reporting purposes, the Group considers and consolidates all elements of credit risk exposure.

For risk management purposes, credit risk arising on trading assets in managed independently. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities included in trading assets is managed as a component of market risk.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Group Credit Committee. A separate Credit department, reporting to the Credit Committee, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing the authorisation structure for the approval and renewal of credit facilities.
- Developing and maintaining the Group's risk grading in order to categorise exposures according to the degree of risk of financial loss faced and to focus management on the attendant risks. The risk grading system is used in determining where impairment provisions may be required against specific credit exposures. The current risk grading framework consists of five grades reflecting varying degrees of risk of default and the availability of collateral or other credit risk mitigation. The responsibility for setting risk grades lies with the Credit committee and is subject to regular reviews.
- Reviewing compliance with agreed exposure limits, including those for selected industries, and product types. Regular reports are provided to Group Credit on the credit quality of local portfolios and appropriate corrective action is taken.
- Providing advice, guidance and specialist skills to promote best practice throughout the Group in the management of credit risk.

The officer is required to implement Group credit policies and procedures, with credit approval authorities delegated from the Group Credit Committee. The officer reports on all credit related matters to management and the Group Credit Committee. The officer is responsible for the quality and performance of its credit portfolio and for monitoring and controlling all credit risks in his/her portfolios, including those subject to central approval.

Regular audits of Group Credit processes are undertaken by the Internal Audit.

Exposure to credit risk

In millions of Lebanese Pound	Note	Net Loans and advances to customers and related parties 2011	2010	Due from Central Bank, Banks and financial institutions 2011	2010	Investment securities (debt securities) 2011	2010
Carrying amount	7, 8, 9, 10	153,660	131,501	312,627	369,126	722,594	637,276
Assets at amortized cost:							
Individually impaired							
Grade 3: Substandard		2,147	2,598	–	–	–	–
Grade 4: Impaired		22,360	21,282	–	–	–	–
Grade 5: Impaired		15,748	14,642	–	–	–	–
Gross amount		40,255	38,522	–	–	–	–
Allowance for impairment	9	(37,733)	(35,471)	–	–		–
Carrying amount		2,522	3,051	–	–	–	–
Past due but not impaired							
Grade 2: Low-fair risk		728	503	–	–	–	–
Carrying amount		728	503	–	–	–	–
Past due comprises:							
30-60 days		429	192	–	–	–	–
60-90 days		148	25	–	–	–	–
90-180 days		66	126	–	–	–	–
180 days +		85	160	–	–	–	–
Carrying amount		728	503	–	–	–	–
Neither past due nor impaired							
Grade 1: Low-fair risk		151,268	128,944	312,627	369,126	715,340	419,642
Allowance for collective impairment	9	(858)	(997)	–	–	–	–
Carrying amount		150,410	127,947	312,627	369,126	715,340	419,642
Carrying amount - amortized cost		153,660	131,501	312,627	369,126	715,340	419,642
Available-for-sale debt securities							
Neither past due nor impaired							
Grade 1: Low-fair risk		–	–	–	–	–	215,941
Carrying amount - fair value		–	–	–	–	–	215,941
Debt assets at fair value through profit or loss							
Neither past due nor impaired							
Grade 1: Low-fair risk		–	–	–	–	7,254	1,693
Carrying amount - fair value		–	–	–	–	7,254	1,693
Total carrying amount	**7, 8, 9, 10**	**153,660**	**131,501**	**312,627**	**369,126**	**722,594**	**637,276**

Loans and advances to customers neither past due nor impaired classified by product

In millions of Lebanese Pound	2011 Normal	2011 Special mention	2011 Total	2010 Normal	2010 Special mention	2010 Total
Individual (retail customers)						
Overdraft	7,874	19	7,893	12,874	17	12,891
Credit cards	593	1	594	434	3	437
Mortgages	17,077	48	17,125	9,636	33	9,669
Other	44,235	91	44,326	35,169	162	35,331
Total	69,779	159	69,938	58,113	215	58,328
Corporate entities						
Large corporate customers	52,139	869	53,008	39,839	892	40,731
SMEs	26,074	426	26,500	26,990	1,665	28,655
Kafalat	964	–	964	233	–	233
Total	79,177	1,295	80,472	67,062	2,557	69,619
Grand total	**148,956**	**1,454**	**150,410**	**125,175**	**2,772**	**127,947**

Past due but not impaired loans

Past due but not impaired loans and investment debt securities, other than those carried at fair value through profit or loss are those for which contractual interest or principal payments are past due but the Group believes that impairment is not appropriate on the basis of the level of security / collateral available and / or the stage of collection of amounts owed to the Group.

Loans and advances to customers past due but not impaired classified by product

	2011 | Individual (retail customers)			2010 | Individual (retail customers)		
In millions of Lebanese Pound	Overdrafts	Other	Total	Credit Cards	Other	Total
Past due 30-60 days	–	267	267	–	191	191
Past due 60-90 days	–	44	44	–	25	25
Past due up to 90 days	–	151	151	–	286	286
Total	–	462	462	–	502	502
Fair value of collateral	–	–	–	–	–	–

	2011 | Corporate entities			2010 | Corporate entities		
	Large corporate customers	Other	Total	Credit Cards	Other	Total
Past due 30-60 days	–	163	163	–	1	1
Past due 60-90 days	103	–	103	–	–	–
Past due up to 90 days	–	–	–	–	–	–
Total	103	163	266	–	1	1
Fair value of collateral	–	–	–	–	–	–
Grand total	103	625	728	–	503	503

Loans with renegotiated terms

Loans with renegotiated terms are loans that have been restructured due to the deterioration in the borrowers' financial position and where the Group has made concessions that it would not otherwise consider. Once the loan is restructured it remains in this category independent of satisfactory performance after restructuring.

Impaired loans

Impaired loans are loans and advances for which the Group determines that there is objective evidence of impairment and it does not expect to collect all principal and interest due according to the contractual terms of the loan. These loans are graded 3, 4 and 5 in the Group's internal credit risk grading system. Interest on the impaired loans is suspended and a provision for impairment loss is recognized in profit or loss according to management's best estimates taking into consideration any collateral.

Loans and advances to customers individually impaired classified by product

2011	Individual (retail customers)				Corporate entities		Total
In millions of Lebanese Pound	Overdrafts	Credit Cards	Mortgages	Others	SMEs	Kafalat	Total
Gross amount	2,316	24	11,678	1,117	25,096	24	40,255
Carrying amount of individually impaired loans	7	–	829	–	1,686	–	2,522
Fair value of collateral	–	–	11,053	–	6,449	–	17,502

2010	Individual (retail customers)				Corporate entities		Total
In millions of Lebanese Pound	Overdrafts	Credit Cards	Mortgages	Others	SMEs	Kafalat	Total
Gross amount	3,242	–	12,602	553	22,125	–	38,522
Carrying amount of individually impaired loans	7	–	1,590	–	1,454	–	3,051
Fair value of collateral	–	–	17,174	–	5,438	–	22,612

Allowances for impairment

The Group establishes an allowance for impairment losses or assets carried at amortized cost (and prior to 1 January 2011 on assets classified as available-for-sale) that represent its estimate of incurred losses in its loan investment debt security portfolio. The main components of this allowance are a specific loss component that relates to individually significant exposures, and for assets measured at amortized cost a collective loan loss allowance established for groups of homogeneous assets in respect of losses that have been incurred but have not been identified on loans that are considered individually insignificant. Assets carried at fair value through profit or loss is not subject to impairment testing as the measure of fair value reflects the credit quality of each asset.

Write-off policy

The Group writes-off a loan balance and any related allowances for impairment losses and suspended interest when Group Credit Committee determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Set out below is an analysis of the gross and net (of allowances for impairment) amounts of individually impaired assets by risk grade:

	Net loans and advances to customers and related parties	
In millions of Lebanese Pound	Gross	Net
31 December 2011		
Grade 3: Individually impaired	2,147	783
Grade 4: Individually impaired	22,360	1,739
Grade 5: Individually impaired	15,748	–
Total	**40,255**	**2,522**

	Net loans and advances to customers and related parties	
In millions of Lebanese Pound	Gross	Net
31 December 2010		
Grade 3: Individually impaired	2,598	765
Grade 4: Individually impaired	21,282	2,286
Grade 5: Individually impaired 1	4,642	–
Total	**38,522**	**3,051**

The Group holds collateral against loans and advances to customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over Groups and no such collateral was held at 31 December 2011 or 2010.

An estimate of the fair value of collateral and other security enhancements held against loans and advances to customers is shown below:

In millions of Lebanese Pound	2011	2010
Against impaired		
Mortgaged property	14,763	16,652
Debt securities	447	447
Against substandard		
Mortgaged property	2,739	5,960
Debt securities	–	122
Against regular loans and advances		
Mortgaged property	99,165	78,506
Debt securities	3,880	3,854
Equities	450	24
Other	59,602	49,042
Total	**181,046**	**154,607**

The Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk from loans and advances and investment securities at the reporting date is shown below:

Concentration by sector

In millions of Lebanese Pound 31 December 2011	Note	Banks and financial institutions	Trading	Construction	Industrial	Agriculture	Consumer Loan	Other	Total
Balances with Central Bank	7	175,780	–	–	–	–	–	–	175,780
Due from banks and financial institutions	8	136,847	–	–	–	–	–	–	136,847
Net loans and advances to customers and related parties:	9	2,511	45,269	5,159	9,570	4,100	67,176	19,875	153,660
Loans and advances to individuals:									
Overdrafts		124	1,193	602	115	523	4,897	446	7,900
Credit Cards		–	–	–	–	–	594	–	594
Mortgages		–	1,727	619	416	1,525	13,324	343	17,954
Other		71	3,376	251	223	1,990	38,877	–	44,788
Total individual loans	9	195	6,296	1,472	754	4,038	57,692	789	71,236
Loans and advances to corporate entities:									
Large corporate customers		2,148	24,375	2,994	5,760	–	–	17,833	53,110
SMEs		168	14,153	693	2,536	62	9,484	1,253	28,349
Kafalat		–	445	–	520	–	–	–	965
Total corporate loans	9	2,316	38,973	3,687	8,816	62	9,484	19,086	82,424
Investment securities	10	722,594	–	–	–	–	–	–	722,594
		1,037,732	**45,269**	**5,159**	**9,570**	**4,100**	**67,176**	**19,875**	**1,188,881**
Financial guarantees		408,713	–	–	–	–	–	–	408,713
Loan commitments and other credit related obligations		59,062	–	–	–	–	–	–	59,062

Concentration by sector

In millions of Lebanese Pound 31 December 2010	Note	Banks and financial institutions	Trading	Construction	Industrial	Agriculture	Consumer Loan	Other	Total
Balances with Central Bank	7	172,731	–	–	–	–	–	–	172,731
Due from banks and financial institutions	8	196,395	–	–	–	–	–	–	196,395
Net loans and advances to customers and related parties:	9	3,371	45,096	1,724	8,164	2,336	48,251	22,559	131,501
Loans and advances to individuals:									
Overdrafts		41	5,129	1,118	72	405	4,524	1,609	12,898
Credit Cards		–	–	–	–	–	437	–	437
Mortgages		–	1,026	267	236	1,106	7,742	882	11,259
Other		103	–	196	–	825	34,709	–	35,833
Total individual loans	9	144	6,155	1,581	308	2,336	47,412	2,491	60,427
Loans and advances to corporate entities:									
Large corporate customers		3,222	22,790	–	5,490	–	–	9,229	40,731
SMEs		5	16,151	143	2,366	–	839	10,606	30,110
Kafalat		–	–	–	–	–	–	233	233
Total corporate loans	9	3,227	38,941	143	7,856	–	839	20,068	71,074
Investment securities	10	637,276	–	–	–	–	–	–	637,276
		1,009,773	**45,096**	**1,724**	**8,164**	**2,336**	**48,251**	**22,559**	**1,137,903**
Financial guarantees		342,502	–	–	–	–	–	–	342,502
Loan commitments and other credit related obligations		44,325	–	–	–	–	–	–	44,325

Concentration by Location

In millions of Lebanese Pound 31 December 2011	Note	Lebanon	Araba Countries	United Kingdom	Other European countries	Other countries	Total
Balances with Central Bank	7	175,780	–	–	–	–	175,780
Due from banks and financial institutions	8	32,267	105	56,388	47,624	463	136,847
Net loans and advances to customers and related parties:	9	153,660	–	–	–	–	153,660
Loans and advances to individuals:							
Overdrafts		7,900	–	–	–	–	7,900
Credit Cards		594	–	–	–	–	594
Mortgages		17,954	–	–	–	–	17,954
Other		44,788	–	–	–	–	44,788
Total individual loans	9	71,236	–	–	–	–	71,236
Loans and advances to corporate entities:							
Large corporate customers		53,110	–	–	–	–	53,110
SMEs		28,349	–	–	–	–	28,349
Kafalat		965	–	–	–	–	965
Total corporate loans	9	82,424	–	–	–	–	82,424
Investment securities	10	722,594	–	–	–	–	722,594
		1,084,301	**105**	**56,388**	**47,624**	**463**	**1,188,881**
Financial guarantees		408,713	–	–	–	–	408,713
Loan commitments and other credit related obligations		59,062	–	–	–	–	59,062

Concentration by Location

In millions of Lebanese Pound 31 December 2010	Note	Lebanon	Araba Countries	United Kingdom	Other European countries	Other countries	Total
Balances with Central Bank	7	172,731	–	–	–	–	172,731
Due from banks and financial institutions	8	25,902	108	42,305	127,375	705	196,395
Net loans and advances to customers and related parties:	9	131,501	–	–	–	–	131,501
Loans and advances to individuals:							
Overdrafts		12,898	–	–	–	–	12,898
Credit Cards		437	–	–	–	–	437
Mortgages		11,259	–	–	–	–	11,259
Other		35,833	–	–	–	–	35,833
Total individual loans	9	60,427	–	–	–	–	60,427
Loans and advances to corporate entities:			–	–	–	–	–
Large corporate customers		40,731	–	–	–	–	40,731
SMEs		30,110	–	–	–	–	30,110
Kafalat		233	–	–	–	–	233
Total corporate loans	9	71,074	–	–	–	–	71,074
Investment securities	10	637,276	–	–	–	–	637,276
		967,410	**108**	**42,305**	**127,375**	**705**	**1,137,903**
Financial guarantees		342,502	–	–	–	–	342,502
Loan commitments and other credit related obligations		44,325	–	–	–	–	44,325

Concentration by location for loans and advances is measured based on the location of the Group which has a high correlation with the location of the borrower. Concentration by location for investment securities is measured based on the location of the issuer of the security.

Concentration of loans and advances to customers

As at year-end, 24.68 % (2010: 27.60 %) of total net loans and advances to customers were extended to 13 customers (2010: 10 customers).

Settlement risk

The Group's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to the failure of a company to honor its obligations to deliver cash, securities or other assets as contractually agreed.

For certain types of transactions, the Group mitigates this risk by conducting settlements through a settlement / clearing agent to ensure that a trade is settled only when both parties have fulfilled their contractual settlement obligations.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) Management of liquidity risk

The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The treasury department receives information regarding the liquidity profile of financial assets and liabilities. Central Treasury then maintains a portfolio of short-term liquid assets, largely made up of short-term liquid investment securities, banks and financial institutions and other facilities, to ensure that sufficient liquidity is maintained within the Group.

The daily liquidity position is monitored. All liquidity policies and procedures are subject to review and approval by ALCO. Daily reports cover the liquidity position of the Group as a whole.

The Group relies on customers' deposits and banks as its primary sources of funding. Customers' deposits and due to banks and financial institutions generally have short maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Group's liquidity risk and the Group actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

(ii) Exposure to liquidity risk

The key measure used by the Group for managing liquidity risk is the ratio of net liquid assets to customers' deposits. For this purpose net liquid assets are considered as including cash and cash equivalents and investment debt securities for which there is an active and liquid market less any due to banks and financial institutions, other borrowings and commitments maturing within the next month. A similar, but not identical, calculation is used to measure the Group's compliance with the liquidity limit established by the Central Bank and the Banking Control Commission.

The reported Group ratio of net liquid assets to customers' deposits at the reporting date and during the reporting year was as follows:

	2011	2010
At 31 December	91.79%	93.13%
Average for the year	91.13%	93.22%
Maximum for the year	91.83%	93.82%
Minimum for the year	90.65%	91.79%

(iii) Maturity analysis for financial assets and liabilities

In millions of Lebanese Pound	Note	Carrying amount	Less than 3 months	3-6 months	6-12 months	1-5 years	More than 5 years
31 December 2011							
Cash and balances with Central Bank	7	184,027	107,771	2,262	46,794	27,200	–
Due from banks and financial institutions	8	136,847	129,847	7,000	–	–	–
Net loans and advances to customers and related parties	9	153,660	113,326	6,164	8,670	25,315	185
Investment securities	10	725,061	31,392	8,028	56,564	297,224	331,853
		1,199,595	**382,336**	**23,454**	**112,028**	**349,739**	**332,038**
Deposits from banks and financial institutions	16	(4,104)	(4,104)	–	–	–	–
Deposits from customers and related parties	17, 32	(1,130,608)	(1,069,017)	(25,894)	(18,032)	(17,665)	–
		(1,134,712)	(1,073,121)	(25,894)	(18,032)	(17,665)	–
		64,883	**(690,785)**	**(2,440)**	**93,996**	**332,074**	**332,038**
31 December 2010							
Cash and balances with Central Bank	7	181,413	99,250	2,261	–	79,902	–
Due from banks and financial institutions	8	196,395	179,202	–	–	–	17,193
Net loans and advances to customers and related parties	9	131,501	48,703	18,360	21,313	31,975	11,150
Investment securities	10	639,899	28,314	31,031	78,034	375,962	126,558
		1,149,208	**355,469**	**51,652**	**99,347**	**487,839**	**154,901**
Deposits from banks and financial institutions	16	(7,169)	(7,169)	–	–	–	–
Deposits from customers and related parties	17, 32	(1,077,784)	(1,039,024)	(14,171)	(24,589)	–	–
		(1,084,953)	(1,046,193)	(14,171)	(24,589)	–	–
		64,255	**(690,724)**	**37,481**	**74,758**	**487,839**	**154,901**

(iv) Maturity analysis for non-derivative financial liabilities

In millions of Lebanese Pound	Note	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Total
31 December 2011							
Deposits from banks and financial institutions	16	4,104	–	–	–	–	4,104
Deposits from customers and related parties	17, 32	952,408	116,609	43,926	17,665	–	1,130,608
Total financial liabilities		956,512	116,609	43,926	17,665	–	1,134,712
Assets held for managing liquidity risk (contractual maturity dates)		122,219	61,808	–	7,255	–	191,282
31 December 2010							
Deposits from banks and financial institutions	16	7,169	–	–	–	–	7,169
Deposits from customers and related parties	17, 32	919,677	119,348	38,759	–	–	1,077,784
Total financial liabilities		926,846	119,348	38,759	–	–	1,084,953
Assets held for managing liquidity risk (contractual maturity dates)		110,569	79,823	44,893	97,452	68,933	401,670

The previous table shows the undiscounted cash flows on the Group's non-derivative financial liabilities and unrecognized loan commitments on the basis of their earliest possible contractual maturity. The Group's expected cash flows on these instruments vary significantly from this analysis.

To manage the liquidity risk arising from financial liabilities, the Group holds liquid assets comprising cash and cash equivalents and investment securities for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

(d) Market risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, and foreign exchange rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return on risk.

(i) Management of market risks

Overall authority for market risk management is vested in ALCO.

(ii) Exposure to interest rate risks – non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and the Risk Management is monitoring these limits periodically in its day-to-day monitoring activities. A summary of the Group's interest rate gap position on non-trading portfolios is as follows:

In millions of Lebanese Pound	Note	Up to 1 month	1-3 months	3-12 months	1-5 years	Over 5 years	Non interesting bearing	Total
31 December 2011								
Assets								
Cash and balances with Central Bank	7	55,500	61,808	–	–	–	66,719	184,027
Due from banks and financial institutions	8	102,025	13,851	7,000	–	–	13,971	136,847
Net loans and advances to customers and related parties	9, 32	100,680	6,783	14,833	25,315	186	5,863	153,660
Financial assets at fair value through profit or loss	10	–	–	–	7,090	–	164	7,254
Financial assets classified at amortized cost	10	–	13,237	64,592	290,133	331,851	15,527	715,340
Total financial assets		**258,205**	**95,679**	**86,425**	**322,538**	**332,037**	**102,244**	**1,197,128**
Liabilities								
Deposits from banks and financial institutions	16	–	–	–	–	–	(4,104)	(4,104)
Deposits from customers and related parties	17, 32	(885,945)	(116,609)	(43,926)	(17,665)	–	(66,463)	(1,130,608)
Total financial liabilities		**(885,945)**	**(116,609)**	**(43,926)**	**(17,665)**	**–**	**(70,567)**	**(1,134,712)**
Total interest repricing gap		(627,740)	(20,930)	42,499	304,873	332,037	31,677	62,416
31 December 2010								
Assets								
Cash and balances with Central Bank	7	67,944	68,806	7,000	–	–	37,663	181,413
Due from banks and financial institutions	8	152,871	–	–	–	17,000	26,524	196,395
Financial assets held for trading	10	–	–	–	1,689	–	4	1,693
Net loans and advances to customers and related parties	9, 32	84,924	3,723	12,291	20,919	248	9,396	131,501
Financial assets classified available-for-sale	10	–	11,017	37,893	95,676	68,933	2,422	215,941
Financial assets classified as loans and receivables	10	–	–	–	131,743	44,148	2,206	178,097
Financial assets classified as held to maturity	10	2,000	14,535	68,497	96,489	52,724	7,300	241,545
Total financial assets		**307,739**	**98,081**	**125,681**	**346,516**	**183,053**	**85,515**	**1,146,585**
Liabilities								
Deposits from banks and financial institutions	16	(3,333)	–	–	–	–	(3,836)	(7,169)
Deposits from customers and related parties	17, 32	(857,506)	(119,348)	(38,760)	–	–	(62,170)	(1,077,784)
Total financial liabilities		(860,839)	(119,348)	(38,760)	–	–	(66,006)	(1,084,953)
Total interest repricing gap		(553,100)	(21,267)	86,921	346,516	183,053	19,509	61,632

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Group's financial assets and liabilities to various standard and non-standard interest rate scenarios. Standard scenarios that are considered on a monthly basis include a 100 basis point (bp) parallel fall or rise in all yield curves. An analysis of the Group's sensitivity to an increase or decrease in market interest rates assuming no asymmetrical movement in yield curves and a constant financial position is as follows:

In millions of Lebanese Pound	1% parallel increase	1% parallel increase
2011		
At 31 December	285	(285)
2010		
At 31 December	393	(393)

(iii) Exposure to foreign currency risk

In millions of Lebanese Pound	Note	LBP	USD	EUR	GBP	Others	Total
31 December 2011							
Assets							
Cash and balances with Central Bank	7	57,847	125,160	854	166	–	184,027
Due from banks and financial institutions	8	16,884	108,735	9,645	981	602	136,847
Net loans and advances to customers and related parties	9, 32	31,941	108,156	13,532	–	31	153,660
Financial assets at fair value through profit or loss	10	7,074	180	–	–	–	7,254
Financial assets at fair value through other comprehensive income	10	864	1,603	–	–	–	2,467
Financial assets at amortized cost	10	421,729	278,049	15,562	–	–	715,340
Total financial assets		536,339	621,883	39,593	1,147	633	1,199,595
Liabilities							
Deposits from banks and financial institutions	16	303	3,369	79	24	329	4,104
Deposits from customers and related parties	17, 32	474,897	615,757	38,668	1,076	210	1,130,608
Total financial liabilities		475,200	619,126	38,747	1,100	539	1,134,712
Financial guarantees		52,572	337,472	18,643	26	–	408,713
Loan commitments and other credit related obligations		6,599	50,684	1,129	–	650	59,062
31 December 2010							
Assets							
Cash and balances with Central Bank	7	73,331	105,528	2,193	361	–	181,413
Due from banks and financial institutions	8	17,821	172,339	5,539	490	206	196,395
Financial assets held for trading	10	–	1,776	–	–	–	1,776
Net loans and advances to customers and related parties	9, 32	21,911	102,043	7,221	–	326	131,501
Financial assets classified as available for sale	10	117,941	89,732	10,808	–	–	218,481
Financial assets classified as loans and receivables	10	121,785	56,312	–	–	–	178,097
Financial assets classified as held to maturity	10	172,328	67,178	2,039	–	–	241,545
Total financial assets		**525,117**	**594,908**	**27,800**	**851**	**532**	**1,149,208**
Liabilities							
Deposits from banks and financial institutions	16	156	4,467	2,106	77	363	7,169
Deposits from customers and related parties	17, 32	469,686	582,131	25,205	714	48	1,077,784
Total financial liabilities		**469,842**	**586,598**	**27,311**	**791**	**411**	**1,084,953**
Financial guarantees		35,404	301,518	5,580	–	–	342,502
Loan commitments and other credit related obligations		4,863	38,355	1,107	–	–	44,325

Foreign exchange position

In millions of Lebanese Pound Position in	2011 Short	2011 Long	2010 Short	2010 Long
USD	104	–	–	136
EUR	–	5	–	16
GBP	–	3	–	2
CAD	–	5	1	–
CHF	4	–	1	–
Other currencies	3	111	4	128
Total short/long position	111	124	6	282
Net foreign exchange position		13		276

(e) Capital management

Regulatory capital

The Banking Regulators set and monitor capital requirements for the Group, and require maintaining a prescribed ratio (minimum of 12 %) of total capital to total risk-weighted assets (Capital adequacy ratio). The Group's consolidated regulatory capital adequacy ratio at 31 December was as follows:

	2011	2010
Capital adequacy ratio	13.30%	15.10%

To monitor the adequacy of its capital, the Group uses ratios established by the Group for International Settlements (BIS). These ratios measure capital adequacy (minimum 8% as required by BIS and 12% as required by the Central Bank of Lebanon) by comparing the Group's eligible capital with its statement of financial position assets, off-balance-sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

The market risk approach covers the risk of open positions in currencies and debt and equity securities. Assets are weighted according to broad categories of notional risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Five categories of risk weights (0%, 20%, 30%, 50%, 100%) are applied; for example cash and placements with the Central Bank have a zero risk weighting which means that no capital is required to support the holding of these assets. Property and equipment carries a 100% risk weighting, meaning that it must be supported by capital equal to 12% of the carrying amount.

Off-balance-sheet credit instruments are taken into account by applying different categories of conversion factors, designed to convert these items into statement of financial position equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

The Group's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, retained earnings, and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes revaluation reserve accepted as supplementary capital and 50 percent of the fair value reserve of instruments classified at fair value through other comprehensive income.

Prior to 1 January 2011, Tier 2 capital also included fair value of available-for-sale instruments.

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence. There have been no material changes in the Group's management of capital during the year.

The Group's regulatory capital at 31 December was as follows:

In millions of Lebanese Pound	2011	2010
Tier 1 capital		
Ordinary share capital	46,920	46,920
Retained earnings - not available for distribution	482	–
Retained earnings - available for distribution	1,004	–
Profit for the year	7,598	6,774
Capital reserves:		
General banking risk reserve	7,612	6,534
Legal reserve	7,605	6,947
Reserve for capital increase	293	244
Free reserve	11,736	6,957
	27,246	**20,682**
Total common equity	83,250	74,376
Less: net intangible fixed assets	(95)	(110)
Total Tier 1 capital	83,155	74,266
Tier 2 capital		
Revaluation reserve accepted as supplementary capital	8,070	8,070
50% of fair value reserve of investment securities	460	6,814
	8,530	14,884
Total regulatory capital	**91,685**	**89,150**

(f) Operational risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Group's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Group's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Group standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions;
- requirements for the reconciliation and monitoring of transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and proposed remedial action;

- development of contingency plans;
- training and professional development;
- ethical and business standards; and
- Risk mitigation, including insurance where this is effective.

Compliance with Group standards is supported by a program of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Group.

(5) USE OF ESTIMATES AND JUDGMENTS

Management discusses with the Board of Directors the development, selection and disclosure of the Group's critical accounting policies and estimates, and the application of these policies and estimates.
These disclosures supplement the commentary on financial risk management (see note 4).

(a) Key sources of estimation uncertainty

Allowance for credit losses
Assets accounted for at amortised cost are evaluated for impairment on a basis described in accounting policy 3(i) (vii).

The specific counterparty component of the total allowances for impairment applies to financial assets evaluated individually for impairment and is based upon management's best estimate of the recoverable amounts that are expected to be received. In estimating the recoverable amount, management makes judgments about counterparty's financial situation and the net realizable value of any underlying collateral. Each impaired asset is assessed on its merits, and the workout strategy and estimate of amounts considered recoverable are independently approved by the Credit Risk function.

Collectively assessed impairment allowances cover credit losses inherent in portfolio of loans and advances with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired loans and advances, but the individual impaired items cannot yet be identified.

Determining fair values
The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques as described in accounting policy 3(i)(vi). The valuation of the underlying collateral is rendered more difficult for judgment because of the absence of an active real estate market. Even when observable market prices are available, these are often based on illiquid markets.

(b) Critical accounting judgments in applying the Bank's accounting policies

Critical accounting judgments made in applying the Group's accounting policies include:

Impairment of investment in equity securities
Investment in equity securities are evaluated for impairment on the basis described in accounting policy 3(i) (vii).

For an investment in equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Valuation of financial instruments
The Group's accounting policy on fair value measurement is discussed under note 3(i) (vi).

The Group measures fair values using the following fair value hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Quoted market price in an active market for identical instrument.
- Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.
- Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes input not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Group determines fair value using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instruments at the reporting date that would have been determined by market participants acting at arm's length.

The Group uses widely recognized valuation models for determining the fair value of common and more simple financial instruments, like interest rates that use only observable market data and require little management judgment and estimation. Availability of market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

The table below analyses financial instruments measured at fair value at the end of the reporting year, by the level in the fair value hierarchy into which the fair value measurement is categorised:

In millions of Lebanese Pound	Level 1	Level 2	Level 3	Level4
31 December 2011				
Financial assets at fair value through profit or loss	182	7,072	–	7,254
Financial assets at fair value through other comprehensive income	1,602	–	865	2,467
	1,784	7,072	865	9,721
31 December 2010				
Financial assets held for trading	1,776	–	–	1,776
Financial assets classified as available for sale	102,877	114,739	865	218,481
	104,653	114,739	865	220,257

Financial asset and liability classification

The Group's accounting policies provide scope for assets and liabilities to be designated at inception into different accounting categories in certain circumstances:

- In classifying financial assets or liabilities as "trading", the Group has determined that it meets the description of trading assets and liabilities set out in accounting policy 3(k).
- In designating financial assets or liabilities at fair value through profit or loss, the Group has determined that it has met one of the criteria for this designation set out in accounting policy 3(i) (ii).
- In classifying financial assets as held-to-maturity, the Group has determined that it has both the positive intention and ability to hold the assets until their maturity date as required by accounting policy 3(m) (i).

Details of the Group's classification of financial assets and liabilities are given in note 6.

(6) FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets the carrying amounts and the fair value of the Group's financial assets and financial liabilities:

In millions of Lebanese Pound	Fair value through profit or loss	Fair value through other comprehensive income	Amortized cost	Total carrying amount	Fair value
31 December 2011					
Cash and balances with Central Bank	–	–	184,027	184,027	184,027
Due from banks and financial institutions	–	–	136,847	136,847	136,847
Net loans and advances to customers and related parties	–	–	153,660	153,660	153,660
Investment securities	7,254	2,467	715,340	725,061	752,789
	7,254	**2,467**	**1,189,874**	**1,199,595**	**1,227,323**
Deposits from banks and financial institutions	–	–	4,104	4,104	4,104
Deposits from customers	–	–	1,130,608	1,130,608	1,130,608
	–	–	**1,186,128**	**1,186,128**	**1,186,128**

In millions of Lebanese Pound	Trading	Held-to-maturity	Loans and receivables	Available - for-sale	Other amortised cost	Total carrying amount	Fair value
31 December 2010							
Cash and balances with Central Bank	–	–	181,413	–	–	181,413	181,413
Due from banks and financial institutions	–	–	196,395	–	–	196,395	196,395
Net loans and advances to customers and related parties	–	–	131,501	–	–	131,501	131,501
Investment securities	1,776	241,545	178,097	218,481	–	639,899	670,099
	1,776	**241,545**	**687,406**	**218,481**	–	**1,149,208**	**1,179,408**
Due to banks and financial institutions	–	–	–	–	7,169	7,169	7,169
Deposits from customers and related parties	–	–	–	–	1,077,784	1,077,784	1,077,784
	–	–	–	–	**1,084,953**	**1,084,953**	**1,084,953**

Classification of financial assets on the date of initial aplication of IFRS 9

The following table summarizes the transitional classification and measurement adjustments to the Group's financial assets on 1 January 2011, the Group's date of initial application of IFRS 9:

In millions of Lebanese Pound

Investment securities	Original Classification under IAS 39	New classification under IFRS 9	Carrying value IAS 39	Carrying value IFRS 9	Impact on fair value reserve	Impact on retained earnings
Debt securities	Available-for-sale	Amortized cost	202,930	190,910	(12,020)	–
Debt securities	Available-for-sale	Fair value through profit or loss	13,011	13,011	(718)	718
Equity instruments	Available-for-sale	Fair value through other comprehensive income	2,540	2,540	–	–
Debt securities	Loans and receivables	Amortized cost	169,278	169,278	–	–
Debt securities	Loans and receivables	Fair value through profit or loss	8,819	9,587	–	768
Debt securities	Held to maturity	Amortized cost	241,545	241,545	–	–
Debt securities	Held for trading	Fair value through profit or loss	1,693	1,693	–	–
Equity instruments	Held for trading	Fair value through other comprehensive income	83	83	–	–
			639,899	**628,647**	**(12,738)**	**1,486**

For other financial assets (cash and balances with Central Bank, due from banks and loans and advances to customers and related parties) the classification has changed from loans and receivables to amortized cost with no effects

(7) CASH AND BALANCES WITH CENTRAL BANK

In millions of Lebanese Pound	2011	2010
Cash in hand	8,247	8,682
Unrestricted balances with Central Bank	15,147	17,114
Unrestricted balances with Central Bank classified as cash and cash equivalents	14,853	12,060
Compulsory reserve held with Central Bank	145,648	143,437
Interest receivable	132	120
	184,027	**181,413**

Compulsory reserve held with Central Bank

In application of the Central Bank regulations, banks are required to deposit a non-interest earning compulsory reserve in local currency representing 15% of the average weekly term deposits and 25% of the average weekly current and call deposits in Lebanese Pounds, and an interest earning compulsory reserve in foreign currency representing 15% of the average weekly deposits in foreign currencies. Compulsory reserve with the Central Bank of Lebanon is not available for use in the Group's day-to-day operations.

At 31 December 2011, compulsory reserve with Central Bank, comprise non-interest earning deposits in Lebanese Pound amounting to LBP 48,232 million (2010: LBP 52,661 million) and interest earning deposits in US Dollars amounting to LBP 97,416 million (2010: LBP 90,776 million).

(8) DUE FROM BANKS AND FINANCIAL INSTITUTIONS

In millions of Lebanese Pound	2011	2010
Current accounts	14,048	8,787
Money market placements	16,132	34,737
Placements classified as cash and cash equivalents	106,667	152,871
	136,847	196,395

(9) NET LOANS AND ADVANCES TO CUSTOMERS AND RELATED PARTIES

In millions of Lebanese Pound	2011	2010
Gross loans and advances to customers	192,251	167,969
Interest on substandard, doubtful and bad loans	(30,351)	(27,857)
Specific provisions for doubtful and bad loans	(7,382)	(7,614)
Individual impairment	(37,733)	(35,471)
Provision based on collective assessment	(858)	(997)
Total provision and suspended interest	(38,591)	(36,468)
Net loans and advances to customers and related parties	153,660	131,501

Loans and advances to customers and related parties classified by product:

	2011			2010		
In millions of Lebanese Pound	Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
Retail customers:						
Lending secured by mortgage	28,801	(10,849)	17,952	22,271	(11,012)	11,259
Lendings against cash collateral	9,396	–	9,396	11,009	–	11,009
Personal loans	41,964	(749)	41,215	38,719	(53)	38,666
Other retail lending	6,249	(2,718)	3,531	4,226	(3,736)	490
Collective impairment	–	(858)	(858)	–	(997)	(997)
	86,410	**(15,174)**	**71,236**	**76,225**	**(15,798)**	**60,427**
Corporate customers:						
Lending secured by mortgage	23,513	(14,552)	8,961	19,352	(12,803)	6,549
Lendings against cash collateral	3,514	–	3,514	3,739	–	3,739
Other corporate lending	78,814	(8,865)	69,949	68,653	(7,867)	60,786
	105,841	**(23,417)**	**82,424**	**91,744**	**(20,670)**	**71,074**
	192,251	**(38,591)**	**153,660**	**167,969**	**(36,468)**	**131,501**

Allowances for impairment

In millions of Lebanese Pound	2011	2010
Balance at 1 January	36,468	41,628
Impairment loss and suspended interest		
Charge for the year	390	1,701
Collective impairment for the year	338	508
Provision written back	(926)	(776)
Suspended interest recognized	(1,095)	(8,797)
Suspended interest during the year	12,038	10,901
Write-offs resulting from settlements	(1,661)	(2,157)
Transferred to off-balance sheet	(6,961)	(6,540)
Balance at 31 December	**38,591**	**36,468**

(10) INVESTMENT SECURITIES

In millions of Lebanese Pound	2011	2010
Investment securities classified:		
As available-for-sale	–	218,481
Loans and receivables	–	178,097
As held for trading	–	1,776
Held-to-maturity	–	241,545
At fair value through profit or loss	7,254	–
At fair value through other comprehensive income	2,467	–
At amortized cost	715,340	–
	725,061	**639,899**
Investment securities classified as available-for-sale:		
Lebanese government treasury bills	–	114,736
Lebanese government eurobonds	–	96,831
Equity securities with readily determinable fair value	–	1,675
Unquoted equity securities at cost	–	865
Interest receivable	–	4,374
	–	**218,481**
Investment securities classified as loans and receivables:		
Certificates of deposit issued by Central Bank	–	173,387
Certificates of deposit issued by other banks	–	1,504
Interest receivable	–	3,206
	–	**178,097**
Investment securities classified as held for trading:		
Lebanese government treasury bills	–	1,689
Equity securities with readily determinable fair value	–	83
Interest receivable	–	4
	–	**1,776**
Investment securities classified as held-to-maturity:		
Lebanese government treasury bills	–	168,231
Lebanese government eurobonds	–	67,966
Interest receivable	–	5,348
	–	**241,545**

In millions of Lebanese Pound	2011	2010
Investment securities classified at fair value through profit or loss:		
Certificates of deposit issued by Central Bank	179	
Lebanese government treasury bills	6,913	–
Interest receivable	162	–
	7,254	–
Investment securities classified at fair value through other comprehensive income:		
Equity securities with readily determinable fair value	1,602	–
Unquoted equity securities at cost	865	–
	2,467	–
Investment securities classified at amortized cost:		
Listed:		
Lebanese government treasury bills	255,798	–
Certificates of deposit – private sector	1,505	–
Certificates of deposit issued by Central Bank	53,787	–
Interest receivable	4,747	–
	315,837	–
Not listed:		
Lebanese government treasury bills	247,440	–
Certificates of deposit issued by Central Bank	143,282	–
Other debt instruments	754	
Interest receivable	8,027	–
	399,503	–
	715,340	–

During the year the Group has sold investment securities classified at amortized cost with carrying amount of LBP 42,580 million of which LBP 5,106 million were exchanged with another securities with longer maturities and the remaining balance was sold for liquidity purposes. The sale of these investment securities resulted in a gain of LBP 1,104 million (refer to note 26).

(11) INVESTMENT PROPERTIES

In millions of Lebanese Pound	
Cost	
Balance at 1 January 2010	32,332
Additions	169
Transfer from revaluation reserve of properties	2,250
Transfer to property and equipment	(12,194)
Balance at 31 December 2010	22,557
Balance at 1 January 2011	22,557
Transfers	151
Balance at 31 December 2011	22,708
Accumulated depreciation	
Balance at 1 January 2010	(5,984)
Depreciation for the year	(652)
Transfer to property and equipment	2,522
Balance at 31 December 2010	(4,114)
Balance at 1 January 2011	(4,114)
Depreciation for the year	(662)
Transfer to property and equipment	243
Balance at 31 december 2011	
Carrying amount	
Balance at 1 January 2010	26,348
Balance at 31 December 2010	18,443
Balance at 31 December 2011	18,175

The fair value of investment properties as determined by a registered independent appraiser having an appropriate recognized professional qualification and recent experience in the location and category of the property being valued amounted to LBP 45,626 million as per report dated 8 July 2007. Fair values were determined having regard to recent markettransactions for similar properties in the same location as the Group's investment properties.

(12) REVALUATION RESERVE OF INVESTMENT PROPERTIES AND PROPERTIES

During 1995, the Group revalued its land and buildings acquired before 1993 based on an independent expert's evaluation report. In conformity with Law No. 282 dated 30 December 2003, the Group paid 1.5% on the surplus from revaluation that amounted to LBP 15,205 million. LBP 8,070 million of the revaluation was accepted by the Central Bank and recognized within the property and equipment and under the caption called "Revaluation reserve accepted as supplementary capital" in equity. The remaining revaluation amounting to LBP 7,097 million (2010: LBP 7,135 million) was recognized as asset under the caption "revaluation reserve of investment properties" and "revaluation reserve of properties" and equity under the caption called "Revaluation reserve of real estate".

(13) PROPERTY AND EQUIPMENT

In millions of Lebanese Pound	Land and buildings	Improve-ments	Computer and office equipment	Furniture and fixtures	Vehicles	Total
Cost						
Balance at 1 January 2010	10,106	16,850	4,298	1,528	57	32,839
Additions	–	1,562	838	39	–	2,439
Transfer from investment property	12,194	–	–	–	–	12,194
Transfer from reserve of other properties	1,219	–	–	–	–	1,219
Balance at 31 December 2010	23,519	18,412	5,136	1,567	57	48,691
Balance at 1 January 2011	**23,519**	**18,412**	**5,136**	**1,567**	**57**	**48,691**
Additions	**68**	**563**	**296**	**50**	**–**	**977**
Disposals	**–**	**–**	**(99)**	**–**	**–**	**(99)**
Balance at 31 December 2011	**23,587**	**18,975**	**5,333**	**1,617**	**57**	**49,569**
Depreciation						
Balance at 1 January 2010	(534)	(9,253)	(3,738)	(811)	(15)	(14,351)
Depreciation for the year	(102)	(841)	(374)	(113)	(6)	(1,436)
Transfer from investment property	(2,522)	–	–	–	–	(2,522)
Balance at 31 December 2010	(3,158)	(10,094)	(4,112)	(924)	(21)	(18,309)
Balance at 1 January 2011	**(3,158)**	**(10,094)**	**(4,112)**	**(924)**	**(21)**	**(18,309)**
Depreciation for the year	**(118)**	**(885)**	**(437)**	**(116)**	**(5)**	**(1,561)**
Transfer from investment property	**(243)**					**(243)**
Disposals	**–**	**–**	**90**	**–**	**–**	**90**
Balance at 31 December 2011	**(3,519)**	**(10,979)**	**(4,459)**	**(1,040)**	**(26)**	**(20,023)**
Carrying amounts						
At 1 January 2010	9,572	7,597	560	717	42	18,488
At 31 December 2010	20,361	8,318	1,024	643	36	30,382
At 31 December 2011	**20,068**	**7,996**	**874**	**577**	**31**	**29,546**

(14) ASSETS CLASSIFIED AS HELD FOR SALE

In millions of Lebanese Pound	2011	2010
Balance as at beginning of year	6,668	6,951
Disposals	(2,314)	(283)
Balance as at end of year	**4,354**	**6,668**

These assets are initially measured at fair value at the date of enforcement of the security. Assets not disposed of within two years of the date of enforcement are amortised over a 5 or 20 years period, depending on the date the related loan was granted. Assets acquired in connection with loans granted before 30 June 2003 and in accordance with the Central Bank intermediary circular No. 41 and its amendments are amortised over 20 years, whereas assets acquired in connection with loans after 30 June 2003 are amortized over 5 years.

(15) OTHER ASSETS

In millions of Lebanese Pound	2011	2010
Properties receivable in settlement of debt	1,475	1,475
Accounts receivable and prepayments	1,066	1,188
Receivables from NSSF	1,465	1,207
Impairment provision on receivables from NSSF	(523)	–
Other assets	324	288
	3,807	**4,158**

(16) DEPOSITS FROM BANKS AND FINANCIAL INSTITUTIONS

In millions of Lebanese Pound	2011	2010
Current deposits	4,103	4,150
Term deposits	1	3,015
Interest payable	–	4
	4,104	**7,169**

(17) DEPOSITS FROM CUSTOMERS

In millions of Lebanese Pound	2011	2010
Savings	786,809	747,774
Term deposits	208,027	197,067
Current deposits	59,736	56,098
Cash collateral	25,021	25,433
Blocked margin for L/Cs and L/Gs	1,087	1,606
Interest payable	2,499	2,633
	1,083,179	**1,030,611**

As at 31 December 2011, customers' deposits above LBP 1,500 million threshold amounted to LBP 316,169 million representing 28.12% of total deposits and are held by 93 customers. Same tiers representing 28.43% of total customers' deposits amounted to LBP 311,698 million were held by 82 customers as at 31 December 2010.

Customer's deposits include coded accounts amounting to LBP 112 million as at 31 December 2011 (2010: LBP 110 million).

(18) OTHER LIABILITIES

In millions of Lebanese Pound	2011	2010
Creditors and accruals	1,265	1,043
Operational taxes and social security payables	657	363
Transactions pending between branches	2,376	1,856
Provisions for risks and charges	45	45
Unrealized gain on initial recognition on Solidere shares	–	244
Other	308	223
	4,651	**3,774**

Provisions for risks and charges represents provision for fluctuations in the foreign exchange rates:

In millions of Lebanese Pound	Fluctuations in foreign exchange
Balances at 1 January 2010	45
Balances at 31 December 2010	45
Balances at 31 December 2011	45

(19) RETIREMENT BENEFIT OBLIGATIONS

In millions of Lebanese Pound	2011	2010
Recognized liability for EoSI (NSSF)	3,199	3,838
Recognized liability for EoSI (non-NSSF)	6	52
Provision for salary increase related to high cost of living	1,000	–
	4,205	**3,890**
Recognized liability for end-of-service indemnity (NSSF)		
Provision at beginning of year	3,838	3,684
Charge for the year	487	219
Utilized during the year	(48)	(65)
Transferred from non NSSF provision	48	–
Release of provision	(1,126)	–
	3,199	**3,838**
Recognized liability for end-of-service indemnity (Non-NSSF)		
Provision at beginning of year	52	267
Charge for the year	3	12
Transferred to defined benefit provision	(48)	–
Utilized during the year	(1)	(227)
	6	**52**

(20) SHARE CAPITAL

At 31 December 2011, the authorized and issued share capital comprised 3,450,000 nominal shares (2010: 3,450,000) with a par value of LBP 13,600 each (2010: LBP 13,600 each) amounting to LBP 46,920 million (2010: LBP 46,920 million). All issued shares are fully paid.

The holders of ordinary shares are entitled to receive dividends as declared from time to time. All shares rank equally with regard to the Group's residual assets.

(21) RESERVES

In millions of Lebanese Pound	2011	2010
General banking risk reserve	7,612	6,534
Legal reserve	7,605	6,947
Reserve for capital increase	293	244
Free reserve	11,736	6,957
Total capital reserves	**27,246**	**20,682**
Revaluation reserve accepted as supplementary capital - part of Tier II capital	8,070	8,070
Revaluation reserve of real estate	20,610	20,648
Fair value reserve for investment securities - Tier II capital	920	13,628
Reserve for assets classified as held for sale	1,660	1,648
	58,506	**64,676**

General banking risks reserve

The Bank is required, according to the Central Bank regulations and commencing at 1996, to set-up a reserve for general Banking risks at a minimum of 0.2% and a maximum rate of 0.3% of the risk weighted assets and off-balance sheet financial instruments in local and foreign currencies. This reserve should not be less than 1.25% and 2% by the end of the 10th and the 20th years, respectively. This reserve is not available for distribution.

Legal reserve

The Lebanese Commercial Law and the Bank's articles of association stipulate that 10% of the net annual profits be transferred to legal reserve. This reserve is not available for distribution.

Reserve for asset classified held for sale

This reserve is related to properties held in settlement of debt and is not available for distribution.

Fair value reserve for investment securities

This reserve represents the cumulative net change in the fair value of investment securities classified as available-for-sale prior to 1 January 2011 (Lebanese Government treasury bills) and the change in the fair value through other comprehensive income after 1 January 2011 until the investment is derecognized or impaired.

(22) NET INTEREST AND SIMILAR INCOME

In millions of Lebanese Pound	2011	2010
Interest and similar income		
Balances with Central Bank	1,303	1,552
Banks and financial institutions	895	937
Net loans and advances to customers	11,523	9,754
Investment securities	55,053	50,940
Total interest income	68,774	63,183
Interest and similar expense		
Due to banks and financial institutions	(350)	(49)
Customers' deposits	(47,456)	(45,376)
Total interest expense	(47,806)	(45,425)
Net interest and similar income	**20,968**	**17,758**

(23) FEE AND COMMISSION INCOME

In millions of Lebanese Pound	2011	2010
Credit related fees	1,187	1,088
Letter of credit and guarantees	395	406
Banking operations	1,934	1,799
Brokerage fees	339	293
	3,855	**3,586**

(24) NET RECOVERIES ON LOANS AND ADVANCES TO CUSTOMERS

In millions of Lebanese Pound	2011	2010
Provision for loans and advances to customers	(730)	(2,813)
Release of provision on loans and advances to customers	2,481	4,812
	1,751	**1,999**

(25) NET GAIN ON TRADING ACTIVITIES

In millions of Lebanese Pound	2011	2010
Gain on sale of trading assets	961	377
Revaluation of trading assets	(302)	(171)
	659	**206**

(26) NET GAIN ON INVESTMENT SECURITIES

In millions of Lebanese Pound	2011	2010
Gain on sale of investment debt securities	1,104	2,907
Dividend from equity securities	178	188
	1,282	**3,095**

(27) OTHER OPERATING INCOME

In millions of Lebanese Pound	2011	2010
Net gain on sale of asset classified as held for sale	802	–
Write back on provision of asset classified as held for sale	241	–
Other operating income	560	536
	1,603	**536**

(28) PERSONNEL EXPENSES

In millions of Lebanese Pound	2011	2010
Wages and salaries	8,547	7,896
Social security contributions	1,165	1,013
Provision for EoSI (NSSF)	363	209
Provision for EoSI (Non NSSF)	3	12
Other personnel expenses	177	103
	10,255	**9,233**

(29) ADMINISTRATIVE EXPENSES

In millions of Lebanese Pound	2011	2010
Repairs and maintenance	2,275	1,915
Rent	242	495
Professional fees	813	1,169
Insurance expenses	789	534
Office supplies	649	692
Customer deposits insurance	540	494
Provisions for doubtful debt	523	–
Subscription fees	476	438
Travel expense	470	508
Municipality and other taxes	342	259
Taxes	248	–
Software costs	239	101
Directors' attendance fees	100	90
Other expenses	623	701
	8,329	**7,396**

(30) INCOME TAX EXPENSE

In millions of Lebanese Pound	2011		2010	
Profit for the year		7,651		6,786
Income tax expense		1,903		1,859
Profit before income tax		9,554		8,645
Income tax using domestic corporation tax rate	15%	1,433	15%	1,297
Effect of income subject to different tax rates	(0.24%)	(22)	(0.23%)	(19)
Real estate tax	0.49%	47	0.72%	62
Effect of other non-deductible expenses	2.63%	240	4.51%	378
Withholding tax on interest not reimbursable	2.93%	205	2.17%	141
Current income tax expense	**20.81%**	**1,903**	**22.17%**	**1,859**

The Group is subject to a withholding tax of 5% on certain interest income which is considered as a prepayment on corporate income tax due. In case this withholding tax exceeds the calculated corporate income tax expense, the excess is not reimbursable and is considered as a final income tax expense.

(31) CASH AND CASH EQUIVALENTS

In millions of Lebanese Pound	2011	2010
Cash in hand (note 7)	8,247	8,682
Unrestricted balances with Central Bank (note 7)	14,853	1 2,060
Current accounts (note 8)	14,048	8,787
Banks and financial institutions (note 8)	106,667	152,871
	143,815	**182,400**

(32) RELATED PARTIES

(a) Management personnel compensation

Some of the board members hold positions in other entities that result in having control over the financial or operating policies of these entities.

A number of these entities transacted with the Group in the reporting year. The terms and conditions of the transactions with the key management personnel and their related parties were no more favorable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis.

In millions of Lebanese Pound	2011	2010
Directors' attendance fees	100	90
Short-term employee benefits	756	636
	856	**726**

(b) Loans and advances to related parties

In millions of Lebanese Pound	2011	2010
Ayoub Lebanese Industrial Company S.A.L. ("ALICO")	668	666
Sleep Comfort Lebanon S.A.L.	200	184
Henry Nachawaty (Board member)	–	6
	868	**856**

Sleep Comfort Lebanon S.A.L. and ALICO S.A.L. share Board members with the Group.
Interest rate charged on loans and advances to related parties average to 20% on LBP accounts and 9.5% on USD accounts.

(c) Interest income from related parties

In millions of Lebanese Pound	2011	2010
Interest income	86	101

(d) Deposits from related parties

In millions of Lebanese Pound	2011	2010
Term deposits	43,975	42,367
Current deposits	239	257
Savings	3,214	4,539
Cash collateral	–	8
Blocked margin for L/Cs and L/Gs	1	2
	47,429	**47,173**

Average interest rates granted to related party deposits amounted to 7% on LBP accounts and 4.25% on USD.

(33) GROUP ENTITIES

	Ownership interest	
	2010	2009
SIAS	99.9%	99.9%
SNI	65.625%	65.625%

(34) SUBSEQUENT EVENT

On 19 December 2011, an extraordinary general assembly meeting was held and decided to increase the capital to LBP 54,165 million by increasing the value of share to LBP 15,700. The increase was done on 15 February 2012 after getting the acceptance of the Central Bank of Lebanon on 27 January 2012.

Network & Addresses

HEAD OFFICE

Location: Riad Solh – Beirut BSL Bldg, Banks Street
P.O.Box: 11-957
Tel: 01-980080
Fax: 01-980991

Swift: SONBLBBE
Email: info@bsl.com.lb
Website: www.bsl.com.lb

BRANCHES - BEIRUT AND SUBURBS

ACHRAFIEH

Location: Achrafieh – Beirut Khayat Bldg, Sioufi Street
Tel: 01-200121 | 01-337340
Fax: 01-337340

BURJ HAMMOUD

Location: Burj Hammoud – Jam-gotchian Bldg, Arminia Street
Tel: 01-266992 | 01-262527
Fax: 01-262527

DBAYEH

Location: Dbayeh – Naccache, BSL Bldg, Dbayeh Highway
Tel: 04-402420 /2 | 04-417509
Fax: 04-415985

DORA

Location: Dora – United Court Bldg, Dora Highway
Tel: 01-262090 | 01-264785 | 01-268037
Fax: 01-264785 | 01-264656

HAMRA

Location: Hamra – Abu El Hessen Bldg, Makdessi Street
Tel: 01-342750 | 01-353084 | 01-349711
Fax: 01-353084

HAZMIEH

Location: Hazmieh – Baabda Mallat Center, Damascus Road
Tel: 05-457640 /1 | 05-454686
Fax: 05-457641

MAR ELIAS

Location: Mar Elias – Chehadeh Bldg, Mar Elias Street
Tel: 01-818122 /3
Fax: 01-818122

RIAD SOLH

Location: Riad Solh – Beirut BSL Bldg, Banks Street
Tel: 01-980071 /6
Fax: 01-980073

SAINT NICOLAS
Location: Saint Nicolas – Zen Bldg, Charles Malek Avenue
Tel: 01-200340 /1 | 01-218751
Fax: 01-218751

SAMI SOLH
Location: Sami Solh – Joseph Chahine Bldg, Sami Solh Avenue
Tel: 01-389398 | 01-387795
Fax: 01-389398

KESERWAN

JOUNIEH
Location: Jounieh – Haret Sakhr, Athénée Center
Tel: 09-913880 /5 | 09-915517
Fax: 09-913885

NORTH

TRIPOLI
Location: Tripoli – BSL Bldg, Tell Square
Tel: 06-430042 /3/4/5/6
Fax: 06-430044

ZGHORTA
Location: Zghorta – BSL Bldg, Sleiman Frangieh Boulevard
Tel: 06-662667 /8
Fax: 06-430044

SOUTH

SAIDA
Location: Saida – BSL Bldg, Riad Solh Street
Tel: 07-720402 /2/4
Fax: 07-720401

TYR
Location: Tyr – Assawira Bldg, Principal Street
Tel: 07-740056 | 07-740294
Fax: 07-740056

BEKAA

BAALBECK
Location: Baalbeck – BSL Bldg, Khalil Moutran Square
Tel: 08-370333 | 08-370447 | 08-371876
Fax: 08-371876

ZAHLEH
Location: Zahleh – BSL Bldg, Zahleh Boulevard
Tel: 08-823033/7 | 08-823287
Fax: 08-823033

Correspondent Banks

U.A.E

SHARJAH
Bank of Sharjah

NORTH AFRICA

EGYPT — CAIRO
National Bank of Egypt

FAR EAST

JAPAN — TOKYO
The Bank of New York Mellon

AUSTRALIA

SYDNEY
Westpac Banking Corporation

NORTH AMERICA

USA — NEW YORK
The Bank of New York Mellon

CANADA — TORONTO
Bank of Montreal

EUROPE

AUSTRIA — VIENNA
Unicredit Bank Austria AG

DENMARK — COPENHAGEN
Danske Bank

FRANCE — PARIS
Bank Audi Saradar France
BLOM Bank France SA

GERMANY — FRANKFURT
Commerzbank AG

ITALY — MILANO
Intesa San Paolo SPA

NETHERLANDS — AMSTERDAM
Commerzbank AG

NORWAY — OSLO
DNB Bank ASA

SPAIN — MADRID
Banco Bilbao Vizcaya Argentaria SA

SWEDEN — STOKHOLM
Skandinaviska Enskilda Banken AB

SWITZERLAND — GENEVA
BLOM Bank (Switzerland) SA

CYPRUS — NICOSIA
Marfin Popular Bank Public Co. Ltd

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