BANQUE MISR LIBAN S.A.L.

Report and financial statements
for the year ended 31 December 2010

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PRICEWATERHOUSECOOPERS

KPMG

Independent Auditor's Report
to the shareholders of Banque Misr Liban S.A.L.

Report on the financial statements

We have audited the accompanying financial statements of Banque Misr Liban S.A.L. ("the Bank") which comprise the balance sheet as of 31 December 2010 and the statements of comprehensive income, changes in equity and cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the financial statements

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

Auditor's responsibility

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

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

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

Independent Auditor's Report (continued)
to the shareholders of Banque Misr Liban S.A.L.

Basis for qualified opinion

As explained in note 10, the Bank sold in 2009 held-to-maturity securities amounting to LL 27 billion before their maturity date between 4 to 9 months following the offer presented by the Lebanese Republic (the issuer). Consequently, the whole portfolio was deemed to have been tainted and should have been classified at 31 December 2010 as available-for-sale securities at a fair value of LL 320 billion (2009 – LL 276 billion) instead of the present carrying amount of LL 306 billion (2009 – LL 264 billion). This has the effect of overstating the held-to-maturity securities portfolio by the amount of LL 306 billion (2009 – LL 264 billion) and understating the available-for-sale securities portfolio and the revaluation reserve of available-for-sale investments included in shareholders' equity by LL 320 billion (2009 – LL 276 billion) and LL 14 billion (2009 – LL 12 billion) respectively. However, given the early adoption by the Bank of IFRS 9, "Financial instruments", as of 1 January 2011 in line with the Banking Control Commission circular number 265 dated 23 September 2010 and the fact that such debt securities will be stated subsequently at amortised cost, the carrying amount of these securities has remained unchanged at an amount of LL 306 billion as of that date.

Qualified opinion

In our opinion, except for the effect of the matter described in the basis for qualified opinion paragraph above, the financial statements present fairly, in all material respects, the financial position of the Bank as of 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon

PricewaterhouseCoopers

KPMG

Balance sheet
at 31 December 2010

	Note	2010 LL Million	2009 LL Million
Assets			
Cash and balances with central banks	5	**179,716**	149,606
Loans and advances to banks	6	**84,656**	47,055
Loans and advances to parent and sister banks	7	**263**	232
Loans and advances to customers	8	**145,827**	120,154
Debtors by acceptances	9	**9,612**	10,921
Investment securities:			
- Available-for-sale	10	**267,633**	164,994
- Loans and receivables	10	**293,499**	162,812
- Held-to-maturity	10	**305,569**	264,443
Non-current assets held for sale	11	**6,069**	-
Property and equipment	12	**13,511**	10,430
Intangible assets	13	**819**	1,056
Investment properties	14	**30**	33
Investment in a subsidiary	15	**29**	-
Other assets	16	**2,840**	3,740
Total assets		**1,310,073**	935,476
Liabilities			
Deposits from banks	17	**42,217**	12,321
Deposits from parent and sister banks	18	**65,284**	78,747
Deposits from customers	19	**1,041,974**	767,208
Engagements by acceptances	9	**9,612**	10,921
Retirement benefit obligations	22	**2,341**	2,405
Provisions for liabilities and charges	21	**834**	705
Other liabilities	20	**5,849**	3,885
Total liabilities		**1,168,111**	876,192
Shareholders' equity			
Share capital	23	**100,000**	27,000
Required capital reserves	23	**7,624**	7,480
Revaluation reserve of available-for-sale investments	23	**9,560**	8,170
Retained earnings	23	**8,763**	144
Other reserves	23	**16,015**	16,490
Total shareholders' equity		**141,962**	59,284
Total shareholders' equity and liabilities		**1,310,073**	935,476

The financial statements on pages 3 to 78 were approved for issue and signed by Mr. Hadi Naffi, the Executive General Manager, on 24 May 2011 on behalf of the board of directors.

Statement of comprehensive income
for the year ended 31 December 2010

	Note	**2010 LL Million**	2009 LL Million
Interest and similar income	24	**71,619**	56,936
Interest and similar expenses	24	**(47,491)**	(40,657)
Net interest income		**24,128**	16,279
Net loan impairment releases (charges)	26	**2,362**	(473)
Net interest income after loan impairment releases (charges)		**26,490**	15,806
Fee and commission income	25	**3,618**	2,610
Fee and commission expense	25	**(394)**	(544)
Net fee and commission income		**3,224**	2,066
Net trading gains		**599**	168
Net gains on investment securities	27	**2,266**	4,011
Personnel expenses	28	**(12,929)**	(12,175)
General and administrative expenses	29	**(5,459)**	(5,400)
Depreciation and amortisation expense	30	**(3,522)**	(2,742)
Other operating income	31	**362**	320
Profit before income tax		**11,031**	2,054
Income tax expense	32	**(2,268)**	(1,910)
Profit for the year		**8,763**	144
Fair value gains on available-for-sale investment securities		**1,390**	6,090
Total comprehensive income for the year		**10,153**	6,234
Earnings per share for the profit attributable to the equity holders of the Bank during the year (expressed in LL per share)	36	**134**	7

Statement of changes in equity
for the year ended 31 December 2010

	Share capital LL Million	Reserve for unidentified banking risks LL Million	Legal reserve LL Million	Revaluation reserve of available-for-sale investments LL Million	Retained earnings LL Million	Other reserves LL Million	Total LL Million
Balance at 1 January 2009	27,000	3,453	3,964	2,080	63	16,490	53,050
Fair value gains on available-for-sale investment securities	-	-	-	6,090	-	-	6,090
Profit for the year	-	-	-	-	144	-	144
Total comprehensive income	-	-	-	6,090	144	-	6,234
Transfers (note 23)	-	57	6	-	(63)	-	-
Balance at 31 December 2009	27,000	3,510	3,970	8,170	144	16,490	59,284
Balance at 1 January 2010	27,000	3,510	3,970	8,170	144	16,490	59,284
Increase in share capital	73,000	-	-	-	-	-	73,000
Cost of capital increase	-	-	-	-	-	(475)	(475)
Fair value gains on available-for-sale investment securities	-	-	-	1,390	-	-	1,390
Profit for the year	-	-	-	-	8,763	-	8,763
Total comprehensive income	-	-	-	1,390	8,763	-	10,153
Transfers (note 23)	-	130	14	-	(144)	-	-
Balance at 31 December 2010	**100,000**	**3,640**	**3,984**	**9,560**	**8,763**	**16,015**	**141,962**

Cash flow statement
for the year ended 31 December 2010

	Note	**2010 LL Million**	2009 LL Million
Cash flows from operating activities			
Profit before income tax		**11,031**	2,054
Adjustments for:			
Depreciation expense	30	**3,225**	2,461
Amortisation expense	30	**297**	281
Net gain on disposal of property and equipment		**(10)**	-
Net gain on disposal of intangible assets		**(4)**	-
Net loan impairment (releases) charges	26	**(2,362)**	473
Allowance for impairment of available-for-sale investment securities	27	**-**	2,727
Impairment losses on other assets	29	**220**	300
Net interest income	24	**(24,128)**	(16,279)
Net fee and commission income	25	**(3,224)**	(2,066)
Changes in operating assets and liabilities:			
Cash and balances with central banks		**(10,799)**	(56,671)
Loans and advances to banks		**(4,851)**	(765)
Loans and advances to customers		**(29,129)**	(13,861)
Investment securities		**(268,356)**	(86,260)
Other assets		**680**	(101)
Deposits from banks		**29,850**	6,297
Deposits from parent and sister banks		**(13,651)**	(276)
Deposits from customers		**273,617**	134,698
Net change in retirement benefit obligations	22	**(64)**	141
Net change in provisions for liabilities and charges	21	**129**	24
Other liabilities	20	**1,964**	479
Cash generated used in operating activities		**(35,565)**	(26,344)
Interest received		**66,471**	56,725
Interest paid		**(46,108)**	(39,243)
Fee and commission income	25	**3,618**	2,610
Fee and commission expense	25	**(394)**	(544)
Income tax paid	32	**(2,268)**	(1,910)
Net cash used in operating activities		**(14,246)**	(8,706)
Cash flows from investing activities			
Purchase of property and equipment	12	**(6,304)**	(5,072)
Acquisition of a subsidiary	15	**(29)**	-
Proceeds from sale of property and equipment		**11**	-
Proceeds from sale of intangible assets		**10**	-
Purchase of intangible assets	13	**(66)**	(224)
Net cash used in investing activities		**(6,378)**	(5,296)

Cash flow statement (continued)
for the year ended 31 December 2010

	Note	2010 LL Million	2009 LL Million
Cash flows from financing activities			
Increase in capital		**72,525**	-
Net increase (decrease) in cash and cash equivalents		**51,901**	(14,002)
Cash and cash equivalents at the beginning of the year	33	**41,835**	55,837
Cash and cash equivalents at end of the year	33	**93,736**	41,835

Principal non-cash transactions:

The principal non-cash transactions are as follows:

- Transfer to legal reserve amounting to LL 14 million (2009 – LL 6 million) (note 23);
- Transfer to reserve for unidentified banking risks amounting to LL 130 million (2009 – LL 57 million) (note 23);
- Net change in revaluation reserve of available-for-sale financial assets amounting to LL 1,390 million (2009 – LL 6,090 million) (note 23); and
- Acquisition of non-current assets held for sale from customers in settlement of their debt amounting to LL 6.1 billion (note 11).

Notes to the financial statements for the year ended 31 December 2010

1 General information

Banque Misr Liban S.A.L. (the "Bank") was incorporated in Lebanon in 1929 and registered at the Lebanese Commercial Register in Beirut under No. 104. It appears under number 3 in the list of Lebanese banks regulated by the Central Bank of Lebanon.

The Bank is involved in corporate and retail banking services. The Bank's head office is located in Beirut Central District, Bank Misr building.

The parent bank is Banque Misr – Cairo which owns 92% (2009 – 88%) of the Bank and is incorporated in Egypt. The address of the parent bank is street no. 151, Mohammad Farid, Cairo, Egypt.

The financial statements for the year ended 31 December 2010 have been approved for issue by the Executive General Manager on 24 May 2011 on behalf of the board of directors. Neither the entity's owners nor others have the power to amend the financial statements after issue.

2 Summary of significant accounting policies

This is the first set of financial statements prepared by the Bank in accordance with International Financial Reporting Standards ("IFRS"). The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

The Bank's transition date is 1 January 2009. The Bank prepared its opening IFRS balance sheet at that date.

In preparing these financial statements in accordance with International Financial Reporting Standards, the Bank has applied all the mandatory exceptions from full retrospective application of the IFRS. None of the optional exemptions are applicable.

The transition from Lebanese Banking Laws and Regulations to IFRS has not resulted in any material effect on the Bank's equity that would require reconciliation.

2.1 Basis of preparation

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

The financial statements have been prepared under the historical cost convention except for the available-for-sale investment securities which have been measured at fair value.

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

Notes to the financial statements (continued)

2.1 Basis of preparation (continued)

The financial statements are presented in Lebanese pounds, which is the Bank's presentational currency. The figures shown in the financial statements are stated in LL million.

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

The statement of cash flows shows the changes in cash and cash equivalents arising during the year from operating activities, investing activities and financing activities. Cash and cash equivalents include highly liquid investments. Note 33 shows in which item of the statement of financial position cash and cash equivalents are included.

The cash flows from operating activities are determined by using the indirect method. Net income is therefore adjusted by non-cash items, such as measurement gains or losses, changes in provisions, as well as changes from receivables and liabilities. In addition, all income and expenses from cash transactions that are attributable to investing or financing activities are eliminated. Interest received or paid is classified as operating cash flows.

The cash flows from investing and financing activities are determined by using the direct method. The Bank's assignment of the cash flows to operating, investing and financing category depends on the Bank's business model (management approach).

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

(a) Standards, amendment and interpretations mandatory for the first time for the financial year beginning 1 January 2010 but not currently relevant to the Bank:

The following standards and amendments to existing standards have been published and are mandatory for the Bank's accounting periods beginning on or after 1 January 2010 but not currently relevant to the Bank:

- IAS 1 (amendment), "Presentation of financial statements". The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time.

Notes to the financial statements (continued)

2.1 Basis of preparation (continued)

(b) Standards, amendment and interpretations issued but not effective for the financial year beginning 1 January 2010 and not early adopted:

The following standards, amendments and interpretations, which became effective in 2010 are relevant to the Bank:

- IFRS 9, "Financial instruments", issued in November 2009. This standard is the first step in the process to replace IAS 39, "Financial instruments: recognition and measurement". IFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Bank's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. Key impacts are as follows:
  - Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
  - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and the asset's contractual cash flows represent only payments of principal and interest (that is, it has only "basic loan features").
  - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss.

  The Bank opted for the early adoption of the standard on 1 January 2011 in line with the Banking Control Commission circular number 265 dated 23 September 2010. The Bank evaluated the effect of the application of IFRS 9 on the financial statements. All debt securities will be measured at amortised cost. The application of this standard will result in a decrease of the available-for-sale securities portfolio and the revaluation reserve of available-for-sale investments by LL 266 billion and LL 9 billion respectively and an increase in the securities held at amortised cost by LL 257 billion.

- Revised IAS 24 (revised), "Related party disclosures", issued in November 2009. It supersedes IAS 24, "Related party disclosures", issued in 2003. IAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Bank will apply the revised standard from 1 January 2011. When the revised standard is applied, the Bank and the parent will need to disclose any transactions between its subsidiaries and its associates.

Notes to the financial statements (continued)

2.2 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

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

Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount, except impairment, are recognised in equity.

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

2.3 Financial assets and liabilities

In accordance with IAS 39, all financial assets and liabilities - which include derivative financial instruments - have to be recognised in the balance sheet statement and measured in accordance with their assigned category.

2.3.1 Financial assets

The Bank allocates financial assets to the following IAS 39 categories: loans and receivables, held-to-maturity and available-for-sale investment securities. Management determines the classification of its financial instruments at initial recognition.

Notes to the financial statements (continued)

2.3 Financial assets and liabilities (continued)

2.3.1 Financial assets (continued)

(a) Loans and receivables

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

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

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

(b) Held-to-maturity financial assets

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

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

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

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as 'Interest and similar income'. In the case of an impairment, the impairment loss is been reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as "Net gains on investment securities". Held-to maturity investments are Lebanese treasury bills.

(c) Available-for-sale financial assets

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

Notes to the financial statements (continued)

2.3 Financial assets and liabilities (continued)

2.3.1 Financial assets (continued)

(c) Available-for-sale financial assets (continued)

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

(d) Recognition

The Bank uses trade date accounting for regular way contracts when recording financial asset transactions.

(e) Derecognition

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

2.3.2 Financial liabilities

The Bank holds financial liabilities at amortised cost. Financial liabilities measured at amortised cost are deposits from banks, deposits from parent and sister banks or customers. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

2.4 Reclassification of financial assets

The Bank may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Bank may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the Bank has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification. Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

Notes to the financial statements (continued)

2.5 Classes of financial instruments

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

<table>
<tr><th colspan="2">Category
(as defined by IAS 39)</th><th colspan="2">Class
(as determined by the Bank)</th><th>Subclass</th></tr>
<tr><td rowspan="8">Financial assets</td><td rowspan="5">Loans and receivables</td><td colspan="3">Loans and advances to parent and sister banks</td></tr>
<tr><td colspan="3">Loans and advances to banks</td></tr>
<tr><td rowspan="2">Loans and advances to customers</td><td>Loans to individuals</td><td>- Overdrafts
- Credit cards
- Personal loans
- Housing loans</td></tr>
<tr><td>Loans to corporate entities</td><td>- SMEs
- Large corporate entities</td></tr>
<tr><td colspan="2">Investment securities - debt instruments</td><td>Unlisted and Listed</td></tr>
<tr><td>Held-to-maturity</td><td colspan="2">Investment securities - debt instruments</td><td>Unlisted and Listed</td></tr>
<tr><td rowspan="2">Available-for-sale</td><td colspan="2">Investment securities – debt instruments</td><td>Unlisted and Listed</td></tr>
<tr><td colspan="2">Investment securities - equity instruments</td><td>Unlisted and Listed</td></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="3">Financial liabilities at amortised cost</td><td colspan="3">Deposits from banks</td></tr>
<tr><td colspan="3">Deposits from parent and sister banks</td></tr>
<tr><td colspan="3">Deposits from customers</td></tr>
<tr><td rowspan="2">Off balance sheet financial instruments</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees and other financial facilities</td></tr>
</table>

2.6 Offsetting financial instruments

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

Notes to the financial statements (continued)

2.7 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within "interest and similar income" and "interest and similar expenses" in the income statement using the effective interest method. The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses.

2.8 Fee and commission income

Fees and commissions are recognised on an accrual basis when the service has been provided and mainly comprise commissions on client transactions such as the processing fees for opening and executing letters of credit and letters of guarantees.

2.9 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

a) significant financial difficulty of the issuer or obligor;
b) a breach of contract, such as a default or delinquency in interest or principal payments;
c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
d) it becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   (i) adverse changes in the payment status of borrowers in the portfolio; and
   (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

Notes to the financial statements (continued)

2.9 Impairment of financial assets (continued)

(a) Assets carried at amortised cost (continued)

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

The amount of the loss is measured as the difference between the asset's carrying amount and the estimated recoverable amount. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement.

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

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Impairment charges relating to loans and advances to banks and customers are classified in "Net loan impairment releases (charges)" whilst impairment charges relating to investment securities are classified in "Net gains on investment securities"

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the income statement.

Notes to the financial statements (continued)

2.9 Impairment of financial assets (continued)

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date. No non-financial assets were impaired in 2010.

2.11 Cash and cash equivalents

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

2.12 Leases

Leases are accounted for in accordance with IAS 17 and IFRIC 4. The leases entered into by the Bank are primarily operating leases. The total payments made under operating leases are charged to operating expenses in the income statement on a straight-line basis over the period of the lease.

Notes to the financial statements (continued)

2.12 Leases (continued)

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

2.13 Investment properties

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

Some properties may be partially occupied by the Bank, with the remainder being held for rental income or capital appreciation. If that part of the property occupied by the Bank can be sold separately, the Bank accounts for the portions separately. The portion that is owner-occupied is accounted for under IAS 16, and the portion that is held for rental income or capital appreciation or both is treated as investment property under IAS 40. When the portions cannot be sold separately, the whole property is treated as investment property only if an insignificant portion is owner-occupied. In order to determine the percentage of the portions, the Bank uses the size of the property measured in square meter.

Recognition of investment properties takes place only when it is probable that the future economic benefits that are associated with the investment property will flow to the entity and the cost can be measured reliably. This is usually the day when all risks are transferred.

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing parts of an existing investment property at the time the cost has incurred if the recognition criteria are met; and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment properties are stated at amortised cost. Depreciation is calculated using the straight-line method to allocate their residual values over their estimated useful lives of 20 years. Subsequent expenditure is included in the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

2.14 Property and equipment

Buildings comprise mainly branches and offices. All property and equipment used by the Bank is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Notes to the financial statements (continued)

2.14 Property and equipment (continued)

Depreciation of assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

	Years
Buildings	20
Improvements	4
Computer and office equipment	5
Furniture and fixtures	4
Vehicles	4

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. No property, and equipment were impaired as at 31 December 2010 (2009 - nil).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in other operating income in the income statement.

2.15 Intangible assets

Intangible assets comprise mainly computer software licences. Intangible assets are recognised at cost. Intangible assets with a definite useful life are amortised using the straight-line method over their estimated useful economic life, generally not exceeding 20 years. Intangible assets with an indefinite useful life are not amortised. At each date of the balance sheet, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangible assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. The Bank chooses to use the cost model for the measurement after recognition. Intangible assets with indefinite useful life are annually tested for impairment and whenever there is an indication that the asset may be impaired.

Computer software licences

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

Notes to the financial statements (continued)

2.16 Non-current assets held for sale

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

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less cost to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

2.17 Reserves for liquidation of non-current assets held for sale

At each balance sheet date, an appropriation of retained earnings is made in respect of non-current assets held for sale. The amount of this appropriation is determined by applying the percentages specified in the relevant Banking Control Commission circulars (5% or 20% as applicable) to the carrying amounts of those assets.

2.18 Income tax

(a) Current income tax

Income tax payable is calculated on the basis of the applicable tax law and is recognised as an expense for the period except to the extent that current tax related to items that are charged or credited in other comprehensive income or directly to equity. In these circumstances, current tax is charged or credited to other comprehensive income or to equity. The Bank's profit is subject to a tax rate of 15%. In accordance with article 51 of law number 497/2003, a 5% tax is withheld at source on interest received. The Bank's tax charge is determined as the higher of corporate tax and tax on interest income withheld during the year.

(b) Deferred income tax

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

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

Notes to the financial statements (continued)

2.19 Retirement benefit obligations

The Bank 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"). End-of-Service Indemnity contributions paid to NSSF represents 8.5 percent of employee benefits. The difference between the carrying amount of the provision and its value in accordance with IAS 19 'Employee benefits' is not significant.

2.20 Provisions

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

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

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

2.21 Financial guarantee contracts

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

Fee income earned are amortised on a straight line basis over the life of the guarantee.

2.22 Share capital

(a) Ordinary shares

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

(b) Dividends on ordinary shares

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

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

Notes to the financial statements (continued)

2.23 Comparatives

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

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

3 Financial risk management

The Bank's business involves taking on risks in a targeted manner and managing them professionally. The core functions of the Bank's risk management are to identify all key risks for the Bank, measure these risks, manage the risk positions and determine capital allocations.

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

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

Risk management is carried out by the Bank's risk management department under policies approved by the Board of Directors. The risk management department evaluates and hedges financial risks in close co-operation with the Bank's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments. The Bank's Audit committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Bank's Audit committee is assisted in these functions by the internal audit department.

Internal audit undertakes both regular and ad-hoc reviews for risk management controls and procedures, the results of which are reported to the Bank's Audit committee.

The risks arising from financial instruments to which the Bank is exposed are financial risks, which include credit risk, liquidity risk, market risk (which are discussed below) and operational risk.

3.1 Credit risk

Credit risk is the risk of suffering financial loss, should any of the Bank's customers, clients or market counterparties fail to fulfill their contractual obligations to the Bank. Credit risk arises mainly from commercial and consumer loans and advances, credit cards, and loan commitments arising from such lending activities, financial guarantees, letters of credit, endorsements and acceptances.

The Bank is also exposed to other credit risks mainly arising from investments in debt securities.

Credit risk is the single largest risk for the Bank's business; management therefore carefully manages its exposure to credit risk.

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.1 Credit risk measurement

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

To measure the credit risk of loans and advances to customers and to banks at a counterparty level, the Bank rates its counterparties according to the five rating classes defined by the Central Bank of Lebanon ("BDL") and the Banking Control Commission of Lebanon ("BCC") requirements as follows:

- Normal – type of loan is expected to be repaid on a timely and consistent basis;
- Special mention – type of loan is expected to be repaid but with lack of current financial information about the client;
- Substandard – type of loan where the client is witnessing a difficult financial condition;
- Doubtful – type of loan where there is no movement in the clients' balance;
- Bad – type of loan where the probability of repayment is low and almost nil.

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

(b) Debt securities and other bills

For debt securities and other bills, external ratings are used by the Bank's treasury department for managing credit risk exposure. The investments in those securities and bills are viewed as a way to gain a better credit quality mapping and maintain a readily available source to meet the funding requirement at the same time.

3.1.2 Risk limit control and mitigation policies

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

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments.

Lending limits are reviewed in the light of changing market and economic conditions and periodic credit reviews and assessments of probability of default.

Some other specific control and mitigation measures are outlined below:

(a) Collateral

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

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

(a) Collateral (continued)

The principal collateral types for loans and advances are:

- Real Estate Mortgages over residential and commercial properties;
- Charges over business assets such as premises, inventory, machinery and vehicles;
- Personal Guarantees;
- Salary domiciliation;
- Letters of Credit and Documentary collections; and
- Cash collaterals.

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

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

(b) Master netting arrangements

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

(c) Credit-related commitments

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

Commitments to extend credit represent unused portions of authorisations to extend credit in the form of loans, guarantees or letters of credit. With respect to credit risk on commitments to extend credit, the Bank is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards.

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.2 Risk limit control and mitigation policies (continued)

(c) Credit-related commitments (continued)

The Bank monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

3.1.3 Impairment and provisioning policies

The rating system described in note 3.1.1 focus on expected credit losses – that is, taking into account the risk of future events giving rise to losses. In contrast, impairment allowances are recognised for financial reporting purposes only for losses that have been incurred at the balance sheet date based on objective evidence of impairment (see note 2.9).

The categorisation of loans follows the BCC grading system. The impairment provision shown in the balance sheet at year-end is derived from each of the five internal rating grades. However, the majority of the impairment provision comes from the bottom two gradings shown under 3 below. The table below shows the percentage of loans and advances and the associated impairment provision for each of the Bank's internal rating categories:

	2010 Credit risk exposure (%)	**2010 Impairment allowance (%)**	2009 Credit risk exposure (%)	2009 Impairment allowance (%)
1. Normal & special mentioned	**77%**	**7%**	58%	1%
2. Substandard	**5%**	**16%**	15%	29%
3. Bad and doubtful	**18%**	**77%**	27%	70%
	100%	**100%**	100%	100%

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

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

	2010	2009
	LL Million	LL Million
Assets		
Balances with central banks	**168,226**	142,179
Loans and advances to banks	**84,656**	47,055
Loans and advances to parent and sister banks	**263**	232
Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	**8,928**	3,588
- Personal loans	**34,638**	20,719
- Mortgages	**7,969**	2,026
Loans to corporate entities:		
- Large corporate entities	**62,468**	67,246
- SMEs	**31,824**	26,575
Debtors by acceptances	**9,612**	10,921
Investment securities:		
- Available-for-sale	**265,893**	163,954
- Loans and receivables	**293,499**	162,812
- Held-to-maturity	**305,569**	264,443
Other assets	**1,948**	2,711
	1,275,493	914,461

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

Letters of guarantee- clients	**9,705**	5,484
Documentary and commercial letters of credit with banks	**6,401**	5,742
Loan commitments	**37,126**	24,339
	53,232	35,565
	1,328,725	950,026

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2010 and 2009, without taking account of any collateral held or other credit enhancements attached. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the balance sheet.

As shown above, 23% of the total maximum exposure is derived from held-to-maturity investment securities (2009 – 28%) which represent Lebanese treasury bills.

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

Management is confident in its ability to continue to control and sustain minimal exposure of credit risk to the Bank resulting from its investments in Lebanese debt securities and placements at the Central Bank of Lebanon, from its investment in other banks and from its loans and advances to customers based on the following:

- 77% of the loans and advances portfolio is categorised in the top grade of the internal rating system (2009 – 58%);
- Investments in other banks are placed in highly rated banks;
- The Bank has introduced a more stringent selection process upon granting loans and advances; and
- Approximately all investments securities are Lebanese government securities: Treasury bills, Eurobonds and Certificates of deposit.

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors

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

	Lebanon LL Million	Arab countries LL Million	United Kingdom LL Million	Other European countries LL Million	Other LL Million	Total LL Million
Assets						
Balances with central banks	168,226	-	-	-	-	168,226
Loans and advances to banks	43,890	56	273	3,835	36,602	84,656
Loans and advances to parent and sister banks	-	-	-	263	-	263
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	8,923	1	-	1	3	8,928
- Personal loans	34,633	5	-	-	-	34,638
- Mortgages	7,901	-	-	-	68	7,969
Loans to corporate entities:						
- Large corporate entities	35,864	20,384	-	6,220	-	62,468
- SMEs	30,990	834	-	-	-	31,824
Debtors by acceptances	9,612	-	-	-	-	9,612
Investment securities:						
- Available-for-sale	265,893	-	-	-	-	265,893
- Loans and receivables	293,499	-	-	-	-	293,499
- Held-to-maturity	305,569	-	-	-	-	305,569
Other assets	1,948	-	-	-	-	1,948
At 31 December 2010	**1,206,948**	**21,280**	**273**	**10,319**	**36,673**	**1,275,493**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors (continued)

	Lebanon LL Million	Arab countries LL Million	United Kingdom LL Million	Other European countries LL Million	Other LL Million	Total LL Million
Assets						
Balances with central banks	142,179	-	-	-	-	142,179
Loans and advances to banks	30,588	-	93	1,571	14,803	47,055
Loans and advances to parent and sister banks	-	-	-	232	-	232
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	3,588	-	-	-	-	3,588
- Personal loans	20,718	-	-	-	1	20,719
- Mortgages	1,946	-	-	-	80	2,026
Loans to corporate entities:						
- Large corporate entities	34,864	24,073	-	8,309	-	67,246
- SMEs	26,575	-	-	-	-	26,575
Debtors by acceptances	10,921	-	-	-	-	10,921
Investment securities:						
- Available-for-sale	163,954	-	-	-	-	163,954
- Loans and receivables	162,812	-	-	-	-	162,812
- Held-to-maturity	264,443	-	-	-	-	264,443
Other assets	2,711	-	-	-	-	2,711
At 31 December 2009	**865,299**	**24,073**	**93**	**10,112**	**14,884**	**914,461**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

(a) Concentration of risks of financial assets with credit risk exposure - Geographical sectors (continued)

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

	Lebanon LL Million	Arab countries LL Million	United Kingdom LL Million	Other European countries LL Million	Other LL Million	Total LL Million
Letters of guarantee- clients	9,705	-	-	-	-	9,705
Documentary and commercial letters of credit with banks	6,401	-	-	-	-	6,401
Loan commitments	28,059	9,044	-	18	5	37,126
At 31 December 2010	**44,165**	**9,044**	**-**	**18**	**5**	**53,232**
Letters of guarantee- clients	5,484	-	-	-	-	5,484
Documentary and commercial letters of credit with banks	5,742	-	-	-	-	5,742
Loan commitments	24,262	53	-	18	6	24,339
At 31 December 2009	**35,488**	**53**	**-**	**18**	**6**	**35,565**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors

The following table breaks down the Bank's credit exposure at carrying amounts (without taking into account any collateral held or other credit support), as categorised by the industry sectors of the Bank's counterparties.

	Financial institutions LL Million	Manufacturing LL Million	Real estate LL Million	Commercial LL Million	Other LL Million	Total LL Million
Assets						
Balances with central banks	168,226	-	-	-	-	168,226
Loans and advances to banks	84,656	-	-	-	-	84,656
Loans and advances to parent and sister banks	263	-	-	-	-	263
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	-	-	-	-	8,928	8,928
- Personal loans	-	-	-	-	34,638	34,638
- Mortgages	-	-	-	-	7,969	7,969
Loans to corporate entities:						
- Large corporate entities	-	150	25,997	35,217	1,104	62,468
- SMEs	-	6,589	14,610	8,282	2,343	31,824
Debtors by acceptances	-	-	-	6,918	2,694	9,612
Investment securities:						
- Available-for-sale	265,893	-	-	-	-	265,893
- Loans and receivables	293,499	-	-	-	-	293,499
- Held-to-maturity	305,569	-	-	-	-	305,569
Other assets	-	-	-	-	1,948	1,948
At 31 December 2010	**1,118,106**	**6,739**	**40,607**	**50,417**	**59,624**	**1,275,493**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors (continued)

	Financial institutions LL Million	Manufacturing LL Million	Real estate LL Million	Commercial LL Million	Other LL Million	Total LL Million
Assets						
Balances with central banks	142,179	-	-	-	-	142,179
Loans and advances to banks	47,055	-	-	-	-	47,055
Loans and advances to parent and sister banks	232	-	-	-	-	232
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	-	917	842	886	943	3,588
- Personal loans	-	-	-	-	20,719	20,719
- Mortgages	-	-	-	-	2,026	2,026
Loans to corporate entities:						
- Large corporate entities	-	-	21,554	36,922	8,770	67,246
- SMEs	708	125	4,788	17,802	3,152	26,575
Debtors by acceptances	-	-	-	5,537	5,384	10,921
Investment securities:						
- Available-for-sale	163,954	-	-	-	-	163,954
- Loans and receivables	162,812	-	-	-	-	162,812
- Held-to-maturity	264,443	-	-	-	-	264,443
Other assets	-	-	-	-	2,711	2,711
At 31 December 2009	**781,383**	**1,042**	**27,184**	**61,147**	**43,705**	**914,461**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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

(b) Concentration of risks of financial assets with credit risk exposure - Industry sectors (continued)

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

	Financial institutions LL Million	Manufacturing LL Million	Real estate LL Million	Commercial LL Million	Other LL Million	Total LL Million
Letters of guarantee- clients	-	454	7,553	1,096	602	9,705
Documentary and commercial letters of credit with banks	-	96	1,583	1,126	3,596	6,401
Loan commitments	-	610	2,370	23,345	10,801	37,126
At 31 December 2010	**-**	**1,160**	**11,506**	**25,567**	**14,999**	**53,232**
Letters of guarantee- clients	25	466	295	4,220	478	5,484
Documentary and commercial letters of credit with banks	-	-	-	5,742	-	5,742
Loan commitments	391	3,249	1,044	6,970	12,685	24,339
At 31 December 2009	**416**	**3,715**	**1,339**	**16,932**	**13,163**	**35,565**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2010 Loans and advances to customers LL Million	**2010 Loans and advances to central banks and banks LL Million**	2009 Loans and advances to customers LL Million	2009 Loans and advances to central banks and banks LL Million
Neither past due nor impaired	**116,466**	**252,882**	73,837	189,234
Past due but not impaired	**16,352**	**-**	20,015	-
Individually impaired	**39,688**	**-**	67,325	-
Gross	**172,506**	**252,882**	161,177	189,234
Less:				
Allowance for impairment	**(26,679)**	**-**	(41,023)	-
Net	**145,827**	**252,882**	120,154	189,234
Individually impaired	**(24,776)**	**-**	(40,404)	-
Portfolio allowance	**(1,903)**	**-**	(619)	-
Total	**(26,679)**	**-**	(41,023)	-

During the year ended 31 December 2010, the Bank's total loans and advances increased by 29% as a result of the expansion of the lending business, especially in Lebanon. When entering into new markets or new industries, in order to minimise the potential increase of credit risk exposure, the Bank focused more on the business with large corporate enterprises or banks with good credit rating or retail customers providing sufficient collateral.

(a) Loans and advances neither past due nor impaired

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

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(a) Loans and advances neither past due nor impaired (continued)

	Loans to individuals			Loans to corporate entities			Loans and advances to central banks and banks
	Overdrafts LL Million	Personal loans LL Million	Mortgages LL Million	SMEs LL Million	Large corporate entities LL Million	Total LL Million	LL Million
31 December 2010							
Grades							
Normal	4,330	37,381	7,676	14,874	48,115	112,376	252,882
Special mention	69	471	158	3,392	-	4,090	-
	4,399	**37,852**	**7,834**	**18,266**	**48,115**	**116,466**	**252,882**
31 December 2009							
Grades							
Normal	3,841	10,913	1,214	15,003	39,868	70,839	189,234
Special mention	-	307	-	589	2,102	2,998	-
	3,841	11,220	1,214	15,592	41,970	73,837	189,234

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(b) Loans and advances past due but not impaired

Late processing and other administrative delays on the side of the borrower can lead to a financial asset being past due but not impaired. Loans and advances less than 90 days past due are not considered impaired, unless other information indicates the contrary. Past due loans over 90 days are not considered to be impaired if the collateral covers adequately the loans.

Gross amount of loans by class of customers at 31 December 2010 that were past due but not impaired were as follows:

	Overdrafts LL Million	Personal loans LL Million	Mortgages LL Million	Total LL Million
31 December 2010				
Past due up to 30 days	913	262	15	1,190
Past due 30 – 60 days	25	10	-	35
Past due 60 – 90 days	26	17	-	43
Over 90 days	19	181	185	385
Total	**983**	**470**	**200**	**1,653**
Fair value of collateral	**64**	**146**	**240**	**450**
Amount of Under (over) collateralisation	**919**	**324**	**(40)**	**1,203**

	SMEs LL Million	Large corporate entities LL Million	Total LL Million
At 31 December 2010			
Past due up to 30 days	302	5,987	6,289
Past due 30 – 60 days	93	-	93
Past due 60 – 90 days	197	82	279
Over 90 days	3,688	4,350	8,038
Total	**4,280**	**10,419**	**14,699**
Fair value of collateral	**8,972**	**24,594**	**33,566**
Amount of overcollateralisation	**(4,692)**	**(14,175)**	**(18,867)**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(b) Loans and advances past due but not impaired (continued)

Gross amount of loans by class of customers at 31 December 2009 that were past due but not impaired were as follows:

	Overdrafts LL Million	Personal loans LL Million	Mortgages LL Million	Total LL Million
31 December 2009				
Past due up to 30 days	-	7,115	751	7,866
Past due 30 – 60 days	-	478	-	478
Past due 60 – 90 days	-	1,903	77	1,980
Over 90 days	-	106	-	106
Total	-	9,602	828	10,430
Fair value of collateral	-	473	1,572	2,045
Amount of under (over) collateralisation	-	9,129	(744)	8,385

	SMEs LL Million	Large corporate entities LL Million	Total LL Million
At 31 December 2009			
Past due up to 30 days	-	1,111	1,111
Past due 30 – 60 days	90	3,445	3,535
Past due 60 – 90 days	49	103	152
Over 90 days	1,134	3,653	4,787
Total	1,273	8,312	9,585
Fair value of collateral	1,346	231	1,577
Amount of under (over) collateralisation	(73)	8,081	8,008

Upon initial recognition of loans and advances, the fair value of collateral is based on valuation techniques commonly used for the corresponding assets.

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(c) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers before taking into consideration the cash flows from collateral held is LL 39,688 million (2009 - LL 67,325 million).

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

	Individuals		Corporate entities		
	Overdrafts LL Million	Personal Loans LL Million	SMEs LL Million	Large corporate entities LL Million	Total LL Million
31 December 2010					
Individually impaired loans	**96**	**333**	**32,335**	**6,924**	**39,688**
Fair value of collateral	**-**	**-**	**24,878**	**6,461**	**31,339**
31 December 2009					
Individually impaired loans	32	51	24,411	42,831	67,325
Fair value of collateral	-	-	16,079	48,609	64,688

(ii) Loans and advances to central banks and banks

The total gross amount of loans and advances to central banks and banks as at 31 December 2010 is LL 252,882 million (2009 - LL 189,234 million.). No collateral is held by the Bank and no impairment provision has been provided against the gross amount.

(d) Loans and advances renegotiated

Restructuring activities include extended payment arrangements, approved external management plans, modification and deferral of payments. Following restructuring, a previously overdue customer account is reset to a normal status and managed together with other similar accounts. Restructuring policies and practices are based on indicators or criteria which, in the judgement of local management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans. Renegotiated loans that would otherwise be past due or impaired amounted to LL 7,590 million at 31 December 2010 (2009 – LL 14,224 million).

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.6 Debt securities and treasury bills

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

	Treasury bills LL Million	Eurobonds LL Million	Certificates of deposit LL Million	Total LL Million
31 December 2010				
BB+ to B-	**341,647**	**229,815**	**293,499**	**864,961**
31 December 2009				
BB+ to B-	274,517	153,880	162,812	591,209

3.1.7 Repossessed collateral

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

3.2 Market risk

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

3.2.1 Market risk measurement techniques

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

The Bank performs this analysis for each type of market risk to which the Bank is exposed at each reporting date, showing how profit or loss and equity would have been affected by changes in the relevant risk variable that were reasonably possible at that date. At the reporting date, the result of the sensitivity analysis is not material to the Bank's financial performance.

Notes to the financial statements (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk

The Bank takes on exposure to effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Central Bank of Lebanon sets limits on the level of exposure to foreign exchange risk which should not exceed 1% of Tier 1 capital.

As the Bank does not actively seek foreign exchange exposures, the limit placed on this risk is small in relation to the Bank's other risk exposures. This exposure limit is related to and is set out in compliance with the limits set by the Central Bank of Lebanon as approved by the board of directors and closely monitored by the Bank's treasury management on a daily basis.

The tables below summarise the Bank's exposure to foreign currency exchange rate risk at 31 December 2010 and 31 December 2009. The table includes the Bank's financial instruments at carrying amounts, categorised by currency.

Notes to the financial statements (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued) - Concentration of currency risk
As at 31 December 2010

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	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Others LL Million	Total LL Million
Assets							
Cash and balances with central banks	79,308	97,486	2,872	50	-	-	179,716
Loans and advances to banks	16,350	65,314	2,334	510	27	121	84,656
Loans and advances to parent and sister banks	-	114	141	2	6	-	263
Loans and advances to customers	47,300	98,378	149	-	-	-	145,827
Debtors by acceptances	-	6,918	2,694	-	-	-	9,612
Investment securities:							
- Available-for-sale	123,542	130,072	14,019	-	-	-	267,633
- Loans and receivables	149,607	143,892	-	-	-	-	293,499
- Held-to-maturity	218,668	86,901	-	-	-	-	305,569
Other assets	933	1,785	122	-	-	-	2,840
Total financial assets	**635,708**	**630,860**	**22,331**	**562**	**33**	**121**	**1,289,615**
Liabilities							
Deposits from banks	29	42,188	-	-	-	-	42,217
Deposits from parent and sister banks	-	65,086	-	198	-	-	65,284
Deposits from customers	508,063	507,519	19,649	6,701	31	11	1,041,974
Engagements by acceptances	-	6,918	2,694	-	-	-	9,612
Other liabilities	5,849	-	-	-	-	-	5,849
Total financial liabilities	**513,941**	**621,711**	**22,343**	**6,899**	**31**	**11**	**1,164,936**
Net on-balance sheet financial position	**121,767**	**9,149**	**(12)**	**(6,337)**	**2**	**110**	**124,679**

Notes to the financial statements (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued) - Concentration of currency risk
As at 31 December 2009

	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Others LL Million	Total LL Million
Assets							
Cash and balances with central banks	74,632	74,258	580	136	-	-	149,606
Loans and advances to banks	16,099	24,798	4,936	522	609	91	47,055
Loans and advances to parent and sister banks	-	75	148	2	7	-	232
Loans and advances to customers	23,561	95,457	1,136	-	-	-	120,154
Debtors by acceptances	-	10,900	21	-	-	-	10,921
Investment securities:							
- Available-for-sale	117,025	44,503	3,466	-	-	-	164,994
- Loans and receivables	74,044	88,768	-	-	-	-	162,812
- Held-to-maturity	158,150	106,293	-	-	-	-	264,443
Other assets	1,290	2,320	130	-	-	-	3,740
Total financial assets	464,801	447,372	10,417	660	616	91	923,957
Liabilities							
Deposits from banks	49	12,272	-	-	-	-	12,321
Deposits from parent and sister banks	-	78,543	-	204	-	-	78,747
Deposits from customers	417,222	338,638	10,212	455	610	71	767,208
Engagements by acceptances	-	10,900	21	-	-	-	10,921
Other liabilities	2,395	1,467	23	-	-	-	3,885
Total financial liabilities	419,666	441,820	10,256	659	610	71	873,082
Net on-balance sheet financial position	45,135	5,552	161	1	6	20	50,875

Notes to the financial statements (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk

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

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

Notes to the financial statements (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk (continued)
As at 31 December 2010

	Less than 3 months LL Million	3 – 6 months LL Million	6 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non-interest bearing LL Million	Total LL Million
Assets							
Cash and balances with central banks	16,715	999	9,162	78,013	-	74,827	179,716
Loans and advances banks	17,337	-	9,430	3,834	-	54,055	84,656
Loans and advances to parent and sister banks	-	-	-	-	-	263	263
Loans and advances to customers	23,554	27,793	18,685	55,222	5,264	15,309	145,827
Debtors by acceptances	-	-	-	-	-	9,612	9,612
Investment securities:							
- Available-for-sale	12,355	18,585	27,795	84,327	122,831	1,740	267,633
- Loans and receivables	4,576	1,868	-	257,582	29,473	-	293,499
- Held-to-maturity	12,280	37,373	45,638	175,635	34,643	-	305,569
Other assets	-	-	-	-	-	2,840	2,840
Total financial assets	**86,817**	**86,618**	**110,710**	**654,613**	**192,211**	**158,646**	**1,289,615**
Liabilities							
Deposits from banks	41,991	-	-	-	-	226	42,217
Deposits from parent and sister banks	18,090	37,688	-	7,261	-	2,245	65,284
Deposits from customers	705,612	33,118	128,915	65,962	-	108,367	1,041,974
Engagements by acceptances	-	-	-	-	-	9,612	9,612
Other liabilities	-	-	-	-	-	5,849	5,849
Total financial liabilities	**765,693**	**70,806**	**128,915**	**73,223**	**-**	**126,299**	**1,164,936**
Total interest repricing gap	**(678,876)**	**15,812**	**(18,205)**	**581,390**	**192,211**		

Notes to the financial statements (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk (continued)
As at 31 December 2009

	Less than 3 months LL Million	3 – 6 months LL Million	6 – 12 months LL Million	1 – 5 years LL Million	Over 5 years LL Million	Non-interest bearing LL Million	Total LL Million
Assets							
Cash and balances with central banks	40,829	5,285	7,926	18,907	-	76,659	149,606
Loans and advances to banks	15,717	-	4,260	9,430	-	17,648	47,055
Loans and advances to parent and sister banks	-	-	-	-	-	232	232
Loans and advances to customers	18,829	26,407	8,209	35,376	31,333	-	120,154
Debtors by acceptances	-	-	-	-	-	10,921	10,921
Investment securities:							
- Available-for-sale	7,210	10,393	27,806	88,536	30,009	1,040	164,994
- Loans and receivables	3,444	645	-	143,914	14,809	-	162,812
- Held-to-maturity	30,064	2,507	5,422	191,739	34,711	-	264,443
Other assets	-	-	-	-	-	3,740	3,740
Total financial assets	**116,093**	**45,237**	**53,623**	**487,902**	**110,862**	**110,240**	**923,957**
Liabilities							
Deposits from banks	12,087	-	-	-	-	234	12,321
Deposits from parent and sister banks	16,281	7,538	-	53,240	-	1,688	78,747
Deposits from customers	628,097	28,721	45,333	20,139	-	44,918	767,208
Engagements by acceptances	-	-	-	-	-	10,921	10,921
Other liabilities	-	-	-	-	-	3,885	3,885
Total financial liabilities	**656,465**	**36,259**	**45,333**	**73,379**	**-**	**61,646**	**873,082**
Total interest repricing gap	**(540,372)**	**8,978**	**8,290**	**414,523**	**110,862**		

Notes to the financial statements (continued)

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

The Bank's liquidity management process, as carried out within the Bank and monitored by a separate team in Bank Treasury, includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

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

3.3.2 Funding approach

Sources of liquidity are regularly reviewed by a separate team in the Bank's treasury to maintain a wide diversification by currency, geography, provider, product and term.

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

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

Notes to the financial statements (continued)

3.3 Liquidity risk (continued)

3.3.3 Non-derivative financial liabilities and assets held for managing liquidity risk (continued)

	Up to 1 month LL Million	1-3 months LL Million	3-12 months LL Million	1-5 years LL Million	Over 5 years LL Million	Total LL Million
At 31 December 2010						
Liabilities						
Deposits from banks	31,642	10,575	-	-	-	42,217
Deposits from parent and sister banks	9,233	10,610	38,180	7,261	-	65,284
Deposits from customers	453,528	356,229	160,264	71,928	25	1,041,974
Engagement by acceptances	3,676	4,512	1,424	-	-	9,612
Other liabilities	66	-	5,783	-	-	5,849
Total liabilities (contractual maturity dates)	**498,145**	**381,926**	**205,651**	**79,189**	**25**	**1,164,936**
Assets held for managing liquidity risk (contractual maturity dates)	**177,235**	**63,452**	**173,767**	**594,397**	**280,764**	**1,289,615**
At 31 December 2009						
Liabilities						
Deposits from banks	12,321	-	-	-	-	12,321
Deposits from parent and sister banks	2,508	15,183	7,760	53,296	-	78,747
Deposits from customers	285,325	334,653	73,068	74,162	-	767,208
Engagement by acceptances	2,094	5,325	3,502	-	-	10,921
Other liabilities	3,885	-	-	-	-	3,885
Total liabilities (contractual maturity dates)	306,133	355,161	84,330	127,458	-	873,082
Assets held for managing liquidity risk (contractual maturity dates)	159,678	35,978	95,191	508,559	124,551	923,957

Notes to the financial statements (continued)

3.3 Liquidity risk (continued)

3.3.4 Assets held for managing liquidity risk

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

- Cash and balances with central banks;
- Cash and balances with banks;
- Certificates of deposit; and
- Lebanese treasury bills.

3.3.5 Off-balance sheet items

(a) Loan commitments

The dates of the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to customers and other facilities (note 34) are summarised in the table below.

(b) Other financial facilities

Other financial guarantees (note 34) are also included in the table below based earliest contractual maturity date.

	No later than 1 year LL Million	1-5 years LL Million	Total LL Million
At 31 December 2010			
Loan commitments	37,126	-	37,126
Documentary and commercial letters of credit with banks	6,401	-	6,401
Letters of guarantee- clients	6,183	3,522	9,705
Total	**49,710**	**3,522**	**53,232**
At 31 December 2009			
Loan commitments	24,339	-	24,339
Documentary and commercial letters of credit with banks	5,742	-	5,742
Letters of guarantee- clients	5,469	15	5,484
Total	35,550	15	35,565

Notes to the financial statements (continued)

3.4 Fair value of financial assets and liabilities

(a) Financial instruments not measured at fair value

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

	2010 Carrying amount LL Million	2009 Carrying amount LL Million	**2010 Fair value LL Million**	2009 Fair value LL Million
Financial assets (net of provisions)				
Cash and balances with central banks	**179,716**	149,606	**179,716**	149,606
Loans and advances to banks	**84,656**	47,055	**84,656**	47,055
Loans and advances to parent and sister banks	**263**	232	**263**	232
Loans and advances to customers	**145,827**	120,154	**145,827**	120,154
Investment securities:				
- Loans and receivables	**293,499**	162,812	**296,557**	180,980
- Held-to-maturity	**305,569**	264,443	**319,986**	276,190
Debtors by acceptances	**9,612**	10,921	**9,612**	10,921
Investment in a subsidiary	**29**	-	**29**	-
Other assets	**2,840**	3,740	**2,840**	3,740
	1,022,011	758,963	**1,039,486**	788,878
Financial liabilities				
Deposits from banks	**42,217**	12,321	**42,217**	12,321
Deposits from parent and sister banks	**65,284**	78,747	**65,284**	78,747
Deposits from customers	**1,041,974**	767,208	**1,041,974**	767,208
Engagement by acceptances	**9,612**	10,921	**9,612**	10,921
Other liabilities	**5,849**	3,885	**5,849**	3,885
	1,164,936	873,082	**1,164,936**	873,082
Off-balance sheet financial instruments				
Loan commitments	**37,126**	24,339	**37,126**	24,339
Documentary and commercial letters of credit with banks	**6,401**	5,742	**6,401**	5,742
Letters of guarantee- clients	**9,705**	5,484	**9,705**	5,484
Total off-balance sheet	**53,232**	35,565	**53,232**	35,565

Notes to the financial statements (continued)

3.4 Fair value of financial assets and liabilities (continued)

(a) Financial instruments not measured at fair value (continued)

(i) Loans and advances to banks and loans and advances to parent and sister banks

Loans and advances to banks include inter-bank placements and items in the course of collection.

The carrying amount of floating rate placements and overnight deposits is a reasonable approximation of fair value.

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

(ii) Loans and advances to customers

The carrying amount of loans and advances to customers approximate their fair value at 31 December 2010 and 2009.

(iii) Investment securities

The fair value for loans and receivables and held-to-maturity assets is based on market prices or broker/dealer price quotations. Where quoted market prices are not available, a discounted cash flow model is used based on a current yield curve appropriate for the remaining term to maturity. Expected cash flows are discounted at current market rates issued by the Central Bank of Lebanon to determine the fair value.

(iv) Deposits from banks, deposits from parent and sister banks

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

The estimated fair value of fixed interest-bearing deposits not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Deposits from customers

The carrying amount of deposits from customers approximates their fair value at 31 December 2010 and 2009.

(b) Fair value hierarchy

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

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

(b) Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes mainly Lebanese Treasury Bills in Lebanese Pounds.

(c) Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Notes to the financial statements (continued)

3.4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (continued)

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

Available-for-sale securities (both debt and equity securities) amounting to LL 267,633 million (2009 – LL 164,994 million) are the only financial assets that are measured at fair value while all other financial assets and liabilities are measured at amortised cost. The Bank uses level 1 valuation techniques in measuring the fair value of the Eurobonds amounting to LL 142,914 million (2009 – LL 47,587 million) and equity securities amounting to LL 1,188 million (2009 – LL 759 million). In addition, the Bank uses level 2 valuation techniques in measuring the fair value of the Lebanese treasury bills amounting to LL 122,979 million (2009 – LL 116,367 million) and equity securities amounting to LL 552 million (2009 – LL 281 million). The Bank basically uses market prices/yields published by the Central Bank of Lebanon to measure the fair value of the debt securities, Treasury Bills.

3.5 Capital management

To monitor the adequacy of its capital, the Bank uses ratios established by the Bank 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 in relation with the computation according to Basel I) by comparing the Bank's eligible capital with its balance sheet 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 general market risk and 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 of Lebanon 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 related commitments are taken into account by applying different categories of conversion factors, designed to convert these items into on-balance-sheet equivalents. The resulting equivalent amounts are then weighted for risk using the same percentages as for on-balance-sheet assets.

The Bank's regulatory capital as managed by its treasury is divided into two tiers:

- Tier 1 capital: mainly includes share capital, retained earnings and reserves created by appropriations of retained earnings, less the net book value of the intangible assets; and

- Tier 2 capital: mainly includes unrealised gain on revaluation of available-for-sale securities and real estate revaluation surplus approved by Central Bank of Lebanon.

Notes to the financial statements (continued)

3.5 Capital management (continued)

The Bank's capital adequacy level according to the computation method of Basel I was as follows:

	2010 LL Million	2009 LL Million
Tier 1 Capital		
Share capital	**100,000**	27,000
Retained earnings and reserves	**23,639**	23,970
Less: Intangible assets	**(819)**	(1,056)
Total qualifying Tier 1 Capital	**122,820**	49,914
Tier 2 Capital		
Revaluation of available-for-sale securities	**4,780**	4,085
Total qualifying Tier 2 Capital	**4,780**	4,085
Total regulatory Capital	**127,600**	53,999
Risk- weighted assets		
On-balance sheet	**240,502**	161,892
Off-balance sheet	**10,985**	6,632
Unassigned market risk components	**47**	230
Total risk-weighted assets	**251,534**	168,754
BIS Capital ratios (%)		
Tier 1 Capital	**48.83%**	29.58%
(Tier 1 + Tier 2) Capital	**50.73%**	32.00%

4 Critical accounting estimates and judgements

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

The Bank makes estimates and judgments that affect the reported amounts of assets and liabilities within the next financial year. All estimates and assumptions required in conformity with IFRS are best estimates undertaken in accordance with the applicable standard. Estimates and judgments are evaluated on a continuous basis, and are based on past experience and other factors, including expectations with regard to future events.

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

Notes to the financial statements (continued)

4 Critical accounting estimates and judgements (continued)

(a) Impairment losses on loans and advances

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

(b) Impairment of available-for-sale equity investments

The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, the Bank evaluates among other factors, the volatility in share price. In addition, objective evidence of impairment may be deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

(c) Fair value of financial instruments

The fair values of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Notes to the financial statements (continued)

4 Critical accounting estimates and judgements (continued)

(d) Held-to-maturity investments

In accordance with IAS 39 guidance, the Bank classifies some non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgement. In making this judgement, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank were to fail to keep these investments to maturity other than for the specific circumstances – for example, selling an insignificant amount close to maturity – the Bank is required to reclassify the entire category as available-for-sale. Accordingly, the investments would be measured at fair value instead of amortised cost. If all held-to-maturity investments were to be reclassified (note 10), the carrying amount would increase by LL 14 billion, with a corresponding entry in the fair value reserve in shareholders' equity.

(e) Income taxes

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

The deferred tax liabilities on unrealized gains on available-for-sale investment securities were not recognised at 31 December 2010 based on future profitability assumptions. In the event of changes to these profitability assumptions, the deferred tax liabilities should be adjusted and accordingly recognised.

Notes to the financial statements (continued)

5 Cash and balances with central banks

	2010 LL Million	2009 LL Million
Cash on hand	**11,490**	7,427
Term placements with Central Bank of Lebanon other than mandatory reserve deposits	**14,165**	-
Current accounts with Central Bank of Lebanon other than mandatory reserve deposits	**4,206**	3,269
Included in cash and cash equivalents (note 33)	**29,861**	10,696
Mandatory reserve deposits with Central Bank of Lebanon	**148,670**	120,714
Term placements (with original maturities exceeding three months)	**930**	18,087
Interest receivable - Central Bank of Lebanon	**255**	109
	179,716	149,606
Current	**101,703**	100,612
Non-current	**78,013**	48,994
	179,716	149,606

In compliance with the laws of Central Bank of Lebanon, the Bank is required to deposit a non-interest earning mandatory reserve in local currency at the rate of 15% and 25% of the average weekly term placements, current accounts and demand deposits denominated in local currency. In addition, the bank is required to deposit an interest earning mandatory reserve in foreign currency at the rate of 15% of foreign currency deposits.

Mandatory reserve deposits with the Central Bank of Lebanon are not available for use in the Bank's day-to-day operations. Term placements generate fixed interest. Current accounts with Central Bank of Lebanon do not generate interest.

At 31 December 2010, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese pound amounting to LL 62 billion and deposits denominated in US dollar that earn interest at 2.23% per annum with a counter value of LL 87 billion (US$ 58 million).

At 31 December 2009, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese pound amounting to LL 58 billion and deposits denominated in US dollar that earn interest at 2.07% per annum with a counter value of LL 63 billion (US$ 41.5 million).

Notes to the financial statements (continued)

6 Loans and advances to banks

	2010 LL Million	2009 LL Million
Items in course of collection from other banks	**2,896**	2,177
Current accounts with other banks	**20,465**	28,730
Placements with other banks (with original maturities not exceeding three months)	**40,251**	-
Included in cash and cash equivalents (note 33)	**63,612**	30,907
Placements with other banks (with original maturities exceeding three months)	**20,802**	15,951
Interest receivable	**242**	197
	84,656	47,055
Current	**71,392**	33,365
Non-current	**13,264**	13,690
	84,656	47,055

7 Loans and advances to parent and sister banks

Current accounts (notes 33 and 35)	**263**	232

8 Loans and advances to customers

Discounted bills	**809**	535
Overdrafts	**64,980**	59,901
Bills to the order of the Bank	**32,720**	19,903
Short term loans	**18,328**	11,023
Creditors accidentally debtors	**1,314**	218
Medium and long term loans	**14,667**	2,272
Non-performing loans:		
- Substandard	**7,831**	23,777
- Doubtful and bad debts	**31,857**	43,548
Gross loans and advances to customers	**172,506**	161,177
Less: specific allowance for impairment	**(24,776)**	(40,404)
Less: collective allowance for impairment	**(1,903)**	(619)
Net loans and advances to customers	**145,827**	**120,154**

Notes to the financial statements (continued)

8 Loans and advances to customers (continued)

	2010 LL Million	2009 LL Million
Current	**79,030**	76,863
Non-current	**66,797**	43,291
	145,827	120,154

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

	Gross loans and advances LL Million	**Impairment provision LL Million**	**Net loans and advances LL Million**
At 31 December 2010			
Normal and special mention loans	132,818	(1,903)	130,915
Substandard	7,831	(4,284)	3,547
Doubtful and bad debts	31,857	(20,492)	11,365
	172,506	**(26,679)**	**145,827**
At 31 December 2009			
Normal and special mention loans	93,852	(619)	93,233
Substandard	23,777	(11,857)	11,920
Doubtful and bad debts	43,548	(28,547)	15,001
	161,177	(41,023)	120,154

Notes to the financial statements (continued)

8 Loans and advances to customers (continued)

The movement in impairment provision is as follows:

	2010		2009	
	Specific allowance for impairment LL Million	**Collective allowance for impairment LL Million**	Specific allowance for impairment LL Million	Collective allowance for impairment LL Million
Balance at 1 January	**40,404**	**619**	43,712	-
Increase in impairment allowances (note 26)	**621**	**1,284**	3,059	619
Reversal of impairment allowances (note 26)	**(2,469)**	**-**	(1,743)	-
Reversal of unrealised interest (note 26)	**(1,798)**	**-**	(1,462)	-
Increase in unrealised interest	**1,889**	**-**	4,409	-
Provision and unrealised interest written-off during the year	**(13,871)**	**-**	(7,571)	-
Balance at 31 December	**24,776**	**1,903**	40,404	619

9 Debtors by acceptances

	2010 LL Million	2009 LL Million
Balance	**9,612**	10,921

Debtors by acceptances represent the customers' liability to the Bank in respect of documentary credits that should be settled by the Bank on their behalf. This caption corresponds to and offsets engagements by acceptances caption reflected under liabilities.

Debtors by acceptances are considered current assets.

Notes to the financial statements (continued)

10 Investment securities

	2010 LL Million	2009 LL Million
Securities available-for-sale		
Debt securities – at fair value:		
- Listed	**142,914**	47,587
- Unlisted	**122,979**	116,367
	265,893	163,954
Equity securities – at fair value:		
- Listed	**1,188**	759
- Unlisted	**552**	281
	1,740	1,040
Total securities available-for-sale	**267,633**	164,994
Securities loans and receivables		
Debt securities – at amortised cost:		
- Listed	**67,927**	12,037
- Unlisted	**225,572**	150,775
Total securities loans and receivables	**293,499**	162,812
Securities held-to-maturity		
Debt securities – at amortised cost:		
- Listed	**86,901**	106,293
- Unlisted	**218,668**	158,150
Total securities held-to-maturity	**305,569**	264,443
Total investment securities	**866,701**	592,249
Current	**160,475**	88,532
Non-current	**706,226**	503,717
	866,701	592,249

Available-for-sale and held-to-maturity debt securities consist of Lebanese treasury bills with fixed coupons.

Loans and receivables debt securities consist of Lebanese certificates of deposit with fixed coupons.

Notes to the financial statements (continued)

10 Investment securities (continued)

Debt securities are detailed as follows:

	Available-for-sale LL Million	Loans and receivables LL million	Held-to-maturity LL Million	Total LL Million
At 31 December 2010				
Nominal amount	244,674	269,581	297,254	811,509
Unamortised premium	7,068	17,474	2,407	26,949
Revaluation gain	9,041	-	-	9,041
Net interest receivable	5,110	6,444	5,908	17,462
	265,893	**293,499**	**305,569**	**864,961**
At 31 December 2009				
Nominal amount	152,598	152,497	257,178	562,273
Unamortised premium	215	6,226	2,040	8,481
Revaluation gain	7,699	-	-	7,699
Net interest receivable	3,442	4,089	5,225	12,756
	163,954	**162,812**	**264,443**	**591,209**

The movement of the debt securities' nominal amount is summarised as follows:

	Available-for-sale LL Million	Loans and receivables LL million	Held-to-maturity LL Million	Total LL Million
At 1 January 2009	131,651	88,497	269,186	489,334
Securities acquired	56,848	128,090	103,127	288,065
Securities swapped	(2,940)	(3,000)	(27,135)	(33,075)
Securities sold	(22,034)	(61,090)	-	(83,124)
Securities matured	(5,500)	-	(88,000)	(93,500)
Securities written-off	(5,427)	-	-	(5,427)
At 31 December 2009	152,598	152,497	257,178	562,273
Securities acquired	203,905	122,084	72,811	398,800
Securities sold	(68,807)	(5,000)	-	(73,807)
Securities matured	(42,779)	-	(32,735)	(75,514)
Foreign exchange difference	(243)	-	-	(243)
At 31 December 2010	**244,674**	**269,581**	**297,254**	**811,509**

Notes to the financial statements (continued)

10 Investment securities (continued)

As a result of the international market crisis, perpetual bonds issued by an Icelandic Bank with a carrying amount of LL 5.58 billion defaulted in 2008. The bonds were de-listed from the stock exchange. During 2008, the Bank provided for LL 2.85 billion and provided for the remaining balance of LL 2.73 billion in 2009 (note 27).

All gains and losses arising from the change in the fair value of available-for-sale investment securities are dealt with in revaluation reserve directly within other comprehensive income (note 23).

The Bank sold in 2009 held-to-maturity securities amounting to LL 27 billion before their maturity date between 4 to 9 months following the offer presented by the Lebanese Republic (the issuer). Consequently, the whole portfolio was deemed to have been tainted. The carrying amount of the portfolio has been maintained at its amortised cost of LL 306 billion (2009 – LL 264 billion) instead of being reclassified as available-for-sale securities and stated at fair value of LL 320 billion (2009 – LL 276 billion). Management considers this treatment to be reasonable given the early adoption of IFRS 9, "Financial instruments" as of 1 January 2011 in line with the Banking Control Commission circular number 265 dated 23 September 2010 and the fact that such debt securities will be stated at amortised cost rather than fair value, since the Bank has adopted a business model whose objective is to hold assets in order to collect contractual cash flows that are solely payments of principal and interest.

Equity securities are detailed as follows:

	2010	2009
	LL Million	LL Million
Nominal amount	**1,221**	569
Revaluation gain	**519**	471
	1,740	1,040

The movement in equity securities' nominal amount is summarised as follows:

	2010	2009
	LL Million	LL Million
At 1 January	**569**	483
Securities acquired	**652**	86
At 31 December 2010	**1,221**	569

Notes to the financial statements (continued)

11 Non-current assets held for sale

	2010 LL Million	2009 LL Million
Cost	**6,069**	-

Non-current assets held for sale represents properties acquired from customers in settlement of their debt during 2010.

Non-current assets held for sale are subject to an option allowing the debtors to buy back these assets at the original settlement amount during the two-year period from the acquisition date by the Bank. Under the Banking Control Commission of Lebanon memos No.4/2008 and 10/2008 issued in 2008, the Bank is required to establish annually a reserve of 5% or 20% (as appropriate) of the carrying amount of the non-current assets held for sale by appropriation of net profit for the year.

These properties are available-for-sale and are not included within the Bank's property used in the normal course of business. Management believes that the fair market value less cost to sell these properties approximates their carrying amount as of 31 December 2010.

Non-current assets held for sale are considered current assets as the Bank has the intention to dispose of them in the near future.

Notes to the financial statements (continued)

12 Property and equipment

	Buildings LL Million	Improvements LL Million	Computer and office equipment LL Million	Furniture and fixtures LL Million	Vehicles LL Million	Work in progress LL Million	Total LL Million
At 1 January 2009							
Acquisition cost	1,183	6,375	3,556	471	62	-	11,647
Accumulated depreciation	(463)	(1,157)	(2,006)	(153)	(52)	-	(3,831)
Net book amount	**720**	**5,218**	**1,550**	**318**	**10**	**-**	**7,816**
Year ended 31 December 2009							
Opening net book amount	720	5,218	1,550	318	10	-	7,816
Additions	523	2,705	802	263	128	651	5,072
Depreciation expense (note 30)	(59)	(1,708)	(449)	(230)	(12)	-	(2,458)
Closing net book amount	**1,184**	**6,215**	**1,903**	**351**	**126**	**651**	**10,430**
At 31 December 2009							
Acquisition cost	1,706	9,080	4,358	734	190	651	16,719
Accumulated depreciation	(522)	(2,865)	(2,455)	(383)	(64)	-	(6,289)
Net book amount	**1,184**	**6,215**	**1,903**	**351**	**126**	**651**	**10,430**

Notes to the financial statements (continued)

12 Property and equipment (continued)

	Buildings LL Million	Improvements LL Million	Computer and office equipment LL Million	Furniture and fixtures LL Million	Vehicles LL Million	Work in progress LL Million	Total LL Million
Year ended 31 December 2010							
Opening net book amount	1,184	6,215	1,903	351	126	651	10,430
Additions	135	-	500	84	92	5,493	6,304
Transfers from work in progress	-	1,985	-	-	-	(1,985)	-
Disposals	-	-	(1)	-	-	-	(1)
Depreciation expense (note 30)	(88)	(2,264)	(523)	(292)	(55)	-	(3,222)
Closing net book amount	**1,231**	**5,936**	**1,879**	**143**	**163**	**4,159**	**13,511**
At 31 December 2010							
Acquisition cost	1,841	11,065	4,855	818	220	4,159	22,958
Accumulated depreciation	(610)	(5,129)	(2,976)	(675)	(57)	-	(9,447)
Net book amount	**1,231**	**5,936**	**1,879**	**143**	**163**	**4,159**	**13,511**

Notes to the financial statements (continued)

13 Intangible assets

	Computer software LL Million
At 1 January 2009	
Acquisition cost	1,329
Accumulated amortisation	(216)
Net book amount	1,113
Year ended 31 December 2009	
Opening net book amount	1,113
Additions	224
Amortisation expense (note 30)	(281)
Closing net book amount	1,056
At 31 December 2009	
Acquisition cost	1,553
Accumulated amortisation	(497)
Net book amount	1,056
Year ended 31 December 2010	
Opening net book amount	1,056
Additions	66
Disposals	(6)
Amortisation expense (note 30)	(297)
Closing net book amount	**819**
At 31 December 2010	
Acquisition cost	1,605
Accumulated amortisation	(786)
Net book amount	**819**

Notes to the financial statements (continued)

14 Investment properties

	Building LL Million
At 1 January 2009	
Acquisition cost	58
Accumulated depreciation	(22)
Net book amount	36
Year ended 31 December 2009	
Opening net book amount	36
Additions	-
Depreciation expense (note 30)	(3)
Closing net book amount	33
At 31 December 2009	
Acquisition cost	58
Accumulated depreciation	(25)
Net book amount	33
Year ended 31 December 2010	
Opening net book amount	33
Depreciation expense (note 30)	(3)
Closing net book amount	**30**
At 31 December 2010	
Acquisition cost	58
Accumulated depreciation	(28)
Net book amount	**30**

In 2010, investment properties generated a rental income of LL 208 million (2009 – LL 240 million).

The fair value of the investment properties amounted to LL 811 million based on an independent appraiser report dated August 2006.

Notes to the financial statements (continued)

15 Investments in a subsidiary

	2010 LL Million	2009 LL Million
Investment in a subsidiary	**29**	-

On 2 December 2010, the Bank acquired 2,940 shares of Misr Liban Insurance Brokers S.A.L., a newly established entity. The subsidiary's share capital consists of 3,000 shares with a nominal value of LL 10,000 each.

Misr Liban Insurance Brokers S.A.L. is still under constitution and up to the date of the balance sheet has not commenced operations.

16 Other assets

	2010 LL Million	2009 LL Million
Other debtors	**1,963**	2,121
Less: Provision for impairment of other debtors	**(520)**	(527)
Other debtors - net	**1,443**	1,594
Prepayments	**892**	1,029
Due from national social security fund	**505**	514
Other receivables	**-**	603
	2,840	3,740

Other assets are due within one year from the end of the reporting period.

The movement in provision for impairment of other debtors is summarised as follows:

	2010 LL Million	2009 LL Million
At 1 January	**527**	227
Charge for the year (note 29)	**220**	300
Provision written-off during the year	**(227)**	-
At 31 December	**520**	527

17 Deposits from banks

Term deposits	**41,991**	12,087
Sight deposits	**111**	165
Interest payable	**115**	69
	42,217	12,321

Deposits from banks are due within one year from the end of the reporting period.

All term deposits are fixed-interest deposits. The average interest rate on these term deposits was 3.62% for the year 2010 (2009 – 5.25%).

Notes to the financial statements (continued)

18 Deposits from parent and sister banks

	2010 LL Million	2009 LL Million
Term deposits (note 35)	**63,039**	77,059
Interest payable (note 35)	**574**	386
Sight deposits (note 35)	**1,671**	1,302
	65,284	78,747
Current	**58,023**	25,451
Non - current	**7,261**	53,296
	65,284	78,747

All term deposits are fixed-interest deposits. The average interest rate on these term deposits was 3.00% for the year 2010 (2009 – 2.30%).

19 Deposits from customers

	2010 LL Million	2009 LL Million
Saving accounts (i)	**563,040**	518,678
Net credit against debit accounts and cash margins (ii)	**25,862**	29,839
Sight deposits (iii)	**71,866**	58,779
Time deposits	**374,421**	154,276
Interest payable - customers	**6,785**	5,636
	1,041,974	767,208
Current	**970,021**	693,046
Non - current	**71,953**	74,162
	1,041,974	767,208

(i) Saving accounts:

Saving accounts - term	**557,991**	511,202
Saving accounts - sight	**5,049**	7,476
	563,040	518,678

(ii) Net credit against debit accounts and cash margins

Pledged deposits against credit facilities	**18,793**	27,092
Margins against documentary credits	**5,394**	2,283
Margins against letters of guarantee	**1,675**	464
	25,862	29,839

Notes to the financial statements (continued)

19 Deposits from customers

	2010 LL Million	2009 LL Million
(iii) Sight deposits		
Current and checking accounts	**65,714**	50,821
Debtors accidentally creditors	**1,659**	5,029
Cheques and orders to be paid	**4,493**	2,929
	71,866	58,779

Deposits include coded accounts amounting to LL 331 million as of 31 December 2010 (2009 - LL 918 million). These accounts were opened under the provisions of Article 3 of the Banking Secrecy Law dated 3 September 1956 governing banks in Lebanon. As per the terms of this article, the Bank, under normal conditions, is not permitted to disclose the identities of coded account depositors to third parties including its auditors.

All term deposits are fixed-interest deposits

20 Other liabilities

	2010 LL Million	2009 LL Million
Other creditors	**1,479**	1,908
Accrued expenses	**3,423**	1,472
Taxes payable	**534**	234
Due to national social security fund	**207**	218
Other liabilities	**206**	53
	5,849	3,885

Other liabilities are due within one year from the end of the reporting period.

21 Provisions for liabilities and charges

	2010 LL Million	2009 LL Million
Provision for risk	**794**	680
Provision for foreign currencies fluctuations	**40**	25
	834	705

During 2006, the Bank recognised a provision for general risk in the amount of LL 680 million to cover the allegation of the defalcation of customers' deposits in 2004 and 2005.

Notes to the financial statements (continued)

21 Provisions for liabilities and charges (continued)

A provision equivalent to 5% of the net open exchange position is set up for adverse foreign currency exchange fluctuations, according to Central Bank of Lebanon circular number 32.

The movement in provisions is summarised as follows:

	1 January 2010 LL Million	Additions LL Million	31 December 2010 LL Million
Provision for risk	680	114	794
Provision for foreign currencies fluctuations	25	15	40
	705	**129**	**834**

22 Retirement benefit obligations

	2010 LL Million	2009 LL Million
At 1 January	**2,405**	2,264
Charge for the year (note 28)	**290**	763
Utilised during the year	**(354)**	(622)
At 31 December	**2,341**	2,405

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

23 Shareholders' equity

	2010 LL Million	2009 LL Million
Share capital (a)	**100,000**	27,000
Legal reserve (b)	**3,984**	3,970
Reserve for unidentified banking risks (c)	**3,640**	3,510
Revaluation reserve of available-for-sale investments (d)	**9,560**	8,170
Other reserves	**16,015**	16,490
Retained earnings (e)	**8,763**	144
Total reserves	**141,962**	59,284

Notes to the financial statements (continued)

23 Shareholders' equity (continued)

(a) Share capital

At 31 December 2010 the Bank's share capital consists of 80,000,000 issued and fully paid shares with a nominal value of LL 1,250 each.

During 2010, the Bank increased its capital from LL 27 billion to LL 100 billion by issuing 58,400,000 shares with a nominal value of LL 1,250 each according to the Bank's shareholder extraordinary general assembly dated 19 March 2010.

(b) Legal reserve

	2010 **LL Million**	2009 LL Million
At 1 January	**3,970**	3,964
Transfer from retained earnings (e)	**14**	6
At 31 December	**3,984**	3,970

Article 132 of the Code of Money and Credit requires 10% of the Bank's net profits to be transferred from retained earnings to legal reserve. This reserve is not available for distribution.

(c) Reserve for unidentified banking risks

	2010 **LL Million**	2009 LL Million
At 1 January	**3,510**	3,453
Transfer from retained earnings (e)	**130**	57
At 31 December	**3,640**	3,510

According to the Central Bank of Lebanon directives, banks are required to appropriate from annual profits an amount between 2 per mil and 3 per mil of risk weighted assets to a reserve for unidentified banking risks. The above reserve is considered as part of Tier I capital. This reserve is not available for distribution.

Notes to the financial statements (continued)

23 Shareholders' Equity (continued)

(d) Revaluation reserve of available-for-sale investments

	Lebanese treasury bills LL Million	Equity securities LL Million	Total LL Million
At 1 January 2009	1,625	455	2,080
Change in fair value for the year	6,074	16	6,090
At 31 December 2009	7,699	471	8,170
Change in fair value for the year	1,342	48	1,390
At 31 December 2010	**9,041**	**519**	**9,560**

(e) Retained earnings

	2010 LL Million	2009 LL Million
1 January	**144**	63
Profit for the year	**8,763**	144
Transfer to legal reserve (b)	**(14)**	(6)
Transfer to reserve for unspecified banking risks (c)	**(130)**	(57)
At 31 December	**8,763**	144

24 Net interest income

Interest and similar income:		
Loans and advances:		
- To customers	**10,743**	6,861
- To banks	**909**	853
- To parent and sister banks (note 35)	**2**	4
Cash and balances with central banks	**1,970**	1,776
Investment securities:		
- Held-to-maturity	**22,514**	21,242
- Available-for-sale	**17,457**	13,328
- Loans and receivables	**18,024**	12,872
	71,619	56,936

Notes to the financial statements (continued)

24 Net interest income (continued)

	2010 LL Million	2009 LL Million
Interest and similar expenses:		
Deposits from parent and sister banks (note 35)	**1,499**	2,262
Deposits from banks	**1,015**	761
Deposits from customers	**44,977**	37,634
	47,491	40,657
Net interest income	**24,128**	16,279

25 Net fee and commission income

Fee and commission income		
Credit related fees and commissions	**1,025**	699
Commission on customer deposit accounts	**717**	637
Portfolio and other management fees	**697**	387
Engagements by endorsement fees	**634**	441
Commission on swift	**195**	158
Commission on cheques	**151**	139
Commission on custody of securities	**64**	112
Other fees	**135**	37
	3,618	2,610
Fee and commission expense		
Commission paid to central banks	**236**	368
Commission paid on currency exchange	**85**	101
Other commissions	**73**	75
	394	544
Net fee and commission income	**3,224**	2,066

26 Net loan impairment (releases) charges

Loans and advances to customers (note 8):		
Increase in collective impairment allowance	**1,284**	619
Increase in specific impairment allowance	**621**	3,059
Reversal of specific impairment allowance	**(2,469)**	(1,743)
Reversal of unrealised interest	**(1,798)**	(1,462)
	(2,362)	473

Notes to the financial statements (continued)

27 Net gains on investment securities

	2010 LL Million	2009 LL Million
Gain on sale of investment securities	**2,106**	884
Gain on sale of certificates of deposit	**48**	5,566
Allowance for impairment of available-for-sale investment securities (note 10)	**-**	(2,727)
Other gains	**112**	288
	2,266	4,011

28 Personnel expenses

	2010	2009
Wages and salaries	**8,604**	8,120
Social security costs	**1,111**	1,017
Schooling allowance	**843**	740
Directors' remuneration and attendance fees (note 35)	**530**	403
Transportation benefits	**533**	501
Insurance benefits	**552**	495
Retirement benefit obligations (note 22)	**290**	763
Other expenses	**466**	136
	12,929	12,175

The average number of persons employed by the Bank during the year was 227 (2009 – 258 employees).

Notes to the financial statements (continued)

29 General and administrative expenses

	2010 LL Million	2009 LL Million
Professional fees	**819**	599
Repair and maintenance expenses	**567**	351
Deposits guarantee premiums	**514**	711
Telecommunication expenses	**312**	285
Fuel expenses	**311**	259
Rent expenses	**308**	338
Insurance expenses	**286**	238
Travel and entertainment	**283**	448
Subscriptions	**271**	255
Water and electricity	**239**	178
Impairment losses on other assets (note 16)	**220**	300
Stationery and office supplies	**129**	390
Provision for risk	**114**	-
Other administrative expenses	**1,086**	1,048
	5,459	5,400

30 Depreciation and amortisation expense

	2010	2009
Depreciation of property and equipment (note 12)	**3,222**	2,458
Amortisation of intangible assets (note 13)	**297**	281
Depreciation of investment properties (note 14)	**3**	3
	3,522	2,742

31 Other operating income

	2010	2009
Rental income (note 14)	**208**	240
Other income	**154**	80
	362	320

32 Income tax expense

In accordance with article 51 of law number 497/2003, a 5% tax is withheld at source on interest received. The Bank's tax charge is determined as the higher of corporate tax and tax on interest income withheld during the year. During 2010, the 5% tax withheld on interest received of LL 2.3 billion (2009 – LL 1.9 billion) was higher than the Bank's corporate income tax of LL 1.8 billion (2009 – LL 924 million).

Notes to the financial statements (continued)

32 Income tax expense (continued)

Income tax expense for the year is determined as follows:

	2010 LL Million	2009 LL Million
Profit before tax	**11,031**	2,054
Income tax at statutory rate of 15%	**1,655**	308
Effect of expenses not deductible for tax purposes:		
Loan impairment charges	**6**	454
Other provisions	**223**	198
Effect of non taxable income:		
Other	**(44)**	(36)
Income tax expense for the year	**1,840**	924

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

At 1 January	**-**	-
Charge for the year	**2,268**	1,910
Payments during the year (5% tax on interest received)	**(2,268)**	(1,910)
At 31 December	**-**	-

The open tax years that remain subject to examination and acceptance by the fiscal authorities are the years 2006 to 2010.

33 Cash and cash equivalents

	2010 LL Million	2009 LL Million
Cash and balances with central banks (note 5)	**29,861**	10,696
Loans and advances to banks (note 6)	**63,612**	30,907
Loans and advances to parent and sister banks (note 7)	**263**	232
	93,736	41,835

34 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the bank at 31 December 2010. No provision has been made against these cases beyond the amounts provided for under provision for impairment of loans and advances to customers as professional advice indicates that it is unlikely that any significant additional loss will arise.

Notes to the financial statements (continued)

34 Contingent liabilities and commitments (continued)

(b) Loan commitment, guarantee and other financial liabilities

At 31 December 2010 the Bank had the contractual amounts of the Bank's off-balance sheet financial instruments that commit it to extend credit to customers, guarantee and other facilities as follows:

	2010 LL Million	2009 LL Million
Loan commitments	**37,126**	24,339
Documentary and commercial letters of credit with banks	**6,401**	5,742
Letters of guarantee - clients	**9,705**	5,484
	53,232	35,565

35 Related parties transactions

The Bank is controlled by Bank Misr (incorporated in Cairo) which owns 92% (2009 – 88%) of the ordinary shares.

A number of banking transactions are entered into with related parties in the normal course of business. These include loans, deposits and foreign currency transactions. The volumes of related party transactions, outstanding balances at the year end, and related expense and income for the year are as follows:

(a) Loans and advances to related parties

	2010 LL Million	2009 LL Million
Loans and advances to sister banks (note 7)		
Loans outstanding at 1 January	**232**	84
Loans issued during the year	**23,006**	3,020
Loans repayments during the year	**(22,975)**	(2,872)
Loans outstanding at 31 December	**263**	232
Interest income earned (note 24)	**2**	4

Notes to the financial statements (continued)

35 Related parties transactions (continued)

(b) Deposits from related parties

	Parent banks		Sister banks	
	2010 LL Million	2009 LL million	**2010 LL Million**	2009 LL Million
Deposits from parent and sister banks (note 18)				
Deposits at 1 January	**63,596**	64,117	**15,151**	15,151
Deposits received during the year	**165,276**	85,708	**38,435**	15,075
Deposits repaid during the year	**(194,191)**	(86,229)	**(22,983)**	(15,075)
Deposits at 31 December	**34,681**	63,596	**30,603**	15,151
Interest expense on deposits (note 24)	**918**	1,659	**581**	603

(c) Key management compensation

	2010 LL Million	2009 LL Million
Directors' remuneration and attendance fees (note 28)	**530**	403
Key management remunerations	**1,009**	1,101
	1,539	1,504

36 Earnings per ordinary share

Basic earnings per share are calculated by dividing the net profit attributable to equity holders of the Bank by the weighted average number of ordinary shares in issue during the year.

	2010	2009
Profit attributable to equity holders of the Bank (LL Million)	**8,763**	144
Weighted average number of ordinary shares in issue (LL'000)	**65,440**	21,600
Basic earnings per ordinary share (LL)	**134**	7