BANQUE MISR LIBAN S.A.L.

Report and financial statements
for the year ended 31 December 2011

BANQUE MISR LIBAN S.A.L.

Report and financial statements for the year ended 31 December 2011

	Page
Independent Auditor's Report	**1 - 2**
Balance sheet	**3**
Statement of comprehensive income	**4**
Statement of changes in equity	**5**
Statement of cash flows	**6 - 7**
Notes to the financial statements	**8 - 80**

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 2011 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 is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

Opinion

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

PricewaterhouseCoopers KPMG

Beirut, Lebanon
10 May 2012

Balance sheet
at 31 December 2011

	Note	2011 LL Million	2010 LL Million
Assets			
Cash and balances with central banks	5	**200,677**	179,716
Loans and advances to banks	6	**62,909**	84,656
Loans and advances to parent and sister banks	7	**301**	263
Loans and advances to customers	8	**200,380**	145,827
Debtors by acceptances	9	**6,780**	9,612
Investment securities:			
- Available for sale	10	**-**	267,633
- Loans and receivables	10	**-**	293,499
- Held-to-maturity	10	**-**	305,569
- Held at amortised cost	10	**932,835**	-
- At fair value through other comprehensive income	10	**1,498**	-
Non-current assets held for sale	11	**6,016**	6,069
Property and equipment	12	**20,174**	13,511
Intangible assets	13	**698**	819
Investment properties	14	**27**	30
Investment in a subsidiary	15	**29**	29
Other assets	16	**3,427**	2,840
Total assets		**1,435,751**	1,310,073
Liabilities			
Deposits from banks	17	**39,808**	42,217
Deposits from parent and sister banks	18	**93,725**	65,284
Deposits from customers	19	**1,145,899**	1,041,974
Engagements by acceptances	9	**6,780**	9,612
Retirement benefit obligations	22	**2,378**	2,341
Provisions for liabilities and charges	21	**526**	834
Other liabilities	20	**7,950**	5,849
Total liabilities		**1,297,066**	1,168,111
Shareholders' equity			
Share capital	23	**100,000**	100,000
Required capital reserves	23	**12,647**	7,624
Fair value reserve	23	**453**	9,560
Retained earnings	23	**9,260**	8,763
Other reserves	23	**16,325**	16,015
Total shareholders' equity		**138,685**	141,962
Total shareholders' equity and liabilities		**1,435,751**	1,310,073

The financial statements on pages 3 to 80 were approved for issue and signed by Mr. Hadi Naffi, the Executive General Manager, on 10 May 2012 on behalf of the board of directors.

Statement of comprehensive income
for the year ended 31 December 2011

	Note	2011 LL Million	2010 LL Million
Interest and similar income	24	**81,540**	71,619
Interest and similar expenses	24	**(52,899)**	(47,491)
Net interest income		**28,641**	24,128
Net loan impairment (charges) releases	26	**(1,092)**	2,362
Net interest income after loan impairment (charges) releases		**27,549**	26,490
Fee and commission income	25	**3,959**	3,618
Fee and commission expense	25	**(310)**	(394)
Net fee and commission income		**3,649**	3,224
Net trading gains		**493**	599
Net gains on investment securities	27	**3,318**	2,266
Personnel expenses	28	**(13,671)**	(12,929)
General and administrative expenses	29	**(6,311)**	(5,459)
Depreciation and amortisation expense	30	**(4,635)**	(3,522)
Other operating income	31	**1,254**	362
Profit before income tax		**11,646**	11,031
Income tax expense	32	**(2,386)**	(2,268)
Profit for the year		**9,260**	8,763
Other comprehensive income			
Gains arising on revaluation of available for sale investment securities		**-**	1,390
Loss on investments on revaluation of equity securities designated at fair value though other comprehensive income		**(66)**	-
Total comprehensive income for the year		**9,194**	10,153
Basic and diluted earnings per share (expressed in LL per share)	36	**116**	134

BANQUE MISR LIBAN S.A.L.

Statement of changes in equity
for the year ended 31 December 2011

	Share capital LL Million	Legal reserve LL Million	Reserve for unidentified banking risks LL Million	Fair value reserve LL Million	Retained earnings LL Million	Other reserves LL Million	Total LL Million
Balance at 1 January 2010	27,000	3,970	3,510	8,170	144	16,490	59,284
Profit for the year	-	-	-	-	8,763	-	8,763
Gains arising on revaluation of available-for-sale investment securities	-	-	-	1,390	-	-	1,390
Total comprehensive income	-	-	-	1,390	8,763	-	10,153
Increase in share capital	73,000	-	-	-	-	-	73,000
Cost of capital increase	-	-	-	-	-	(475)	(475)
Transfers (note 23)	-	14	130	-	(144)	-	-
Balance at 31 December 2010	**100,000**	**3,984**	**3,640**	**9,560**	**8,763**	**16,015**	**141,962**
Balance at 1 January 2011	100,000	3,984	3,640	9,560	8,763	16,015	141,962
Impact of adopting IFRS 9 "Financial instruments"	-	-	-	(9,041)	-	-	(9,041)
Profit for the year	-	-	-	-	9,260	-	9,260
Loss on investments on revaluation in equity securities designated at fair value through OCI	-	-	-	(66)	-	-	(66)
Total comprehensive income	-	-	-	(66)	9,260	-	9,194
Amounts directly recognised in equity related to assets classified as held for sale	-	-	-	-	-	70	70
Dividends declared	-	-	-	-	(3,500)	-	(3,500)
Transfers (note 23)	-	876	4,147	-	(5,263)	240	-
Balance at 31 December 2011	**100,000**	**4,860**	**7,787**	**453**	**9,260**	**16,325**	**138,685**

Statement of cash flows
for the year ended 31 December 2011

	Note	2011 LL Million	2010 LL Million
Cash flows from operating activities			
Profit before income tax		**11,646**	11,031
Adjustments for:			
Depreciation expense	30	**4,316**	3,225
Amortisation expense	30	**319**	297
Net gain on disposal of property and equipment		**(2)**	(10)
Net gain on disposal of intangible assets		**-**	(4)
Net loan impairment charges (releases)	26	**1,092**	(2,362)
Net interest income	24	**(28,641)**	(24,128)
Net fee and commission income	25	**(3,649)**	(3,224)
Changes in operating assets and liabilities:			
Cash and balances with central banks		**(12,236)**	(10,799)
Loans and advances to banks		**1,369**	(4,851)
Loans and advances to customers		**(55,970)**	(29,129)
Investment securities		**(77,523)**	(268,356)
Other assets		**(587)**	900
Deposits from banks		**(2,377)**	29,850
Deposits from parent and sister banks		**28,446**	(13,651)
Deposits from customers		**101,502**	273,617
Net change in retirement benefit obligations	22	**37**	(64)
Net change in provisions for liabilities and charges	21	**(308)**	129
Other liabilities	20	**2,101**	1,964
Cash used in operating activities		**(30,465)**	(35,565)
Interest received		**82,434**	66,471
Interest paid		**(50,566)**	(46,108)
Net fee and commission income	25	**3,649**	3,224
Income tax paid	32	**(2,386)**	(2,268)
Net cash generated from (used in) operating activities		**2,666**	(14,246)
Cash flows from investing activities			
Purchase of property and equipment	12	**(10,976)**	(6,304)
Acquisition of a subsidiary	15	**-**	(29)
Proceeds from sale of property and equipment		**2**	11
Proceeds from sales of non-current assets held for sale		**373**	-
Proceeds from sale of intangible assets		**-**	10
Purchase of intangible assets	13	**(198)**	(66)
Net cash used in investing activities		**(10,799)**	(6,378)

Statement of cash flows (continued)
for the year ended 31 December 2011

	Note	2011 LL Million	2010 LL Million
Cash flows from financing activities			
Increase in capital		-	72,525
Dividends paid		**(3,500)**	-
Net (decrease) increase in cash and cash equivalents		**(11,633)**	51,901
Cash and cash equivalents at the beginning of the year	33	**93,736**	41,835
Cash and cash equivalents at end of the year	33	**82,103**	93,736

Principal non-cash transactions:

The principal non-cash transactions are as follows:

- Transfer to legal reserve amounting to LL 876 million (2010 – LL 14 million) (note 23);
- Transfer to reserve for unidentified banking risks amounting to LL 4,147 million (2010 – LL 130 million) (note 23);
- Transfer of LL 267,633 million of investment securities from available for sale to investments at amortised cost in line with the adoption of IFRS 9.
- Transfer of LL 293,499 million of investments from loans and receivables category to amortised cost in line with the adoption of IFRS 9.
- Transfer of LL 305,569 million of investments from Held to maturity category to amortised cost in line with the adoption of IFRS 9.
- Decrease in the fair value reserve by LL 9,041 million as a result of the effect of changes in accounting policy for classification and measurement of financial instruments with the adoption of IFRS 9 (note 23).

Notes to the financial statements
for the year ended 31 December 2011

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% (2010 – 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 2011 have been approved for issue by the Executive General Manager on 10 May 2012 on behalf of the board of directors.

2 Summary of significant accounting policies

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.

2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention, except for available for sale financial assets (policy applicable prior 1 January 2011), and financial assets designated at fair value through other comprehensive income which have been measured at fair value.

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

The Bank did not consolidate the financial statements of the newly established subsidiary since the financial results of the subsidiary are considered immaterial to the financial statements of the Bank taken as a whole.

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

The financial statements are presented in Lebanese pounds, which is the Bank's functional and presentation currency except as otherwise indicated, 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 the balance sheet captions in which cash and cash equivalents items are included.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

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.

Change in accounting policy

The Bank opted for the early adoption of IFRS 9 "Financial instruments" on 1 January 2011 in line with the Banking Control Commission "BCC" circular number 265 dated 23 September 2010. IFRS 9 was issued in November 2009 and October 2010. It addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of IAS 39, "Financial instruments: recognition and measurement" that relate to the classification and measurement of financial instruments.

IFRS 9 requires financial assets to be classified into two measurement categories:

(i) those measured at fair value,
(ii) and those measured at amortised cost.

An instrument is subsequently measured at amortised cost only if it is a debt instrument and both the objective of the Bank'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, on an investment-by-investment basis 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.

For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of comprehensive income, unless this creates an accounting mismatch.

The Bank has adopted IFRS 9 from 1 January 2011, as well as the related consequential amendments to other IFRSs, because this new accounting policy provides reliable and more relevant information for users to assess the amounts, timing and uncertainty of future cash flows. In accordance with the transitional provisions of the standard, comparative figures have not been restated. The Bank's management has assessed the financial assets held by the Bank at the date of initial application of IFRS 9 (1 January 2011). The main effects resulting from adopting the new standard are as follows:

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Change in accounting policy (continued)

- Debt securities were considered to meet the criteria to be classified at amortised cost in accordance with IFRS 9, because the objective of the Bank's business model is to hold these debt securities in order to collect their contractual cash flows and the contractual cash flows solely represent payments of principal and interest on the principal outstanding. They were therefore reclassified from available for sale, loans and receivable and held to maturity to financial assets at amortised cost. As a result, the debt securities portfolio and the fair value reserve decreased by LL 9,041 million respectively. For more details refer to note 10.
- Investments in equity securities previously classified as available for sale are now classified as financial assets designated at fair value through other comprehensive income. As a result, on 1 January 2011 financial assets with a fair value of LL 1,740 million were transferred to investments held at fair value through other comprehensive income. For more details refer to note 10.

Standards, amendments and interpretations effective on or after 1 January 2011

The following standards and amendments, which became effective in 2011, are relevant to the Bank:

- IFRS 7, 'Financial instruments': Disclosures', (effective from 1 January 2011). This amendment emphasises the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments. The adoption of the amendment results in additional disclosures but does not have a significant impact on the financial statements of the Bank.
- IAS 1, 'Presentation of financial statements', (effective from 1 January 2011). This amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The adoption of the amendment results in additional disclosures but does not have a significant impact on the financial statements of the Bank.
- IAS 24, 'Related party disclosures' (revised 2009), is mandatory for periods beginning on or after 1 January 2011. The revised standard amends the definition of a related party and modifies certain related-party disclosure requirements for government-related entities. The impact of this standard does not have a significant impact on the banks financial statement.

Standards, amendments and interpretations issued but not yet effective

The following standards and amendments which are relevant to the Bank have been issued and are effective for the accounting periods starting after 1 January 2011:

- Amendment to IAS 1, 'Financial statement presentation' regarding other comprehensive income, (effective from 1 July 2012). The main change resulting from these amendments is a requirement for Banks to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI. The impact of this standard is not expected to be significant on the Bank's financial statements.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

Standards, amendments and interpretations issued but not yet effective (continued)

The following standards and amendments which are relevant to the Bank have been issued and are effective for the accounting periods starting after 1 January 2011 (continued):

- IAS 27 (Revised 2011), 'Separate financial statements', (effective from 1 January 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of IAS 27 have been included in the new IFRS 10. The impact of this standard is not expected to be significant on the Bank's financial statements.
- IFRS 13, 'Fair value measurement', (effective from 1 January 2013). The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Bank is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on 1 January 2013. The impact of this standard is not expected to be significant on the Bank's financial statements.
- Amendment to IFRS 7, 'Financial instruments': Disclosures' on derecognition, (effective from 1 July 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitisation of financial assets.The impact of this standard is not expected to be significant on the Bank's financial statements.
- Amendment to IAS 12, 'Income taxes' on deferred tax (effective 1 January 2012). IAS 12, 'Income taxes', currently requires an entity to measure the deferred tax relating to an asset depending on whether the Bank expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in IAS 40, 'Investment property'. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, 'Income taxes - recovery of revalued non-depreciable assets', will no longer apply to investment properties carried at fair value. The impact of this standard is not expected to be significant on the Bank's financial statements.
- Amendment to IAS 19, 'Employee benefits' (effective 1 January 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The impact of this standard is not expected to be significant on the Bank's financial statements.
- IFRS 10 'Consolidated financial statements' (effective 1 January 2013). The objective of IFRS 10 is to establish principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities to present consolidated financial statements. It defines the principle of control, and establishes controls as the basis for consolidation. It also sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee. It also sets out the accounting requirements for the preparation of consolidated financial statements. The impact of this standard is not expected to be significant on the Bank's financial statements.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (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 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 fair value through other comprehensive income , are included in the fair value reserves in equity.

2.3 Financial assets and liabilities

2.3.1 Classification prior to 1 January 2011

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.

(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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3 Financial assets and liabilities (continued)

2.3.1 Classification prior to 1 January 2011 (continued)

(a) Loans and receivables (continued)

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 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 statement of comprehensive income 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.

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 statement of comprehensive income. 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 statement of comprehensive income.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3 Financial assets and liabilities (continued)

2.3.1 Classification prior to 1 January 2011 (continued)

(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). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

(f) 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.

(g) 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:

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3.1 Classification prior to 1 January 2011 (continued)

(g) Classes of financial instruments (continued)

<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</td><td colspan="4">Loan commitments</td></tr>
<tr><td colspan="4">Guarantees and other financial facilities</td></tr>
</table>

2.3.2 Classification of financial assets after 1 January 2011

As from 1 January 2011, the Bank classifies its financial assets as measured at fair value or at amortised cost.

Debt instruments

(a) Financial assets at amortised cost

A debt instrument is classified as 'amortised cost' only if both of the following criteria are met: the objective of the Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in the debt instrument are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

(b) Financial assets at fair value

If either of the two criteria above are not met, the debt instrument is classified as at "fair value through profit or loss". The Bank has not designated any debt instruments as measured at fair value through profit or loss to eliminate or significantly reduce an accounting mismatch or as held for trading.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3.2 Classification of financial assets after 1 January 2011 (continued)

Equity instruments

All equity instruments are measured at fair value. Equity instruments that are held for trading are measured at fair value through profit or loss. For all other equity investments, the Bank can make an irrevocable election at initial recognition to recognise changes in fair value through other comprehensive income rather than profit or loss.

(c) Recognition, measurement, derecognition and reclassification

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Bank commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Bank has transferred substantially all risks and rewards of ownership.

At initial recognition, the Bank measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value though profit or loss are expensed in the statement of comprehensive income.

A gain or loss on a debt instrument that is subsequently measured at fair value and is not part of a hedging relationship is recognised in profit or loss and presented in the statement of comprehensive income within "other (losses)/gains – net" in the period in which they arise.

A gain or loss on a debt instrument that is subsequently measured at amortised cost and is not part of a hedging relationship is recognised in profit or loss when the financial asset is derecognised or impaired and through the amortisation process using the effective interest rate method.

The Bank subsequently measures all equity investments at fair value. Where the Bank's management has elected to present unrealised and realised fair value gains and losses on equity instruments in other comprehensive income, there is no subsequent recycling of fair value gains and losses to profit or loss. Dividends from such investments continue to be recognised in profit or loss as long as they represent a return on investment.

The Bank is required to reclassify all affected debt investments when and only when its business model for managing those assets changes.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3.2 Classification of financial assets after 1 January 2011 (continued)

(c) Recognition, measurement, derecognition and reclassification (continued)

<table>
<tr><th colspan="2">Category
(as defined by IFRS 9)</th><th colspan="2">Class
(as determined by the Bank)</th><th>Subclass</th></tr>
<tr><td rowspan="6">Financial assets</td><td rowspan="5">Held at amortised cost</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>At fair value through other comprehensive income</td><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>

2.3.3 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 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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.
Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.5 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 statement of comprehensive income 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.

2.6 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.

2.7 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 whether 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 Summary of significant accounting policies (continued)

2.7 Impairment of financial assets (continued)

(a) Assets carried at amortised cost

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 statement of comprehensive income.

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 (charges) releases "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 statement of comprehensive income.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.7 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 statement of comprehensive income. Impairment losses recognised in the statement of comprehensive income on equity instruments are not reversed through the statement of comprehensive income. 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 statement of comprehensive income.

(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.

2.8 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 2011.

2.9 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.

2.10 Repossessed property or shares

In certain circumstances, property is repossessed following the foreclosure on loans that are in default. Repossessed properties are measured at the lower of carrying amount and fair value less costs to sell and reported within "Non-current assets held for sale".

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.11 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 statement of comprehensive income on a straight-line basis over the period of the lease.

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.

2.12 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 was 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 statement of comprehensive income during the financial period in which they are incurred.

2.13 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 Summary of significant accounting policies (continued)

2.13 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 2011 (2010 - nil).

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

2.14 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 Summary of significant accounting policies (continued)

2.15 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.

2.16 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.

2.17 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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.18 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.

2.19 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.

2.20 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.

2.21 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 regularly reviews its risk management policies and systems to reflect changes in markets, products and best market practice.

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 and operational risk (which are discussed below).

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 end of the reporting period (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) Financial covenants (for credit related commitments and loan books)

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.

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.

Notes to the financial statements (continued)

3.1 Credit risk (continued)

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 end of the reporting period based on objective evidence of impairment (see note 2.7).

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:

	2011 Credit risk exposure (%)	**2011 Impairment allowance (%)**	2010 Credit risk exposure (%)	2010 Impairment allowance (%)
1. Normal & special mention	**84%**	**19%**	77%	7%
2. Substandard	**3%**	**12%**	5%	16%
3. Bad and doubtful	**13%**	**69%**	18%	77%
	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:

	2011 LL Million	2010 LL Million
Assets		
Balances with central banks	**190,734**	168,226
Loans and advances to banks	**62,909**	84,656
Loans and advances to parent and sister banks	**301**	263
Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	**6,908**	8,928
- Personal loans	**53,978**	34,638
- Mortgages	**19,694**	7,969
Loans to corporate entities:		
- Large corporate entities	**76,718**	62,468
- Small and medium size enterprises (SMEs)	**43,082**	31,824
Debtors by acceptances	**6,780**	9,612
Investment securities:		
- Available for sale	**-**	265,893
- Loans and receivables	**-**	293,499
- Held-to-maturity	**-**	305,569
- Held at amortised cost	**932,835**	-
Other assets	**2,284**	1,948
	1,396,223	1,275,493

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

Letters of guarantee- clients	**12,484**	9,705
Documentary and commercial letters of credit with banks	**8,445**	6,401
Loan commitments	**47,746**	37,126
	68,675	53,232
	1,464,898	1,328,725

The above table represents a worse case scenario of credit risk exposure to the Bank at 31 December 2011 and 2010, 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.

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)

As shown above, 67% of the total maximum on balance sheet exposure is derived from investment securities (2010 – 62%), 5% is derived from loans and advances to banks (2010 – 7%) and 15% is derived from loans and advances to customers (12%- 2010).

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:

- 84% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2010 – 77%);
- 78% of the loans and advances portfolio are considered to be neither past due nor impaired (2010 – 68%);
- 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 2011. 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 States LL Million	European countries LL Million	Other LL Million	Total LL Million
Assets						
Balances with central banks	190,734	-	-	-	-	190,734
Loans and advances to banks	30,017	246	24,803	7,815	28	62,909
Loans and advances to parent and sister banks	-	-	-	301	-	301
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	5,942	966	-	-	-	6,908
- Personal loans	51,320	2,658	-	-	-	53,978
- Mortgages	19,519	175	-	-	-	19,694
Loans to corporate entities:						
- Large corporate entities	63,612	13,106	-	-	-	76,718
- Small and medium size enterprises (SMEs)	41,760	1,322	-	-	-	43,082
Debtors by acceptances	6,780	-	-	-	-	6,780
Investment securities:						
- Available for sale	-	-	-	-	-	-
- Loans and receivables	-	-	-	-	-	-
- Held-to-maturity	-	-	-	-	-	-
- Held at amortised cost	932,835	-	-	-	-	932,835
Other assets	2,284	-	-	-	-	2,284
At 31 December 2011	**1,344,803**	**18,473**	**24,803**	**8,116**	**28**	**1,396,223**

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 States LL Million	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	36,553	3,835	322	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
- Small and medium size enterprises (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**	**36,553**	**10,319**	**393**	**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)

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

	Lebanon LL Million	Arab countries LL Million	European countries LL Million	Other LL Million	Total LL Million
Letters of guarantee- clients	12,468	16	-	-	12,484
Documentary and commercial letters of credit with banks	8,445	-	-	-	8,445
Loan commitments	34,465	13,271	10	-	47,746
At 31 December 2011	**55,378**	**13,287**	**10**	**-**	**68,675**
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**

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	190,734	-	-	-	-	190,734
Loans and advances to banks	62,909	-	-	-	-	62,909
Loans and advances to parent and sister banks	301	-	-	-	-	301
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	-	-	-	-	6,908	6,908
- Personal loans	-	-	-	-	53,978	53,978
- Mortgages	-	-	-	-	19,694	19,694
Loans to corporate entities:						
- Large corporate entities	14,294	2,277	20,423	31,139	8,585	76,718
- Small and medium size enterprises (SMEs)	-	3,717	14,860	9,985	14,520	43,082
Debtors by acceptances	-	-	-	4,158	2,622	6,780
Investment securities:						
- Available for sale	-	-	-	-	-	-
- Loans and receivables	-	-	-	-	-	-
- Held-to-maturity	-	-	-	-	-	-
- Held at amortised cost	932,835	-	-	-	-	932,835
Other assets	-	-	-	-	2,284	2,284
At 31 December 2011	**1,201,073**	**5,994**	**35,283**	**45,282**	**108,591**	**1,396,223**

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	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
- Small and medium size enterprises (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)

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	50	13	85	10,779	1,557	12,484
Documentary and commercial letters of credit with banks	-	416	-	5,180	2,849	8,445
Loan commitments	-	4,876	2,472	24,312	16,086	47,746
At 31 December 2011	**50**	**5,305**	**2,557**	**40,271**	**20,492**	**68,675**
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**

Notes to the financial statements (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2011 Loans and advances to customers LL Million	**2011 Loans and advances to central banks and banks LL Million**	2010 Loans and advances to customers LL Million	2010 Loans and advances to central banks and banks LL Million
Neither past due nor impaired	**178,853**	**253,643**	116,466	252,882
Past due but not impaired	**13,527**	**-**	16,352	-
Individually impaired	**36,871**	**-**	39,688	-
Gross	**229,251**	**253,643**	172,506	252,882
Less:				
Allowance for impairment	**(28,871)**	**-**	(26,679)	-
Net	**200,380**	**253,643**	145,827	252,882
Individually impaired	**(23,495)**	**-**	(24,776)	-
Portfolio allowance	**(5,376)**	**-**	(1,903)	-
Total	**(28,871)**	**-**	(26,679)	-

During the year ended 31 December 2011, the Bank's total loans and advances increased by 14% 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 2011							
Grades							
Normal	6,917	47,687	16,239	10,510	37,485	118,838	253,643
Special mention	1,230	5,623	3,431	20,112	29,619	60,015	-
	8,147	**53,310**	**19,670**	**30,622**	**67,104**	**178,853**	**253,643**
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**

3 Financial risk management (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 and/or based on the stage of collection of amounts owed to the Bank.

Gross amount of loans by class of customers at 31 December 2011 that were past due but not impaired were as follows:

	Overdrafts LL Million	Personal Loans LL Million	Mortgages LL Million	SMEs LL Million	Large corporate entities LL Million	Total LL Million
At 31 December 2011						
Past due up to 30 days	140	213	-	4	73	430
Past due 30 – 60 days	32	86	-	1,591	6,062	7,771
Past due 60 – 90 days	-	28	-	526	-	554
Over 90 days	42	302	83	1,872	2,473	4,772
Total	**214**	**629**	**83**	**3,993**	**8,608**	**13,527**
Fair value of collateral	**87**	**590**	**141**	**4,788**	**6,036**	**11,642**
Amount of (over) under collateralisation	**127**	**39**	**(58)**	**(795)**	**2,572**	**1,885**

3 Financial risk management (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 2010 that were past due but not impaired were as follows:

	Overdrafts LL Million	Personal Loans LL Million	Mortgages LL Million	SMEs LL Million	Large corporate entities LL Million	Total LL Million
At 31 December 2010						
Past due up to 30 days	913	262	15	302	5,987	7,479
Past due 30 – 60 days	25	10	-	93	-	128
Past due 60 – 90 days	26	17	-	197	82	322
Over 90 days	19	181	185	3,688	4,350	8,423
Total	**983**	**470**	**200**	**4,280**	**10,419**	**16,352**
Fair value of collateral	**64**	**146**	**240**	**8,972**	**24,594**	**34,016**
Amount of under (over) collateralisation	**919**	**324**	**(40)**	**(4,692)**	**(14,175)**	**(17,664)**

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 36,871 million (2010 - LL 39,688 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 2011					
Individually impaired loans	192	1,294	28,434	6,951	36,871
Fair value of collateral	45	318	20,734	6,461	27,558
31 December 2010					
Individually impaired loans	96	333	32,335	6,924	39,688
Fair value of collateral	-	-	24,878	6,461	31,339

(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 2011 is LL 253,643 million (2010 - LL 252,882 million). No collateral is held by the Bank except for loans and advances to Banque de Habitat which is fully secure. 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 3,424 million at 31 December 2011 (2010 – LL 7,590 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 2011, 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 2011				
B+ to B-	**329,294**	**274,263**	**329,278**	**932,835**
31 December 2010				
B+ to B-	341,647	229,815	293,499	864,961

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 (note 11).

The Bank obtained assets by taking possession of collateral held as security, as follows:

	2011 LL Million	2010 LL Million
Nature of assets		
Residential property- carrying amount	**6,016**	6,069

Repossessed properties are sold as soon as practicable, with the proceeds used to reduce the outstanding indebtedness.

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 in 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.

Notes to the financial statements (continued)

3.2 Market risk (continued)

3.2.1 Market risk measurement techniques (continued)

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.

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 2011 and 31 December 2010. 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 2011

	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Other LL Million	Total LL Million
Assets							
Cash and balances with central banks	78,467	116,271	5,812	127	-	-	200,677
Loans and advances to banks	12,413	48,454	1,495	435	28	84	62,909
Loans and advances to parent and sister banks	-	228	34	32	7	-	301
Loans and advances to customers	68,808	126,549	5,023	-	-	-	200,380
Debtors by acceptances	-	3,967	2,813	-	-	-	6,780
Investment securities:							
- Held at amortised cost	478,757	428,143	25,935	-	-	-	932,835
- Designated at fair value through OCI	562	936	-	-	-	-	1,498
Other assets	1,143	2,165	119	-	-	-	3,427
Total financial assets	**640,150**	**726,713**	**41,231**	**594**	**35**	**84**	**1,408,807**
Liabilities							
Deposits from banks	9,286	28,573	1,949	-	-	-	39,808
Deposits from parent and sister banks	-	75,773	17,754	198	-	-	93,725
Deposits from customers	512,297	612,458	19,548	1,564	20	12	1,145,899
Engagements by acceptances	-	3,967	2,813	-	-	-	6,780
Other liabilities	6,055	1,867	28	-	-	-	7,950
Total financial liabilities	**527,638**	**722,638**	**42,092**	**1,762**	**20**	**12**	**1,294,162**
Net on-balance sheet financial position	**112,512**	**4,075**	**(861)**	**(1,168)**	**15**	**72**	**114,645**

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

	LL LL Million	USD LL Million	EUR LL Million	GBP LL Million	CAD LL Million	Other 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)

3.2.3 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 by the Treasury department.

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 2011

	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	24,703	5,276	30,150	71,154	-	69,394	200,677
Loans and advances banks	35,200	-	3,408	8,487	-	15,814	62,909
Loans and advances to parent and sister banks	-	-	-	-	-	301	301
Loans and advances to customers	66,933	18,998	21,160	76,267	4,557	12,465	200,380
Debtors by acceptances	-	-	-	-	-	6,780	6,780
Investment securities:							
- Held at amortised cost	18,588	19,986	67,557	470,117	356,587	-	932,835
Other assets	-	-	-	-	-	3,427	3,427
Total financial assets	**145,424**	**44,260**	**122,275**	**626,025**	**361,144**	**108,181**	**1,407,309**
Liabilities							
Deposits from banks	39,613	-	-	-	-	195	39,808
Deposits from parent and sister banks	37,514	45,795	-	7,261	-	3,155	93,725
Deposits from customers	793,830	45,363	106,023	69,814	-	130,869	1,145,899
Engagements by acceptances	-	-	-	-	-	6,780	6,780
Other liabilities	-	-	-	-	-	7,950	7,950
Total financial liabilities	**870,957**	**91,158**	**106,023**	**77,075**	**-**	**148,949**	**1,294,162**
Total interest repricing gap	**(725,533)**	**(46,898)**	**16,252**	**548,950**	**361,144**		

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**		

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 set by the Treasury department, while the risk management department and the ALCO committee monitor those sources 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.

BANQUE MISR LIBAN S.A.L.

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 2011						
Liabilities						
Deposits from banks	32,270	7,538	-	-	-	39,808
Deposits from parent and sister banks	33,132	7,538	45,794	7,261	-	93,725
Deposits from customers	540,557	384,142	151,386	69,814	-	1,145,899
Engagement by acceptances	966	1,684	4,130	-	-	6,780
Other liabilities	348	-	7,602	-	-	7,950
Total liabilities (contractual maturity dates)	**607,273**	**400,902**	**208,912**	**77,075**	**-**	**1,294,162**
Assets held for managing liquidity risk (contractual maturity dates)	**204,378**	**26,639**	**166,876**	**602,529**	**408,385**	**1,408,807**
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

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 on the earliest contractual maturity date.

	No later than 1 year LL Million	**1-5 years LL Million**	**Total LL Million**
At 31 December 2011			
Loan commitments	47,746	-	47,746
Documentary and commercial letters of credit with banks	8,445	-	8,445
Letters of guarantee- clients	12,297	187	12,484
Total	**68,488**	**187**	**68,675**
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

BANQUE MISR LIBAN S.A.L.

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.

	2011 Carrying amount LL Million	2010 Carrying amount LL Million	**2011 Fair value LL Million**	2010 Fair value LL Million
Financial assets (net of provisions)				
Cash and balances with central banks	**200,677**	179,716	**200,677**	179,716
Loans and advances to banks	**62,909**	84,656	**62,909**	84,656
Loans and advances to parent and sister banks	**301**	263	**301**	263
Loans and advances to customers	**200,380**	145,827	**200,380**	145,827
Investment securities:				
- Loans and receivables	**-**	293,499	**-**	296,557
- Held-to-maturity	**-**	305,569	**-**	319,986
- Held at amortised cost	**932,835**	-	**965,084**	-
Debtors by acceptances	**6,780**	9,612	**6,780**	9,612
Investment in a subsidiary	**29**	29	**29**	29
Other assets	**3,427**	2,840	**3,427**	2,840
	1,407,338	1,022,011	**1,439,587**	1,039,486
Financial liabilities				
Deposits from banks	**39,808**	42,217	**39,808**	42,217
Deposits from parent and sister banks	**93,725**	65,284	**93,725**	65,284
Deposits from customers	**1,145,899**	1,041,974	**1,145,899**	1,041,974
Engagement by acceptances	**6,780**	9,612	**6,780**	9,612
Other liabilities	**7,950**	5,849	**7,950**	5,849
	1,294,162	1,164,936	**1,294,162**	1,164,936
Off-balance sheet financial instruments				
Loan commitments	**47,746**	37,126	**47,746**	37,126
Documentary and commercial letters of credit with banks	**8,445**	6,401	**8,445**	6,401
Letters of guarantee- clients	**12,484**	9,705	**12,484**	9,705
Total off-balance sheet	**68,675**	53,232	**68,675**	53,232

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 2011 and 2010.

(iii) Investment securities

The fair value for financial assets held at amortised cost 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 2011 and 2010.

(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 (for example, Bloomberg and Reuters).

3.4 Fair value of financial assets and liabilities (continued)

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

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

	Level 1 LL Million	Level 2 LL Million	Total LL Million
At 31 December 2011			
- Debt securities	378,884	553,951	932,835
- Equity securities designated at fair value through OCI	748	750	1,498
Total assets	**379,632**	**554,701**	**934,333**
At 31 December 2010			
Debt securities:			
- Available-for-sale	142,914	122,979	265,893
- Held - to - maturity	86,901	218,668	305,569
- Loans and receivables	67,927	225,572	293,499
Equity securities:			
- Available-for-sale	1,188	552	1,740
Total assets	**298,930**	**567,771**	**866,701**

3.5 Operational risk

Operational risk is the risk of loss arising from inadequate or failed internal processes, systems failure, human error, or from external events. When controls fail to perform, it can lead to legal or regulatory implications, or financial /reputational loss. The Bank has established policies and procedures, which are applied to identify, assess, monitor, control and mitigate operational risk in addition to other types of risks relating to the banking and financial activities of the Bank as part of overall risk management activities.

3.6 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 II) 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%, and 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.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

3.6 Capital management (continued)

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 the fair value reserve relating to financial assets designated at fair value through other comprehensive income and real estate revaluation surplus approved by Central Bank of Lebanon.

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

	2011 **LL Million**	2010 LL Million
Tier 1 Capital		
Share capital	**100,000**	100,000
Retained earnings and reserves	**28,972**	23,639
Less: Intangible assets	**(698)**	(819)
Less: Shares and participation in insurance companies	**(699)**	-
Total qualifying Tier 1 Capital	**127,575**	122,820
Tier 2 Capital		
Fair value reserve	**-**	4,780
Revaluation of securities designated at fair value through OCI	**240**	-
Total qualifying Tier 2 Capital	**240**	4,780
Total regulatory Capital	**127,815**	127,600
Risk- weighted assets		
On-balance sheet	**783,892**	240,502
Off-balance sheet	**17,788**	10,985
Market risk components	**566**	47
Operational risk components	**59,070**	-
Total risk-weighted assets	**861,316**	251,534
BIS Capital ratios (%)[1]		
Tier 1 Capital	**14.81%**	48.83%
(Tier 1 + Tier 2) Capital	**14.84%**	50.73%

[1] The Bank's capital adequacy levels during 2010 were computed according to the Basel I method.

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.

(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) 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.

(c) 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.

4 Critical accounting estimates and judgements (continued)

(d) Business model – Applicable from 1 January 2011

In making an assessment whether a business model's objective is to hold assets in order to collect contractual cash flows, the Bank considers at which level of its business activities such assessment should be made. Generally, a business model is a matter of fact which can be evidenced by the way business is managed and the information provided to management. However, in some circumstances it may not be clear whether a particular activity involves one business model with some infrequent asset sales or whether the anticipated sales indicate that there are two different business models.

In determining whether its business model for managing financial assets is to hold assets in order to collect contractual cash flows the Bank considers:

- management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focuses on earning contractual interest revenues;
- the degree of frequency of any expected asset sales;
- the reason for any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.

In particular, the Bank exercises judgement to determine the objective of the business model for portfolios which are held for liquidity purposes. Certain debt securities are held by the Bank in a separate portfolio for long term yield and as a liquidity reserve. The securities may be sold in order to meet unexpected liquidity shortfalls but such sales are not anticipated to be more than infrequent. The Bank considers that these securities are held within a business model whose objective is to hold assets to collect the contractual cash flows. Certain other debt securities are expected to be held by the Bank in separate portfolios in order to manage short-term liquidity. Sales from this portfolio are frequently made to meet ongoing business needs. The Bank determines that these securities are not held within a business model whose objective is to hold assets in order to collect contractual cash flows.

(e) Contractual cash flows of financial assets – Applicable from 1 January 2011

The Bank exercises judgement in determining whether the contractual terms of financial assets it originates or acquires give rise on specific dates to cash flows that are solely payments of principal and interest on the principal outstanding and so may qualify for amortised cost measurement. In making the assessment the Bank considers all contractual terms, including any prepayment terms or provisions to extend the maturity of the assets, terms that change the amount and timing of cash flows and whether the contractual terms contain leverage.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

5 Cash and balances with central banks

	2011 **LL Million**	2010 LL Million
Cash on hand	**9,943**	11,490
Term placements with Central Bank of Lebanon other than mandatory reserve deposits	**19,650**	14,165
Current accounts with Central Bank of Lebanon other than mandatory reserve deposits	**8,940**	4,206
Included in cash and cash equivalents (note 33)	**38,533**	29,861
Mandatory reserve deposits with Central Bank of Lebanon	**161,652**	148,670
Term placements (with original maturities exceeding three months)	**184**	930
Interest receivable - Central Bank of Lebanon	**308**	255
	200,677	179,716
Current	**129,523**	101,703
Non-current	**71,154**	78,013
	200,677	179,716

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 2011, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese pound amounting to LL 54 billion and deposits denominated in US dollar that earn interest at 2.26% per annum with a counter value of LL 108 billion (US$ 72 million).

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).

Notes to the financial statements (continued)

6 Loans and advances to banks

	2011 LL Million	2010 LL Million
Items in course of collection from other banks	**6,175**	2,896
Current accounts with other banks	**9,431**	20,465
Placements with other banks (with original maturities not exceeding three months)	**27,663**	40,251
Included in cash and cash equivalents (note 33)	**43,269**	63,612
Placements with other banks (with original maturities exceeding three months)	**19,433**	20,802
Interest receivable	**207**	242
	62,909	84,656
Current	**51,014**	71,392
Non-current	**11,895**	13,264
	62,909	84,656

7 Loans and advances to parent and sister banks

Current accounts (notes 33 and 35)	**301**	263

8 Loans and advances to customers

Discounted bills	**976**	809
Overdrafts	**71,254**	64,980
Bills to the order of the Bank	**47,866**	32,720
Short term loans	**44,391**	18,328
Creditors accidentally debtors	**5,004**	1,314
Medium and long term loans	**22,889**	14,667
Non-performing loans:		
- Substandard	**6,166**	7,831
- Doubtful and bad debts	**30,705**	31,857
Gross loans and advances to customers	**229,251**	172,506
Less: specific allowance for impairment	**(23,495)**	(24,776)
Less: collective allowance for impairment	**(5,376)**	(1,903)
Net loans and advances to customers	**200,380**	145,827

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

8 Loans and advances to customers (continued)

	2011 LL Million	2010 LL Million
Current	**102,900**	79,030
Non-current	**97,480**	66,797
	200,380	145,827

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 2011			
Normal and special mention loans	192,380	(5,376)	187,004
Substandard	6,166	(3,592)	2,574
Doubtful and bad debts	30,705	(19,903)	10,802
	229,251	**(28,871)**	**200,380**
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

The movement in impairment provision is as follows:

	2011		2010	
	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	24,776	1,903	40,404	619
Increase in impairment allowances (note 26)	1,367	3,473	621	1,284
Reversal of impairment allowances (note 26)	(1,474)	-	(2,469)	-
Reversal of unrealised interest (note 26)	(2,274)	-	(1,798)	-
Increase in unrealised interest	1,523	-	1,889	-
Provision and unrealised interest written-off during the year	(423)	-	(13,871)	-
Balance at 31 December	**23,495**	**5,376**	24,776	1,903

Notes to the financial statements (continued)

9 Debtors by acceptances

	2011 **LL Million**	2010 LL Million
Balance	**6,780**	9,612

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.

10 Investment securities

	2011 **LL Million**	2010 LL Million
Securities available for sale		
Debt securities – at fair value:		
- Listed	-	142,914
- Unlisted	-	122,979
	-	265,893
Equity securities – at fair value:		
- Listed	-	1,188
- Unlisted	-	552
	-	1,740
Total securities available for sale	-	267,633
Securities loans and receivables		
Debt securities – at amortised cost:		
- Listed	-	67,927
- Unlisted	-	225,572
Total securities loans and receivables	-	293,499
Securities held-to-maturity		
Debt securities – at amortised cost:		
- Listed	-	86,901
- Unlisted	-	218,668
Total securities held-to-maturity	-	305,569
Total investment securities	**-**	866,701

During 2010, available-for-sale and held-to-maturity debt securities comprised Lebanese treasury bills with fixed coupons.

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

Notes to the financial statements (continued)

10 Investment securities (continued)

	2011 LL Million	2010 LL Million
Equity securities designated at fair value through OCI		
- Listed at fair value	**748**	-
- Unlisted – at cost	**750**	-
	1,498	-
Debt securities held at amortised cost		
- Lebanese treasury bills - unlisted	**329,294**	-
- Lebanese treasury bills in foreign currency (Eurobonds)	**274,263**	-
- Certificates of deposit (BDL) – unlisted	**224,657**	-
- Certificates of deposit (BDL) - listed	**104,621**	-
	932,835	-
Total investment securities	**934,333**	**-**
Current	**107,629**	160,475
Non-current	**826,704**	706,226
	934,333	866,701

Debt securities are detailed as follows:

	Available-for-sale LL Million	Loans and receivables LL Million	Held-to-maturity LL million	Held at amortised cost LL Million	Total LL Million
At 31 December 2011					
Nominal amount	-	-	-	886,778	886,778
Unamortised premium	-	-	-	29,379	29,379
Net interest receivable	-	-	-	16,678	16,678
	-	**-**	**-**	**932,835**	**932,835**
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**

Notes to the financial statements (continued)

10 Investment securities (continued)

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	Held at amortised cost LL Million	Total LL Million
At 1 January 2010	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
Effect of IFRS9 adoption	(244,674)	(269,581)	(297,254)	811,509	-
Securities acquired	-	-	-	310,871	310,871
Securities swapped	-	-	-	(65,523)	(65,523)
Securities sold	-	-	-	(42,600)	(42,600)
Securities matured	-	-	-	(127,159)	(127,159)
Foreign exchange difference	-	-	-	(320)	(320)
At 31 December 2011	**-**	**-**	**-**	**886,778**	**886,778**

The classification of financial assets at the date of initial application is as follows:

	Measurement category		Carrying amount		
Financial assets	**Original (IAS 39)**	**New (IFRS 9)**	**Original (IAS 39)**	**New (IFRS9)**	**Difference**
Equity instruments	Available-for- sale	At fair value through OCI	1,740	1,740	-
Debt instruments	Available-for-sale	Held at amortised cost	265,893	256,852	(9,041)
Debt instruments	Loans and receivables	Held at amortised cost	293,499	293,499	-
Debt instruments	Held to maturity	Held at amortised cost	305,569	305,569	-
			866,701	**857,660**	**(9,041)**

10 Investment securities (continued)

During the year, as a result of liquidity needs and due to the withdrawal of customer term deposits, the Bank sold treasury bills with a net carrying value of LL 108 billion and realised a net gain of LL 3.2 billion (refer to note 27).

Equity securities are detailed as follows:

	2011	2010
	LL Million	LL Million
Nominal amount	**1,045**	1,221
Revaluation gain	**453**	519
	1,498	1,740

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

	2011	2010
	LL Million	LL Million
At 1 January	**1,221**	569
Securities acquired	**204**	652
Securities sold	**(380)**	-
At 31 December	**1,045**	1,221

11 Non-current assets held for sale

Cost	**6,016**	6,069

Non-current assets held for sale represents properties acquired from customers in settlement of their debt during 2011.

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 of these properties approximates their carrying amount as of 31 December 2011.

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

BANQUE MISR LIBAN S.A.L.

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 2010							
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**
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)

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 2011							
Opening net book amount	1,231	5,936	1,879	143	163	4,159	13,511
Additions	-	330	668	141	-	9,837	10,976
Transfers from work in progress	-	4,305	674	31	-	(5,010)	-
Depreciation expense (note 30)	(152)	(3,243)	(680)	(183)	(55)	-	(4,313)
Closing net book amount	**1,079**	**7,328**	**2,541**	**132**	**108**	**8,986**	**20,174**
At 31 December 2011							
Acquisition cost	1,841	15,700	6,197	990	220	8,986	33,934
Accumulated depreciation	(762)	(8,372)	(3,656)	(858)	(112)	-	(13,760)
Net book amount	**1,079**	**7,328**	**2,541**	**132**	**108**	**8,986**	**20,174**

Notes to the financial statements (continued)

13 Intangible assets

	Computer software LL Million
At 1 January 2010	
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**
Year ended 31 December 2011	
Opening net book amount	819
Additions	198
Amortisation expense (note 30)	(319)
Closing net book amount	**698**
At 31 December 2011	
Acquisition cost	1,803
Accumulated amortisation	(1,105)
Net book amount	**698**

Notes to the financial statements (continued)

14 Investment properties

	Building LL Million
At 1 January 2010	
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**
Year ended 31 December 2011	
Opening net book amount	30
Depreciation expense (note 30)	(3)
Closing net book amount	**27**
At 31 December 2011	
Acquisition cost	58
Accumulated depreciation	(31)
Net book amount	**27**

In 2011, investment properties generated a rental income of LL 198 million (2010 – LL 208 million) (note 31).

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 Investment in a subsidiary

	2011 LL Million	2010 LL Million
Investment in a subsidiary	**29**	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.

16 Other assets

	2011 LL Million	2010 LL Million
Other debtors	**2,209**	1,963
Less: Provision for impairment of other debtors	**(370)**	(520)
Other debtors - net	**1,839**	1,443
Prepayments	**1,143**	892
Due from national social security fund	**445**	505
	3,427	2,840

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:

	2011 LL Million	2010 LL Million
At 1 January	**520**	527
Charge for the year (note 29)	**170**	220
Provision written-off during the year	**(320)**	(227)
At 31 December	**370**	520

17 Deposits from banks

	2011	2010
Term deposits	**39,613**	41,991
Sight deposits	**112**	111
Interest payable	**83**	115
	39,808	42,217

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 2.4% for the year 2011 (2010 – 3.62%).

Notes to the financial statements (continued)

18 Deposits from parent and sister banks

	2011 LL Million	2010 LL Million
Term deposits (note 35)	**90,570**	63,039
Interest payable (note 35)	**569**	574
Sight deposits (note 35)	**2,586**	1,671
	93,725	65,284
Current	**86,464**	58,023
Non - current	**7,261**	7,261
	93,725	65,284

All term deposits are fixed-interest deposits. The average interest rate on these term deposits was 2.05 % for the year 2011 (2010 – 3%).

19 Deposits from customers

	2011 LL Million	2010 LL Million
Saving accounts (i)	**573,191**	563,040
Net credit against debit accounts and cash margins (ii)	**32,020**	25,862
Sight deposits (iii)	**86,945**	71,866
Time deposits	**444,535**	374,421
Interest payable - customers	**9,208**	6,785
	1,145,899	1,041,974
Current	**1,076,085**	970,021
Non - current	**69,814**	71,953
	1,145,899	1,041,974

(i) Saving accounts:

Saving accounts - term	**569,480**	557,991
Saving accounts - sight	**3,711**	5,049
	573,191	563,040

(ii) Net credit against debit accounts and cash margins

Pledged deposits against credit facilities	**23,610**	18,793
Margins against documentary credits	**4,932**	5,394
Margins against letters of guarantee	**3,478**	1,675
	32,020	25,862

Notes to the financial statements (continued)

19 Deposits from customers (continued)

	2011	2010
	LL Million	LL Million
(iii) Sight deposits		
Current and checking accounts	**76,641**	65,714
Debtors accidentally creditors	**2,375**	1,659
Cheques and orders to be paid	**7,929**	4,493
	86,945	71,866

Deposits include coded accounts amounting to LL 719 million as of 31 December 2011 (2010 - LL 331 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

	2011	2010
	LL Million	LL Million
Other creditors	**3,379**	1,479
Accrued expenses	**3,452**	3,423
Taxes payable	**771**	534
Due to national social security fund	**142**	207
Other liabilities	**206**	206
	7,950	5,849

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

21 Provisions for liabilities and charges

	2011	2010
	LL Million	LL Million
Provision for general risk	**466**	794
Provision for foreign currencies fluctuations	**60**	40
	526	834

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 part of which was released in 2011.

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 2011 LL Million	**(Release) Additions LL Million**	**31 December 2011 LL Million**
Provision for general risk	794	(328)	466
Provision for foreign currencies fluctuations	40	20	60
	834	**(308)**	**526**

22 Retirement benefit obligations

	2011 LL Million	2010 LL Million
At 1 January	**2,341**	2,405
Charge for the year (note 28)	**246**	290
Write back of provision	**(182)**	-
Utilised during the year	**(27)**	(354)
At 31 December	**2,378**	2,341

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

	2011 LL Million	2010 LL Million
Share capital (a)	**100,000**	100,000
Legal reserve (b)	**4,860**	3,984
Reserve for unidentified banking risks (c)	**7,787**	3,640
Fair value reserve (d)	**453**	9,560
Retained earnings (e)	**9,260**	8,763
Other reserves	**16,325**	16,015
Total reserves	**138,685**	141,962

Notes to the financial statements (continued)

23 Shareholders' equity (continued)

(a) Share capital

At 31 December 2011 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

	2011 LL Million	2010 LL Million
At 1 January	**3,984**	3,970
Transfer from retained earnings (e)	**876**	14
At 31 December	**4,860**	3,984

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

	2011 LL Million	2010 LL Million
At 1 January	**3,640**	3,510
Transfer from retained earnings (e)	**4,147**	130
At 31 December	**7,787**	3,640

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) Fair value reserve

The fair value reserve includes the cumulative net change in the fair value of equity investments measured at fair value through other comprehensive income. When such equity instruments are derecognised the related cumulative amount in the fair value reserve is transferred to retained earnings.

At 31 December 2010, the revaluation reserve shows the effects from the fair value measurement of financial instruments of the category available for sale. Gains or losses are not recognised in the statement of comprehensive income until the asset has been sold or impaired.

(e) Retained earnings

	2011 LL Million	2010 LL Million
1 January	**8,763**	144
Profit for the year	**9,260**	8,763
Transfer to legal reserve (b)	**(876)**	(14)
Transfer to reserve for unspecified banking risks (c)	**(4,147)**	(130)
Dividends declared	**(3,500)**	-
Transfer to other reserves	**(240)**	-
At 31 December	**9,260**	8,763

The General Assembly meeting held on 10 June 2011 approved the distribution of dividends amounting to LL 3.5 billion (LL 43.75 per share).

24 Net interest income

	2011 LL Million	2010 LL Million
Interest and similar income:		
Loans and advances:		
- to customers	**15,572**	10,743
- to banks	**948**	909
- to parent and sister banks (note 35)	**-**	2
Cash and balances with central banks	**2,506**	1,970
Investment securities:		
- Held-to-maturity	**-**	22,514
- Available for sale	**-**	17,457
- Loans and receivables	**-**	18,024
- Held at amortised cost	**62,514**	-
	81,540	71,619

Notes to the financial statements (continued)

24 Net interest income (continued)

	2011 LL Million	2010 LL Million
Interest and similar expenses:		
Deposits from parent and sister banks (note 35)	**1,668**	1,499
Deposits from banks	**934**	1,015
Deposits from customers	**50,297**	44,977
	52,899	47,491
Net interest income	**28,641**	24,128

25 Net fee and commission income

Fee and commission income		
Credit related fees and commissions	**1,231**	1,025
Portfolio and other management fees	**793**	697
Commission on customer deposit accounts	**776**	717
Engagements by endorsement fees	**638**	634
Commission on swift	**235**	195
Commission on cheques	**168**	151
Commission on custody of securities	**51**	64
Other fees	**67**	135
	3,959	3,618
Fee and commission expense		
Commission paid to central bank	**117**	236
Commission paid on foreign currency shipment	**131**	85
Other commissions	**62**	73
	310	394
Net fee and commission income	**3,649**	3,224

26 Net loan impairment charges (releases)

Loans and advances to customers (note 8):		
Increase in collective impairment allowance	**3,473**	1,284
Increase in specific impairment allowance	**1,367**	621
Reversal of specific impairment allowance	**(1,474)**	(2,469)
Reversal of unrealised interest	**(2,274)**	(1,798)
	1,092	(2,362)

Notes to the financial statements (continued)

27 Net gains on investment securities

	2011 LL Million	2010 LL Million
Gain on sale of investment securities	**3,213**	2,106
(Loss) gain on sale of certificates of deposit	**(5)**	48
Other gains	**110**	112
	3,318	2,266

28 Personnel expenses

Wages and salaries	**9,258**	8,604
Social security costs	**1,316**	1,111
Schooling allowance	**691**	843
Directors' remuneration and attendance fees (note 35)	**678**	530
Transportation benefits	**632**	533
Insurance benefits	**592**	552
Retirement benefit obligations (note 22)	**246**	290
Other expenses	**258**	466
	13,671	12,929

The average number of persons employed by the Bank during the year was 232 (2010 – 227 employees).

Notes to the financial statements (continued)

29 General and administrative expenses

	2011 **LL Million**	2010 LL Million
Professional fees	**939**	819
Repair and maintenance expenses	**754**	567
Deposits guarantee premiums	**575**	514
Fuel expenses	**541**	311
Rent expenses	**386**	308
Telecommunication expenses	**364**	312
Subscriptions	**318**	271
Travel and entertainment	**303**	283
Water and electricity	**301**	239
Insurance expenses	**292**	286
Stationery and office supplies	**289**	129
Impairment losses on other assets (note 16)	**170**	220
Provision for risk	**-**	114
Other administrative expenses	**1,079**	1,086
	6,311	5,459

30 Depreciation and amortisation expense

Depreciation of property and equipment (note 12)	**4,313**	3,222
Amortisation of intangible assets (note 13)	**319**	297
Depreciation of investment properties (note 14)	**3**	3
	4,635	3,522

31 Other operating income

Write back of client bad debts	**304**	14
Rental income (note 14)	**198**	208
Other income	**752**	140
	1,254	362

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 2011, the 5% tax withheld on interest received of LL 2.38 billion (2010 – LL 2.26 billion) was higher than the Bank's corporate income tax of LL 2.1 billion (2010 – LL 1.8 billion).

Notes to the financial statements (continued)

32 Income tax expense (continued)

Income tax expense for the year is determined as follows:

	2011 LL Million	2010 LL Million
Profit before tax	**11,646**	11,031
Income tax at statutory rate of 15%	**1,747**	1,655
Effect of expenses not deductible for tax purposes:		
Loan impairment charges	**301**	6
Other provisions	**138**	223
Effect of non taxable income:		
Other	**(46)**	(44)
Income tax expense for the year	**2,140**	1,840

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

	2011	2010
At 1 January	**-**	-
Charge for the year	**2,386**	2,268
Payments during the year (5% tax on interest received)	**(2,386)**	(2,268)
At 31 December	**-**	-

The fiscal years 2010 to 2011 remain subject to examination by the income tax authorities.

33 Cash and cash equivalents

	2011 LL Million	2010 LL Million
Cash and balances with central banks (note 5)	**38,533**	29,861
Loans and advances to banks (note 6)	**43,269**	63,612
Loans and advances to parent and sister banks (note 7)	**301**	263
	82,103	93,736

34 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the bank at 31 December 2011. No provision has been made against these cases beyond the amounts provided for under provision for impairment of loans and advances to customers and provisions for liabilities and charges 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 2011 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:

	2011 LL Million	2010 LL Million
Loan commitments	**47,746**	37,126
Documentary and commercial letters of credit with banks	**8,445**	6,401
Letters of guarantee - clients	**12,484**	9,705
	68,675	53,232

35 Related parties transactions

The Bank is controlled by Bank Misr (incorporated in Cairo) which owns 92% (2010 – 92%) 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

	2011 LL Million	2010 LL Million
Loans and advances to sister banks (note 7)		
Loans outstanding at 1 January	**263**	232
Loans issued during the year	**22,088**	23,006
Loans repayments during the year	**(22,050)**	(22,975)
Loans outstanding at 31 December	**301**	263
Interest income earned (note 24)	**-**	2

Notes to the financial statements (continued)

35 Related parties transactions (continued)

(b) Deposits from related parties

	Parent banks		Sister banks	
	2011 LL Million	2010 LL million	**2011 LL Million**	2010 LL Million
Deposits from parent and sister banks (note 18)				
Deposits at 1 January	**34,681**	63,596	**30,603**	15,151
Deposits received during the year	**72,389**	165,276	**32,411**	38,435
Deposits repaid during the year	**(46,137)**	(194,191)	**(30,222)**	(22,983)
Deposits at 31 December	**60,933**	34,681	**32,792**	30,603
Interest expense on deposits (note 24)	**1,048**	918	**620**	581

(c) Key management compensation

	2011 LL Million	2010 LL Million
Directors' remuneration and attendance fees (note 28)	**678**	530
Key management remunerations	**2,339**	1,889
	3,017	2,419

36 Earnings per ordinary share

Basic and diluted earnings per share are calculated by dividing the net profit for the year by the weighted average number of ordinary shares in issue during the year.

	2011	2010
Profit for the year (LL million)	**9,260**	8,763
Weighted average number of ordinary shares in issue (LL'000)	**80,000**	65,440
Basic and diluted earnings per ordinary share (LL)	**116**	134