BANQUE MISR LIBAN S.A.L.

Report and financial statements
for the year ended 31 December 2012

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Report and financial statements for the year ended 31 December 2012

	Page
Independent Auditors' 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 - 74

Independent Auditors' 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 at 31 December 2012 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 (IFRS), 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.

Auditors' 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 auditors' 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, we consider 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 at 31 December 2012, 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
14 May 2013

Balance sheet
at 31 December 2012

	Note	2012 LL Million	2011 LL Million
Assets			
Cash and balances with the Central Bank	5	**165,197**	200,677
Loans and advances to banks	6	**148,205**	62,909
Loans and advances to parent and sister banks	7	**106**	301
Loans and advances to customers	8	**256,415**	200,380
Debtors by acceptances	9	**16,594**	6,780
Investment securities:			
- At fair value through profit or loss	10	**3,214**	-
- At fair value through other comprehensive income	10	**1,438**	1,498
- At amortised cost	10	**1,001,987**	932,835
Non-current assets held for sale	11	**4,327**	6,016
Property and equipment	12	**26,769**	20,174
Intangible assets	13	**952**	698
Investment properties	14	**24**	27
Investment in a subsidiary	15	**29**	29
Other assets	16	**1,600**	3,427
Total assets		**1,626,857**	1,435,751
Liabilities			
Deposits from banks	17	**71,064**	39,808
Deposits from parent and sister banks	18	**81,988**	93,725
Deposits from customers	19	**1,299,383**	1,145,899
Engagements by acceptances	9	**16,594**	6,780
Retirement benefit obligations	22	**3,278**	2,378
Provisions for liabilities and charges	21	**501**	526
Other liabilities	20	**10,400**	7,950
Total liabilities		**1,483,208**	1,297,066
Shareholders' equity			
Share capital	23	**100,000**	100,000
Capital reserves	23	**16,157**	12,647
Fair value reserve	23	**393**	453
Retained earnings	23	**8,524**	9,260
Other reserves	23	**18,575**	16,325
Total shareholders' equity		**143,649**	138,685
Total shareholders' equity and liabilities		**1,626,857**	1,435,751

The financial statements on pages 3 to 74 were approved for issue and signed by Mr. Hadi Naffi, the Executive General Manager, on 14 May 2013 on behalf of the Board of Directors.

The notes on pages 8 to 74 are an integral part of these separate financial statements.

Statement of comprehensive income for the year ended 31 December 2012

	Note	**2012 LL Million**	2011 LL Million
Interest and similar income	24	**87,204**	81,540
Interest and similar expenses	24	**(57,495)**	(52,899)
Net interest income		**29,709**	28,641
Net loan impairment charges	26	**(1,074)**	(1,092)
Net interest income after loan impairment charges		**28,635**	27,549
Fee and commission income	25	**4,664**	3,959
Fee and commission expense	25	**(402)**	(310)
Net fee and commission income		**4,262**	3,649
Net trading gains		**596**	493
Net gains on investment securities	27	**5,453**	3,318
Personnel expenses	28	**(16,464)**	(13,671)
General and administrative expenses	29	**(6,864)**	(6,311)
Depreciation and amortisation expenses	30	**(5,893)**	(4,635)
Other operating income	31	**1,039**	1,254
Profit before income tax		**10,764**	11,646
Income tax expense	32	**(2,240)**	(2,386)
Profit for the year		**8,524**	9,260
Other comprehensive income			
Net unrealised loss on financial assets at fair value through other comprehensive income		**(60)**	(66)
Total comprehensive income for the year		**8,464**	9,194
Basic and diluted earnings per share (expressed in LL per share)	36	**107**	116

The notes on pages 8 to 74 are an integral part of these separate financial statements.

BANQUE MISR LIBAN S.A.L.

Statement of changes in equity
for the year ended 31 December 2012

	Share capital LL Million	Legal reserve LL Million	Reserve for unspecified banking risks LL Million	Fair value reserve LL Million	Retained earnings LL Million	Other reserves LL Million	Total LL Million
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" (note 2.1)	-	-	-	(9,041)	-	-	(9,041)
Profit for the year	-	-	-	-	9,260	-	9,260
Net unrealised loss on financial assets 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**
Balance at 1 January 2012	100,000	4,860	7,787	453	9,260	16,325	138,685
Profit for the year	-	-	-	-	8,524	-	8,524
Net unrealised loss on financial assets at fair value through OCI	-	-	-	(60)	-	-	(60)
Total comprehensive income	-	-	-	(60)	8,524	-	8,464
Dividends declared	-	-	-	-	(3,500)	-	(3,500)
Transfers (note 23)	-	926	2,584	-	(5,760)	2,250	-
Balance at 31 December 2012	**100,000**	**5,786**	**10,371**	**393**	**8,524**	**18,575**	**143,649**

The notes on pages 8 to 74 are an integral part of these separate financial statements.

Statement of cash flows
for the year ended 31 December 2012

	Note	2012 LL Million	2011 LL Million
Cash flows from operating activities			
Profit before income tax		**10,764**	11,646
Adjustments for:			
Depreciation expense	30	**5,536**	4,316
Amortisation expense	30	**357**	319
Net loss (gain) on disposal of property and equipment		**42**	(2)
Gain on sale of non-current assets held for sale	31	**(522)**	-
Net loan impairment charges	26	**1,074**	1,092
Net interest income	24	**(29,709)**	(28,641)
Net fee and commission income	25	**(4,262)**	(3,649)
Changes in operating assets and liabilities:			
Cash and balances with the Central Bank		**22,555**	(12,236)
Loans and advances to banks		**(4,594)**	1,369
Loans and advances to customers		**(57,170)**	(55,970)
Investment securities		**(70,942)**	(77,523)
Other assets	16	**1,827**	(587)
Deposits from banks		**31,212**	(2,377)
Deposits from parent and sister banks		**(11,215)**	28,446
Deposits from customers		**153,958**	101,502
Net change in retirement benefit obligations	22	**900**	37
Net change in provisions for liabilities and charges	21	**(25)**	(308)
Other liabilities	20	**2,450**	2,101
Cash generated from (used in) operating activities		**52,236**	(30,465)
Interest received		**85,601**	82,434
Interest paid		**(58,404)**	(50,566)
Net fee and commission income	25	**4,262**	3,649
Income tax paid	32	**(2,240)**	(2,386)
Net cash generated from operating activities		**81,455**	2,666
Cash flows from investing activities			
Purchase of property and equipment	12	**(12,174)**	(10,976)
Proceeds from sale of property and equipment		**4**	2
Proceeds from sale of non-current assets held for sale		**2,404**	373
Purchase of intangible assets	13	**(611)**	(198)
Net cash used in investing activities		**(10,377)**	(10,799)

Statement of cash flows (continued) for the year ended 31 December 2012

	Note	**2012 LL Million**	2011 LL Million
Cash flows used in financing activities			
Dividends paid		**(3,500)**	(3,500)
Net increase (decrease) in cash and cash equivalents		**67,578**	(11,633)
Cash and cash equivalents at beginning of year	33	**82,103**	93,736
Cash and cash equivalents at end of year	33	**149,681**	82,103

The notes on pages 8 to 74 are an integral part of these separate financial statements.

Notes to the financial statements
for the year ended 31 December 2012

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% (2011 – 92%) of the Bank and is incorporated in Egypt. The address of the parent bank is street no. 151, Mohammad Farid, Cairo, Egypt.

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 financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss 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 its newly established subsidiary since the financial position and results of this subsidiary are considered immaterial to the financial statements of the Bank taken as a whole (refer to note 15).

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

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.

- 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 as at 1 January 2011.

(a) Standards, amendments and interpretations effective on or after 1 January 2012

The following standards and amendments, which became effective in 2012, are relevant to the Bank:

- 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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) Standards, amendments and interpretations effective on or after 1 January 2012 (continued):

- Amendment to IFRS 7, 'Financial instruments': Disclosures' on derecognition, (effective from 1 July 2012). 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 amendment of this standard does not have a significant impact 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 amendment of this standard does not have a significant impact on the Bank's financial statements.

(b) 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 2013 :

- 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 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 except as otherwise stated, the figures shown in the financial statements are stated in LL million.

(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 profit or loss.

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 of financial assets

The Bank classifies its financial assets as measured at fair value or at amortised cost.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3 Financial assets and liabilities (continued)

2.3.1 Classification of financial assets (continued)

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".

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 " Net trading gains " 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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3 Financial assets and liabilities (continued)

2.3.1 Classification of financial assets (continued)

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.

(d) Classes of financial instruments

<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="7">Financial assets</td><td rowspan="5">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>At fair value through profit or loss</td><td colspan="2">Investment securities - debt instruments</td><td>Listed</td></tr>
<tr><td rowspan="3">Financial liabilities</td><td rowspan="3">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>

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.3.2 Financial liabilities

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

2.4 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.

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 profit or loss 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.

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 (continued)

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.

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.

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 (continued)

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.

(b) 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 2012.

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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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".

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 Bank 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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.13 Property and equipment

Buildings comprise mainly branches and offices. All property and equipment used by the Bank are 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.

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 2012 (2011 - 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 profit or loss.

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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

2.14 Intangible assets (continued)

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.

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 Summary of significant accounting policies (continued)

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.

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.

Notes to the financial statements (continued)

2 Summary of significant accounting policies (continued)

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, and the 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.

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 Financial risk management (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 control 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 Financial risk management (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 Financial risk management (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 "Bad and doubtful" 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:

	2012 Credit risk exposure (%)	**2012 Impairment allowance (%)**	2011 Credit risk exposure (%)	2011 Impairment allowance (%)
1. Normal & special mention	**86%**	**1.6%**	84%	2.8%
2. Substandard	**2%**	**51.2%**	3%	58.3%
3. Bad and doubtful	**12%**	**67.9%**	13%	64.8%
	100%		100%	

The total impairment constitutes 10.48% (2011 – 12.59%) of the total facilities provided to clients.

Notes to the financial statements (continued)

3 Financial risk management (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:

	2012	2011
	LL Million	LL Million
Assets		
Balances with the Central Bank	**152,783**	190,734
Loans and advances to banks	**148,205**	62,909
Loans and advances to parent and sister banks	**106**	301
Loans and advances to customers:		
Loans to individuals:		
- Overdrafts	**7,884**	6,908
- Personal loans	**68,374**	53,978
- Mortgages	**62,851**	19,694
Loans to corporate entities:		
- Large corporate entities	**65,088**	76,718
- Small and medium size enterprises (SMEs)	**52,218**	43,082
Debtors by acceptances	**16,594**	6,780
Investment securities:		
- At amortised cost	**1,001,987**	932,835
- At fair value through profit or loss	**3,214**	-
Other assets	**601**	2,284
	1,579,905	1,396,223

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

	2012	2011
	LL Million	LL Million
Letters of guarantee - clients	**29,698**	12,484
Documentary and commercial letters of credit with banks	**2,662**	8,445
Loan commitments	**48,210**	47,746
	80,570	68,675
	1,660,475	1,464,898

The above table represents a worst case scenario of credit risk exposure to the Bank at 31 December 2012 and 2011, without taking into account 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 Financial risk management (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, 64% of the total maximum on balance sheet exposure is derived from investment securities (2011 – 67%), 9% is derived from loans and advances to banks (2011 – 5%) and 16% is derived from loans and advances to customers (2011 – 15%).

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:

- 86% of the loans and advances portfolio is categorised in the top two grades of the internal rating system (2011 – 84%);
- 76% of the loans and advances portfolio are considered to be neither past due nor impaired (2011 – 78%);
- 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 investment securities are allocated to Lebanese Treasury bills, and Certificates of deposit issued by BDL.

Notes to the financial statements (continued)

3 Financial risk management (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 2012. 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 the Central Bank	152,783	-	-	-	-	152,783
Loans and advances to banks	81,876	702	61,853	3,774	-	148,205
Loans and advances to parent and sister banks	-	-	-	106	-	106
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	7,598	250	6	30	-	7,884
- Personal loans	66,615	1,709	-		50	68,374
- Mortgages	62,755	96	-	-	-	62,851
Loans to corporate entities:						
- Large corporate entities	40,754	20,655	-	3,679	-	65,088
- Small and medium size enterprises (SMEs)	51,566	250	-	-	402	52,218
Debtors by acceptances	16,594	-	-	-	-	16,594
Investment securities:						
- At amortised cost	1,001,987	-	-	-	-	1,001,987
- At fair value through profit or loss	3,214	-	-	-	-	3,214
Other assets	601	-	-	-	-	601
At 31 December 2012	**1,486,343**	**23,662**	**61,859**	**7,589**	**452**	**1,579,905**

Notes to the financial statements (continued)

3 Financial risk management (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 the Central Bank	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:						
- 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 Financial risk management (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	16,039	13,632	-	27	29,698
Documentary and commercial letters of credit with banks	2,662	-	-	-	2,662
Loan commitments	47,821	217	46	126	48,210
At 31 December 2012	**66,522**	**13,849**	**46**	**153**	**80,570**
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**

Notes to the financial statements (continued)

3 Financial risk management (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 the Central Bank	152,783	-	-	-	-	152,783
Loans and advances to banks	148,205	-	-	-	-	148,205
Loans and advances to parent and sister banks	106	-	-	-	-	106
Loans and advances to customers						
Loans to individuals:						
- Overdrafts	-	-	-	-	7,884	7,884
- Personal loans	-	-	-	-	68,374	68,374
- Mortgages	-	-	-	-	62,851	62,851
Loans to corporate entities:						
- Large corporate entities	18,554	3,851	4,724	26,853	11,106	65,088
- Small and medium size enterprises (SMEs)	-	5,006	20,045	10,598	16,569	52,218
Debtors by acceptances	-	-	-	6,429	10,165	16,594
Investment securities:						
- At amortised cost	1,001,987	-	-	-	-	1,001,987
- At fair value through profit or loss	3,214	-	-	-	-	3,214
Other assets	-	-	-	-	601	601
At 31 December 2012	**1,324,849**	**8,857**	**24,769**	**43,880**	**177,550**	**1,579,905**

Notes to the financial statements (continued)

3 Financial risk management (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 the Central Bank	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:						
- 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 Financial risk management (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	135	174	198	20,203	8,988	29,698
Documentary and commercial letters of credit with banks	-	188	-	2,390	84	2,662
Loan commitments	15	5,319	1,496	26,804	14,576	48,210
At 31 December 2012	**150**	**5,681**	**1,694**	**49,397**	**23,648**	**80,570**
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**

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances

Loans and advances are summarised as follows:

	2012 Loans and advances to customers LL Million	**2012 Loans and advances to the Central Bank and banks LL Million**	2011 Loans and advances to customers LL Million	2011 Loans and advances to the Central Bank and banks LL Million
Neither past due nor impaired	**217,037**	**300,988**	178,853	253,643
Past due but not impaired	**29,590**	-	13,527	-
Individually impaired	**39,818**	-	36,871	-
Gross	**286,445**	**300,988**	229,251	253,643
Less:				
Allowance for impairment	**(30,030)**	**-**	(28,871)	-
Net	**256,415**	**300,988**	200,380	253,643
Individually impaired	**(26,065)**	**-**	(23,495)	-
Portfolio allowance	**(3,965)**	-	(5,376)	-
Total	**(30,030)**	-	(28,871)	-

During the year ended 31 December 2012, the Bank's total loans and advances increased by 23% 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 Financial risk management (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 the Central Bank 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 2012							
Grades							
Normal	7,511	62,849	62,676	24,882	37,982	195,900	300,988
Special mention	226	2,688	244	9,947	8,032	21,137	-
	7,737	**65,537**	**62,920**	**34,829**	**46,014**	**217,037**	**300,988**
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**

3 Financial risk management (continued)

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 2012 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 2012						
Past due up to 30 days	86	-	-	65	-	151
Past due 30 – 60 days	45	53	3	176	524	801
Past due 60 – 90 days	34	12	-	116	-	162
Over 90 days	48	1,188	67	10,838	16,335	28,476
Total	**213**	**1,253**	**70**	**11,195**	**16,859**	**29,590**
Fair value of collateral	**-**	**-**	**-**	**10,815**	**995**	**11,810**
Amount of under collateralisation	**213**	**1,253**	**70**	**380**	**15,864**	**17,780**

3 Financial risk management (continued)

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 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 under (over) collateralisation	**127**	**39**	**(58)**	**(795)**	**2,572**	**1,885**

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

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.5 Loans and advances (continued)

(c) Loans and advances individually impaired

(i) Loans and advances to customers

The individually impaired loans and advances to customers, before taking into consideration the cash flows from collateral held, is LL 39,818 million (2011 - LL 36,871 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:

	Loans to Individuals		Loans to Corporate entities		
	Overdrafts LL Million	**Personal Loans LL Million**	**SMEs LL Million**	**Large corporate entities LL Million**	**Total LL Million**
31 December 2012					
Individually impaired loans	414	3,283	25,538	10,583	39,818
Fair value of collateral	-	57	17,761	6,852	24,670
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

(ii) Loans and advances to the Central Bank and banks

The gross amount of loans and advances to the Central Bank and banks as at 31 December 2012 is LL 300,988 million (2011 - LL 253,643 million). Other than the Central Bank, no collateral is held by the Bank except for loans and advances to Banque de L'Habitat which is fully secured. 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 4,493 million at 31 December 2012 (2011 – LL 3,424 million).

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.1 Credit risk (continued)

3.1.6 Debt securities

The table below presents an analysis of debt securities by rating agency designation at 31 December 2012, 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 2012				
B+ to B-	**382,619**	**287,110**	**335,472**	**1,005,201**
31 December 2011				
B+ to B-	329,294	274,263	329,278	932,835

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:

	2012 LL Million	2011 LL Million
Nature of assets		
Residential property - carrying amount	**4,327**	6,016

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 Financial risk management (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 2012 and 31 December 2011. The table includes the Bank's financial instruments at carrying amounts, categorised by currency.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.2 Market risk (continued)

3.2.2 Foreign exchange risk (continued) - Concentration of currency risk

As at 31 December 2012

	LL	USD	EUR	GBP	CAD	Other	Total
	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million	LL Million
Assets							
Cash and balances with the Central Bank	39,107	121,967	3,983	140	-	-	165,197
Loans and advances to banks	12,061	118,372	14,320	496	-	2,956	148,205
Loans and advances to parent and sister banks	-	16	19	9	62	-	106
Loans and advances to customers	126,563	125,592	4,260	-	-	-	256,415
Debtors by acceptances	-	6,429	10,165	-	-	-	16,594
Investment securities:							
- At amortised cost	526,421	441,528	34,038	-	-	-	1,001,987
- At fair value through OCI	524	914	-	-	-	-	1,438
- At fair value through profit or loss	3,214	-	-	-	-	-	3,214
Other assets	850	634	116	-	-	-	1,600
Total financial assets	**708,740**	**815,452**	**66,901**	**645**	**62**	**2,956**	**1,594,756**
Liabilities							
Deposits from banks	12,225	46,867	11,972	-	-	-	71,064
Deposits from parent and sister banks	-	70,841	10,940	207	-	-	81,988
Deposits from customers	578,749	681,699	33,761	2,266	18	2,890	1,299,383
Engagements by acceptances	-	6,429	10,165	-	-	-	16,594
Other liabilities	7,813	2,535	51	-	1	-	10,400
Total financial liabilities	**598,787**	**808,371**	**66,889**	**2,473**	**19**	**2,890**	**1,479,429**
Net on-balance sheet financial position	**109,953**	**7,081**	**12**	**(1,828)**	**43**	**66**	**115,327**

Notes to the financial statements (continued)

3 Financial risk management (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 the Central Bank	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:							
- At amortised cost	478,757	428,143	25,935	-	-	-	932,835
- 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 Financial risk management (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 Financial risk management (continued)

3.2 Market risk (continued)

3.2.3 Interest rate risk (continued)

As at 31 December 2012

	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 the Central Bank	51,656	6,784	2,261	62,486	-	42,010	165,197
Loans and advances banks	63,045	-	-	10,526	-	74,634	148,205
Loans and advances to parent and sister banks	-	-	-	-	-	106	106
Loans and advances to customers	76,827	32,428	31,435	87,720	14,645	13,360	256,415
Debtors by acceptances	-	-	-	-	-	16,594	16,594
Investment securities:							
- At amortised cost	83,458	27,356	63,515	562,704	264,954	-	1,001,987
- At fair value through profit or loss	-	-	-	-	3,214	-	3,214
Other assets	-	-	-	-	-	1,600	1,600
Total financial assets	**274,986**	**66,568**	**97,211**	**723,436**	**282,813**	**148,304**	**1,593,318**
Liabilities							
Deposits from banks	70,959	-	-	-	-	105	71,064
Deposits from parent and sister banks	72,033	-	-	7,262	-	2,693	81,988
Deposits from customers	931,616	32,926	88,886	108,513	-	137,442	1,299,383
Engagements by acceptances	-	-	-	-	-	16,594	16,594
Other liabilities	-	-	-	-	-	10,400	10,400
Total financial liabilities	**1,074,608**	**32,926**	**88,886**	**115,775**	**-**	**167,234**	**1,479,429**
Total interest repricing gap	**(799,622)**	**33,642**	**8,325**	**607,661**	**282,813**		

Notes to the financial statements (continued)

3 Financial risk management (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 the Central Bank	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:							
- 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**		

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

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

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as pro tection 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 Assets and Liabilities Committee ("ALCO") monitors 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 Financial risk management (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 2012						
Liabilities						
Deposits from banks	232	70,832	-	-	-	71,064
Deposits from parent and sister banks	2,740	71,987	-	7,261	-	81,988
Deposits from customers	147,179	926,644	124,608	120,660	-	1,319,091
Engagement by acceptances	-	9,185	7,409	-	-	16,594
Other liabilities	10,400	-	-	-	-	10,400
Total liabilities (contractual maturity dates)	**160,551**	**1,078,648**	**132,017**	**127,921**	**-**	**1,499,137**
Assets held for managing liquidity risk (contractual maturity dates)	**222,720**	**136,988**	**147,975**	**756,329**	**330,744**	**1,594,756**
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

3 Financial risk management (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 the Central Bank;
- 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 and guarantees

Other financial facilities and 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 2012			
Loan commitments	48,210	-	48,210
Documentary and commercial letters of credit with banks	2,662	-	2,662
Letters of guarantee - clients	9,256	20,442	29,698
Total	**60,128**	**20,442**	**80,570**
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**

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

3 Financial risk management (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.

	2012 Carrying amount LL Million	2011 Carrying amount LL Million	**2012 Fair value LL Million**	2011 Fair value LL Million
Financial assets (net of provisions)				
Balances with the Central Bank	**152,783**	190,734	**152,783**	190,734
Loans and advances to banks	**148,205**	62,909	**148,205**	62,909
Loans and advances to parent and sister banks	**106**	301	**106**	301
Loans and advances to customers	**256,415**	200,380	**260,959**	200,380
Investment securities:				
- At amortised cost	**1,001,987**	932,835	**1,019,651**	965,084
Debtors by acceptances	**16,594**	6,780	**16,594**	6,780
Investment in a subsidiary	**29**	29	**29**	29
Other assets	**1,600**	3,427	**1,600**	3,427
	1,577,719	1,397,395	**1,599,927**	1,429,644
Financial liabilities				
Deposits from banks	**71,064**	39,808	**71,064**	39,808
Deposits from parent and sister banks	**81,988**	93,725	**81,988**	93,725
Deposits from customers	**1,299,383**	1,145,899	**1,304,849**	1,145,899
Engagement by acceptances	**16,594**	6,780	**16,594**	6,780
Other liabilities	**10,400**	7,950	**10,400**	7,950
	1,479,429	1,294,162	**1,484,895**	1,294,162
Off-balance sheet financial instruments				
Loan commitments	**48,210**	47,746	**48,210**	47,746
Documentary and commercial letters of credit with banks	**2,662**	8,445	**2,662**	8,445
Letters of guarantee - clients	**29,698**	12,484	**29,698**	12,484
Total off-balance sheet	**80,570**	68,675	**80,570**	68,675

3 Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

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

(i) Balances with the Central Bank, Loans and advances to banks, and loans and advances to parent and sister banks

Balances with the Central Bank, and 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

Loans and advances are net of provisions for impairment. The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) Investment securities

The fair value for financial assets measured 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 estimated fair value of deposits from customers represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(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).

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

3 Financial risk management (continued)

3.4 Fair value of financial assets and liabilities (continued)

(b) Fair value hierarchy (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 2012			
- Debt securities	392,201	609,786	1,001,987
- Equity securities at fair value through other comprehensive income	688	750	1,438
- Debt securities at fair value through profit or loss	3,214	-	3,214
Total assets	**396,103**	**610,536**	**1,006,639**
At 31 December 2011			
- Debt securities	378,884	553,951	932,835
- Equity securities designated at fair value through other comprehensive income	748	750	1,498
Total assets	**379,632**	**554,701**	**934,333**

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 Financial risk management (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 50% of the fair value reserve relating to financial assets 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:

	2012	2011
	LL Million	LL Million
Tier 1 Capital		
Share capital	**100,000**	100,000
Retained earnings and reserves	**34,732**	28,972
Less: intangible assets	**(952)**	(698)
Less: shares and participation in insurance companies	**(729)**	(699)
Unrealised loss on revaluation of securities at fair value through OCI	**(56)**	(26)
Total qualifying Tier 1 Capital	**132,995**	127,549
Tier 2 Capital		
Unrealised gain on revaluation of securities at fair value through OCI	**225**	240
Total qualifying Tier 2 Capital	**225**	240
Total regulatory Capital	**133,220**	127,789
Risk - weighted assets		
On-balance sheet	**897,904**	783,892
Off-balance sheet	**24,262**	17,788
Market risk components	**340**	566
Operational risk components	**67,873**	59,070
Total risk-weighted assets	**990,379**	861,316
BIS Capital ratios (%)		
Tier 1 Capital	**13.45%**	14.81%
(Tier 1 + Tier 2) Capital	**13.43%**	14.84%

Capital adequacy level according to the computation method of Basel II

4 Critical accounting estimates and judgements

The Bank's financial statements and its financial results 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.

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.

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

5 Cash and balances with the Central Bank

	2012 LL Million	2011 LL Million
Cash on hand	**12,414**	9,943
Term placements with the Central Bank of Lebanon other than mandatory reserve deposits	**7,150**	19,650
Current accounts with the Central Bank of Lebanon other than mandatory reserve deposits	**6,087**	8,940
Included in cash and cash equivalents (note 33)	**25,651**	38,533
Mandatory reserve deposits with Central Bank of Lebanon	**138,558**	161,652
Term placements (with original maturities exceeding three months)	**723**	184
Interest receivable - Central Bank of Lebanon	**265**	308
	165,197	200,677
Current	**70,615**	129,523
Non-current	**94,582**	71,154
	165,197	200,677

In compliance with the laws of the 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 2012, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese Pounds amounting to LL 26 billion and deposits denominated in US Dollar that earn interest at 2.15% per annum with a counter value of LL 113 billion (US$ 92 million).

At 31 December 2011, mandatory reserve deposits with the Central Bank of Lebanon comprise non-interest earning deposits in Lebanese Pounds 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).

6 Loans and advances to banks

	2012 LL Million	2011 LL Million
Items in course of collection from other banks	**4,035**	6,175
Current accounts with other banks	**12,532**	9,431
Placements with other banks (with original maturities not exceeding three months)	**107,357**	27,663
Included in cash and cash equivalents (note 33)	**123,924**	43,269
Placements with other banks (with original maturities exceeding three months)	**24,027**	19,433
Interest receivable	**254**	207
	148,205	62,909
Current	**137,679**	51,014
Non-current	**10,526**	11,895
	148,205	62,909

7 Loans and advances to parent and sister banks

Current accounts (notes 33 and 35)	**106**	301

8 Loans and advances to customers

Overdrafts	**76,071**	71,254
Short term loans	**60,787**	44,391
Bills to the order of the Bank	**59,385**	47,866
Medium and long term loans	**45,288**	22,889
Creditors accidentally debtors	**4,576**	5,004
Discounted bills	**520**	976
Non-performing loans:		
- Substandard	**5,961**	6,166
- Doubtful and bad debts	**33,857**	30,705
Gross loans and advances to customers	**286,445**	229,251
Less: specific allowance for impairment	**(26,065)**	(23,495)
Less: collective allowance for impairment	**(3,965)**	(5,376)
Net loans and advances to customers	**256,415**	200,380

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

8 Loans and advances to customers (continued)

	2012 LL Million	2011 LL Million
Current	**106,760**	102,900
Non-current	**149,655**	97,480
	256,415	200,380

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 2012			
Normal and special mention loans	**246,627**	**(3,965)**	**242,662**
Substandard	**5,961**	**(3,049)**	**2,912**
Doubtful and bad debts	**33,857**	**(23,016)**	**10,841**
	286,445	**(30,030)**	**256,415**
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

The movement in impairment provision is as follows:

	2012		2011	
	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	**23,495**	**5,376**	24,776	1,903
Increase in impairment allowances (note 26)	**4,098**	**657**	1,367	3,473
Release of impairment allowances (note 26)	**(1,061)**	**(2,068)**	(1,474)	-
Release of unrealised interest (note 26)	**(552)**	-	(2,274)	-
Increase in unrealised interest	**1,736**	-	1,523	-
Provision and unrealised interest written-off during the year	**(1,651)**	-	(423)	-
Balance at 31 December	**26,065**	**3,965**	23,495	5,376

9 Debtors by acceptances

	2012 LL Million	2011 LL Million
Balance	**16,594**	6,780

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 reflected under liabilities.

Debtors by acceptances are considered current assets.

10 Investment securities

	2012 LL Million	2011 LL Million
Equity securities at fair value through OCI		
- Listed at fair value	**688**	748
- Unlisted – at cost	**750**	750
	1,438	1,498
Debt securities at fair value through profit or loss		
- Lebanese treasury bills - unlisted	**3,214**	-

During 2012, investment securities held at amortised cost comprised Treasury bills, Eurobonds and Certificates of deposit.

	2012 LL Million	2011 LL Million
Debt securities held at amortised cost		
- Lebanese treasury bills - unlisted	**379,378**	329,294
- Lebanese treasury bills in foreign currency (Eurobonds) - listed	**287,138**	274,263
- Certificates of deposit (BDL) - unlisted	**230,408**	224,657
- Certificates of deposit (BDL) - listed	**105,063**	104,621
	1,001,987	932,835
Total investment securities	**1,006,639**	934,333
Current	**174,330**	107,629
Non-current	**832,309**	826,704
	1,006,639	934,333

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

10 Investment securities (continued)

(i) During 2012, the Bank sold Eurobonds with a carrying amount of LL 58 billion and replaced them with similar securities with shorter maturities in order to reduce the mismatch of its assets and liabilities.

The Bank also sold Eurobonds with a carrying amount of LL 15 billion and replaced them with similar securities with longer maturities.

The Bank also sold Eurobonds with a carrying amount of LL 17 billion in order to maintain its liquidity needs.

Gains realised on these transactions amounted to LL 4.9 billion (note 27).

(ii) During 2012, the Bank sold Lebanese treasury bills with a carrying amount of LL 12 billion in order to maintain its liquidity needs.

Gains realised on this transaction amounted to LL 2 million (note 27).

(iii) During March 2012, the Bank performed a swap with the Central Bank on a portion of its certificates of deposits portfolio with a carrying amount of LL 18 billion and replaced them with similar securities with higher yields. This transaction only included certificate of deposits maturing within period not exceeding 9 months.

Gains realised on this transaction amounted to LL 244 million (note 27).

Debt securities are detailed as follows:

	At fair value through profit or loss LL Million	At amortised cost LL Million	Total LL Million
At 31 December 2012			
Nominal amount	**3,000**	**960,577**	**963,577**
Unamortised premium	**-**	**23,374**	**23,374**
Accrued interest receivable	**66**	**18,036**	**18,102**
Net changes in fair value	**148**	**-**	**148**
	3,214	**1,001,987**	**1,005,201**
At 31 December 2011			
Nominal amount	-	886,778	886,778
Unamortised premium	-	29,379	29,379
Accrued interest receivable	-	16,678	16,678
	-	**932,835**	**932,835**

BANQUE MISR LIBAN S.A.L.

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	At amortised cost LL Million	At fair value through P&L LL Million	Total LL Million
At 1 January 2011	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
Securities acquired	-	-	-	266,345	62,955	329,300
Securities swapped in	-	-	-	19,145	-	19,145
Securities swapped out	-	-	-	(18,090)	-	(18,090)
Securities sold	-	-	-	(102,890)	(59,955)	(162,845)
Securities matured	-	-	-	(91,230)	-	(91,230)
Foreign exchange difference	-	-	-	519	-	519
At 31 December 2012	**-**	**-**	**-**	**960,577**	**3,000**	**963,577**

BANQUE MISR LIBAN S.A.L.

Notes to the financial statements (continued)

10 Investment securities (continued)

Equity securities are as follows:

	2012 LL Million	2011 LL Million
Nominal amount	**1,045**	1,045
Net revaluation gain	**393**	453
	1,438	1,498

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

	2012 LL Million	2011 LL Million
At 1 January	**1,045**	1,221
Securities acquired	-	204
Securities sold	-	(380)
At 31 December	**1,045**	1,045

11 Non-current assets held for sale

Cost	**4,327**	6,016

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

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 2012.

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 2011							
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**
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)

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 2012							
Opening net book amount	1,079	7,328	2,541	132	108	8,986	20,174
Additions	-	212	470	164	-	11,328	12,174
Transfers from work in progress	6,610	2,079	1,669	62	-	(10,420)	-
Disposals	-	(42)	(4)	-	-	-	(46)
Depreciation expense (note 30)	(531)	(3,497)	(1,201)	(249)	(55)	-	(5,533)
Closing net book amount	**7,158**	**6,080**	**3,475**	**109**	**53**	**9,894**	**26,769**
At 31 December 2012							
Acquisition cost	8,451	17,921	8,313	1,216	220	9,894	46,015
Accumulated depreciation	(1,293)	(11,841)	(4,838)	(1,107)	(167)	-	(19,246)
Net book amount	**7,158**	**6,080**	**3,475**	**109**	**53**	**9,894**	**26,769**

13 Intangible assets

	Computer software LL Million
At 1 January 2011	
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**
Year ended 31 December 2012	
Opening net book amount	698
Additions	611
Amortisation expense (note 30)	(357)
Closing net book amount	**952**
At 31 December 2012	
Acquisition cost	2,226
Accumulated amortisation	(1,274)
Net book amount	**952**

Notes to the financial statements (continued)

14 Investment properties

	Building LL Million
At 1 January 2011	
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**
Year ended 31 December 2012	
Opening net book amount	27
Depreciation expense (note 30)	(3)
Closing net book amount	**24**
At 31 December 2012	
Acquisition cost	58
Accumulated depreciation	(34)
Net book amount	**24**

In 2012, investment properties generated a rental income of LL 213 million (2011 – LL 198 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

	2012 **LL Million**	2011 LL Million
Investment in a subsidiary	**29**	29

On 2 December 2011, the Bank acquired 2,940 shares of Misr Liban Insurance Brokers S.A.L. ("MLIB"), a newly established entity. The subsidiary's share capital consists of 3,000 shares with a nominal value of LL 10,000 each.

This subsidiary has not been consolidated because it is considered immaterial to the Bank as a whole for the financial years 2012 and 2011. Total assets of MLIB amount to LL 4.3 billion in 2012 (2011 - 89 million) which constitutes 0.26% of Bank Misr Liban S.A.L. total assets (2011- 0%).

16 Other assets

	2012 **LL Million**	2011 LL Million
Other debtors	**285**	2,209
Less: provision for impairment of other debtors	**(164)**	(370)
Other debtors - net	**121**	1,839
Prepayments	**1,021**	1,143
Due from national social security fund	**458**	445
	1,600	3,427

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

	2012 **LL Million**	2011 LL Million
At 1 January	**370**	520
Impairment losses on other assets (note 29)	**141**	170
Release of provision for impairment of other assets	**(347)**	(320)
At 31 December	**164**	370

17 Deposits from banks

Term deposits	**70,832**	39,613
Sight deposits	**105**	112
Interest payable	**127**	83
	71,064	39,808

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 1.71% for the year 2012 (2011 – 2.4%).

Notes to the financial statements (continued)

18 Deposits from parent and sister banks

	2012 LL Million	2011 LL Million
Term deposits (note 35)	**79,249**	90,570
Interest payable (note 35)	**46**	569
Sight deposits (note 35)	**2,693**	2,586
	81,988	93,725
Current	**74,727**	86,464
Non - current	**7,261**	7,261
	81,988	93,725

All term deposits are fixed-interest deposits. The average interest rate on these term deposits was 1.80 % for the year 2012 (2011 – 2.05%).

19 Deposits from customers

	2012 LL Million	2011 LL Million
Saving accounts (i)	**673,171**	573,437
Time deposits	**483,014**	444,088
Sight deposits (iii)	**100,142**	86,945
Net credit against debit accounts and cash margins (ii)	**34,322**	32,020
Interest payable - customers	**8,734**	9,409
	1,299,383	1,145,899
Current	**1,191,680**	1,076,085
Non - current	**107,703**	69,814
	1,299,383	1,145,899

(i) Saving accounts:

Saving accounts - term	**670,721**	569,726
Saving accounts - sight	**2,450**	3,711
	673,171	573,437

(ii) Net credit against debit accounts and cash margins

Pledged deposits against credit facilities	**25,259**	23,610
Margins against documentary credits	**1,886**	4,932
Margins against letters of guarantee	**7,177**	3,478
	34,322	32,020

Notes to the financial statements (continued)

19 Deposits from customers (continued)

	2012 **LL Million**	2011 LL Million
(iii) Sight deposits		
Current and checking accounts	**90,275**	76,641
Debtors accidentally creditors	**3,739**	2,375
Cheques and orders to be paid	**6,128**	7,929
	100,142	86,945

Deposits include coded accounts amounting to LL 5,950 million as of 31 December 2012 (2011 - LL 719 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

	2012 **LL Million**	2011 LL Million
Accrued expenses	**3,693**	3,452
Other creditors	**3,471**	3,379
Taxes payable	**564**	771
Due to National Social Security Fund	**157**	142
Other liabilities	**2,515**	206
	10,400	7,950

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

21 Provisions for liabilities and charges

	2012 **LL Million**	2011 LL Million
Provision for general risk	**483**	466
Provision for foreign currencies fluctuations	**18**	60
	501	526

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 2012 LL Million	Additions (release) LL Million	**31 December 2012 LL Million**
Provision for general risk	466	17	**483**
Provision for foreign currencies fluctuations	60	(42)	**18**
	526	(25)	**501**

22 Retirement benefit obligations

	2012 LL Million	2011 LL Million
At 1 January	**2,378**	2,341
Charge for the year (note 28)	**946**	246
Write back of provision	**-**	(182)
Utilised during the year	**(46)**	(27)
At 31 December	**3,278**	2,378

23 Shareholders' equity

Share capital (a)	**100,000**	100,000
Legal reserve (b)	**5,786**	4,860
Reserve for unspecified banking risks (c)	**10,371**	7,787
Fair value reserve (d)	**393**	453
Retained earnings (e)	**8,524**	9,260
Other reserves	**18,575**	16,325
Total reserves	**143,649**	138,685

Notes to the financial statements (continued)

23 Shareholders' equity (continued)

(a) Share capital

At 31 December 2012 the Bank's share capital consists of 80,000,000 issued and fully paid shares with a nominal value of LL 1,250 each.

(b) Legal reserve

	2012 **LL Million**	2011 LL Million
At 1 January	**4,860**	3,984
Transfer from retained earnings (e)	**926**	876
At 31 December	**5,786**	4,860

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 unspecified banking risks

	2012 **LL Million**	2011 LL Million
At 1 January	**7,787**	3,640
Transfer from retained earnings (e)	**2,584**	4,147
At 31 December	**10,371**	7,787

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

(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 2012, the revaluation reserve shows the effects from the fair value measurement of financial instruments of the category fair value through other comprehensive income.

Notes to the financial statements (continued)

23 Shareholders' Equity (continued)

(e) Retained earnings

	2012 LL Million	2011 LL Million
1 January	**9,260**	8,763
Profit for the year	**8,524**	9,260
Transfer to legal reserve (b)	**(926)**	(876)
Transfer to reserve for unspecified banking risks (c)	**(2,584)**	(4,147)
Dividends declared	**(3,500)**	(3,500)
Transfer to other reserves	**(2,250)**	(240)
At 31 December	**8,524**	9,260

The General Assembly meeting held on 11 May 2012 approved the distribution of dividends amounting to LL 3.5 billion (LL 43.75 per share before tax).

24 Net interest income

	2012 LL Million	2011 LL Million
Interest and similar income		
Loans and advances:		
- to customers	**18,694**	15,572
- to banks	**1,187**	948
- to parent and sister banks (note 35)	**2**	-
Cash and balances with the Central Bank	**2,793**	2,506
Investment securities:		
- At amortised cost	**64,334**	62,514
- Fair value through profit or loss	**194**	-
	87,204	81,540

Notes to the financial statements (continued)

24 Net interest income (continued)

	2012 LL Million	2011 LL Million
Interest and similar expenses:		
Deposits from parent and sister banks (note 35)	**(1,389)**	(1,668)
Deposits from banks	**(1,151)**	(934)
Deposits from customers	**(54,955)**	(50,297)
	(57,495)	(52,899)
Net interest income	**29,709**	28,641

25 Net fee and commission income

	2012 LL Million	2011 LL Million
Fee and commission income		
Credit related fees and commissions	**1,596**	1,231
Commission on customer deposit accounts	**955**	776
Engagements by endorsement fees	**782**	638
Portfolio and other management fees	**571**	793
Commission on swift	**244**	235
Commission on cheques	**232**	168
Commission on custody of securities	**37**	51
Other fees	**247**	67
	4,664	3,959
Fee and commission expense		
Commission paid to the Central Bank	**(183)**	(117)
Commission paid on foreign currency shipment	**(166)**	(131)
Other commissions	**(53)**	(62)
	(402)	(310)
Net fee and commission income	**4,262**	3,649

26 Net loan impairment charges

	2012 LL Million	2011 LL Million
Loans and advances to customers (note 8):		
(Release) increase in collective impairment allowance	**(1,411)**	3,473
Increase in specific impairment allowance	**4,098**	1,367
Release of specific impairment allowance	**(1,061)**	(1,474)
Release of unrealised interest	**(552)**	(2,274)
	1,074	1,092

Notes to the financial statements (continued)

27 Net gains on investment securities

	2012 LL Million	2011 LL Million
Gain on sale of Eurobonds	**4,972**	3,134
Gain (loss) on sale of certificates of deposit	**244**	(5)
Net gain on financial instruments at fair value through profit or loss	**159**	-
Gain on sale of treasury bills in Lebanese Pounds	**2**	79
Other gains	**76**	110
	5,453	3,318

28 Personnel expenses

Wages and salaries	**10,979**	9,258
Social security costs	**1,461**	1,316
Retirement benefit obligations (note 22)	**946**	246
Directors' remuneration and attendance fees (note 35)	**754**	678
Schooling allowance	**683**	691
Transportation benefits	**676**	632
Insurance benefits	**643**	592
Other expenses	**322**	258
	16,464	13,671

The average number of persons employed by the Bank during the year was 249 (2011 – 232 employees).

29 General and administrative expenses

	2012 LL Million	2011 LL Million
Professional fees	**980**	939
Repair and maintenance expenses	**808**	754
Fuel expenses	**772**	541
Deposits guarantee premiums	**648**	575
Rent expenses	**388**	386
Telecommunication expenses	**383**	364
Travel and entertainment	**423**	303
Subscriptions	**359**	318
Water and electricity	**307**	301
Stationery and office supplies	**297**	289
Insurance expenses	**261**	292
Impairment losses on other assets (note 16)	**141**	170
Other administrative expenses	**1,097**	1,079
	6,864	6,311

Notes to the financial statements (continued)

30 Depreciation and amortisation expenses

	2012 LL Million	2011 LL Million
Depreciation of property and equipment (note 12)	**5,533**	4,313
Amortisation of intangible assets (note 13)	**357**	319
Depreciation of investment properties (note 14)	**3**	3
	5,893	4,635

31 Other operating income

Gain on sale of non-current assets held for sale	**522**	-
Rental income (note 14)	**213**	198
Write back of client bad debts	**136**	304
Other income	**168**	752
	1,039	1,254

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 2012, the 5% tax withheld on interest received of LL 2.24 billion (2011 – LL 2.39 billion) was higher than the Bank's corporate income tax of LL 1.7 billion (2011 – LL 2.1 billion).

Income tax expense for the year is determined as follows:

	2012 LL Million	2011 LL Million
Profit before tax	**10,764**	11,646
Income tax at statutory rate of 15%	**1,615**	1,747
Effect of expenses not deductible for tax purposes:		
Loan impairment charges	**229**	301
Other charges	**130**	138
Effect of non taxable income:		
Reversal of loan impairment charges	**(159)**	-
Other	**(117)**	(46)
Income tax expense for the year	**1,698**	2,140

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

At 1 January	**-**	-
Charge for the year	**2,240**	2,386
Payments during the year (5% tax on interest received)	**(2,240)**	(2,386)
At 31 December	**-**	-

The fiscal years 2011 to 2012 remain subject to examination by the income tax authorities.

Notes to the financial statements (continued)

33 Cash and cash equivalents

	2012 LL Million	2011 LL Million
Loans and advances to banks (note 6)	**123,924**	43,269
Cash and balances with the Central Bank (note 5)	**25,651**	38,533
Loans and advances to parent and sister banks (note 7)	**106**	301
	149,681	82,103

34 Contingent liabilities and commitments

(a) Legal proceedings

There were a number of legal proceedings outstanding against the bank at 31 December 2012. No provision has been made against these cases beyond the amounts provided for under provision for impairment of loans and advances to customers, provisions for liabilities and charges as professional advice indicates that it is unlikely that any significant additional loss will arise.

(b) Loan commitment, guarantee and other financial liabilities

At 31 December 2012 the following table indicates 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:

	2012 LL Million	2011 LL Million
Loan commitments	**48,210**	47,746
Documentary and commercial letters of credit with banks	**2,662**	8,445
Letters of guarantee - clients	**29,698**	12,484
	80,570	68,675

35 Related parties transactions

The Bank is controlled by Bank Misr (incorporated in Cairo) which owns 92% (2011 – 92%) of its 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:

Notes to the financial statements (continued)

35 Related parties transactions (continued)

(a) Loans and advances to related parties

	2012 LL Million	2011 LL Million
Loans and advances to parent and sister banks (note 7)		
Loans outstanding at 1 January	**301**	263
Loans issued during the year	**14,323**	22,088
Loans repayments during the year	**(14,518)**	(22,050)
Loans outstanding at 31 December	**106**	301
Interest income earned (note 24)	**2**	-

(b) Deposits from related parties

	Parent bank		Sister banks	
	2012 LL Million	2011 LL million	2012 LL Million	2011 LL Million
Deposits from parent and sister banks (note 18)				
Deposits at 1 January	**60,933**	34,681	**32,792**	30,603
Deposits received during the year	**96,297**	72,389	**71,025**	32,411
Deposits repaid during the year	**(75,615)**	(46,137)	**(103,444)**	(30,222)
Deposits at 31 December	**81,615**	60,933	**373**	32,792
Interest expense on deposits (note 24)	**998**	1,048	**391**	620

(c) Key management compensation

	2012 LL Million	2011 LL Million
Directors' remuneration and attendance fees (note 28)	**754**	678
Key management remunerations	**2,715**	2,339
	3,469	3,017

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.

	2012	2011
Profit for the year (LL million)	**8,524**	9,260
Weighted average number of ordinary shares in issue ('000)	**80,000**	80,000
Basic and diluted earnings per ordinary share (LL)	**107**	116