2012

ANNUAL REPORT

FRANSABANK

ANNUAL REPORT 2012

FRANSABANK

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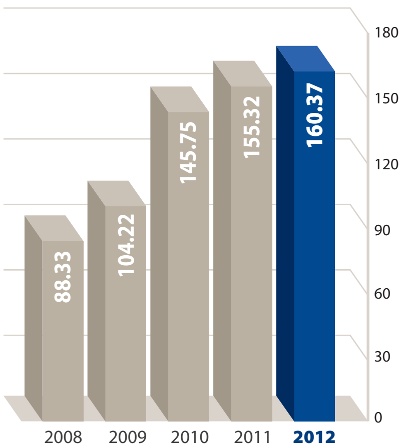
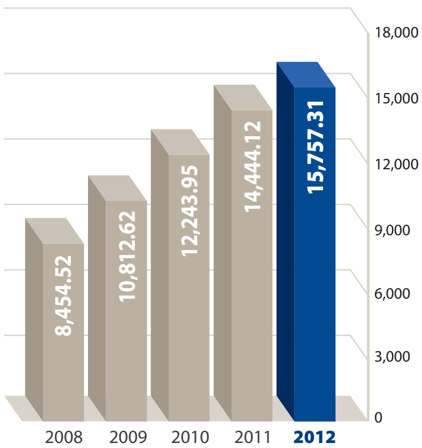
In million of USD	31.12.08	prog. 09/08	31.12.09	prog. 10/09	31.12.10	prog. 11/10	31.12.11	prog. 12/11	**31.12.12**
Customer's Creditor Accounts	7,149.64	**+26%**	9,013.02	**+12%**	10,081.95	**+17%**	11,747.17	**+11%**	**13,065.30**
Loans and Advances to Customers (net)	1,715.55	**+35%**	2,308.95	**+36%**	3,141.85	**+41%**	4,426.22	**+9%**	**4,839.17**
Net Profit for the Financial Year	88.33	**+18%**	104.22	**+40%**	145.75	**+7%**	155.32	**+3%**	**160.37**
Shareholders' Equity	756.55	**+42%**	1,074.27	**+20%**	1,287.55	**+1%**	1,295.51	**+15%**	**1,488.57**
Total Balance Sheet	8,454.52	**+28%**	10,812.62	**+13%**	12,243.95	**+18%**	14,444.12	**+9%**	**15,757.31**
	as per Basel II		as per Basel II		as per Basel II		as per Basel III		**as per Basel III**
Capital Adequacy Ratio	10.22%		11.85%		12.00%		10.01%		**12.44%**
Number of Local Branches	103		104		107		108		**114**
Staff Number	1,957		2,475		2,702		3,074		**3,227**
Exchange Rate USD/LBP	1,507.5		1,507.5		1,507.5		1,507.5		**1,507.5**

Net Profit for the Financial Year
(in million of USD)



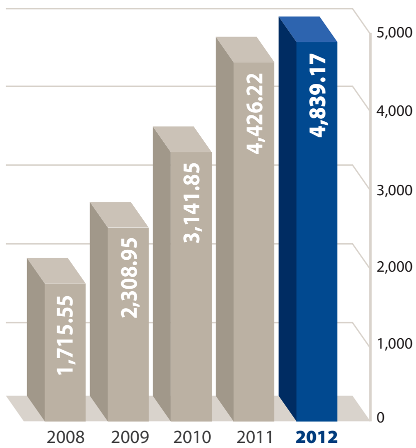
+ 16.08% CAGR

Total Assets
(in million of USD)



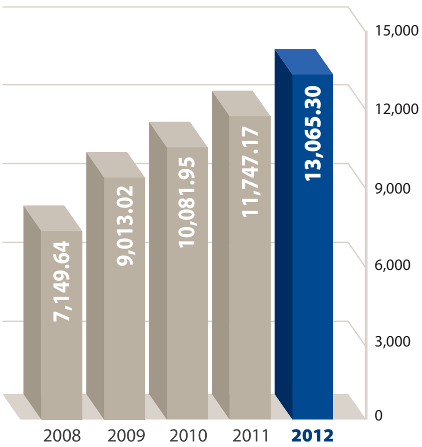
+ 16.84% CAGR

Loans & Advances to Customers (net)
(in million of USD)



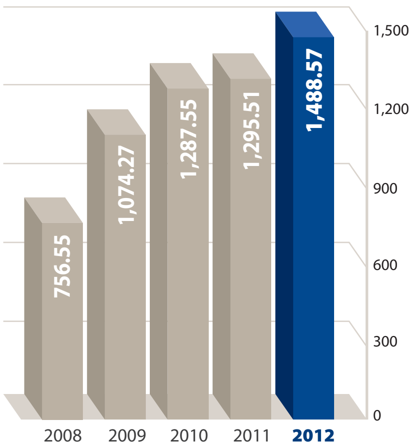
+ 29.60% CAGR

Customers' Creditor Accounts
(in million of USD)



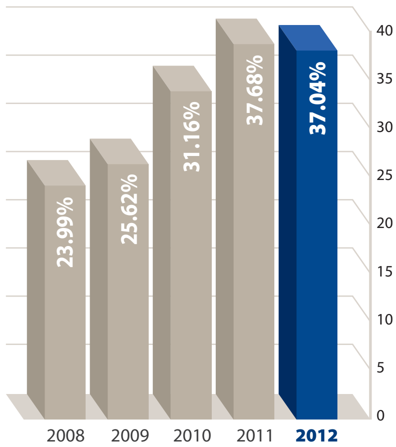
+ 16.27% CAGR

Shareholders' Equity
(in million of USD)

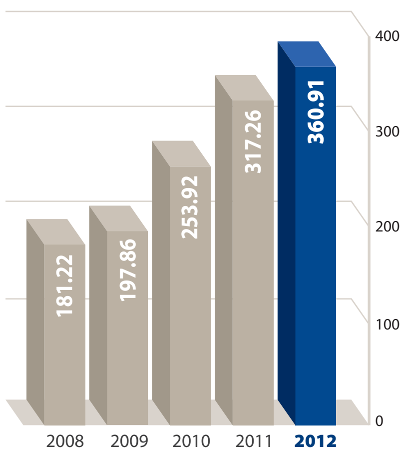


+ 18.44% CAGR

Loans & Advances to Customers to Customers' Creditor Accounts

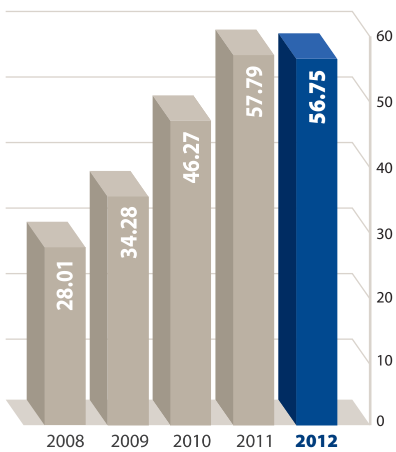


Net Interest Income
(in million of USD)



+ 18.80% CAGR

Net Fee & Commission Income
(in million of USD)



+ 19.31% CAGR

01

STATEMENT OF THE CHAIRMAN

Adnan Kassar • Chairman | Adel Kassar • Deputy Chairman

2012 was another challenging year for Fransabank Group and for the industry as a whole with respect to the political environment and the slowing economic activities in Lebanon, further accentuated by the crucial political events and economic conditions in certain Arab countries mainly the neighboring ones.

Nevertheless, the Group further pursued its strategy of developing its activities and achieving solid financial performance results. The Group maintained its third rank within the Lebanese banking sector in terms of net loans and advances to customers and consolidated its fourth rank in terms of net profits, assets, customers' deposits, and shareholders' equity.

At the level of profitability, the Group's net profits reached USD 160.369 million in 2012, a growth rate of 3.25% as compared to 2011, and which is amongst the highest in the sector. The Return on Average Common Equity of the Group stood at 13.2% despite collective and individual provisions that were constituted during the year to mainly cover for potential business risks in Syria and Cyprus. In this context, the non-performing loans coverage ratio stood at 85.46%. The Return on Average Assets stood at 1.06% and the Capital Adequacy Ratio, calculated as at 31 December 2012 as per Basel III requirements, stood at 12.44%.

The Group's total assets reached USD 15.757 billion by end of year 2012, an increase of 9.09% as compared to the same period in 2011. Customers' deposits reached USD 13.065 billion at end of 2012 with an increase of 11.22%. Shareholders' equity reached USD 1.489 billion reflecting a year-on-year increase of 14.9%. In addition, net loans and advances to customers reached USD 4.839 billion with a growth rate of 9.33%.

Fransabank Group's expansion strategy for 2012 remained focused on expanding and consolidating its presence in the countries where it exists, through a combination of organic and inorganic growth. Fransabank Group is present in nine countries; France, Algeria, Syria, Belarus, Sudan, Cyprus, Libya and UAE (Abu Dhabi), in addition to Lebanon of course. The Group is currently in advanced stages of establishing its presence in the Iraqi market in Erbil – Kurdistan and in Baghdad. It is expected that both branches to be operational by the third quarter of 2013. Furthermore, The Group is considering expanding to some West African countries.

Fransabank Group also continued to expand its local branch network and continues to rank first in terms of local branch network; with 114 branches strategically spread all over the country in 2012 against 108 branches in 2011.

The implementation of a Corporate Governance Framework in line with the regulatory requirements and international best practices continues to be a priority to Fransabank Group. Moreover, the Group is in the final stages of implementing Basel III risk management requirements on Banking Supervision.

Fransabank Group in 2012 fully integrated its social responsibilities in all its business activities. This helps us to increase our contribution to the well-being of the business communities, where we are present through responsible business activities that produce sustainable results.

The year 2012 was the year of appreciation and recognition of international and local institutions to Fransabank Group's performance and achievements. In view of that, the Group received nine international and local awards positioning us at a competitive edge.

We will continue to look ahead at the future with strong confidence, great determination, increased commitment and cutting-edge innovation to drive our performance to new levels and to advance our leading position in our markets. We will continue our efforts to drive efficiencies through our banking entities. We will strengthen our distinct competitive advantages and further consolidate our position. We will ensure that we will continue to place our clients at the center of all of our activities.

We owe the success of the Group to the integrity of our shareholders, the loyalty of our customers and the dedication of our employees. We appreciate their contributions and count on their support for achieving new business strategies on the short, medium and longer terms.

Sincerely,

Adnan Kassar

02

CORPORATE GOVERNANCE

. CORPORATE GOVERNANCE FRAMEWORK

Fransabank implemented a Corporate Governance Framework in line with the regulatory requirements and international best practices. This framework promotes fair and transparent relationship between the Bank's management, its Board of Directors, its shareholders and other stakeholders. In addition, it specifies the distribution of responsibilities among the main concerned parties in the Bank, including directors and managers; spells out the rules and procedures for making decisions on the Bank's affairs; and defines the rights of shareholders.

Fransabank believes in, and is committed to implement sound Corporate Governance practices, which is considered the basis for its future development, enhanced performance and strong confidence in its activities, and thus, enabling the Bank to share in the development of the Lebanese banking system and in turn, in the expansion and growth of the economy.

The Bank is and has always been committed to the highest level of transparency, integrity and accountability, which has become the cornerstone of its culture. It has implemented a Corporate Governance Code, which sets out the Bank's vision, mission and core values and identifies the rights and responsibilities of each of the Shareholders, Board of Directors, Senior Management, and Internal Control functions. This code was approved by Fransabank Board of Directors during 2012 and it was communicated to the entire Bank's staff.

In addition, the Board of Directors has created three committees, namely the Corporate Governance Committee, the Risk Management Committee, and the Audit Committee. These Committees meet regularly to assist the Board in exercising its duties and oversight responsibilities over the Bank, including its banking subsidiaries. In addition, the Bank has established a charter to each of these Committees which indicates the Committee's scope of work, membership structure and composition, meetings as well as its roles and responsibilities.

Fransabank strategy is to standardize the Corporate Governance practices to all its local and foreign subsidiaries, taking into consideration the Corporate Governance requirements of host jurisdictions.

GOVERNANCE STRUCTURE

Fransabank corporate governance structure includes the General Assembly (shareholders); the Board of Directors; the various committees; the Chairman; the Deputy Chairman; Control functions; the External Auditors; Senior Management and the Business and Support functions. The Bank has also established an independent Corporate Governance Unit, which reports directly to the Corporate Governance Committee.

The aim behind such a structure is to provide an efficient framework for the assignment of responsibilities, accountability and work-flows to ensure efficiency and effectiveness in the management decision making process.

RIGHTS OF SHAREHOLDERS

Shareholders enjoy all rights conferred upon them by the Lebanese Code of Commerce. All common shareholders, including minority shareholders, enjoy the same rights and benefits and have one voting right for each common share (the principle of one share, one vote) without limitation. Shareholders who own registered shares for at least two years are entitled to a double voting right according to Article 117 of the Lebanese Code of Commerce.

MAIN HOLDERS OF COMMON SHARES AS AT DECEMBER 31, 2012	PERCENT (1)
Adnan Kassar	39.48
Adel Kassar	39.48
Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG) (2)	5.00
Al-Fadl Holdings Limited	2.70
The Public Institution for Social Security – Kuwait	2.00
Others (3)	11.34
TOTAL SHAREHOLDING	**100**

(1) Percent of total share capital consisting of 21,000,000 Common Shares as at 31.12.2012
(2) Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG) is one of Germany's top development and investment banks. DEG is owned by Kreditanstalt für Wiederaufbau KfW, which, in turn, is owned by the German Government.
(3) Each with less than 2%

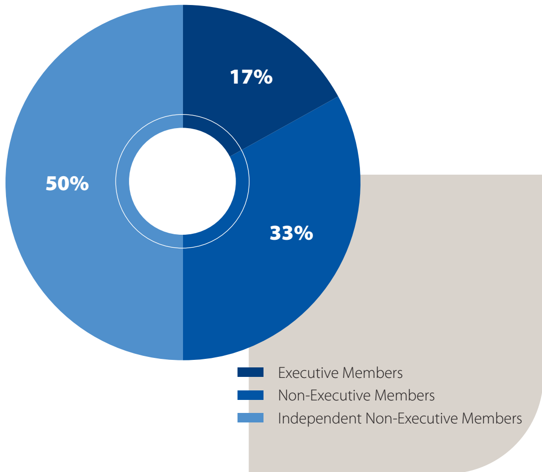
GOVERNANCE FRAMEWORK

Fransabank is governed by a Board of Directors, which consists of twelve members elected by the General Assembly of Shareholders for a term of three years. The responsibilities of the Board of Directors are to ensure the proper management of the Bank, with the objective of adding value to all shareholders, investors, clients, and community in the short, medium, and long terms. In addition, the Board has overall responsibility of the Bank, including adopting and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values, as well as ensuring that adequate, effective and independent controls are in place.

BOARD STRUCTURE & COMPOSITION

Fransabank Board of Directors has a sufficient number of non-executive Board members and independent(1) members. The presence of executive, non-executive and independent Board members ensures the governance and effectiveness of the Board.

FRANSABANK SAL BOARD STRUCTURE



Fransabank Board of Directors consists by its majority of non-executive members.
During 2012, Fransabank has elected one independent Board member and re-elected a former Board member, who worked in reputable international bank and financial institutions.

BOARD MEETINGS

During 2012, the Board of Directors has met on four occasions. Some of the major issues discussed during these meetings were:

- Business plan for the period 2012 – 2014 and the budget for 2012
- Approving the Corporate Governance Code
- Approving the charters of the Audit Committee and Risk Management Committee
- Reviewing the formation of Specialised Committees
- Discussing the reports prepared by the Chief Risk Officer and the Chief Audit Executive
- Discussing the Operations Procedural Manual
- Increasing the capital through the issuance of preferred shares "series C" and specifying the issuance conditions
- Discussing the opening of new branches
- Approving the accounts of the financial year 2011.

(1) Fransabank's definition of independent Board member as indicated in the Corporate Governance Code:
In order to be considered as an independent member, a Board member should be independent of any person from the Bank's "Executive Senior Management" and of its major shareholders in the sense that there is no work relationship with anyone of them currently or during the past two years preceding his/her nomination as a Board member.
In addition, a member should not be an Executive Board member; not from the major shareholders who own, directly or indirectly, more than 5% of the Bank's total shares or voting rights related to these shares; whichever is greater; not have any family-relationship with any of the major shareholders until the fourth degree; and not any of the Bank's debtors.

Board Members	Corporate Governance Committee	Risk Management Committee	Audit Committee
H.E. Mr. Adnan Kassar			
Mr. Adel Kassar			
Mr. Antoine Jeancourt Galignani	Chairman		Chairman
Mr. Rafic Charafeddine			
Sheikh Fahd Mazyad Al Rajaan Representing the Public Institution for Social Security - Kuwait			
Mrs. Magda Rizk		Member	
H.E. Mr. Nehme Tohme			
H.E. Mr. Walid Daouk, Esq.	Member		Member
Mr. Mohamad Al Fadl			
Dr. Walid Naja	Member	Chairman	Member
Mr. Bernd Tümmers			
Mr. Henri Guillemin		Member	

BOARD COMMITTEES

In carrying out its duties, the Board is supported by the Corporate Governance Committee, the Risk Management Committee, and the Audit Committee. The charters of these Board committees were reviewed during 2012 to take into account the new regulatory requirements.

Corporate Governance Committee

The Corporate Governance Committee is composed of five members, whereby the Chairman of the Committee is an independent Board member. The committee members meet at least quarterly.

The responsibility of the Corporate Governance Committee is to provide oversight of all material Corporate Governance issues affecting the Bank and its subsidiaries; and to ensure that Fransabank Corporate Governance practices are in line with best practices and Fransabank Corporate Governance Guidelines; in addition to assist the Board in maintaining an effective governance framework, an optimal Board composition and an effective Board structure.

During 2012, the Corporate Governance Committee held four meetings.

Risk Management Committee

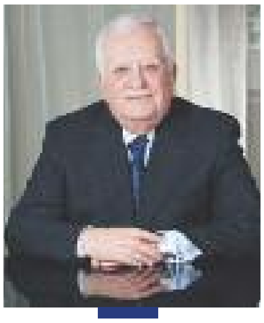
The Risk Management Committee is chaired by a non-executive director, and comprises two other members. The Committee meets at least quarterly. The Committee's responsibilities are to assist the Board of Directors in fulfilling its oversight responsibilities in identifying the Bank's risks profile vis-a-vis its risk appetite and risk tolerance; monitoring all aspects of the risks inherent in the Bank's activities; and assessing the Bank's risk management process and the capital adequacy.

During 2012, the Risk Management Committee held four meetings.

Audit Committee

The Audit Committee is composed of three non-executive Board members, whereby the Chairman of the Committee is an independent Board member. The Audit Committee is established to assist the Board of Directors in its oversight responsibilities with respect to audit and compliance with Central Bank of Lebanon and Banking Control Commission and the implementation of accounting standards related to financial reporting. The Committee meets on a quarterly basis and when necessary. Moreover, the Committee assists the Board of Directors in fulfilling its tasks and supervisory role, particularly in regard to internal control regulations and procedures, supervision of the internal audit's activities, appointment of external auditors and follow-up on their activities along with other responsibilities.

During 2012, the Audit Committee held four meetings.



H.E. Mr. Adnan Kassar
Chairman of the Board of Directors

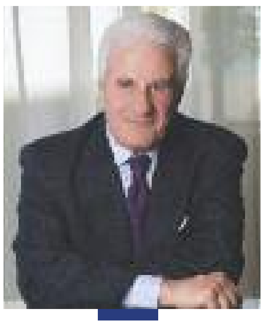
Born in 1930 - Lebanon

H.E. Mr. Adnan Kassar is the Chairman and General Manager of Fransabank SAL and member of the Board of Directors of BLC Bank SAL, Fransabank (France) SA and Fransabank Syria SA. He is also the Chairman of the Supervisory Board of Fransabank OJSC in Belarus. H.E. Mr. Kassar was Minister of State in Lebanon from 2009 to 2011 and Minister of Economy and Trade in Lebanon from 2004 to 2005. He was the first Arab businessman elected Chairman of the International Chamber of Commerce (ICC) and headed the ICC from 1999 to 2000. He is also former President of the Federation of Chambers of Commerce, Industry and Agriculture in Lebanon for over thirty years (from 1972 to 2002). He is the Head of the Lebanese Economic Organization and actual President of the General Union of Chambers of Commerce, Industry and Agriculture of the Arab Countries. He holds a law degree from Saint Joseph University, Beirut.

Mr. Adel Kassar
Deputy Chairman of the Board of Directors

Born in 1932 - Lebanon

Mr. Adel Kassar is the Deputy Chairman and Chief Executive Officer of Fransabank SAL. He is the Chairman of the Board of Directors of Fransabank (France) SA and Fransabank Syria SA. He is also the Chairman of the Board of Directors and General Manager of Bancassurance SAL and Lebanese Leasing Company SAL. He is member of the Board of Directors of BLC Bank SAL and member of the Supervisory Board of Fransabank OJSC in Belarus. He is a former Chairman of the Association of Banks in Lebanon and is the Honorary Consul General of the Republic of Hungary in Lebanon. He holds a degree in Lebanese and French law from Saint Joseph University, Beirut.



Mr. Antoine Jeancourt Galignani
Director

Born in 1937 - France

Mr. Antoine Jeancourt Galignani began his career at the French Ministry of Finance and after a while joined Chase Manhattan Bank in New York and Crédit Agricole. He was appointed as Managing Director then Chairman of Bank Indosuez. He was also member of the Board of Directors of the Saudi Al Fransi Bank, in Saudi Arabia and the Chairman and CEO of AGF, which was later acquired by Allianz Group and the Chairman of the holding company of SNA. He also served in numerous Boards such as TOTAL, Bouygues and Société Générale and he chaired the Board of the Institute of International Finance in Washington from 1991 to 1994. Mr. Galignani was until the 1st of December 2012 the Chairman of the Board of Eurodisney France. He is currently a director of Oddo, a Paris based Investment Bank. He is also the Chairman of the Corporate Governance and the Audit Committees of the Bank. He holds a master degree in economics and political sciences from ENA, France.

Mr. Rafic Charafeddine
Director

Born in 1939 - Lebanon

Mr. Rafic Charafeddine is a businessman, and has participations in various companies. He deals into construction projects and real estate investments.

Sheikh Fahd Mazyad Al Rajaan representing The Public Institution for Social Security - Kuwait
Director

Born in 1948 - Kuwait

Sheikh Fahd Mazyad Al Rajaan began his career as manager of New Issues Department at Kuwait Investment Company. He served as Chairman and Managing Director for the Kuwait Real Estate Investment Consortium. Currently, Sheikh Al Rajaan is the General Manager of the Public Institution for Social Security – Kuwait. He is also the Chairman of Ahli United Bank in Bahrain, Egypt, United Kingdom and Wafra Investment Advisory Group in New York. He holds a BA in business administration from the American University of Washington.

Mrs. Magda Rizk
Director

Born in 1957 - Lebanon

Mrs. Magda Rizk is a substantial property owner in Lebanon. She is also member of the Risk Management Committee of the Bank. She holds a law degree from Saint Joseph University, Beirut.

H. E. Mr. Nehme Tohme
Director

Born in 1939 - Lebanon

H.E. Mr. Nehme Tohme is the Chief Executive Officer for many contractors companies operating in Saudi Arabia, Qatar and Bahrain. He also established several corporations and was a shareholder, partner or member of the Board of Directors in many companies. He was elected as member of the Lebanese Parliament in 2000 and appointed as Minister of Displaced from 2005 to 2008. He holds a BS in civil engineering from the American University of Beirut.

H.E. Mr. Walid Daouk , Esq.
Director

Born in 1958 - Lebanon

H.E. Mr. Walid Daouk, Esq is a member of the Board of Directors of various companies, banks and financial institutions in Lebanon and abroad including Fransabank (France) SA, Fransabank El Djazaïr SPA, BLC Bank SAL, Bancassurance SAL and the Lebanese Leasing Company SAL. He is the Government Commissioner at the Beirut Stock Exchange and a member of the Audit and the Corporate Governance Committees of the Bank. H.E. Mr. Daouk is currently Minister of Information in Lebanon as of June 2011. He holds a degree in Lebanese and French law from Saint Joseph University, Beirut.

Mr. Mohamad Al Fadl
Director

Born in 1954 - Saudi Arabia

Mr. Mohamad Al Fadl is a member of Jeddah Chamber of Commerce and Industry since 1996 and a Board member of public companies in Saudi Arabia. He is the Chairman of Gulf One Bank, Bahrain and the Honorary Counsel of Cyprus in Kingdom of Saudi Arabia. He holds a degree in economic sciences and marketing from University of San Francisco.

Dr. Walid Naja
Director

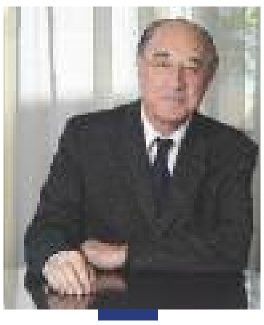
Born in 1941 - Lebanon

Dr. Walid Naja is a former Chairman of the Banking Control Commission - Central Bank of Lebanon, served as Economic Counselor at the Lebanese Embassy in Washington D.C., and General Manager of the Federation of Chambers of Commerce, Industry and Agriculture in Lebanon. He is the Chairman of the Risk Management Committee and member of the Corporate Governance and Audit Committees of the Bank. He holds graduate degrees in economics and international relations from the American University of Beirut and from Yale University, USA.

Mr. Bernd Tümmers
Director

Born in 1947 - Germany

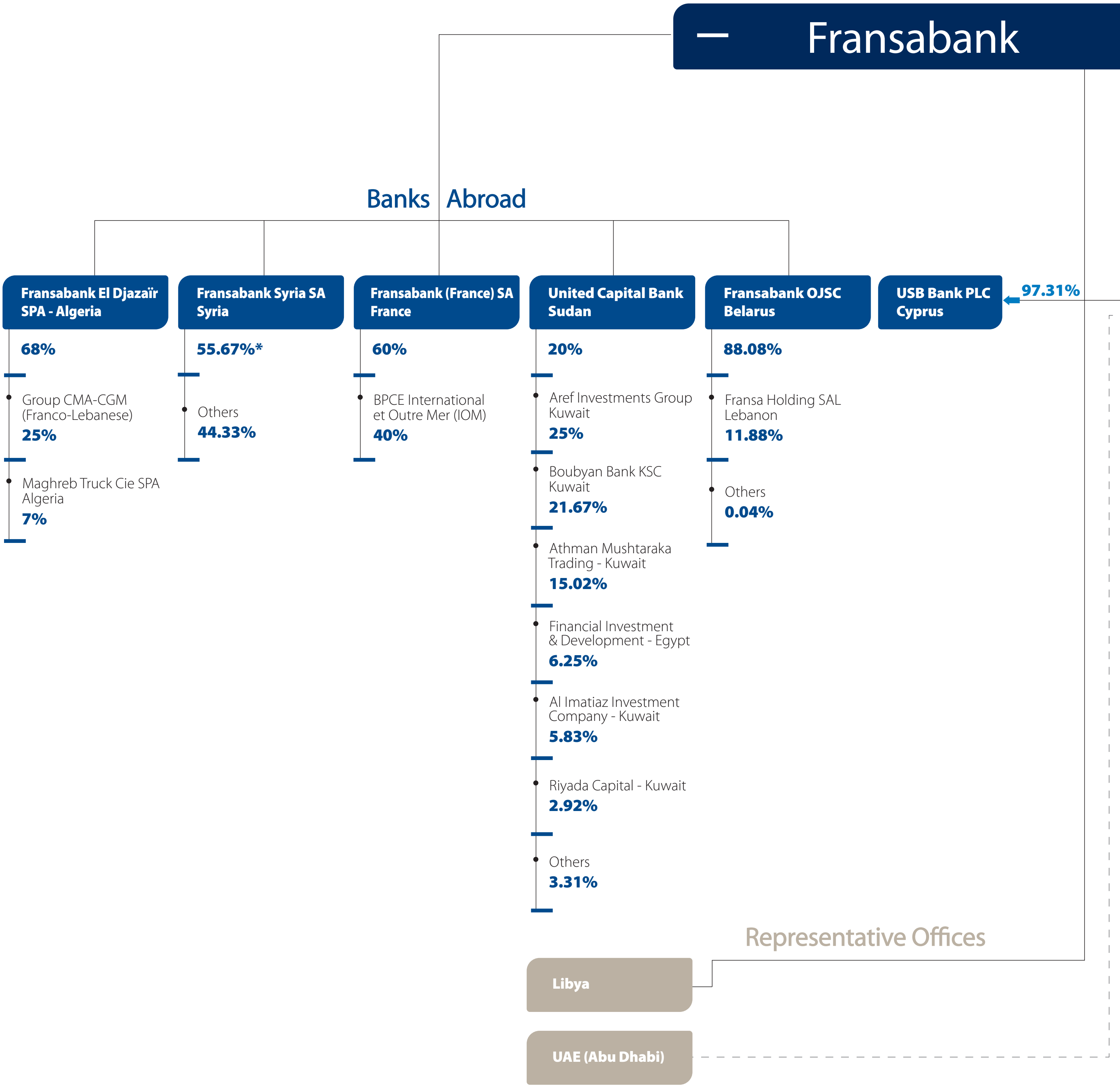
Mr. Bernd Tümmers began his career as business administration trainer in a large German manufacturing company, followed by being the assistant to the CFO of a large engineering and construction company in the USA. He joined Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG) and was appointed as Investment Manager in South Asia, and then Head of Department in charge of DEG's activities in South East and South Asia. He became Senior Vice President responsible for DEG investment for approximately five hundred companies worldwide with an investment volume of USD 6 billion. Most recently, Mr. Tümmers became Senior Vice President for structured finance, a division in charge of the new business in DEG until his retirement in December 2012. He holds an MBA degree in marketing, organization and social psychology from University of Cologne, Germany.



Mr. Henri Guillemin
Director

Born in 1947 - France

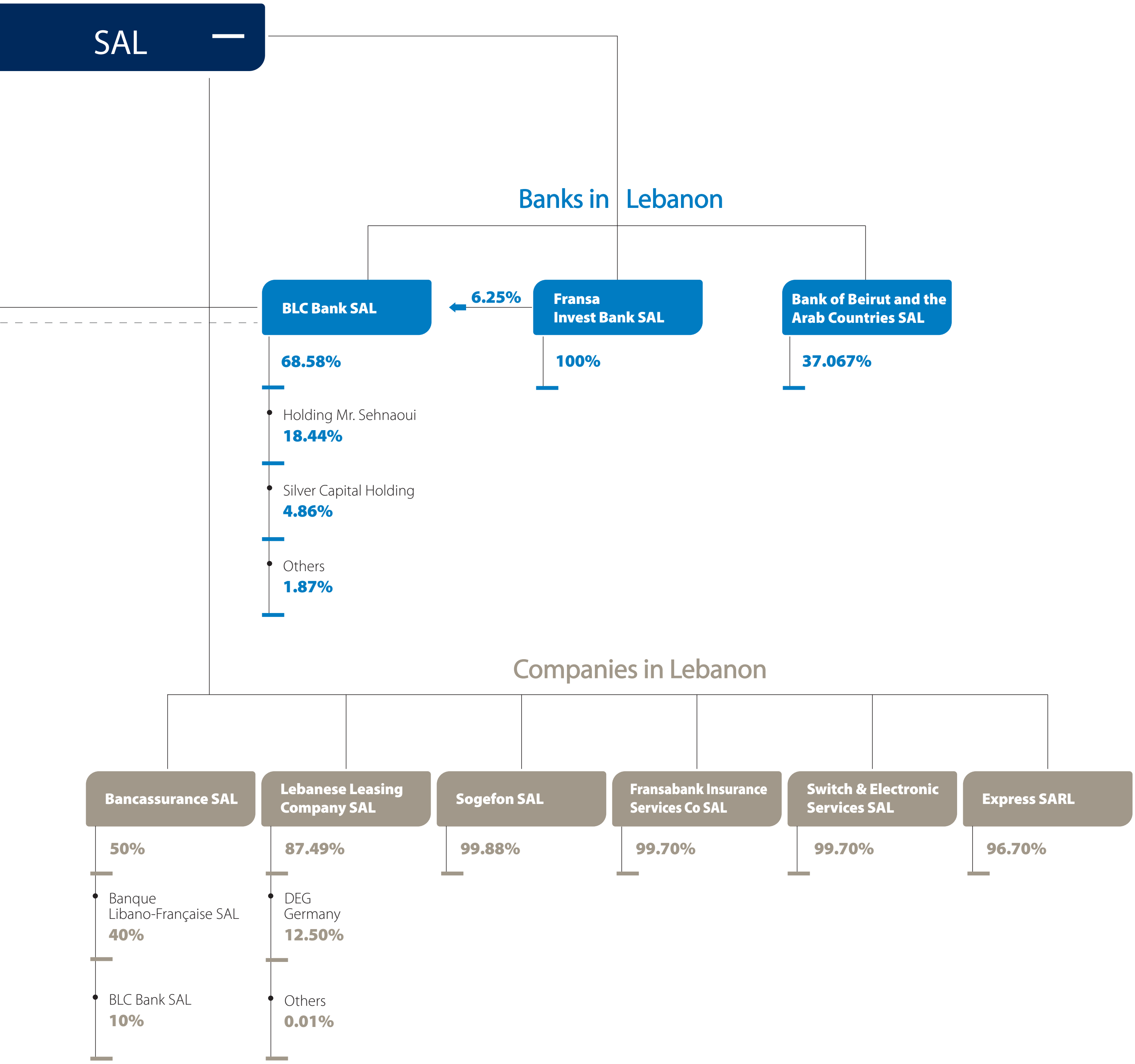
Mr. Henri Guillemin started his career at Crédit Lyonnais. He then joined Indosuez Bank and was appointed at different management positions in Singapore, Saudi Arabia (Jeddah and Riyadh), Bahrain and Paris. He was Director at Crédit Agricole Indosuez (CAYLON), Paris for the Middle East, and then promoted Director for the Middle East and Africa region. Mr. Guillemin was the Managing Director of Crédit Agricole Egypt SAE, Cairo. He is member of the Risk Management Committee of the Bank. He holds a degree in economic sciences from Sorbonne University, Paris, as well as a degree in political studies, and an MBA degree from INSEAD Fontainbleau.



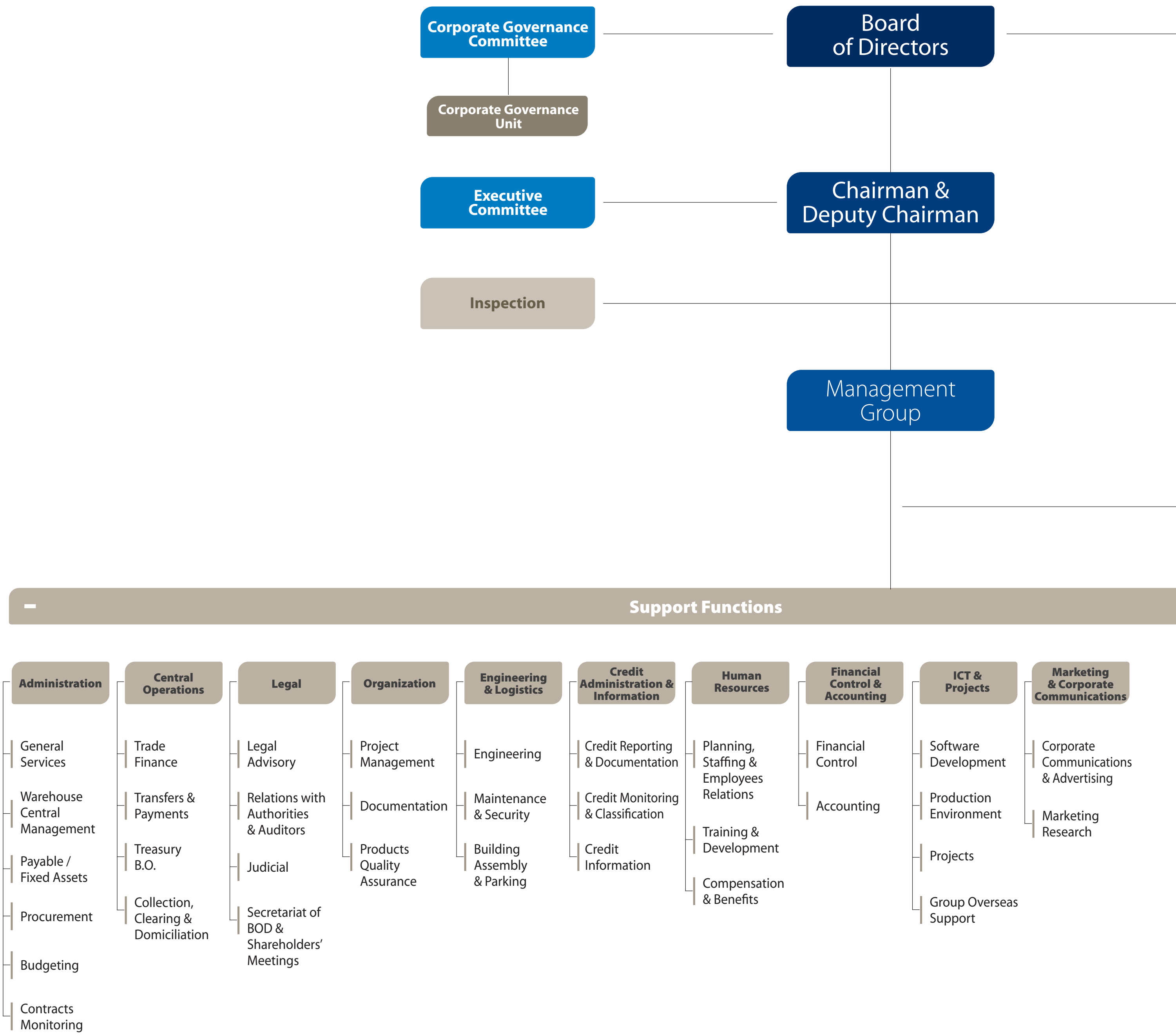
Nota: Fransabank Group chart updated for events occurring up to May 2013

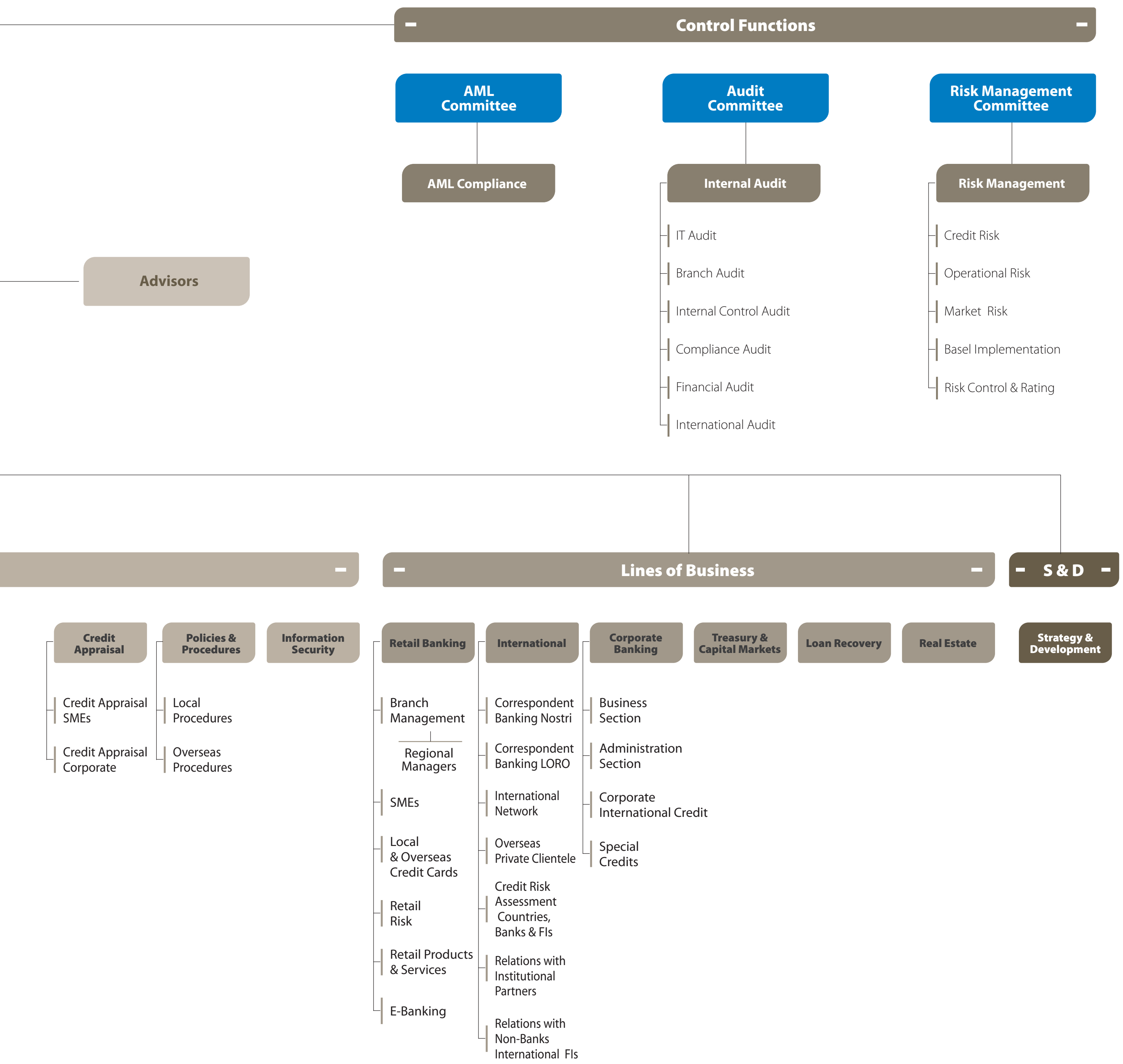
*** or 70.90% to paid-up capital.**

BLC Bank has three subsidiaries in Lebanon: BLC Invest, BLC Finance & BLC Services.


SAL
Banks in Lebanon
BLC Bank SAL
6.25%
Fransa Invest Bank SAL
Bank of Beirut and the Arab Countries SAL
68.58%
Holding Mr. Sehnaoui
18.44%
Silver Capital Holding
4.86%
Others
1.87%
100%
37.067%
Companies in Lebanon
Bancassurance SAL
50%
Banque Libano-Française SAL
40%
BLC Bank SAL
10%
Lebanese Leasing Company SAL
87.49%
DEG Germany
12.50%
Others
0.01%
Sogefon SAL
99.88%
Fransabank Insurance Services Co SAL
99.70%
Switch & Electronic Services SAL
99.70%
Express SARL
96.70%

. ORGANIZATION CHART - FRANSABANK SAL





Control Functions
AML Committee
AML Compliance
Audit Committee
Internal Audit
IT Audit
Branch Audit
Internal Control Audit
Compliance Audit
Financial Audit
International Audit
Risk Management Committee
Risk Management
Credit Risk
Operational Risk
Market Risk
Basel Implementation
Risk Control & Rating
Advisors
Lines of Business
S & D
Credit Appraisal
Credit Appraisal SMEs
Credit Appraisal Corporate
Policies & Procedures
Local Procedures
Overseas Procedures
Information Security
Retail Banking
Branch Management
Regional Managers
SMEs
Local & Overseas Credit Cards
Retail Risk
Retail Products & Services
E-Banking
International
Correspondent Banking Nostri
Correspondent Banking LORO
International Network
Overseas Private Clientele
Credit Risk Assessment Countries, Banks & FIs
Relations with Institutional Partners
Relations with Non-Banks International FIs
Corporate Banking
Business Section
Administration Section
Corporate International Credit
Special Credits
Treasury & Capital Markets
Loan Recovery
Real Estate
Strategy & Development

Executive Committee

H.E. Mr. Adnan Kassar	Chairman General Manager
& or	
Mr. Adel Kassar	Deputy Chairman
Mr. Nadim Kassar	General Manager
Mr. Mansour Bteish	General Manager
Mr. Nabil Kassar	Secretary General
Dr. Joe Sarrouh	Executive Advisor to the Chairman

Corporate Governance Committee

Audit Committee

Risk Management Committee

Management Committee

Credit Committees

Assets & Liabilities Committees

Overseas Expansion Committee

Banking Technology Committee

Information Security Committee

Anti-Money Laundering Committee

Human Resources Committee

Organization Committee

Marketing & Corporate Communications Committee

Purchasing & Procurement Committee

GENERAL MANAGEMENT

Mr. Nadim Kassar	General Manager
Mr. Mansour Bteish	General Manager
Mr. Nabil Kassar	Secretary General

ADVISOR TO THE CHAIRMAN

Dr. Joe Sarrouh	Executive Advisor to the Chairman

MANAGEMENT

Mr. Ahmad El Radi	Chief Risk Officer, Head of Risk Management
Dr. Mohamad Daher	Deputy General Manager, Head of Corporate Banking
Mr. Philippe El Hajj	Deputy General Manager, Head of Retail Banking
Dr. Nicolas Khairallah	Deputy General Manager, Head of Human Resources
Miss Mona Khoury	Deputy General Manager, Head of International Banking
Mr. Nadim Moujaes	Deputy General Manager, Head of Strategy & Development
Mr. Nabih Saddy	Deputy General Manager, Head of Financial Control & Accounting
Mr. Nabil Tannous	Deputy General Manager, Head of Treasury & Capital Markets

MANAGEMENT

Me. Wajdi Abi Chacra	Advisor, Legal Affairs
Mr. Fawzi Moussa	Advisor, Corporate Banking
Mr. Charbel Aouad	Head of Central Operations
Mr. Antoine Younes	Head of Credit Appraisal
Mr. Pierre Posbic	Head of Organization
Mr. Antoine Asmar	Business Development Consultant, Corporate Banking
Mr. Roland Tabib	Chief Information Officer
Mr. Zouheir Chouraiki	Head of Internal Audit
Mr. Khalil Assaf	Head of Special Credits
Mr. Zakaria El Khatib	Head of Inspection
Mrs. Dania Kassar	Head of Marketing & Corporate Communications
Mr. Sami Naffah	Head of Policies & Procedures
Mr. Antoine Zarifeh	Head of Small & Medium Enterprises
Mrs. Magida Kasbani	Head of Administration
Mr. Adel Moubarak	Head of Information Security
Mrs. Dalal Halabi	Head of Credit Reporting & Documentation
Mr. Roger Abboud	Head of Credit Information
Mr. Sami Dfouni	Head of Credit Monitoring & Classification
Mrs. Lama Dick	Head of Local & Overseas Credit Cards
Mr. Wissam Ali Hassan	Head of Electronic Banking
Mr. Joseph Saab	Head of Anti-Money Laundering
Me. Joumana Oueidat	Head of Judicial
Mr. Nagi Makhlouf	Head of Engineering & Logistics

LOCAL NETWORK MANAGEMENT

Mr. Joseph Akiki	Head of Branch Management, Regional Manager, Main Branch & North
Mrs. Najwa Sandid	Regional Manager, Beirut I
Mr. Antoine Nehmeh	Regional Manager, Beirut II
Mr. Francis Abi Nakhoul	Regional Manager, Mount Lebanon, Group A
Mr. Georges Saliba	Regional Manager, Mount Lebanon, Group B
Mr. Talal Hamadi	Regional Manager, South
Mr. Amine Abou Mhaya	Regional Manager, Bekaa
Mr. Mounir Daoud	Deputy Regional Manager, Bekaa I
Mr. Farouk Chreif	Deputy Regional Manager, Bekaa II

LEBANON

BLC Bank SAL

Board of Directors

H.E. Mr. Maurice Sehnaoui	Chairman General Manager
Mr. Nadim Kassar	Vice Chairman General Manager
H.E. Mr. Adnan Kassar	Member
Mr. Adel Kassar	Member
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Nabil Kassar	Member
Mr. Nazem El Khoury	Member
Mr. Mansour Bteish	Member
Mr. Walid Ziade, Esq.	Member
Mr. Raoul Nehme	Member
Mr. Charles El Hage*	Member
Mr. Antoine Merheb, Esq.**	Member

General Manager

Mr. Raoul Nehme

* until 08.04.2013 ** as from 22.05.2013

BLC Invest SAL

Board of Directors

H.E. Mr. Maurice Sehnaoui	Chairman General Manager
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Nadim Kassar	Member
Mr. Nabil Kassar	Member
Mr. Mansour Bteish	Member
Mr. Raoul Nehme	Member

General Manager

Mr. Fouad Rahme

Fransa Invest Bank SAL

Board of Directors

Mr. Nadim Kassar	Chairman General Manager
Mr. Nabil Kassar	Member
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Mansour Bteish	Member
Dr. Joe Sarrouh	Member
Fransabank SAL *represented by Mr. Adel Kassar*	Member

General Manager

Mr. Jamil Barrage

. OVERSEAS BANKING SUBSIDIARIES & ASSOCIATE

Board of Directors and General Managers

FRANCE

Fransabank (France) SA

Board of Directors

Mr. Adel Kassar	Chairman General Manager
Mr. Yvan de La Porte Du Theil	Vice Chairman
H.E. Mr. Adnan Kassar	Member
Mr. Philippe Garsuault	Member *representing BPCE IOM*
Mr. Charles Milhaud	Member
Mr. Mansour Bteish	Member
Mr. Nabil Kassar	Member *representing Fransabank SAL*
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Dany Makhlouf	Member

General Manager

Mr. Henri de Courtivron

ALGERIA

Fransabank El Djazaïr SPA

Board of Directors

Mr. Nadim Kassar	Chairman
Mr. Nabil Kassar	Member *representing Fransabank SAL*
Mr. Raja Sarkis	Member *representing CMA CGM SA*
Mr. Bernard Gerdy	Member *representing Merit Corporation*
H.E. Mr. Walid Daouk, Esq.	Member
Mr. Mansour Bteish	Member

General Manager

Mr. Mehemed Belghit

SYRIA

Fransabank Syria SA

Board of Directors

Mr. Adel Kassar	Chairman
H.E. Mr. Adnan Kassar	Member *representing Fransabank SAL*
Mr. Nabil Kassar	Member *representing Fransabank SAL*
Mr. Chadi Karam	Member *representing Fransabank SAL*
Mr. Ahmad Al Shahabi	Member
Mr. Elie Sioufi	Member
Mr. Ali Wahib Merhi	Member
Mr. Sami Rabbath	Member
Mr. Mohammad Sabih Al Nahas	Member

General Manager
Mr. Nadim Moujaes

BELARUS

Fransabank OJSC

Supervisory Board

H.E. Mr. Adnan Kassar	Chairman *representing Fransabank SAL*
Mr. Adel Kassar	Member *representing Fransa Holding*
Mr. Georges Andraos	Member *representing Fransabank SAL*
Mr. Ghantous Gemayel	Member *representing Fransa Holding*

General Manager
Mr. Ibrahim Koleilat

. OVERSEAS BANKING SUBSIDIARIES & ASSOCIATE

Board of Directors and General Managers

CYPRUS

USB Bank PLC (Subsidiary of BLC Bank)

Board of Directors

H.E. Mr. Maurice Sehnaoui	Chairman Non Independent (BLC Bank)
Mr. Nadim Kassar	Non Independent (BLC Bank)
Mr. Nabil Kassar	Non Independent (BLC Bank)
H.E. Mr. Walid Daouk, Esq.	Non Independent (BLC Bank)
Mr. Raoul Nehme	Non Independent (BLC Bank)
Fransabank SAL *represented by Mr. Adel Kassar*	Non Independent (shareholder in BLC Bank)
Fransa Invest Bank SAL *represented by Mr. Mansour Bteish*	Non Independent (shareholder in BLC Bank)
BLC Bank SAL *represented by Mr. Yussef Eid, Esq.*	Non Independent
Mr. Andreas Theodorides	Executive - Non Independent (USB Bank)
Mr. Despo Polycarpou	Executive - Non Independent (USB Bank)
Mrs. Tania Moussallem	Non Independent (BLC Bank)
Mr. Georges Galatariotis	Independent
Mr. Georges Stylianou	Independent
Mr. Philippos Philis	Independent
Mr. Agis Taramides	Independent

General Management

Mr. Andreas Theodorides	Secretary & Deputy Managing Director

SUDAN

United Capital Bank

Board of Directors

Mr. Adel Al Majed	Chairman *representing Boubyan Bank - Kuwait*
Mr. Mansour Bteish	Vice Chairman
Mr. Feras Al Bahar	Member *representing Aref Investment Group*
Mr. Mohamad Al Adasani	Member *representing Aref Investment Group*
Mr. Modar Al Razzouki	Member *representing Aref Investment Group*
Mrs. Amira Al Alami	Member *representing Financial Company for Investment and Development - Egypt*
Mr. Sharif Budur	Member *Independent Director*
Prof. Ahmed Al Majzoub	Member *Independent Director*

General Manager

Mr. Kamal A. Elzubeir

03

HISTORICAL MILESTONES

1921

Fransabank was first established in Beirut as a full branch of one of the major French banks then, Crédit Foncier d'Algérie et de Tunisie (C.F.A.T.).

Fransabank is registered n° 1 on the list of banks operating in Lebanon indicating that it is the oldest Bank in the country.

1963

C.F.A.T. changed its name to Société Centrale de Banque.

1971

Société Centrale de Banque in Beirut was acquired by Banque Française pour le Moyen-Orient SAL (B.F.M.O.), a Lebanese company whose shares were predominantly owned by Banque Indosuez Group.

1978

Banque Indosuez (now Crédit Agricole Corporate and Investment Bank – CACIB which is the investment arm of Crédit Agricole SA) was also the major shareholder of Banque Sabbag SAL. Banque Indosuez merged these two banks under the name of Banque Sabbag et Française pour le Moyen-Orient SAL.

1980

Banque Indosuez sold its shares in Banque Sabbag et Française pour le Moyen-Orient SAL to a financial group headed by Messrs. Adnan & Adel Kassar.

1984

The Bank's denomination was changed to Fransabank SAL.

Fransabank concluded a cooperation agreement with Crédit Agricole SA – France. It led at first to the joint creation in Paris of Fransabank (France) SA, and to the participation of Crédit Agricole SA - France in the shareholding of Fransabank SAL. In line with its global strategy, Crédit Agricole SA exited from Fransabank (France) SA in 2007 and from Fransabank SAL shareholding in 2012.

2001

Fransabank opened its branch in the Damascus free zone in Syria.

Fransa Invest Bank (FIB), the investment-banking subsidiary of Fransabank started its operations.

2002

Fransabank acquired United Bank of Saudi & Lebanon SAL.

2003

Fransabank acquired all the shares of Banque de la Békaa SAL. Subsequently, in 2007, the Bank sold Banque de la Békaa.

2005

Fransabank became one of the major shareholders (37.067%) of Bank of Beirut & the Arab Countries SAL (BBAC).

2006

Fransabank was the first Lebanese Bank to enter the Algerian market with the opening of its subsidiary Fransabank El Djazaïr SPA.

Fransabank launched its operations in Sudan through an associate bank, United Capital Bank.

1985

Fransabank acquired the Assets & Liabilities of Chase Manhattan Bank's branches in Beirut.

1993

Fransabank acquired Banque Tohmé SAL.

1995

Fransabank concluded an agreement with Deutsche Investitions - und Entwicklungs- gesellschaft mbH (DEG), which led to the acquisition by D.E.G of 5% of the Bank's share capital.

1997

A private placement of shares took place, pursuant to which 5% of the Bank's shares were sold to Lebanese, Arab and foreign investors.

The Public Institution for Social Security – Kuwait, acquired 2% of the Bank's share capital.

1998

Fransabank acquired Universal Bank SAL.

2007

Fransabank acquired BLC Bank SAL along with its two subsidiaries, BLC Services SAL and BLC Finance SAL.

Fransabank concurrently purchased 34% of the share capital of Fransabank (France) SA held by Crédit Agricole SA (bringing its participation in the share capital to 100%), and sold 40% of the share capital of Fransabank (France) SA to Financière Océor, a subsidiary of Groupe Caisse d'Epargne (France), - currently BPCE, following which the Bank's participation in the share capital of Fransabank (France) SA is 60%.

Fransabank entered the Libyan market by establishing a representative office in Tripoli.

2008

Fransabank issued its series A preferred shares for USD 100 million in Tier 1 capital.

Fransabank acquired Fransabank OJSC, formerly known as Golden Taler Bank.

2009

Fransabank became operational in Syria through its subsidiary, Fransabank Syria SA.

2010

Fransabank issued its series B preferred shares for USD 85 million in Tier 1 capital.

BLC Bank SAL acquired 9.9% of USB Bank PLC – Cyprus and increased this share gradually to reach 97.31% in December 2012.

2011

Fransabank celebrated its 90 years anniversary of legacy and expertise.

2012

Fransabank issued its series C preferred shares for USD 75 million in Tier 1 capital.

BLC Bank inaugurated its representative office in Abu Dhabi.

04

MANAGEMENT REPORT

. LEBANON'S ECONOMIC PERFORMANCE IN 2012

The Lebanese economy witnessed a slowdown in its overall activity during the year 2012. The World Bank estimated growth at 1.7% in 2012. This low performance was influenced with some spillover effects on the Lebanese economy from the persisting events in some of the Arab countries mainly the neighboring ones.

Most of the real sector indicators pointed to an ongoing slow activity. The construction permits registered a slowdown of 10.8% in 2012 compared to the performance of 2011. Likewise, the number of property sales transactions decreased by 10.1%, the value of small and medium enterprises loans under the guarantee of Kafalat by 16.4%, the number of tourists by 17.5%, the number of ships via Beirut port by 1.9% and the value of cleared checks by 1.5%.

Total public revenues which include budget and Treasury receipts remained almost unchanged on a yearly basis, reaching USD 9.4 billion in 2012, as compared to USD 9.33 billion in 2011. While on the spending side, total public expenditures, which include budgetary and Treasury spending, increased by 14.8% to reach USD 13.4 billion in 2012, as compared to USD 11.67 billion in 2011, caused mainly by a rise in budgetary expenditures. Accordingly, the fiscal deficit increased by 70.9% to reach USD 4 billion in 2012, as compared to USD 2.34 billion in 2011. In addition, the fiscal deficit has widened to 9.4% of GDP in 2012 from 5.9% of GDP in 2011.

In parallel, the gross public debt increased by 7.5%, to reach USD 57.7 billion at end-December 2012, as compared to USD 53.7 billion at end-December 2011. Net public debt, which excludes the public sector's deposits at the Central Bank of Lebanon and at commercial banks from overall debt figures, increased annually by 6% to USD 49.1 billion at end-December 2012 as compared to USD 46.3 billion at end-December 2011. The debt level increased to 135.3% of GDP in 2012 from 134.8% of GDP in 2011, constituting the first increase in the debt level since 2006.

Based on the data issued by the Central Bank of Lebanon, the total foreign currency assets of the Central Bank of Lebanon reached USD 30 billion at end-December 2012, a decrease of 2.6% as compared to USD 30.8 billion at end-December 2011. Gold reserves increased by 6.3%, to reach USD 15.3 billion in 2012, as compared to USD 14.4 billion in 2011, and financial sector deposits at the Central Bank of Lebanon increased as well by 10.6%, to reach USD 51.2 billion at end-December 2012, as compared to USD 46.3 billion at end-December 2011. The Consumer Price Index increased to 6.36% at end-December 2012 as compared to 4.27% at end-December 2011.

The Lebanese banking sector witnessed in 2012 a year of satisfactory activity growth. Commercial bank's activity increased by 8% year-on-year, with total assets reaching USD 151.9 billion at end-December 2012 as compared to USD 140.6 billion at end-December 2011. Total deposits increased by 8% to reach USD 125 billion at end-December 2012 as compared to USD 115.7 billion at end-December 2011. Total loans to the private sector increased by 10.4% to reach USD 43.5 billion at end-December 2012, as compared to USD 39.4 billion at end-December 2011, while total loans to the public sector increased by 6.5% to reach USD 31.1 billion at end-December 2012, as compared to USD 29.2 billion at end-December 2011. The banks' aggregate capital base increased by 17.7% to reach USD 12.6 billion at end-December 2012, as compared to USD 10.7 billion at end-December 2011.

According to the figures issued by the Higher Customs Council, total imports increased by 6% to reach USD 21.3 billion in 2012, as compared to USD 20.1 billion in 2011, while total exports increased by 4.7% to reach USD 4.5 billion in 2012, as compared to USD 4.3 billion in 2011. The trade deficit widened by 6.3% and reached USD 16.8 billion in 2012 after having increased by USD 15.8 billion in 2011. The balance of payments posted a deficit of USD 1,537 million in 2012 on the back of another deficit of USD 1,996 million a year earlier. The deficit is mainly the result of a surplus of USD 1.56 billion in the Central Bank of Lebanon's net foreign assets and a deficit of USD 2.24 billion in those of banks and financial institutions. The inflows of remittances posted a slight decrease of 0.4% to stand at USD 7.58 billion in 2012 as compared to USD 7.61 billion in 2011.

The Ministry of Energy estimated that 1.7 billion barrels of oil and 122 trillion cubic feet of gas are the contents of the 83,000-square-kilometer area discovered off the Levant Basin. Major energy companies, including the U.S. giants ExxonMobil and Chevron and Total of France, were among the 16 operators and 38 non-operators that have submitted applications to participate in the licensing round. Awarded contracts will cover 10 plots with the size ranging between 1,259 square kilometers and 2,374 square kilometers each. The exploration process is estimated to take up to 18 months from the contracts' signing date. As such, the Ministry of Energy & Water estimated that drilling would begin by the end of 2015, followed by the development phase in 2016 and production thereafter.

- LEBANON'S MAJOR ECONOMIC INDICATORS

(in billion of USD)	2012	2011	Variation
Public Finance			
Public revenues	9.4	9.33	0.7%
Public spending	13.4	11.7	14.8%
Fiscal deficit	(4.0)	(2.34)	70.9%
Gross public debt	57.7	53.7	7.5%
Net public debt	49.1	46.3	6.0%
Gross public debt / Nominal GDP	135.3%	134.8%	0.5%
Monetary Situation			
Central Bank of Lebanon gross foreign currency assets	30.0	30.8	- 2.6%
Consumer Price Index (CPI)	6.36%	4.27%	2.09%
Central Bank of Lebanon gold reserves	15.3	14.4	6.3%
Financial sector deposits	51.2	46.3	10.6%
Banking Sector			
Total assets	151.9	140.6	8.0%
Total deposits	125	115.7	8.0%
Total claims on the private sector	43.5	39.4	10.4%
Total claims on the public sector	31.1	29.2	6.5%
Total capital accounts	12.6	10.7	17.7%
Foreign Sector			
Exports	4.5	4.3	4.7%
Imports	21.3	20.1	6.0%
Trade deficit	(16.8)	(15.8)	6.3%
Balance of payments	(1.537)	(1.996)	- 23.0%

Sources: Ministry of Finance, Central Bank of Lebanon, Association of Banks in Lebanon and Higher Customs Council.

Overview

In 2012 in spite of the rather unfavorable political and business environment persisted in Lebanon and that of the Arab countries mainly Syria, Fransabank Group has achieved yet another overall winning performance in 2012. The Group's net income amounted to LBP 241.76 billion (USD 160.37 million) in 2012 compared to LBP 234.14 billion (USD 155.32 million) in 2011, an increase of 3.25%. In 2012, the Return on Average Assets stood at 1.06% and the Return on Average Common Equity at 13.20% compared to 1.16% and 13.25% respectively in 2011.

1.
NET INCOME

Fransabank SAL net income, in 2012, amounted to LBP 174.34 billion (USD 115.65 million) compared to LBP 152.96 billion (USD 101.46 million) in 2011, an increase of 13.98%. This for 2012 has translated into a Return on Average Assets of 1.20% and a Return on Average Equity of 13.89% as compared to 1.17% and 12.08% respectively in 2011.

The Group's net income in 2012 amounted to LBP 241.76 billion (USD 160.37 million) compared to LBP 234.14 billion (USD 155.32 million) in 2011, an increase of 3.25%. This in 2012 has translated into a Return on Average Assets of 1.06% and a Return on Average Equity of 13.20% as compared to 1.16% and 13.25% respectively in 2011.

1.1
Net Interest Income

In 2012, the Group's net interest income amounted to LBP 544.07 billion (USD 360.91 million) compared to LBP 478.27 billion (USD 317.26 million) in 2011, an increase of 13.76%.

In 2012, the Group's interest received amounted to LBP 1,344.99 billion (USD 892.20 million) compared to LBP 1,195.53 billion (USD 793.05 million) in 2011, an increase of 12.50%. Interest received from investment securities, loans and advances to customers, loans to banks & placements with banks and trading investments at Fair Value Through Profit or Loss (FVTPL), represents 46.35%, 40.64%, 10.40%, and 2.61% respectively of total 2012 interest income, compared to 50.69%, 39.82%, 4.49%, and 5% respectively in 2011.

- BREAKDOWN OF INTEREST RECEIVED

in thousands of LBP	**2012**	2011
From loans and advances to customers	546,631,930	476,030,588
From investment securities	623,451,021	606,020,978
From loans to banks and placements with banks	139,850,161	53,631,930
From trading investments at FVTPL	35,059,782	59,842,042
TOTAL	**1,344,992,894**	**1,195,525,538**

In 2012, the Group's monthly average interest-earning assets reached LBP 20,629.95 billion (USD 13,684.87 million) compared to LBP 18,381.96 billion (USD 12,193.67 million) in 2011 (+ 12.23%). This growth is due to the increase of:

- loans to banks and financial institutions plus placements with banks and financial institutions (+ LBP 1,218.15 billion or c/v USD 808.06 million),
- loans and advances to customers (+ LBP 929.95 billion or c/v USD 616.88 million),
- investment securities (+ LBP 99.89 billion or c/v USD 66.26 million).

- AVERAGE INTEREST-EARNING ASSETS

in thousands of LBP	**2012**	2011
Investment securities	8,470,661,586	8,370,770,453
Banks and financial institutions	5,357,719,500	4,139,572,727
Loans and advances to customers	6,801,564,551	5,871,619,164
TOTAL	**20,629,945,637**	**18,381,962,344**

In 2012, the Group's interest paid amounted to LBP 800.92 billion (USD 531.29 million) compared to LBP 717.25 billion (USD 475.79 million) in 2011 (+11.67%). In 2012, the largest single component of interest paid belongs to customers' deposits, which represented 95.83% of the total compared to 94.56% in 2011.

- BREAKDOWN OF INTEREST PAID

in thousands of LBP	2012	2011
On deposits and loans from banks	(26,872,348)	(29,982,896)
On deposits from customers and related parties at amortized cost	(767,562,471)	(678,226,718)
On financial liabilities designated at FVTPL	(907,555)	(3,821,481)
On subordinated loans	(3,909,815)	(3,888,083)
On bonds issued	(474,649)	(136,382)
On cash contributions to Share Capital	(1,197,972)	(1,197,972)
TOTAL	**(800,924,810)**	**(717,253,532)**

In 2012, the Group's monthly average interest-bearing liabilities reached LBP 19,849.17 billion (USD 13,166.94 million) against LBP 17,798.70 billion (USD 11,806.77 million) in 2011 (+ 11.52%). This growth is largely attributed to an increase in the customers' creditor accounts at amortized cost of 11.88%, i.e. LBP 1,971.63 billion (USD 1,307.88 million).

- AVERAGE INTEREST-BEARING LIABILITIES

in thousands of LBP	2012	2011
Soft loans	665,312,244	543,199,159
Banks and financial institutions	526,424,214	526,471,022
Financial liabilities designated at FVTPL	14,707,810	60,699,515
Customers' creditor accounts at amortized cost	18,572,884,761	16,601,249,781
Subordinated debts	52,723,321	49,970,568
Cash contributions to Share Capital	17,113,885	17,113,885
TOTAL	**19,849,166,235**	**17,798,703,930**

1.2
Net Fee and Commission Income

In 2012, the Group's net fee and commission income reached LBP 85.55 billion (USD 56.75 million), a decrease of 1.81% compared to LBP 87.12 billion (USD 57.79 million) in 2011.

Fees and commissions received reached LBP 114.49 billion (USD 75.95 million), an increase of 2.08% compared to LBP 112.16 billion (USD 74.40 million) in 2011.

Fees and commissions received comprise mainly commissions on documentary LCs and on LGs and fees on customers' transactions, which represented 31.81% and 67.59% respectively compared to 31.12% and 68.18% in 2011.

Fees and commissions paid reached LBP 28.94 billion (USD 19.20 million), an increase of 15.60%, compared to LBP 25.04 billion (USD 16.61 million) in 2011.

Fees and commissions paid comprise fees on customers' transactions and commissions on transactions with banks, which represented 90.43% and 9.57% respectively compared to 91.35% and 8.65% in 2011.

- **BREAKDOWN OF NET FEE AND COMMISSION INCOME**

in thousands of LBP	2012	2011
Fee and commission received	**114,491,445**	**112,160,024**
Commissions on documentary LCs and on LGs	36,423,294	34,902,669
Service fees on customers' transactions	77,388,689	76,476,207
Commissions on transactions with banks	676,355	765,278
Asset management fees	3,107	15,870
Fee and commission paid	**(28,940,655)**	**(25,035,228)**
Commissions on transactions with banks	(2,769,178)	(2,166,728)
Other commissions paid (including those on customers' transactions)	(26,171,477)	(22,868,500)
NET FEE AND COMMISSION INCOME	**85,550,790**	**87,124,796**

1.3
Other income from Trading Investments at FVTPL

In 2012, the Group's other income from trading investments at FVTPL reached LBP 6.36 billion (USD 4.22 million) compared to LBP 7.13 billion (USD 4.73 million) in 2011, a decrease of 10.78%. This income comprises, dividends received, change in fair value and gain on sale of trading investments at FVTPL, which represented 44.06%, -57.52% and 113.46% compared to, 61.36%, -109.61% and 148.25% in 2011 respectively.

- **BREAKDOWN OF OTHER INCOME FROM TRADING INVESTMENTS AT FVTPL**

in thousands of LBP	2012	2011
Dividends received on trading investments at FVTPL	2,801,709	4,373,536
Change in fair value of trading investments at FVTPL (net)	(3,657,749)	(7,812,452)
Gain on sale of trading investments at FVTPL (net)	7,214,945	10,566,230
OTHER INCOME FROM TRADING INVESTMENTS AT FVTPL PORTFOLIO	**6,358,905**	**7,127,314**

1.4
Foreign Exchange Gain

In 2012, foreign exchange gain reached LBP 30.88 billion (USD 20.49 million) compared to LBP 33.42 billion (USD 22.17 million) in 2011.

1.5
Other Operating Income

In 2012, other operating income reached LBP 26.04 billion (USD 17.27 million) compared to LBP 50.55 billion (USD 33.53 million) in 2011 (- 48.48%). This decrease was mainly due to the decrease in the gain from disposal of assets acquired in satisfaction of loans, properties and equipment from LBP 33.86 billion (USD 22.46 million) in 2011 to LBP 6.83 billion (USD 4.53 million) in 2012 .

Other operating income comprises dividends received on investment securities, share in profit of associates, gain on disposal of assets acquired in satisfaction of loans and on disposal of properties & equipment and other income, which represented 12.64%, 44.96%, 26.24% and 16.16% in 2012 compared to 6.51%, 15.41%, 66.98% and 11.10% in 2011 respectively.

- **BREAKDOWN OF OTHER OPERATING INCOME**

in thousands of LBP	2012	2011
Dividends income on investment securities	3,290,021	3,291,514
Share in profit of associates	11,708,163	7,789,015
Gain on disposal of assets acquired in satisfaction of loans , properties & equipment	6,834,166	33,856,262
Other	4,208,556	5,608,397
OTHER OPERATING INCOME	**26,040,906**	**50,545,188**

1.6
Net Allocation to Provisions for Loans & Advances to Customers

In 2012, the Group's net allocation to provisions for loans and advances to customers amounted to LBP 41.15 billion (USD 27.30 million) compared to LBP 27.78 billion (USD 18.43 million) in 2011, which can be broken down as follows:

- allowance for impairment of customers' loans and advances for LBP 43.88 billion (USD 29.11 million) compared to LBP 29.82 billion (USD 19.78 million) in 2011,

- allowance for credit risk linked to Syria's risk amounting to LBP 17.35 billion (USD 11.51 million) compared to LBP 22.28 billion (USD 14.78 million) in 2011,

- bad debts expense for LBP 0.49 billion (USD 0.32 million), compared to LBP 0.15 billion (USD 0.10 million) in 2011,

- write-back of impairment loss on loans and advances for LBP 20.32 billion (USD 13.48 million), against LBP 23.86 billion (USD 15.83 million) in 2011,

- write-back of discount on loan portfolio purchased for LBP 0.25 billion (USD 0.16 million) against LBP 0.61 billion (USD 0.41 million) in 2011.

- **NET ALLOCATION TO PROVISIONS FOR LOANS & ADVANCES TO CUSTOMERS**

in thousands of LBP	2012	2011
Allowance for impairment of loans and advances	(43,880,047)	(29,814,765)
Allowance for credit risk linked to country risk	(17,352,050)	(22,284,395)
Write-back of impairment loss on loans and advances	20,323,272	23,859,382
Bad debts expense	(487,953)	(149,814)
Write-back of discount on purchased loan portfolio	245,626	613,046
TOTAL	**(41,151,152)**	**(27,776,546)**

1.7
General Expenses

In 2012, the Group's general expenses comprising staff costs, administrative expenses, depreciation and amortization of assets, reached LBP 351.69 billion (USD 233.29 million) compared to LBP 327.26 billion (USD 217.09 million) in 2011, an increase of 7.46%. This increase is broken down as follows:

- 8.64% in salaries and related charges which amounted to LBP 219.66 billion (USD 145.71 million) in 2012 compared to LBP 202.19 billion (USD 134.12 million) in 2011,
- 5.47% in administrative expenses which amounted to LBP 110.46 billion (USD 73.27 million) in 2012 compared to LBP 104.73 billion (USD 69.47 million) in 2011,
- 6.02% in depreciation and amortization of assets which amounted to LBP 21.57 billion (USD 14.31 million) in 2012 compared to LBP 20.34 billion (USD 13.50 million) in 2011.

- **BREAKDOWN OF GENERAL EXPENSES**

in thousands of LBP	2012	2011
Staff costs	(219,664,510)	(202,192,015)
Administrative expenses	(110,456,390)	(104,724,087)
Depreciation and amortization of assets	(21,566,897)	(20,343,012)
GENERAL EXPENSES	**(351,687,797)**	**(327,259,114)**

1.8
Income Tax and Deferred Taxes

The Group's income tax for the financial year 2012 amounted to LBP 52.53 billion (USD 34.84 million), compared to LBP 51.75 billion (USD 34.33 million) for the financial year 2011. Deferred tax on associates and subsidiaries' profits for the financial year 2012 amounted to LBP 7.63 billion (USD 5.06 million), compared to LBP 7.80 billion (USD 5.17 million) for the financial year 2011.

2.
TOTAL BALANCE SHEET

As at 31 December 2012, the Group's Total Balance Sheet amounted to LBP 23,754.14 billion (USD 15,757.31 million) compared to LBP 21,774.51 billion (USD 14,444.12 million) as at year-end 2011, an increase of 9.09%. At year-end 2012, the Group maintained its 4th ranking within the Lebanese banking sector in terms of Total Balance Sheet, with a market share of 9.10% compared to 8.88% as at 31 December 2011.

2.1
Funding Sources

As at 31 December 2012, the Group's funding sources amounted to LBP 23,210.66 billion (USD 15,396.79 million) compared to LBP 20,996.79 billion (USD 13,928.22 million) as at 31 December 2011, reflecting a year-on-year increase of 10.54%.

Similar to all other Lebanese commercial banks, the principal sources of funding are customers' creditor accounts which represented as at 31 December 2012, 84.86% of total funding sources as compared to 84.34% as at 31 December 2011. Other funding sources include in addition to the shareholders' equity including preference shares, long-term credit lines provided by international banks and financial Institutions, deposits of banks and financial institutions, subordinated loans, bonds issued and soft loans from *Banque du Liban* related to banks acquisitions and made eligible by the Lebanese Law of merger and acquisition.

- **BREAKDOWN OF FUNDING SOURCES AS AT 31 DECEMBER**

	2012		2011	
in thousands of LBP	Amount	%	Amount	%
Soft loans from *Banque du Liban*	290,090,327	1.25%	282,794,115	1.35%
Long-term borrowings	550,009,616	2.37%	535,842,234	2.55%
Banks and financial institutions	376,566,840	1.62%	460,503,958	2.19%
Customers' creditor accounts	19,695,945,949	84.86%	17,708,852,253	84.34%
Subordinated loans	54,031,678	0.23%	53,636,707	0.26%
Bonds issued	-	-	2,180,996	0.01%
Shareholders' Equity	2,244,020,004	9.67%	1,952,976,392	9.30%
TOTAL	**23,210,664,414**	**100%**	**20,996,786,655**	**100%**

- **FUNDING SOURCES BY CURRENCY AS AT 31 DECEMBER**

in thousands of LBP	2012 Amount	2012 %	2011 Amount	2011 %
Lebanese Pounds	9,329,381,030	40.19%	8,223,040,562	39.16%
U.S. Dollars	10,787,749,823	46.48%	9,776,453,900	46.56%
Euros	2,469,469,811	10.64%	2,306,613,565	10.99%
Other foreign currencies	624,063,750	2.69%	690,678,628	3.29%
TOTAL	**23,210,664,414**	**100%**	**20,996,786,655**	**100%**

As at 31 December 2012, 59.81% of the Bank's major funding sources were denominated in foreign currencies, as compared to 60.84% as at 31 December 2011.

- **FUNDING SOURCES BY MATURITY AS AT 31 DECEMBER**

in thousands of LBP	2012 Amount	2012 %	2011 Amount	2011 %
Short-term funding (less than 1 year)	20,054,784,185	86.40%	18,324,999,525	87.28%
Medium-term funding (between 1 & 5 years)	843,296,494	3.63%	644,844,051	3.07%
Long-term funding (more than 5 years)	2,312,583,735	9.97%	2,026,943,079	9.65%
TOTAL	**23,210,664,414**	**100%**	**20,996,786,655**	**100%**

Customers' Creditor Accounts

As at 31 December 2012, the Group's customers' creditor accounts amounted to LBP 19,695.95 billion (USD 13,065.30 million). An increase of 11.22% over the 31 December 2011 level of LBP 17,708.85 billion (USD 11,747.17 million).

The 11.22% increase was due to the growth in time saving accounts + LBP 1,077.83 billion (USD 714.98 million), in demand and sight saving accounts + LBP 444.10 billion (USD 294.60 million), in term deposits + LBP 218.63 billion (USD 145.03 million) and in margins and collateral accounts + LBP 184.12 billion (USD 122.14 million). As at 31 December 2012, customers' creditor accounts represent 82.92% of the Group's Total Balance Sheet as compared to 81.33% as at 31 December 2011.

As at 31 December 2012, the Group maintained its 4th ranking within the Lebanese banking sector in terms of customers' creditor accounts, with a market share of 9.07% compared to 8.89% as at 31 December 2011.

- **BREAKDOWN OF CUSTOMERS' CREDITOR ACCOUNTS BY TYPE AS AT 31 DECEMBER**

in thousands of LBP	2012	2011
Customers' creditor accounts at amortized cost	19,581,866,335	17,565,926,469
Demand and sight saving accounts	2,218,461,589	1,774,359,551
Time saving accounts	11,549,843,239	10,472,014,028
Term deposits	4,230,815,339	4,012,187,463
Blocked accounts	54,711,870	41,766,833
Margins and collateral accounts	1,167,167,157	983,044,292
Related parties accounts	360,867,141	282,554,302
Customers' creditor accounts designated at fair value through profit or loss	-	38,102,057
Accrued interest	114,079,614	104,823,727
TOTAL CUSTOMERS' CREDITOR ACCOUNTS	**19,695,945,949**	**17,708,852,253**
Lebanese Pounds	38.25%	37.33%
Foreign currencies	61.75%	62.67%

- BREAKDOWN OF CUSTOMERS' CREDITOR ACCOUNTS BY AMOUNT AS AT 31 DECEMBER 2012

in thousands of LBP	LBP			FCs			Total		
	Amount	%	% Cum.	Amount	%	% Cum.	Amount	%	% Cum.
A < 50 million	1,292,639,268	17.16%	17.16%	1,210,474,240	9.95%	9.95%	2,503,113,508	12.71%	12.71%
50 million ≤ A < 100 million	808,120,596	10.73%	27.89%	679,712,356	5.59%	15.54%	1,487,832,952	7.55%	20.26%
100 million ≤ A < 200 million	1,031,198,996	13.69%	41.58%	891,573,704	7.33%	22.87%	1,922,772,700	9.76%	30.02%
200 million ≤ A < 500 million	1,341,369,511	17.81%	59.39%	1,497,600,432	12.31%	35.18%	2,838,969,943	14.41%	44.43%
500 million ≤ A < 1.5 billion	1,057,382,718	14.04%	73.43%	1,820,284,224	14.97%	50.15%	2,877,666,942	14.61%	59.04%
1.5 billion ≤ A < 5 billion	1,042,710,745	13.84%	87.27%	1,989,430,847	16.35%	66.50%	3,032,141,592	15.40%	74.44%
A ≥ 5 billion	959,323,195	12.73%	100%	4,074,125,117	33.50%	100%	5,033,448,312	25.56%	100%
TOTAL	**7,532,745,029**	**100%**		**12,163,200,920**	**100%**		**19,695,945,949**	**100%**	

- BREAKDOWN OF CUSTOMERS' CREDITOR ACCOUNTS BY INITIAL MATURITY AS AT 31 DECEMBER 2012

in thousands of LBP	LBP			FCs			Total		
	Amount	%	% Cum.	Amount	%	% Cum.	Amount	%	% Cum.
P ≤ 1 month	4,044,713,854	53.69%	53.69%	4,822,204,586	39.64%	39.64%	8,866,918,440	45.02%	45.02%
1 month < P ≤ 3 months	1,565,260,549	20.78%	74.47%	2,469,532,817	20.30%	59.94%	4,034,793,366	20.49%	65.51%
3 months < P ≤ 12 months	1,744,439,370	23.16%	97.63%	3,713,136,719	30.53%	90.47%	5,457,576,089	27.71%	93.22%
1 year < P ≤ 3 years	110,605,987	1.47%	99.10%	998,383,438	8.21%	98.68%	1,108,989,425	5.63%	98.85%
3 years < P ≤ 5 years	5,054,328	0.07%	99.17%	26,870,562	0.22%	98.90%	31,924,890	0.16%	99.01%
P > 5 years	16,466,756	0.22%	99.39%	65,197,369	0.54%	99.44%	81,664,125	0.41%	99.42%
Accrued interest	46,204,185	0.61%	100%	67,875,429	0.56%	100%	114,079,614	0.58%	100%
TOTAL	**7,532,745,029**	**100%**		**12,163,200,920**	**100%**		**19,695,945,949**	**100%**	
Number of accounts	234,168			240,799			474,967		
Average per account	32,168			50,512			41,468		
Weighted average period	89 days			161 days			133 days		

Shareholders' Equity

Shareholders' Equity as at 31 December 2012 stood accordingly at LBP 2,244.02 billion (USD 1,488.57 million), compared to LBP 1,952.98 billion (USD 1,295.51 million) as at 31 December 2011, reflecting a year-on-year increase of 14.90%. This increase is mainly due to the incorporation of 2012 net profits and the issuance by Fransabank SAL (parent company) of a new series C of perpetual non-cumulative redeemable preferred shares for the amount of USD 75 million.

2.2
Uses of Funds

The Bank uses its funds to comply with Central Banks regulatory reserve requirements, cash and liquid short term placements with international banks and financial institutions, loans and advances to customers and investment securities.

- BREAKDOWN OF USES OF FUNDS AS AT 31 DECEMBER

	2012		2011	
in thousands of LBP	Amount	%	Amount	%
Cash	141,268,914	0.63%	130,081,058	0.63%
Compulsory / regulatory deposits and Central Banks	4,472,740,922	19.76%	3,130,274,017	15.31%
Banks and financial institutions	1,874,804,657	8.28%	1,638,538,316	8.01%
Investment securities	8,849,251,646	39.10%	8,878,851,212	43.42%
Loans and advances to customers	7,295,042,961	32.23%	6,672,521,547	32.63%
TOTAL	**22,633,109,100**	**100%**	**20,450,266,150**	**100%**

- USES OF FUNDS BY CURRENCY AS AT 31 DECEMBER

	2012		2011	
in thousands of LBP	Amount	%	Amount	%
Lebanese Pounds	9,098,617,007	40.20%	7,977,111,311	39.01%
U.S. Dollars	10,334,987,552	45.66%	9,307,105,660	45.51%
Euros	2,383,474,512	10.53%	2,303,850,343	11.26%
Other foreign currencies	816,030,029	3.61%	862,198,836	4.22%
TOTAL	**22,633,109,100**	**100%**	**20,450,266,150**	**100%**

Cash, Central Banks, Banks and Financial Institutions

As at 31 December 2012, cash, Central Banks and banks & financial institutions amounted to LBP 6,488.81 billion (USD 4,304.35 million) and constituted 27.32% of total assets compared to LBP 4,898.89 billion (USD 3,249.68 million) and 22.50% of total assets as at 31 December 2011, reflecting a year-on-year increase of 32.45%. To note that as at 31 December 2012, the blocked deposits with Central Banks are related to a loan granted by the Central Bank of Cyprus to our Cypriot subsidiary due to the deteriorating economic conditions in Cyprus in order to create liquidity which was deposited with the Central Bank of Cyprus and pledged as collateral.

- **BREAKDOWN OF CASH, CENTRAL BANKS, BANKS AND FINANCIAL INSTITUTIONS AS AT 31 DECEMBER**

	2012		2011	
in thousands of LBP	Amount	%	Amount	%
Cash on hand	**141,268,914**	**2.18%**	**130,081,058**	**2.65%**
Compulsory / regulatory deposits and Central Banks	**4,472,740,922**	**68.93%**	**3,130,274,017**	**63.90%**
Compulsory deposits with Central Banks	352,405,442	5.43%	325,173,077	6.64%
Regulatory placements with Central Banks	1,588,605,336	24.48%	1,474,729,588	30.10%
Current accounts with Central Banks	405,774,756	6.25%	242,730,674	4.96%
Free placements with Central Banks	1,998,334,166	30.80%	1,075,183,762	21.95%
Blocked deposits with Central Banks	83,487,180	1.29%	550,000	0.01%
Accrued interest	44,134,042	0.68%	11,906,916	0.24%
Banks and financial institutions	**1,874,804,657**	**28.89%**	**1,638,538,316**	**33.45%**
Current accounts with banks	276,762,844	4.26%	258,163,317	5.27%
Term placements with banks	1,313,192,607	20.24%	1,129,020,127	23.05%
Blocked margins with banks	1,271,953	0.02%	-	-
Purchased checks for collection	35,889,956	0.55%	20,864,218	0.43%
Loans to banks	246,444,752	3.80%	228,032,158	4.65%
Accrued interest	1,242,545	0.02%	2,458,496	0.05%
TOTAL	**6,488,814,493**	**100%**	**4,898,893,391**	**100%**

Investment securities

As at 31 December 2012, the Group's investment securities portfolio, which consists of both fixed and variable income securities, amounted to LBP 8,849.25 billion (USD 5,870.15 million) compared to LBP 8,878.85 billion (USD 5,889.79 million) as at 31 December 2011, a decrease of 0.33%. Investment securities constituted 37.25% of total assets as at 31 December 2012 against 40.78% as at 31 December 2011.

- **BREAKDOWN OF INVESTMENT SECURITIES PORTFOLIO BY CLASSIFICATION AS AT 31 DECEMBER**

	2012		2011	
in thousands of LBP	Amount	%	Amount	%
Trading securities measured at FVTPL	780,974,701	8.83%	638,464,278	7.19%
Amortized cost securities	7,899,232,132	89.26%	8,112,002,485	91.36%
Securities measured at fair value through other comprehensive income	169,044,813	1.91%	128,384,449	1.45%
TOTAL	**8,849,251,646**	**100%**	**8,878,851,212**	**100%**

- BREAKDOWN OF INVESTMENT SECURITIES PORTFOLIO BY TYPE AS AT 31 DECEMBER

	2012		2011	
in thousands of LBP	Amount	%	Amount	%
Equities and preference shares	220,344,044	2.49%	178,614,427	2.01%
Lebanese Treasury bills	2,364,308,327	26.72%	1,866,924,159	21.03%
Foreign Treasury bills	-	-	87,477,037	0.99%
Lebanese Government bonds	1,720,877,289	19.45%	1,803,852,500	20.32%
Foreign Government bonds	208,732,921	2.36%	283,270,236	3.19%
Foreign Eurobonds issued by banks	126,846,186	1.43%	27,028,200	0.30%
Subordinated Eurobonds	2,268,755	0.02%	2,261,222	0.02%
Certificates of deposit issued by Central Bank of Lebanon	3,949,217,531	44.63%	4,271,709,347	48.11%
Certificates of deposit issued by banks	24,746,532	0.28%	72,149,603	0.81%
Corporate bonds	86,317,012	0.97%	147,883,801	1.67%
Asset-backed securities	319,522	0.01%	1,447,829	0.02%
Accrued interest	145,273,527	1.64%	136,232,851	1.53%
TOTAL	**8,849,251,646**	**100%**	**8,878,851,212**	**100%**
Lebanese Pounds	63.87%		61.37%	
Foreign currencies	36.13%		38.63%	

Loans and Advances to Customers

As at 31 December 2012, the Group's loans and advances to customers, net of provisions and unrealized interest for non-performing loans and discount on loan book, amounted to LBP 7,295.04 billion (USD 4,839.17 million) against LBP 6,672.52 billion (USD 4,426.22 million) as at 31 December 2011, an increase of 9.33%.

As at 31 December 2012, the Group maintained its 3rd ranking within the Lebanese banking sector in terms of net loans and advances to customers, with a market share of 8.39% compared to 8.32% as at 31 December 2011.

- BREAKDOWN OF LOANS AND ADVANCES TO CUSTOMERS BY TYPE AS AT 31 DECEMBER

in thousands of LBP	2012	2011
Short term (Commercial loans & other current debtor accounts)	3,264,353,887	3,143,852,959
Medium & long term	3,688,216,423	3,213,300,386
Consumer loans	544,381,654	457,968,990
Housing loans	577,995,323	489,863,385
EPH housing loans	410,626,803	360,966,195
Housing loans to army personnel	91,172,795	90,274,040
Educational loans	16,974,039	13,193,974
Loans subsidized by the Government	314,327,357	234,902,864
Kafalat guaranteed loans	130,618,655	110,124,984
Car loans	302,564,704	323,612,720
Loans to enterprises	1,226,736,737	1,066,694,869
Other loans	72,818,356	65,698,365
Loans and advances to related parties	183,285,398	174,827,811
Substandard debts	91,790,426	71,525,492
Doubtful and bad debts	1,167,947,505	1,096,805,151
Accrued interest	31,683,012	23,791,555
TOTAL	**8,427,276,651**	**7,724,103,354**
Less :		
Unrealized interest for substandard debts	(47,140,889)	(43,397,334)
Provisions and unrealized interest for doubtful and bad debts	(1,019,915,663)	(961,180,215)
Discount on loan book	(9,515,159)	(8,825,192)
Collective provisions for un-classified debts	(55,661,979)	(38,179,066)
NET LOANS AND ADVANCES TO CUSTOMERS	**7,295,042,961**	**6,672,521,547**
Lebanese Pounds	20.69%	20.96%
Foreign currencies	79.31%	79.04%

- **ASSET QUALITY AS AT 31 DECEMBER**

in thousands of LBP	**2012**	2011
Regular, watch and unclassified accounts	7,135,855,708	6,531,981,156
Doubtful & bad debts	1,165,747,640	1,094,265,218
Substandard accounts	91,790,426	71,525,492
Purchased loan book	2,199,865	2,539,933
Accrued interest	31,683,012	23,791,555
TOTAL LOANS AND ADVANCES TO CUSTOMERS	**8,427,276,651**	**7,724,103,354**
Less provisions, discount and unrealized interest for non performing debts	(1,132,233,690)	(1,051,581,807)
Provisions for doubtful and bad debts	(262,414,016)	(265,266,942)
Discount on loan book	(9,515,159)	(8,825,192)
Collective provisions for un-classified debts	(55,661,979)	(38,179,066)
Collective provisions for doubtful and bad debts	(2,586,054)	(6,500,757)
Unrealized interest for doubtful and bad debts	(754,915,593)	(689,412,516)
Unrealized interest for substandard accounts	(47,140,889)	(43,397,334)
NET LOANS AND ADVANCES TO CUSTOMERS	**7,295,042,961**	**6,672,521,547**

As at 31 December 2012:

- The Group's doubtful and bad debts, net of provisions, discount and unrealized interest, amounted to LBP 138.52 billion (USD 91.89 million) compared to LBP 126.80 billion (USD 84.11 million) as at 31 December 2011, thus an increase of 9.24%.

- The Group's provisions, discount and unrealized interest for doubtful and bad debts amounted to LBP 1,029.43 billion (USD 682.87 million) against LBP 970.01 billion (USD 643.45 million) as at 31 December 2011. This places the coverage ratio in 2012 at 88.14% compared to 88.44% in 2011.

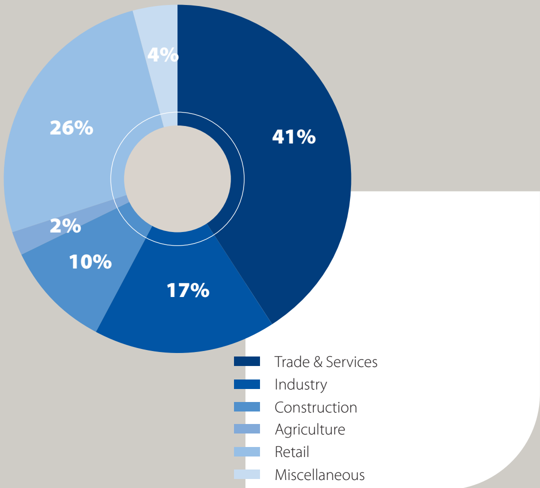
- The Group's substandard accounts, net of unrealized interest, amounted to LBP 44.65 billion (USD 29.62 million) compared to LBP 28.13 billion (USD 18.66 million) as at 31 December 2011.

- **ASSET QUALITY RATIOS AS AT 31 DECEMBER**

	2012	2011
Doubtful, bad debts and purchased loans (net) to Total loans and advances to customers (net)	1.90%	1.90%
Doubtful, bad debts and purchased loans (net) to Shareholders' Equity	6.17%	6.49%
Substandard accounts (net) to Total loans and advances to customers (net)	0.61%	0.42%
Provisions, discount and unrealized interest to Doubtful, bad debts and purchased loans	88.14%	88.44%
Unrealized interest for substandard accounts to Substandard accounts	51.36%	60.67%

- **BREAKDOWN OF LOANS AND ADVANCES TO CUSTOMERS BY ECONOMIC SECTOR**

31.12.12



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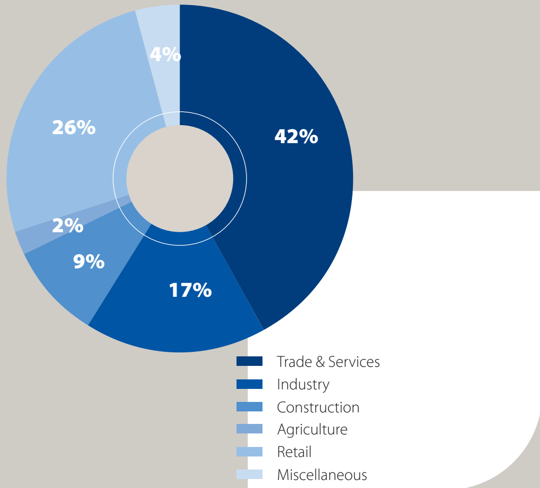


- **BREAKDOWN OF GROSS LOANS AND ADVANCES TO CUSTOMERS BY AMOUNT AS AT 31 DECEMBER 2012**

	LBP			FCs			Total		
in thousands of LBP	Amount	%	% Cum.	Amount	%	% Cum.	Amount	%	% Cum.
A < 50 million	521,545,670	25.78%	25.78%	588,555,501	9.19%	9.19%	1,110,101,171	13.17%	13.17%
50 million ≤ A < 100 million	193,965,594	9.59%	35.37%	198,830,450	3.10%	12.29%	392,796,044	4.66%	17.83%
100 million ≤ A < 200 million	340,230,833	16.81%	52.18%	265,967,906	4.15%	16.44%	606,198,739	7.19%	25.02%
200 million ≤ A < 500 million	220,657,707	10.91%	63.09%	578,006,197	9.03%	25.47%	798,663,904	9.48%	34.50%
500 million ≤ A < 1.5 billion	140,931,968	6.96%	70.05%	1,012,296,621	15.81%	41.28%	1,153,228,589	13.69%	48.19%
1.5 billion ≤ A < 5 billion	190,664,235	9.42%	79.47%	1,580,586,736	24.68%	65.96%	1,771,250,971	21.02%	69.21%
A ≥ 5 billion	415,403,742	20.53%	100%	2,179,633,491	34.04%	100%	2,595,037,233	30.79%	100%
TOTAL	**2,023,399,749**	**100%**		**6,403,876,902**	**100%**		**8,427,276,651**	**100%**	

3.
CAPITAL ADEQUACY RATIO

The Group's total capital adequacy ratio is 12.44% (2012 profit included) as at 31 December 2012, as compared to 10.01% (2011 profit excluded) as at 31 December 2011. The 2012 profit were included in the Equity for the calculation of the capital adequacy ratio as at 31 December 2012 based on the decision of the Board of Directors held 30 November 2012 to allocate the 2012 profit to the Equity after the deduction of estimated dividends to be distributed. This Decision was made in anticipation to the general assembly resolutions.

The capital adequacy ratio is calculated according to Central Bank of Lebanon guidelines, which are in line with the recommendations of the Committee on Banking Regulations and Supervisory Practices of the Bank for International Settlements (the Basel III Accord).

On a stand-alone basis, Fransabank's capital adequacy ratio is 15.10% (2012 profit included) as at 31 December 2012, as compared to 12.23% (2011 profit excluded) as at 31 December 2011.

The statutory minimum capital adequacy ratio required by Central Bank of Lebanon is 8%. Basel III Capital Framework, which was designed to address the weaknesses of the international financial crisis, was also considered by Fransabank through an internal quantitative impact study that was conducted to assess the impact of the proposed ratios and limits on Fransabank status.

. RESOLUTIONS OF FRANSABANK SAL ORDINARY GENERAL ASSEMBLY

The Ordinary General Assembly of Fransabank SAL held on 17 May 2013:

- Approved the accounts and the Balance Sheet of Fransabank SAL as at end December 2012
- Acquitted Fransabank SAL Board of Directors for their management of the business activities of the fiscal year 2012
- Decided to allocate out of Fransabank SAL net profit (LBP 174,343,950 thousands) as follows:
  - 10% to legal reserve (LBP 17,434,395 thousands),
  - LBP 27,500,000 thousands to reserve for general banking risks,
  - LBP 6,992,943 thousands to reserve for assets acquired in settlement of bad loans,
  - LBP 642,331 thousands to special reserve for non productive loans,
  - LBP 44.1 billion (LBP 2,100/share) as dividend distribution on common shares, LBP 12,813,750 thousands on preferred shares - series A , LBP 8,649,281 thousands on preferred shares - series B and LBP 229,369 thousands on preferred shares - series C, representing 36.41%, 10.58%, 7.14% and 0.19% respectively of the Bank's 2012 distributable profits,
  - LBP 661,279 thousands to unrealized profits on securities reclassified as per IFRS 9,
  - LBP 55,320,602 thousands i.e. the remaining balance, to the free reserves.

INVESTMENT AND PRIVATE BANKING

In 2012, Fransa Invest Bank (FIB) successfully completed major transactions with very competitive terms and conditions, and registered good increases in its key activities, despite the deteriorating economic conditions and the local and regional political instability.

Advisory Services/Equity & Debt Financing

The year 2012 was marked by a proactive and aggressive sales strategy adopted by the Investment Banking unit. In this context, FIB has achieved the following:

- Approached many high-profile Fransabank corporate clients as well as new clients from various local economic fields, such as confectionery, foodstuffs, packaging, construction, apparel trade and chemicals. Accordingly, FIB identified and followed up on different requests for private placements, mainly to regional strategic partners, thus seeking expansion, long-term lending, entry to new markets and corporate restructuring.

- Mandated for the identification of a strategic and financing partner for a new steel project in an Eastern European country, and conducted financial due diligence on two companies in the food and printing industries for potential mandates to raise equity.

- Extended its long-term lending portfolio, by participating in a syndicated refinancing loan granted to a prominent Lebanese insurance group that was arranged subsequent to a change in their corporate structure; and provided a USD 100 million financing for the completion of works in a residential project.

- Completed due diligence for an opportunity to acquire shares in a prominent financial institution.

- Acted as investment agent for Fransabank Series C preferred shares offering transaction, which closed successfully on October 30, 2012, raising USD 75 million. FIB's role was instrumental in the success of the issue, which was beyond all expectations considering the adverse political and economic conditions prevailing domestically and regionally at the time of the sale.

Private Banking/Asset Management & Capital Markets

FIB worked diligently in 2012 to set up the entire required infrastructure for the launch of its first fund, which will be open for subscriptions at the beginning of 2013. This fund came first among many yet to come, putting FIB's Asset Management business on the map. The fund shall cater to different investor profiles and offer clients an opportunity to invest in a liquid, diversified and professionally managed basket of securities.

Fransa Invest Bank's brokerage services expanded in 2012, translated into a significantly higher activity and a growing client base during the year. This was backed by a higher risk appetite and an increased volatility encouraging investors to seek opportunities.

FIB launched in 2012 its website to selective clients, which will be fully operational in the beginning of 2013. This service shall allow clients to follow up their portfolios electronically and receive customized notifications on the markets and their holdings.

Always planning ahead, FIB will build on its achievements for further progress in its position and for a growing role in the local and regional markets, while striving for excellence every step of the way.

CORPORATE BANKING

Gaining a firm foothold in the Lebanese banking industry, and always in harmony with its commitment to the service of the national economy and its various vital sectors in general, Fransabank Group through its corporate banking activity, has pursued in 2012 the initiatives that were already launched in previous years, always being consistent with the Bank's social corporate responsibility strategy and faithful to the Group's core values: Integrity, Loyalty, Accountability and Transparency.

In this context, Fransabank SAL believes that sustainable finance, defined as finance with social and environmental values, i.e. responsible and transparent banking, is the main pillar for an economy in sustained progress, and subsequently, a continuous growth in its banking activities. Therefore, Fransabank pursues its objectives, through adopting the sustainability finance standards based on the local requirements and the international best practices, as follows:

- Clients are requested to support their applications with legal documents, permits and certificates from the relevant authorities, especially those issued by the Ministry of Environment, where applicable.
- Coordination with the Anti-Money Laundering Department is maintained to ensure that the financed projects are in conformity with the anti-money laundering standards.
- Corporate Department officers conduct regular on-site visits to clients' premises, whereby relevant call reports containing observations of concern are transmitted to the upper management.

By combining this set of values and its wide range of corporate banking products, including project finance, trade finance, special purpose loans, working capital financing etc…, Fransabank contributed to the development of several projects related to the following:

- Promoting the growth of Lebanon's real economy, such as industries, projects related to tourism, and commerce transactions;
- Social and economic development, such as infrastructure and utilities (electricity, water, telecommunications, roads, etc…);
- Information technology innovations;
- Promoting green projects, such as green buildings, waste reduction and recycling, sustainable energy, etc…;
- Developing the educational sector and health services;
- Developing the agricultural sector through land reclamation projects and projects introducing new agricultural technologies.

Finally, and in order to provide customers with broader access to needed funds at lower costs, Fransabank maintained its partnerships with regional and international institutions, that promote sustainable financing and corporate social responsibility, such as the International Finance Corporation (IFC), the European Investment Bank (EIB), the Arab Trade Financing Program (ATFP), DEG, etc...

As end of 2012, Fransabank Group corporate loan portfolio reached c/v USD 2.23 billion increasing by 6% compared with c/v USD 2.11 billion as at end of 2011.

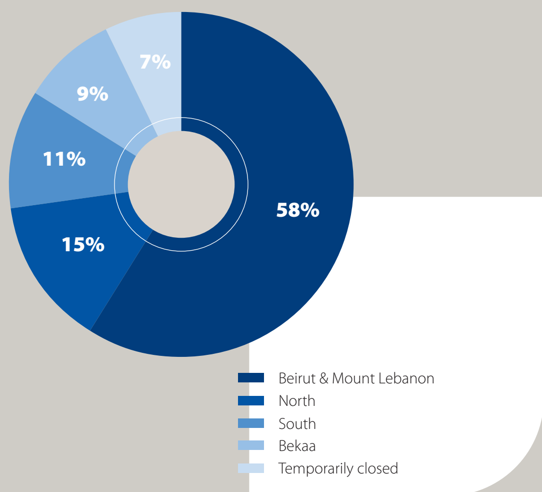
RETAIL BANKING

Fransabank Group's retail banking business continued to rely on its customer-oriented strategy aimed at ensuring clients' ultimate satisfaction. Thus, empowered with a broad and diversified range of products and a branch network widely spread across the regions, the Group put a premium on the fulfillment of individual customers' needs in a well-integrated manner.

Fransabank Group retail operations and loans to SME reached c/v USD 2.53 billion increasing by 12.4% at end of 2012 compared with c/v USD 2.25 billion as at end of December 2011.

At end of 2012, Fransabank Group's local network consisted of 114 branches of which seven branches were inaugurated throughout 2012. Subsequently, Fransabank Group was conferred, for the second consecutive year, the "Widest National Outreach Award" within the Lebanon Opportunities National Achievement Awards for Banking in the year 2012.

DISTRIBUTION OF BRANCHES BY REGION



114 Branches in Lebanon

129 ATMs in Lebanon

In 2012, Fransabank SAL's local expansion strategy revolved around the inauguration of three new branches within the subsequent years, two of which in Beirut and one in North Lebanon. This expansion was further consolidated with the renovation and relocation of a good number of the Bank's existing branches. Furthermore, the branches became more compatible with the modern, transparent and embracing organizational structure that the Bank thrives to offer.

In 2012, Fransabank MasterCard PayPass Card and "Najah Loan" were both highly praised. In fact, Fransabank MasterCard PayPass Card won the "Best Contactless Innovation Award" at the "Smart Card Awards Middle East 2012". With the "Tap & Go" feature, Fransabank MasterCard PayPass Card is the first card of a kind in the MENA region, where payment is made through a simple "tapping" at hundreds of thousands of merchants around the world accepting the MasterCard PayPass. On the other hand, Fransabank "Najah Loan" was also awarded the 2nd Social Economic Award (SEA) in the category of "Women Empowerment". Fransabank "Najah Loan" is exclusively dedicated to women who are eager to fulfill their dreams by starting up their own business.

As for the technological innovations, the Bank has developed the following projects:

- An electronic money-payment application dedicated to Smart-phones (SIMBA) allowing users to benefit from retail services with a click of a button.
- A call center powered by a cutting-edge infrastructure to be further reinforced to eventually become a full virtual branch.
- A permanent dialogue with internet users via social networks, on its new Facebook page Facebook.com/fransabankgroup, liked by more than 8,100 friends, and its @fransabankgroup twitter account.

Moreover, during 2012, Fransabank was still keen on raising its contribution to the Small and Medium-Sized Enterprises (SME) sector and increasing its market share within this business line which is considered to be the backbone of the Lebanese economy. Therefore, the Bank's SME lending portfolio encompassed the financing of companies' direct risk such as overdrafts, banker's acceptances, discounting bills and term loans, as well as other related facilities. The Bank focuses in general on the development of SMEs in areas where financial means are ensured and socio-economic welfare is improved. Besides, Fransabank has been very active regarding the use of the programs introduced by the Central Bank of Lebanon, which provide subsidized interest rates.

At Fransabank, we attach very great importance to implementing the best customer service practices, equipped with our innovative way to provide our wide clientele base with value added financial services. This year, we were still recording a significant progress as we reinforce our stronger customer-centric organization. The achievements made throughout included:

- **A high level of customer satisfaction that is constantly increasing**

According to a national telephone survey conducted by Fransabank, 1,082 selective customers asserted a growing satisfaction, mainly in the two major retail banking markets (individuals and professionals), which highlighted the Bank's improved competitive position. This study was part of a strategy to promote dialogue with customers, and one of many other qualitative and quantitative market surveys carried out with approximately 30,000 existing and potential customers.

- **Customer Service Best Practices Guideline**

Customer satisfaction and loyalty are core principles of Fransabank strategy and the Bank strives to improve its satisfaction analysis methods and the tools used to anticipate customer needs. In line with this policy, the Bank has launched its Customer Service Best Practices Guideline in all its branches and the branches' regional management, conveying a satisfactory image of the Bank and providing customers with the best and most efficient service.

- **Mystery Shopper**

To consolidate the Customer Service Best Practices Guideline, Fransabank regularly conducts mystery shopper visits to its branches and the call center, during peak and off-peak times. The purpose is, on the one hand, to assess the branches' service performance and conformity to the set standards, through the real life customer experiences, and on the other, to determine the weak points to be improved among Fransabank branch employees.

- **A small and stable number of claims**

Fransabank has always paid particular attention to the way it handles difficulties pointed out by its customers, thus they may seek three levels of redress when needed: their branch advisers, the Call Center Department, and if a disagreement persists, as a last resort, the top management.

Fransabank expansion strategy coupled with a diversified range of retail products has positively affected the overall performance and the business development.

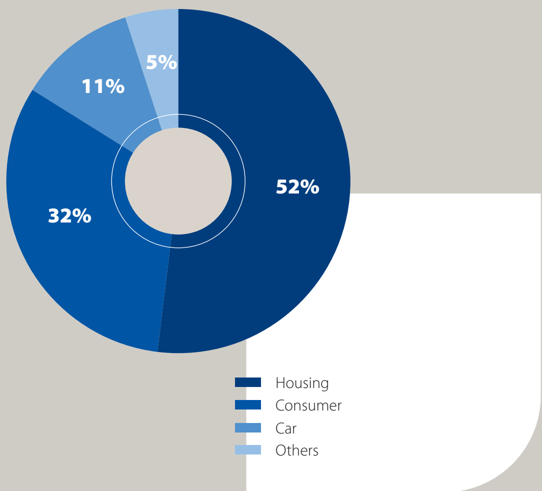
Clients' Deposits

During the past five years, Fransabank clients' deposit portfolio remained on a steady upward trend, with a Compounded Annual Growth rate of nearly 13%. Therefore, between end-December 2011 and end-December 2012, the clients' deposit portfolio increased by 8.5%.

Retail Loans

Fransabank's total retail loans portfolio increased by 2.8 times at end-December 2012, while sustaining a Compounded Annual Growth rate of 29%. Thus, retail loans increased by an annual 16% at end-December 2012. The distribution of the retail loans portfolio is as follows: housing loans 52%, consumer loans 32%, car loans 11% and other loan types 5%.

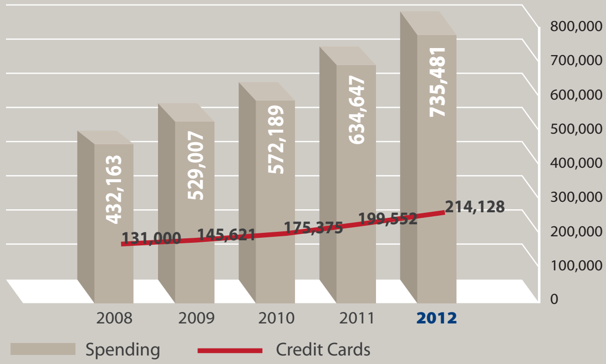
– DISTRIBUTION OF RETAIL LOANS BY TYPE



Payment Cards

Fransabank payment cards portfolio notably increased by 1.6 times at end-December 2012, while recording a Compounded Annual Growth rate of 13%. Similarly, cardholders' spending also significantly progressed by 1.7 times, with a Compounded Annual Growth rate of 14%.

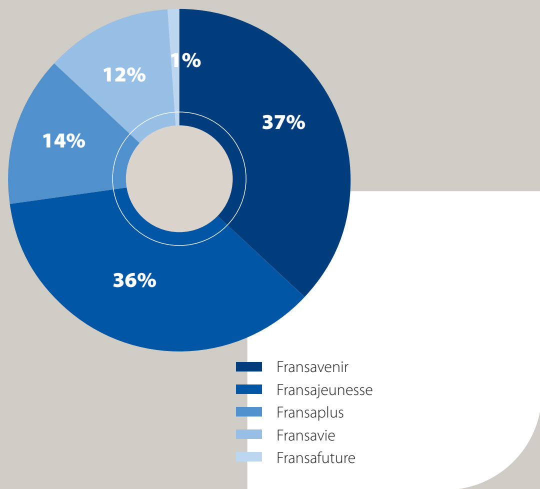
– SPENDING VOLUME (in thousands of USD)
CREDIT CARDS EVOLUTION (in units)



Bancassurance Products

Year-on-year, overall Fransabank Bancassurance products portfolio increased by 10%. It is noteworthy that over the past five years, the insurance portfolio significantly grew by 1.6 times, with an average yearly growth rate of 12%. The distribution of Bancassurance portfolio is as follows: Fransavenir (retirement saving plan) 37%, Fransajeunesse (education saving plan) 36%, Fransaplus (life insurance plan with accidental coverage) 14%, Fransavie (life insurance plan) 12% and Fransafuture (retirement saving plan with investment and financial markets) 1%.

– DISTRIBUTION OF BANCASSURANCE PRODUCTS BY TYPE



SME Loans and Facilities

From 2008 to 2012, Fransabank SME loans and facilities portfolio increased by 2.6 times, registering a Compounded Annual Growth rate of 27%. The distribution of the SME lending portfolio is as follows: overdrafts facilities 42% and medium to long-term loans 58% (of which subsidized loans 12%, Kafalat loans 10% and others 36%).

BLC BANK SAL

The year 2012 was a good year for BLC Bank with the launching of strategic projects in line with the Bank's growth plans.

In 2012, BLC Bank realized growth rates in terms of customers' deposits and customers' loans which were among the highest growth rates registered by the Alpha Banking Group in Lebanon. Total assets increased by 15% to reach USD 5.1 billion, just as total deposits increased by 18% to reach USD 4.3 billion and the Bank's portfolio of performing loans increased by 15% reaching USD 1.7 billion.

BLC Bank is focused on its vision of becoming a Bank of reference and is actively involved in financing productive economic sectors which have a lasting effect on national growth and sustainable development in Lebanon. To this effect, the Bank received local and international awards for its commitment to developing SMEs, fostering women's economic empowerment and contributing in promoting CSR initiatives.

BLC Bank having recognized women's potential and the importance of their participation in the economy to achieve major advancements and boost the national GDP, devised the "We Initiative". This is the first and only holistic program dedicated to the economic empowerment of women in the Middle East. Within this framework, BLC Bank became the first and only Bank in the Middle East and North Africa region to join the Global Banking Alliance for Women, to commit to the UN Women Empowerment Principles and to create a unit dedicated to serve women.

In this scope, and because of its commitment to entrepreneurship, the Bank launched the BLC Bank awards; the first Lebanese banking awards designed to recognize and reward both men and women entrepreneurs who have achieved excellence in creativity, financial performance, sustainability and corporate social responsibility, with two categories: the Business of the Year and the Woman Entrepreneur of the Year.

Another addition to the Bank's innovative products and services was the BLC Cloud, encompassing the Bank's alternative channels namely personal and business Internet banking, mobile banking, full service ATM and e-Branch. It is the Bank's all-inclusive approach to self-service banking.

Moreover, the Bank received a bundle of awards from renowned local and international institutions: The New Economy (TNE) magazine granted BLC Bank the Women Empowerment Corporate Leadership Award and the Arabia CSR Awards announced the Bank as the winner of the Corporate – NGO Collaboration Category and for the third year in a row. In addition, BLC Bank was granted Commerzbank's STP Award for the highest percentage of Straight-Through Processing (STP) and the best quality in execution of commercial payments, as well as, the Lebanese Center for Energy Conservation (LCEC), recognized BLC Bank's dedicated involvement in the CSR products and business development.

On the expansionary level, BLC Invest became operational in March 2012, swiftly ermerging as a leading player in the development of private equity in Lebanon, providing advisory services and solutions in the areas of funding structures, capital expansion alternatives, value assessment and capital market accessibility.

Additionally, BLC Bank acquired 10% of Bancassurance SAL shares creating insurance programs to furhter expand the products and services base.

Last but not least, on the regional front, 2012 was marked by the inauguration of BLC Bank's representative office in Abu Dhabi. Whereas, on the local front, the Bank's network grew with the opening of 5 new branches in Aisha Bakkar, Jdeideh, Mazraat Yachouh, Zahle and Zouk Mosbeh.

FRANSA INVEST BANK SAL (FIB)

Fransa Invest Bank, the investment banking arm of Fransabank, is one of the leading investment and private banking institution in Lebanon. Since its inception in 2001, FIB has built up a reputation for itself, and stood out by offering innovative products and tailor-made solutions, providing excellent services, and achieving major milestones over the years. This has reached a culminating point where FIB was attributed "Best Investment Bank in Lebanon 2012" by the World Finance magazine, "Deal of the Year 2012 Award - Loans - Middle East" and "Deal of the Year 2012 Award – Bonds: Sovereigns, Supras and Agencies – Highly Commended, Middle East", both by The Banker magazine.

FIB always keeps abreast of the latest events in the banking and financial markets and their potential impact on the development of national, regional and international economies. In fact, the Bank draws on this know-how to give strategic advice that will help clients meet their investment and business requirements and objectives.

In this context, FIB has expanded its business and developed a wide range of investment and private banking, asset management products and services that are fully consistent with the advanced norms and standards of the international banking and finance industry, while strictly abiding by corporate governance and transparent policies and practices.

FIB's activities include the following:

- **Financial Advisory** includes mergers and acquisitions, equity capital markets, private investments, vertical/horizontal expansion, corporate equity/debt advisory, re-organization and balance sheet re-structuring.
- **Equity and Debt Financing** encompasses corporate and project financing, feasibility studies, legal and financial due diligence, debt/equity structuring, equity investments and debt settlement arrangement.
- **FIB's Private Banking & Asset Management** team is in close attendance on high-net-worth clients, advising them on wealth development and investment management strategies. In other words, the team identifies for them favorable investment opportunities to fulfill their objectives.
- **Capital Markets Services** are available through a very well equipped and staffed trading room, which provides full brokerage services to carry out transactions on equities, fixed income, currencies, commodities, options and futures, with access to local, regional and international markets.

LEBANESE LEASING COMPANY SAL (LLC)

During 2012, the Lebanese Leasing Company shareholders took a step forward to consolidate the company by raising its capital from LBP 2.34 billion to LBP 13 billion, with the purpose of increasing its lending capacity. Fransabank SAL and Deutsche Investitions - und Entwicklungsgesellschaft mbH (DEG), its two major shareholders, kept their respective participations unchanged. LLC also converted to a financial company with a view to expanding its services to other fields of activity in the foreseeable future. Another major development which took place during the year, was the disbursement of a USD 6 million medium-term loan from DEG, to finance LLC activities at competitive rates and diversify its sources of funds.

Despite the challenging economic conditions prevailing in Lebanon and the Middle East throughout 2012, LLC persisted with the promotion of leasing in Lebanon. This persistence was rewarded at the end of the year, with a net profit after income tax of USD 705,000, an annual increase of 9%.

In 2013, LLC will continue to strengthen its structures and reach out to new clients to diversify its portfolio and increase its market share. Ahead, lays another challenging year, nevertheless, the imports of machinery and equipment in Lebanon, show that the potential for this subsidized and increasingly popular form of financing remains high and largely untapped.

BANCASSURANCE SAL

Fransabank conducts its bancassurance business mainly through its associate company, Bancassurance SAL, which is currently considered one of the key market players in the Lebanese life insurance market.

In line with the company's expansion and development plan, which is based on the sale of "over-the-counter insurance products" to a higher number of clients and through a wider branch network, BLC Bank, a local banking subsidiary of Fransabank Group, became in 2012 a shareholder in the company.

By the end of December 2012, Bancassurance net profits reached USD 12.7 million and the collected premiums increased by 11.4%, attaining USD 47.09 million in 2012, compared with USD 42.27 million in 2011.

Bancassurance provides saving and life insurance products, detailed as follows:

- Compulsory life insurance products for all types of loans
- Term life insurance products
- Saving and life insurance products
- Investment and life insurance plans
- Housing saving plans.

SOCIÉTÉ GÉNÉRALE FONCIÈRE SAL (SOGEFON)

In 2012, the real estate sector in general sharply regressed, recording an unprecedented level in the last 10 years. However, and thanks to its newly implemented ongoing strategy, Sogefon succeeded in overcoming the regional circumstances, and registered a net profit margin of 44%, with 46 units sold at market price.

With an 8% decrease in Fransabank's debt collection assets, Sogefon conveyed, once again, an insatiable dedication, having the parent company's best interests at heart, while maintaining the steady pace of the previous years. Moreover, and in order to minimize Fransabank's risk, Sogefon is now performing a new function of real estate appraisal, addressed to both SMEs and Corporate Departments. This indeed testifies to the trust Fransabank places in its real estate subsidiary, Sogefon.

As at 31.12.2012, the total balance sheet of Fransabank Group subsidiaries abroad totaled c/v USD 1,732 million, representing a share of 11% of Fransabank Group's total consolidated balance sheet. This figure is only slightly higher than that of the previous year, which stood at c/v USD 1,694 million (+2.24%). This is explained by the fact that it takes into account the decrease in the assets of our subsidiary in Syria, targeted as a result of the unstable political and economic prevailing situation.

The situation in Syria has also led to constitute collective provisions, where needed, against Syrian credit risk in line with the directives issued by the Banking Control Commission in Lebanon.

On a more positive note, our subsidiaries in the other countries in which we are operating, have witnessed sustainable growth.

Naturally, profits realized in 2012 by our subsidiaries abroad reflected the prevailing situation in the respective countries. Fransabank El Djazaïr in particular has achieved in 2012 good results with net profits at c/v USD 13.32 million representing an ROAE of 8.50% compared to 5.55% in 2011.

During the said year, we have continued to focus on enhancing the synergies between the different Fransabank entities, and which have positively impacted the results at Fransabank El Djazaïr and Fransabank (France).

Also in 2012, capital increases were effected at USB - Cyprus to meet the regulatory requirements and at Fransabank OJSC - Belarus in expectation of future growth.

Last but not least, we have during 2012 started working on establishing two branches in Iraq (Baghdad and Erbil) to be opened during the course of 2013.

FRANSABANK (FRANCE) SA

In 2012, Fransabank (France) witnessed a marked development in its activities with Fransabank El Djazaïr as part of Fransabank Group's synergy plans among its entities.

The Bank is also expanding its line of business by targeting new markets in Africa, namely Senegal, Ghana, Gabon, and Ivory Coast.

Fransabank (France) has also reinforced in this respect its business development team through the recruitment of a senior responsible with the aim to expand its Lebanese customer base in the Middle East and West Africa.

Meanwhile, the Bank continued to capitalize on already established synergies with its shareholders, namely Fransabank SAL and BPCE, the second largest banking group in France.

Fransabank (France) has pursued its conservative policy and constituted in 2012 collective provisions leading to a net profit after provisions and taxes of Euro 0.13 million with total assets amounting to Euro 155.59 million.

FRANSABANK EL DJAZAÏR SPA

In 2012, Algeria continued to benefit from high hydrocarbon prices and has moved forward to become a World Trade Organization member, by signing five additional bilateral trade agreements.

Against this backdrop, Fransabank El Djazaïr achieved a notable growth of its activities in 2012, which year also witnessed the opening of a new branch in Constantine whereby the Bank operates now through three branches.

Net profit for 2012 registered USD 13.32 million compared to USD 8.36 million for 2011, thus an increase of 60%. The Bank's total assets reached USD 300.23 million at end 2012, and its shareholders' equity USD 160.40 million.

As per Fransabank El Djazaïr business plan, three new branches will be opened in 2013, two of which in Algiers (Ouled Fayet and Dar El Beida) and one in the Wilaya of Blida.

FRANSABANK SYRIA SA

The crisis in Syria which started in mid-2011, did not appear in 2012 to be reaching a solution. As such, Fransabank Syria put on hold its plans for the development of its branch network and continued to operate at present through six branches down from initially nine branches with the temporary closure of two branches due to security reasons.

In the prevailing circumstances, the Bank's strategy was focused on controlling risks at all levels, whether related to the lending portfolio or to operational factors, waiting for a tangible improvement in the situation.

Meanwhile, the business continuity plan has been deployed to contain some general adversities, covering technical, human, financial, and physical aspects; hence all profits have been directed towards general provisions to cover unforeseen risks. These have reached c/v USD 21.64 million by the end of 2012. The Bank's total assets stood at c/v USD 442.09 million as at 31.12.2012 reflecting the reduction in assets as expected.

FRANSABANK OJSC (BELARUS)

After the sharp currency devaluation which took place in 2011 vis-a-vis the US Dollar and the Euro, the Belarus Ruble remained relatively stable in 2012, which has put the local market and the economy on the way to recovery.

In 2012, Fransabank OJSC has achieved a capital increase through a cash injection of Euro 4.175 million, fully subscribed by Fransabank SAL. As such, the Bank's shareholders' equity amounted to c/v USD 33 million as at 31.12.2012.

Fransabank OJSC continued its geographical expansion in Belarus during 2012 through the opening of new exchange offices in prominent shopping centers, and the establishment of a new branch in one of Minsk's newest and most prestigious business centers. As such, the Bank currently operates through ten branches (including Headquarters in Minsk) and 25 Exchange Offices. As at end 2012, the Bank employed a total staff of 350.

As at 31.12.2012, Fransabank OJSC's total assets reached c/v USD 80.84 million and net profit of c/v USD 2.63 million.

UNITED CAPITAL BANK (SUDAN)

Sudan faced a difficult year following the secession of South Sudan in July 2011 and the prevailing tension between the two countries due to a lack of understanding reached on the allocation of income resulting from oil production, inflation also reaching a record level of 44%. The effect of this issue was an immediate decline in foreign currency resources and the resulting pressure on the SDG which was promptly devaluated by more than 100%.

However, the economic situation had partially improved by the compensating gold revenues amounting to USD 2.5 billion / yearly in addition to the agricultural output. Also, efforts are being deployed to normalize the political and economic relations between the two different parties with the view of overcoming the failing economic situation.

Despite the challenging market conditions, United Capital Bank managed to preserve a good performance level and register positive results. The Bank's total assets and shareholders' equity registered USD 251 million and USD 64 million respectively as at end 2012, and net profit for the year stood at USD 12.85 million.

Fransabank implements an effective risk and capital management practices, which cover all the risks it is exposed to and that by implementing risk policies and procedures for assessing, measuring, monitoring and managing those risks, in addition to maintaining adequate capital levels that are commensurate with its risk profile.

Risk Governance

The Board of Directors, the Risk Management Committee, the Senior Management, the Risk Management Division and the Internal Audit Division are key members in the risk management process. Fransabank Board of Directors is mainly responsible for setting the Bank's risk management framework, overseeing the risks to which the Bank is exposed to and ensuring that the Bank operates within the defined risk appetite and risk tolerance levels.

In line with the provisions of its charter, the Risk Management Committee assists the Board of Directors in monitoring and managing risks in an efficient and effective manner and oversees the proper implementation of the risk management principles. The responsibility of monitoring the risk management process of Fransabank Group is assigned to the Chief Risk Officer (CRO), who monitors and controls all risk exposures and concentrations across the Bank and its subsidiaries. The CRO has the responsibility to promote risk management culture and to oversee the subsidiaries risks through the implementation of a Group risk management process, whereby the Risk Manager at each subsidiary reports to the CRO about all risks confronted by this subsidiary.

Fransabank has established an appropriate structure for the risk management function, evidenced by its Risk Management Division which is headed by the CRO. This Division which includes five departments, namely: Credit Risk, Market Risk, Operational Risk, Basel Implementation and Risk Control and Rating Departments, operates independently from the business line functions and reports to the Board Risk Management Committee and the Bank's Chairman.

Credit Risk

Credit Risk Management

Fransabank defines credit risk as *"the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms".* The Bank manages credit risk in line with the regulatory stipulations on credit risk, Basel Committee on Banking Supervision requirements and best practices and implements a credit policy and procedures that take into account credit risk governance, processes and mechanism, for identification, measurement and monitoring credit risk.

The objective of Credit Risk Management is mainly to protect Fransabank from any losses generated by its credit portfolio, maintain credit risk exposure within acceptable parameters, and maximize its risk adjusted rate of return on the granted facilities. This implies a thorough analysis and identification of the risks imbedded in credit requests, as well as, rating the underlying borrower in accordance with preset criteria and in line with the Bank's credit risk policy and its guidelines in order to ultimately maintain a safe credit portfolio.

The Credit Risk Management Department responsibilities are carried out through the implementation of appropriate policies, procedures and systems to efficiently identify, measure, mitigate, monitor and report credit risk. This is mainly achieved through ensuring compliance with credit risk policies and procedures, regularly reviewing internal policies and procedures, monitoring past due exposures and excesses over limits and identifying large debtor exposures, as well as ensuring the abidance by the internal and regulatory limits. This process includes inter-alia the development of quarterly comprehensive credit risk reports on a standalone and consolidated basis that are submitted to the Board Risk Management Committee and to the Board of Directors. These quarterly reports cover political risk, macroeconomic risk, foreign trade & payments risks and financial risk, in countries where Fransabank's subsidiaries resides or operates through quantitative and qualitative analysis of these risks, and highlight the concentration of Fransabank Group credit portfolios' by country, sovereign, credit classification and economic sectors.

Risk Control and Rating

Fransabank believes that borrowers' rating is an important element for objectively assessing the creditworthiness of a given borrower or counterparty, and is an essential tool in managing credit risk.

For this purpose and in order for the Bank to assess and rate borrowers, Moody's Risk Analyst used by leading financial institutions, has been acquired by Fransabank in January 2012 as an internal rating system for individual credit borrower and as credit risk assessment tool. Accordingly, Fransabank has established a specialized department "Risk Control and Rating".

The main role of "Risk Control and Rating Department" is to closely coordinate with the business units at the Bank and promote healthy risk culture. Bank's clients are identified, followed up and rated in accordance with quantitative and qualitative criteria. This department is responsible for issuing procedures and guidelines related to the system, preparing different kinds of statistics, coordinating with other concerned departments, validating rating and controlling clients' risk. These tasks are performed by thoroughly monitoring and following up on the compliance with the internal set parameters, as well as with the Central Bank of Lebanon and the Banking Control Commission of Lebanon circulars and their requirements.

The main advantages of Moody's Risk Analyst are to automate and structure the credit rating process, improve the collection and provision of both quantitative and qualitative information in order to take the right credit granting decisions, and implementing a reliable/consistent and uniform risk assessment methodology across the Bank. As the system provides a large credit data information, it could also generate automatic calculation of a set of major financial ratios in addition to provide reports that assist in the credit analysis process. Also, it enables the Bank to map in the future the rating with the actual probability of default provided by the system.

Market Risk

Market risk is defined as the risk of losses in on and off-balance-sheet positions arising from movements in market prices. The main objective of the Market Risk Management Department (MRMD) is to promote a market risk management culture at Fransabank through the interaction with the concerned parties regarding the major market risks that emerge from the Banks' operations.

The responsibility of the MRMD, as defined by its charter, is to identify, measure, control and monitor all current and potential market risk exposures. This is done through the adoption of various risk identification and measurement techniques commensurate with Bank's level of market risk sophistication. In order to increase the efficiency of the market risk analysis process, several policies and limits have been set, aimed to avoid any material unexpected losses as well as to preserve the Bank's profitability and reputation through the internally developed automated tools that continuously measure and assess the Bank's market risk profile. In order to assess the Bank's endurance and vulnerability towards these risks, the Bank's market risk profile is stress tested based on several scenarios that have been customized to the global crisis and to the Bank's inherent level of market risk complexity.

Liquidity Risk

Liquidity risk is the inability to meet obligations as they come due and the incapability to fund increases in assets. Liquidity risk exposure at the Bank is closely monitored and assessed on a continuous basis, through the implementation of a sound liquidity risk management and measurement process. In effect, the MRMD continuously monitors and interprets the liquidity levels at the Bank, as well as, analyzes the impact of stress scenarios on the liquidity position to test the Bank's resilience under difficult situations.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. The Operational Risk Management Department (ORMD)'s objective is to minimize Fransabank Group's exposure to operational risk by implementing a sound and reliable set of management processes to identify, assess, control, contain and monitor operational risks. This is mainly accomplished by the ongoing Risk and Control Self-Assessment (RCSA) workshops aimed to cover the operational risks inherent in the Bank's daily operations. In parallel, the Bank's commitment to comply with supervisory regulations, led to the establishment and maintenance of the loss database as a tool for assessing Fransabank Group's exposure to operational risk. The ORMD is proactively identifying and managing operational risks before the implementation of new policies, procedures, products and systems. The ORMD has already developed methodologies for the identification of Key Risk Indicators and has initiated the process of mapping Fransabank's activities to the Basel business lines in order to implement the standardized approach for operational risk calculation.

Basel Implementation and Capital Management

Fransabank's objective is to implement a sound risk management process in line with Basel Committee on Banking Supervision guidelines as well as with the regulatory requirements through the development of a comprehensive action plan that incorporates the tasks to be implemented by the concerned parties at the Bank. These tasks mainly include calculating the minimum capital requirement under pillar 1 of Basel II; ensuring the compliance with the minimum capital ratios required under Basel III; implementing the Internal Capital Adequacy Assessment Process (ICAAP) on an individual and consolidated basis as required by pillar 2 of Basel II; conducting stress test for the material risks to which the Bank is exposed to; and determining the effect of various scenarios on the Bank's capital adequacy.

The capital management process allows for monitoring the capital levels of each subsidiary in order to ensure that the amount of capital is always commensurate with Fransabank Group's risk profile and its future plans. This process is monitored by the Basel Implementation Department (BID) through the development of comprehensive and consolidated quarterly risk reports that are submitted to the Board Risk Management Committee and to the Board of Directors. These reports analyze the Bank's capital structure and its components; determine the Bank's compliance with the required capital ratios; and indicate the capital charge to cover each of pillar 1 risks.

Moreover, the BID responsibilities are carried out through a monitoring and coordination process with the concerned parties, to ensure the implementation of the Basel action plan, as well as reviewing and updating the General Risk Management Policy and Framework; the capital management procedures; and the ICAAP methodology and its related procedures. In this context, this department has modified the internally developed ICAAP methodology in accordance with the regulatory requirements, Basel III capital framework as well as the guidelines of the second pillar of Basel II. The capital needed as a result of the ICAAP exercise is guided by the Bank's business plan, which clearly indicates the Bank's current and future capital needs as well as the target capital ratios. The ICAAP methodology also takes into consideration the results of various stress testing scenarios on the Bank's capital adequacy and assesses the qualitative elements of pillar 2 risks along with the quantitative risks of pillar 1.

Objectives and Guidelines

Fransabank Group's AML/CFT (Anti-Money Laundering/Combatting the Financing of Terrorism) Policy primarily aims at setting, within the Group, the essential standards for fighting money laundering operations and terrorism financing. Should the applicable AML/CFT laws and regulations of any country or jurisdiction require higher standards, Fransabank Group's overseas subsidiaries and associate banks must conform to those standards. However, in case the relevant subsidiary and associate come across any applicable law that is inconsistent with the Group's policy, they must refer to the Group's Anti-Money Laundering Department to resolve the conflict.

This Policy also encompasses the following objectives:

- Promoting a Know Your Customer (KYC) standard as a cornerstone principle for Fransabank Group business ethics and practices;
- Developing an effective internal control structure where no business with a customer is performed without obtaining all the required information relating to the customer;
- Consolidating within the Group, the AML/Combatting of Financing of Terrorism (CFT) efforts deployed by Fransabank entities;
- Conducting self-evaluation processes on the compliance with the AML/CFT policy and measures.

Consequently, the adoption of this policy is crucial to ascertain that all Fransabank Group's entities, whatever their geographic location, fully comply with the enacted AML legislation. The Group is committed to overseeing its AML/CFT strategies, objectives and guidelines on an ongoing basis, and supporting an effective AML/CFT Policy within the Group's business.

Anti-Money Laundering – Combatting Terrorist Financing Policy Statements

Customer's Due Diligence and Know Your Customer

- Prior to any transaction of any type, Fransabank Group's entities gather and document the relevant customer identification data, along with the background information, the purpose and the intended nature of the business.
- Fransabank Group's entities retain and document any additional customer information, relevant to the assessment of the money laundering risk by adopting a risk-based approach.

Additional Due Diligence Measures for Financial Institutions

Fransabank Group's entities engage to take the following additional due diligence measures while establishing and maintaining correspondent relations:

- Gathering sufficient documentary evidence on a respondent institution, to avoid any relationships with "shell banks";
- Enquiring about the good reputation of a respondent institution from public sources of information, including whether it has been subject to a Money Laundering or Terrorist Financing investigation or other regulatory action;
- Verifying, on a periodic basis, that the respondent institution is implementing sufficient and effective procedures to fight Money Laundering and Terrorist Financing.

Monitoring and Reporting of Suspicious Transactions/Activity

- Fransabank Group's entities apply due diligence measures whenever they detect any unusual or suspicious transaction or activity, taking into account the legal framework of the concerned institution.
- All suspicious transactions or activities complying with the laws and regulations of the corresponding jurisdiction are reported.
- The Group's AML Department is notified of all suspicious transactions or activities when doubts arise.

Achievements 2012

Fransabank Group made a clear decision to cooperate for the implementation of the United States' Foreign Account Tax Compliance Act (FATCA) and reached a deep understanding of the new regulations and their impact on the business cycle, in addition to the position of the Group in the financial environment. In this context, Fransabank, with its local entities, implemented important measures to ensure a smooth roll-out of this process:

- Establishment of a FATCA steering committee presided by the General Manager, with a main objective to define and deal with the process key challenges;
- Creation of a project team to successfully navigate the challenging implementation of FATCA phases;
- Implementation of new KYC onboarding procedures to identify US account holders among new and existing customers;
- Adaptation of dedicated AML systems to enable information gathering, storage and searching for US indicia;
- Organization of FATCA awareness sessions to senior employees, aimed at ensuring understanding, readiness and capabilities in addressing related requirements;
- Development of KYC procedures in light of FATCA Proposed Regulations and Internal Revenue Services (IRS) announcements, as well as required amendments are underway to include major changes outlined in the Final Regulations.

Highly committed to a culture of compliance to AML/CFT standards, the AML Department was able to streamline its monitoring activities, in order to tackle and strictly abide by increasing and challenging sanctions requirements. In fact, the AML Department shifted its monitoring activity from rules-based to risk-based approach, by implementing tighter preventive measures on a certain category of customers with a high-risk line of business and on cross-border transactions. On the other hand, a new Know Your Customer (KYC) version that empowered the Customer Information Program and paved the way for a full compliance with the risk-based approach requirement came into force in October 2012.

Our people at Fransabank are our most important asset. It is our belief that skilled, committed and fulfilled employees lay the foundations of a topnotch banking group. That is why the Human Resources team at Fransabank channels its energies into providing the best environment where all employees have the opportunity to achieve their goals.

In 2012, Fransabank Group expanded its population, with the recruitment of 3,227 employees, equivalent to an annual increase of 4.97%, compared with 3,074 employees in 2011. This rise resulted from the Bank's determination to head hunt fresh talent and enrich the Bank's family with new blood, by participating in job fairs at local universities throughout the year.

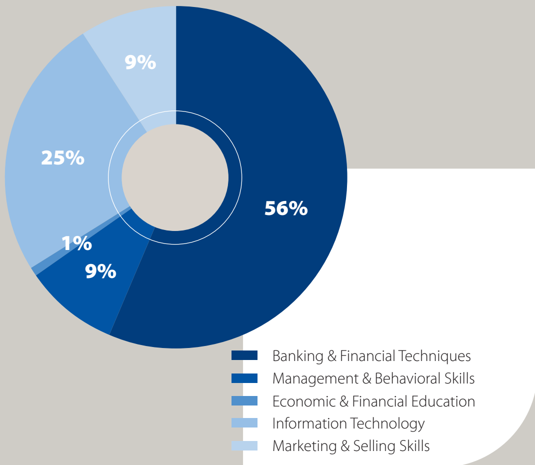
In terms of gender and age distribution, Fransabank promotes diversity through its well-balanced and recognized diversity policy, with males constituting 54% of the Bank's employees and females 46%. Regarding the age distribution, it remained almost the same compared to the previous year, with an average age of 37 years old. In terms of educational background, the two-thirds (66%) of the staff are university graduates, while nearly 20% hold a Master's degree or PhD.

Training and Development (T&D)

1. Internal and External Seminars

Employee training is crucial for customer satisfaction and retention on the one hand, and for the growth of the Bank on the other. For that purpose, Fransabank employees participated in internal and external seminars. Internally, T&D re-launched in 2012 the "Train-the-Trainer" seminar, where selective qualified employees are trained to effectively become trainers qualified to conduct workshops in the different Lebanese regions, thus ensuring training customization and continuity. This seminar has numerous advantages as for reducing costs on both Beirut-born trainers and participants, saving commutation time, reducing traffic accidents, and offering optimal training customization adapted to the local environment and business needs, to name a few. The in-house seminars totaled 90 sessions or 9,210 hours, were attended by 869 employees, and covered the following main topics: banking and financial techniques, information technology, marketing and selling skills, and management and behavioral skills. Regarding the external seminars, they covered 83 sessions or 3,878 hours, were attended by 318 employees and were mainly about banking and financial techniques, information technology, management and behavioral skills, economic and financial education, and marketing and selling skills.

TOTAL SEMINARS (INTERNAL & EXTERNAL) **DISTRIBUTION 2012**



2. Training and Development's Orientation Program

Training and Development's Orientation Program forms trained and well-drilled new hires and existing employees. Orientation is classified according to five main categories, namely:

Induction Program: allowing to smoothly integrating new entrants through a corporate culture briefing package, and optimizing the time by initiating them into their assigned tasks and responsibilities. 146 new recruits were successfully initiated into Fransabank's culture during the year 2012.

Potential Development: selecting competent employees with a proven record, and preparing them to occupy higher positions within the short and medium terms, through competencies enhancement as well as multitasking skills development prior to their nomination. 20 employees were closely followed up and trained for potential higher positions, 30 employees were promoted internally and 179 branch employees were selected for the Bank's rotation program.

Talent Management: identifying "High Profile" employees, with an experience up to 5 years. These employees are chosen based on a combination of personal skills, educational background and banking knowledge, to be subsequently enrolled in a Fast Track Program to determine if they are to undergo vertical or horizontal development, or both. 82 talents were selected across all the branches.

Polyvalence Enhancement: assuming multiple functions if need be, thus facilitating contingency planning along with cost reduction, ensuring employee's multi-tasking and facilitating eventual internal promotions. In 2012, 249 polyvalent employees were identified.

Succession Planning: preparing the Bank for all possible contingencies and ensuring that employees are fully ready for future organizational requirements. 107 employees were identified to become potential successors in the Bank's Departments.

Fransabank ICT Division plays a main role in supporting the Bank's growth and its various business needs, through the launching of new services and the update of the technological infrastructure with the most stable and secured techniques.

Fransabank's new core banking system in course of implementation, fully integrates all the banking services, while supported by a state-of-the-art multitier architecture. The implementation process has reached an advanced stage so far, and within the coming months, extensive functional and technical tests, simultaneously backed with an extensive parallel run shall be carried out in order to ensure a smooth and seamless transition.

Furthermore, the Bank is relentlessly eager to improve the quality of the IT service, mainly by automating the processes and increasing the availability of the services through clear Service level Agreements. On the other hand, the launch of the advanced helpdesk tool generates a better coordination, facilitates the access to the information resources, and improves performance and response time among the different Bank's Departments. Internal productivity is also increased as users are able to submit their complaints then track the relevant resolution process, by resorting to any of the available channels, be it the email, the phone or the web. Coupled with branch interconnection upgrades and technology boosts, efficiency and problem resolution have been significantly improved.

On the other hand, Fransabank is also constantly focusing on the development of its human capital, the main asset of the Bank, which is composed of a large team of IT specialists in the banking technology, functional and business analysts and experts in the Organization Department, senior developers and administrators and IT security specialists. In this context, a new HR application was deployed giving users more flexibility and management, broader control through the development of advanced HR activities, such as the career path planning, the succession planning and the performance planning. The new ERP system and the related workflows will positively affect the productivity and the efficiency of the purchasing cycles and the management of the Bank's assets.

Moreover, the projects related to the improvement of the customer service and the business service, were also pursued:

The Integrated Credit Card Management System is currently under pilot run for all the requested operations that is scheduled to go live by mid-2013. As for the ATM Switch replacement project, it comes with major updates, not to mention the integration for a unified 360 degree view of the customers' profiles.

The Group's e-channels were also subject to several improvements:

- The major updates of the Group's website and the internet banking solution;
- The reinforcement of the security relating to the online transactions, by installing secure tokens ensuring a dual authentication; this service shall be available in 2013;
- The launching of the first real wallet mobile application.

Video conference and internal online training were successfully deployed locally and in some remote entities, such as Algeria Headquarters, allowing conferencing capabilities and any Skype third party with annotation, sharing and presentation features.

The information security remains the main pillar of all ICT services and projects. In other words, the main objective is to build up a compliant, resilient and highly secure banking environment for the customers. For that purpose, considerable efforts were deployed using new security tools like Log Management and Data Leakage Prevention, in addition to new backup solutions. It is to be noted that strengthening the main datacenter, standardizing the technologies and replicating the data and services among production, backup and disaster sites are also being worked on.

Furthermore, other than the enhancement of the current services at the existing Disaster Recovery Site, the project of implementing of a full-fledged Disaster Recovery and Business Continuity site, capable of running the Bank in case of a disaster, and for a prolonged period of time was launched.

In conclusion, all the undertaken initiatives and projects are consistently flowing into complying with the ISO 20000 Standard.

Fransabank, as a responsible corporate citizen, aims for an effective stakeholder relation and seeks to fulfill the socioeconomic needs of the community. In the year 2012, the Bank released its first Corporate Social Responsibility Book entitled "Touching Lives, Inspiring Communities", which was analyzed by CSR experts and was highly esteemed and highly commended. The Book contained a comprehensive review of the many initiatives that Fransabank has historically undertaken. Accordingly, the Bank succeeded to work towards similar achievements in the year 2012.

Much recognition has been granted to the Bank's Chairman, H.E. Mr. Adnan Kassar, for his CSR initiatives, the latest of which:

- H.E. Mr. Adnan Kassar received an award from the Executive Director for the UN Global Compact, Mr. Georg Kell for his role, as president of the International Chamber of Commerce, in the founding of the Global Compact with then Secretary General of the UN, Mr. Kofi Annan, in 2000. Mr. Kell expressed his gratitude to Mr. Kassar for his crucial role in directing the business world to join hands with the UN in founding the Global Compact.
- H.E. Mr. Adnan Kassar also received a certificate of appreciation for his distinguished contribution to the 2013 Beirut Conference entitled "Economy for Mankind". The conference gathered more than 500 Muslim and Christian business leaders that shared ideas for progress based on Corporate Social Responsibility and opened the way for new perspectives for global economic and social development respectful of human dignity. The conference was organized by UNIAPAC and MA'AM. UNIAPAC is a federation of associations, gathering more than 15,000 Christian business leaders from 30 countries. Its goal is to promote a vision and a deployment of Corporate Social Responsibility serving people and the common good of the World. MA'AM, the Islamic Christian Forum for Businessmen, advocates improving the compatibility between business and the principles of faith.

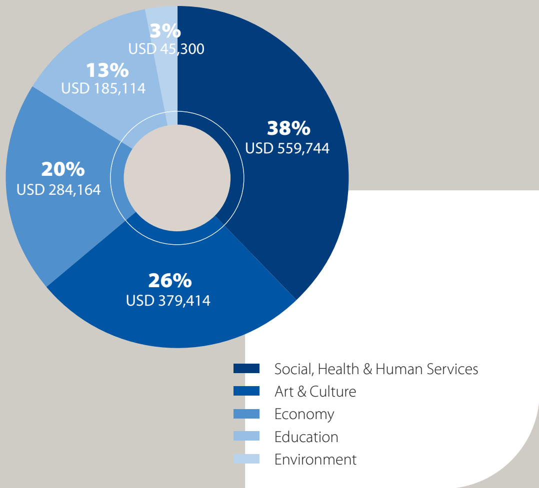
Guided by its past accomplishments, Fransabank succeed to achieve in 2012 more of the same good things.

Investing in our Community

In 2012, Fransabank continued to support large, medium and small community organizations, schools and national organizations, contributing to their development into sustainable establishments.

In 2012, Fransabank provided a total amount of **USD 1,453,736** to support **265** philanthropic causes covering social, health, human services, art, culture, economy, education and environment.

INVESTED USD 1.45 MILLION IN 265 NON-PROFITS



Fransabank's main concern was to grant communities access to sustainable economic development by extending donations, entering into partnerships and supporting the following five fields of interest:

1. Social, Health & Humanitarian services: the Bank partners with charities to provide quality health and humanitarian services that are strength-based and meet the needs of the citizens. Throughout 2012, Fransabank:

- Donated to "Al Urfan Institution" helping the orphans and the needy, to fund the rehabilitation and the purchase of equipment,
- Sponsored, for the 3rd consecutive year, the fund-raising dinner organized by "Brave Heart Fund" association, a philanthropic institution that raises funds allowing to perform surgeries on children with congenital heart diseases,
- Sponsored the first fund-raising dinner organized by "Roads For Life", whose mission is to optimize the survival odds of all victims of road accidents during the first crucial "60 minutes" following such accidents,

- Supported, for the 2nd consecutive year, the humanitarian "Walk with Al Younbouh", an annual awareness and fund-raising event for the less privileged people with special needs,
- Sponsored, for the 2nd consecutive year, the event organized by the "Autism Association for Social Integration",
- Sponsored Skoun's 6th annual gala dinner attended by hundreds of healed guests who took part in the colorful festivities and supported this association in its mission of preventing drug dependency and other addictions.

2. Art & Culture: the Bank is committed to a diversified program of cultural support – enriching society, helping young artists and promoting cultural understanding through art. During the year 2012, Fransabank:

- Contributed to the restoration of the Museum of Ehden "Koubra Monument" located in the town of Ehden, in North Lebanon. The Koubra Monument is characterized by its authentic traditional Lebanese architecture, its patrimonial and historic values.
- Supported Baalbeck International Festival by being the official partner of the festival, as well as sponsoring one of the main events at the Beiteddine International Festival, among others.
- Finalized the action plan for the re-launch of JABAL 2013 exhibition (Jeunes Artistes des Beaux-Arts du Liban). JABAL is first of its kind art advocacy and promotion initiative carried out by a financial institution in Lebanon, that has set the pace, since its inception in 1998, in the discovery of over 300 young talents from all the Lebanese regions, thus making art within new talent's reach.

3. Economy: the Bank contributes to the economic growth by partnering with large and small organizations through lending, investing and supporting.

- Fransabank Group held in 2012 its "Knowledge®" conference, an economic and finance conference, entitled: "Global Business Leaders Talk: Performing in a Challenging World", with the participation of renowned Lebanese and international speakers from the business and financial sectors: H.E. Mr. Riad Salame - Governor of the Central Bank of Lebanon, Mr. Helmut Maucher - Honorary Chairman of Nestlé SA, Germany, Mr. Jean-René Fourtou - Chairman of the Supervisory Board of Vivendi, France - Mr. Philippe de Fontaine Vive - Vice President of the European Investment Bank, Luxembourg. Speakers shared their experiences, insights, and strategies as well as emerging topics, with approximately 500 participants from the community's key public and private sectors decision makers, top finance and business leaders, senior executives and leading academicians.
- Fransabank "Najah Loan" – The micro-credit loan targeted for women empowerment – was granted the 2nd Social Economic Award, under the category of "Women Empowerment". The event was organized by Protocol in collaboration with the Central Bank of Lebanon, the Association of Banks in Lebanon, the Federation of the Chambers of Commerce, Industry and Agriculture in Lebanon, the Association of Industrialists, and the Lebanese Franchise Association.

Since the launching of its micro-credit program at the beginning of 2008, Fransabank has granted **7,541** micro-credit loans, with a total outstanding amount reaching **USD 1,778,967** at the end of December 2012.

- Fransabank Group partnered, for the 3rd consecutive year, with Bassel Fleihan Finance Institute, to train Lebanese public sector' key senior officials on leadership and managerial skills. This program is held with the support of ENA - Ecole Nationale d'Administration and the French Embassy in Beirut.

4. Education: the Bank believes that education has a powerful multiplying effect on human progress and is essential to economic development and growth. Therefore, in 2012, Fransabank:

- Contributed to the expansion of the educational center at Collège Notre-Dame de Jamhour,
- Committed itself, through a diversified range of socially responsible products such as the university loan, to provide Lebanese youth with an opportunity to accede to a much deserved individual freedom and empowerment to become tomorrow's leaders.

Fransabank has granted **1,625** university loans with a total outstanding amount of **USD 11,278,431** by the end of December 2012.

- Provided internship opportunities for university students wanting to gain the upper hand with a practical experience.

5. Environment: the Bank is supporting all initiatives for a green business environment, managing its own efforts and guiding customers and the communities towards an economy relying on more sustainable business practices. In addition to its donations, Fransabank initiated several activities aimed at minimizing its employees and customers' environmental impacts, including the following:

- Applying a lending sustainability policy on the entire Bank's lending activities, with the aim to assess the environmental and social risks and opportunities arising from the clients' business activities, manage the incurred Bank exposure, and improve the operating efficiency and effectiveness. This lending policy is an integral part of the Bank's decision – making process regarding any lending activity.
- Launching Energy loans for businesses and individuals,
- Offering free solar panels with every approved housing loan,
- Opening new Fransabank branches and renovating others in conformity with the climate protection standards,
- Adopting eco-efficient information technology,
- Providing a smoke-free environment on all Fransabank premises,
- Reducing power usage and using energy saving lamps,
- Applying resources recycling,
- Relying more and more on environmentally friendly material: use of recycled paper and recycled tissues, among others,
- Halving the Group consumption of printing and photocopy paper.

Valuing our Employees

Fransabank values its employees for their devotion and commitment. Therefore, the Bank has continuously thrived to ensure an environment favorable for progress and new horizons, based on the following:

- Providing a corporate framework that empowers employees to work for positive change,
- Offering engaging and challenging employment as well as career development enabling the employees to make significant contributions to the banking industry,
- Encouraging employees to become sought leaders in their particular areas of expertise, reinforcing the stature of the Bank and increasing its value to the customers, shareholders and the industry in general,
- Hiring and retaining qualified employees with a core competence, providing continuous training, internal recruitment, honouring best performers and improving internal communication,
- Showing particular interest in employees' health, family resources, financial well-being, education and improvement opportunities,
- Developing a "Know Your Staff" policy aiming at building and maintaining an effective team and ensuring an open and direct two-way communication between employees and senior managers,
- Launching a central "Helpdesk" for all Fransabank employees, destined to receive reports on incidents and provide support from the Information Technology team.

. AWARDS

- H.E. Mr. Adnan Kassar, Chairman of Fransabank Group, was awarded the "Arab Banker of the Year 2012 – 2013" from the Union of Arab Banks.
- Fransabank Group was awarded the "Best Banking Group in Lebanon in 2012" from The Global Banking and Finance Review.
- Fransa Invest Bank, Fransabank Group investment and private banking arm, was awarded the "Best Investment Bank in Lebanon for the Year 2012" from the World Finance.
- Fransabank was awarded "The Banker Deals of the Year 2012 - Loans - Middle East" from The Banker Magazine.
- Fransa Invest Bank was awarded "The Banker Deals of the Year 2012 - Loans - Middle East" from The Banker Magazine.
- Fransa Invest Bank was awarded "The Banker Deals of the Year 2012 - Bonds: Sovereigns, Supras and Agencies - Highly Commended, Middle East" from The Banker Magazine.
- Fransabank was awarded the "Family Offices Services Category" award from Euromoney Private Banking Survey 2013.
- Fransabank MasterCard PayPass Card received the "Best Contactless Innovation Card Award" from the Smart Card Awards 2012 for the Middle East.
- Fransabank "Najah Loan" received the "Women empowerment Award" from First Protocol.
- Fransabank Group was awarded the "Widest National Outreach" from Lebanon Opportunities.
- Fransabank's 90 years Anniversary TV Commercial received the "Cristal Sapphire Prize" from The Mena Cristal Awards.

05

CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders
Fransabank SAL
Beirut, Lebanon

Report on the financial statements

We have audited the accompanying consolidated financial statements of Fransabank SAL, and its subsidiaries (The "Group") which comprise the consolidated statement of financial position as at December 31, 2012, and the consolidated income statement, the consolidated statement of comprehensive income, consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the 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, within the framework of local banking laws. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2012, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
April 11, 2013

DFK Fiduciaire du Moyen-Orient

Deloitte & Touche

. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31,

ASSETS

LBP'000	Notes	2012	2011
Cash and Central Banks	6	4,614,009,836	3,260,355,075
Deposits with banks and financial institutions	7	1,627,383,856	1,408,714,190
Loans to banks	8	247,420,801	229,824,126
Loans and advances to customers	9	7,295,042,961	6,672,521,547
Investment securities	10	8,849,251,646	8,878,851,212
Customers' liability under acceptances	11	258,906,169	495,021,387
Investments in associates	12	44,423,527	45,451,098
Assets acquired in satisfaction of loans	13	180,682,747	190,731,470
Investment properties	13	53,423,844	17,595,768
Property and equipment	14	335,418,150	312,829,023
Intangible assets	15	12,831,384	10,032,639
Goodwill	16	86,096,748	85,499,774
Other assets	17	149,246,450	167,078,044
TOTAL ASSETS		**23,754,138,119**	**21,774,505,353**

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS			
Documentary and commercial letters of credit	42	498,773,003	529,731,573
Guarantees and standby letters of credit	42	725,886,652	597,811,998
Forward contracts		533,811,101	434,967,370

LIABILITIES

LBP'000	Notes	2012	2011
Deposits and borrowings from banks	18	376,566,840	460,503,958
Liabilities designated at fair value through profit or loss	19	-	38,291,147
Customers' accounts at amortized cost	20	19,695,945,949	17,670,561,106
Customers' acceptance liability	11	258,906,169	495,021,387
Other borrowings	21	840,099,943	818,636,349
Subordinated loan	22	54,031,678	53,636,707
Bonds issued	23	-	2,180,996
Other liabilities	24	240,456,696	218,837,230
Provisions	25	44,110,840	63,860,081
TOTAL LIABILITIES		**21,510,118,115**	**19,821,528,961**

EQUITY

Share capital – Ordinary shares	26	420,000,000	420,000,000
Preference shares	28	26,000,000	18,500,000
Issue premium on preference shares	28	365,950,000	260,387,500
Shareholders' cash contribution to capital	27	17,113,885	17,113,885
Reserves	29	202,573,685	165,667,361
Special reserve	30	5,629,504	4,932,789
Cumulative change in fair value of investment securities	31	68,108,618	31,550,892
Retained earnings		535,963,807	450,964,371
Net profit for the year	33	225,469,819	214,076,285
Equity attributable to the owners of the Bank		1,866,809,318	1,583,193,083
Non-controlling interests	32	377,210,686	369,783,309
TOTAL EQUITY		**2,244,020,004**	**1,952,976,392**
TOTAL LIABILITIES AND EQUITY		**23,754,138,119**	**21,774,505,353**

. CONSOLIDATED INCOME STATEMENT

for the financial year ended December 31,

LBP'000	Notes	2012	2011
Interest income	35	1,309,933,112	1,135,683,496
Interest expense	36	(800,017,255)	(713,432,051)
Net interest income		509,915,857	422,251,445
Fee and commission income	37	114,491,445	112,160,024
Fee and commission expense	38	(28,940,655)	(25,035,228)
Net fee and commission income		85,550,790	87,124,796
Net interest and other gain / (loss) on trading investments at fair value through profit or loss	39	41,418,687	66,969,356
Interest expense on financial liabilities designated at fair value through profit or loss	40	(907,555)	(3,821,481)
Other operating income		56,923,749	83,962,302
Net financial revenues		692,901,528	656,486,418
Allowance for impairment of loans and advances	9	(43,792,390)	(29,704,444)
Allowance for credit risk linked to country risk	9	(17,352,050)	(22,284,395)
Write-back of impairment loss on loans and advances	9	20,076,344	23,660,262
Bad debts expense		(487,953)	(149,814)
Write-back of discount on purchased loan portfolio	9	245,626	613,046
Recovery of loans		159,271	88,799
Net financial revenues after impairment of loans and advances		651,750,376	628,709,872
Staff costs		(219,664,510)	(202,192,015)
Administrative expenses		(110,456,390)	(104,724,087)
Depreciation and amortization	14,15	(21,566,897)	(20,343,012)
Provision for end-of-service indemnity no longer required	25	3,935,421	-
Provisions for charges (net)	41	(2,085,250)	(7,759,714)
Profit before income tax		301,912,750	293,691,044
Income tax expense	24	(52,527,150)	(51,748,089)
Deferred tax on undistributed profits of associates and subsidiaries		(7,629,545)	(7,798,141)
NET PROFIT FOR THE PERIOD		**241,756,055**	**234,144,814**
Attributable to:			
Owners of the Bank	33	225,469,819	214,076,285
Non-controlling interests	33	16,286,236	20,068,529
		241,756,055	234,144,814

. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the financial year ended December 31,

LBP'000	Notes	**2012**	2011
Profit for the year		241,756,055	234,144,814
Other comprehensive income:			
Unrealized gain on investments designated at fair value through other comprehensive income (IFRS 9)		40,719,400	1,971,614
Currency translation adjustment		(31,832,506)	(50,450,997)
Revaluation surplus	14	6,700,750	9,021,631
Share in other comprehensive income of associates	12	2,862	-
Deferred tax		(4,058,816)	(669,493)
		11,531,690	(40,127,245)
TOTAL COMPREHENSIVE INCOME		**253,287,745**	**194,017,569**
Attributable to:			
Owners of the Bank		235,759,020	184,123,451
Non-controlling interests		17,528,725	9,894,118
		253,287,745	194,017,569

. CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the financial year ended December 31,

	Equity Attributable to				
LBP'000	Capital Ordinary Shares	Preference Shares	Issue Premium on Preference Shares	Shareholders' Cash Contribution to Capital	Reserves
BALANCE AS AT DECEMBER 31, 2010	**420,000,000**	**18,500,000**	**260,387,500**	**17,113,885**	**155,398,845**
Effect of IFRS 9 adoption (Note 5)	-	-	-	-	-
Balance as at January 1, 2011 after IFRS restatement	**420,000,000**	**18,500,000**	**260,387,500**	**17,113,885**	**155,398,845**
Dividends paid (Note 34)	-	-	-	-	-
Appropriation of interest on subordinated loan (Note 21)	-	-	-	-	-
Issuance of preference shares	-	-	-	-	-
Effect of acquisition of additional equity interest	-	-	-	-	-
Effect of increase of capital in subsidiary	-	-	-	-	-
Non-controlling interests in business combination (Note 16)	-	-	-	-	-
Deferred liabilities	-	-	-	-	-
Other movement	-	-	-	-	1,500
Allocation of 2010 profit	-	-	-	-	49,299,161
Reallocation between reserves and retained earnings	-	-	-	-	(6,934,111)
Write-back of revaluation surplus	-	-	-	-	(887,480)
Comprehensive income for the year 2011	-	-	-	-	(31,210,554)
BALANCE AS AT DECEMBER 31, 2011	**420,000,000**	**18,500,000**	**260,387,500**	**17,113,885**	**165,667,361**
Dividends paid (Note 34)	-	-	-	-	-
Issuance of preference shares	-	7,500,000	105,562,500	-	-
Effect of acquisition of additional equity interest	-	-	-	-	-
Effect of increase of capital in subsidiary	-	-	-	-	766,264
Cash invested by non-controlling interests in Lebanese Leasing Company SAL	-	-	-	-	-
Non-controlling interests share in the established subsidiary	-	-	-	-	-
Deferred liabilities	-	-	-	-	-
Other movement	-	-	-	-	(700)
Allocation of 2011 profit	-	-	-	-	63,162,497
Reallocation between reserves and retained earnings	-	-	-	-	(750,350)
Comprehensive income for the year 2012	-	-	-	-	(26,271,387)
BALANCE AS AT DECEMBER 31, 2012	**420,000,000**	**26,000,000**	**365,950,000**	**17,113,885**	**202,573,685**

the Owners of the Bank						
Special Reserve	**Retained Earnings**	**Profit for the Year**	**Cumulative Change in Fair Value of Investments**	**Total**	**Non-Controlling Interests**	**Total Equity**
3,990,675	**303,517,452**	**198,868,068**	**341,818,315**	**1,719,594,740**	**221,388,432**	**1,940,983,172**
-	50,809,787	-	(311,525,332)	(260,715,545)	(11,129,580)	(271,845,125)
3,990,675	**354,327,239**	**198,868,068**	**30,292,983**	**1,458,879,195**	**210,258,852**	**1,669,138,047**
-	-	(55,098,563)	-	(55,098,563)	(6,733,958)	(61,832,521)
-	-	(1,246,517)	-	(1,246,517)	-	(1,246,517)
-	-	-	-	-	143,212,501	143,212,501
-	39,201	-	-	39,201	-	39,201
-	(2,107,024)	-	-	(2,107,024)	10,584,381	8,477,357
-	-	-	-	-	3,085,775	3,085,775
-	(1,536,365)	-	-	(1,536,365)	2,128	(1,534,237)
-	(57,494)	-	189	(55,805)	(520,488)	(576,293)
942,114	92,281,713	(142,522,988)	-	-	-	-
-	6,934,111	-	-	-	-	-
-	1,082,990	-	-	195,510	-	195,510
-	-	214,076,285	1,257,720	184,123,451	9,894,118	194,017,569
4,932,789	**450,964,371**	**214,076,285**	**31,550,892**	**1,583,193,083**	**369,783,309**	**1,952,976,392**
-	-	(66,448,532)	-	(66,448,532)	(9,669,513)	(76,118,045)
-	-	-	-	113,062,500	-	113,062,500
-	(248,428)	-	-	(248,428)	248,428	-
-	1,144,463	-	-	1,910,727	(1,910,727)	-
-	-	-	-	-	1,332,500	1,332,500
-	-	-	-	-	9,999	9,999
-	(865,958)	-	-	(865,958)	546,511	(319,447)
-	447,606	-	-	446,906	(658,546)	(211,640)
696,715	83,768,541	(147,627,753)	-	-	-	-
-	750,350	-	-	-	-	-
-	2,862	225,469,819	36,557,726	235,759,020	17,528,725	253,287,745
5,629,504	**535,963,807**	**225,469,819**	**68,108,618**	**1,866,809,318**	**377,210,686**	**2,244,020,004**

. CONSOLIDATED STATEMENT OF CASH FLOWS

for the financial year ended December 31,

LBP'000	Notes	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit for the year before tax		301,912,750	293,691,044
Adjustments for:			
Unrealized loss on trading investments at fair value through profit or loss	39	3,657,749	7,812,452
Change in fair value of investment properties	40	-	(190,805)
Share in profits of associates	40	(11,708,163)	(7,789,015)
Depreciation and amortization	14,15	21,566,897	20,343,012
Net impairment allowance of loans and advances to customers and write back of discount on purchased loans	9	40,822,470	27,865,345
(Write-back) / Regulatory allowance for country risk – Deposits with banks	7	(90,871)	119,578
Write-back of allowance of investment in securities	10	(6,681)	(21,247)
Impairment allowance of doubtful claims from banks	17	956,248	-
Impairment allowance of other debtors	17	-	334,213
Gain on disposal of property and equipment	40	(462,772)	(1,922,269)
Loss on disposal of intangible assets		-	28
Gain on disposal of assets acquired in satisfaction of loans	40	(6,371,394)	(31,933,993)
Write-back of accrued expenses		-	(1,246,825)
Write-back of provision for end-of-service indemnity no longer required		(3,935,421)	-
Provisions	25	8,374,712	14,874,070
Interest expense		800,924,810	717,253,532
Interest income		(1,344,992,894)	(1,195,525,538)
Dividend income	39,40	(6,091,730)	(7,665,050)
		(195,444,290)	**(164,001,468)**
Net (increase) / decrease in loans to banks	8	(18,461,295)	3,015,821
Net increase in loans and advances to customers	9	(664,687,872)	(1,318,485,913)
Net decrease / (increase) in investment securities	10	75,708,574	(632,667,625)
Net increase in other assets	17	(30,411,090)	(1,001,421)
Net (increase) / decrease in compulsory deposits with Central Banks	6	(27,674,655)	123,909,496
Net (decrease) / increase in deposits and borrowings from banks	18	(82,065,143)	46,121,704
Net decrease in deposits at FVTPL	19	(37,773,428)	(33,807,939)
Net increase in deposits at amortized cost	20	2,002,280,514	1,630,914,909
Net increase in other liabilities	24	14,256,869	4,695,290
Proceeds from disposal of foreclosed assets		22,633,647	60,353,516
Settlement of provisions	25	(6,213,237)	(1,724,679)
		1,052,148,594	**(282,678,309)**
Interest paid		(792,330,122)	(694,474,757)
Interest received		1,297,927,047	1,191,904,890
Dividends received		11,742,425	14,257,669
Income tax paid	24	(47,555,991)	(45,213,806)
Net cash provided from operating activities		**1,521,931,953**	**183,795,687**

LBP'000	Notes	2012	2011
CASH FLOWS FROM INVESTING ACTIVITIES			
Amount paid in business acquisition		-	(85,568,684)
Amounts and costs paid in business acquisition		-	(2,166,520)
Proceeds from disposal of property and equipment		2,515,657	3,330,468
Paid-up share in associates		(12,060,000)	(48,000)
Net increase in placements with banks		(1,864,261,247)	(733,192,552)
Increase in investment properties		-	(6,298,000)
Acquisition of property, plant and equipment	14	(42,488,037)	(62,765,865)
Acquisition of intangible assets	15	(5,927,262)	(3,010,040)
Net cash used in investing activities		**(1,922,220,889)**	**(889,719,193)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Issuance of preference shares	28	113,062,500	-
Issuance of preference shares by subsidiaries		-	82,912,501
(Redemption) / issuance of bonds	23	(2,126,749)	2,126,749
Net increase in other borrowings	21	20,205,430	408,002,294
Decrease in subordinated loan	22	-	(542,766)
Subscription of capital by non-controlling interests		1,342,499	9,260,648
Cost of capital increase in subsidiary		-	(783,291)
Dividends paid	34	(76,118,045)	(61,832,521)
Net cash provided from financing activities		**56,365,635**	**439,143,614**
Net decrease in cash and cash equivalents		(343,923,301)	(266,779,892)
Unrealized currency translation adjustment and other		(7,606,028)	(30,024,870)
Cash received from acquiring of subsidiaries		-	99,035,098
Cash and cash equivalents beginning of year		2,820,174,565	3,017,944,229
CASH AND CASH EQUIVALENTS END OF YEAR	**44**	**2,468,645,236**	**2,820,174,565**

1.
GENERAL INFORMATION

Fransabank SAL (the "Bank") is a Lebanese joint-stock company registered in the Trade Register under Number 25699 and in the Central Bank of Lebanon list of banks under number 1. The consolidated financial statements of the Bank comprise the Bank and its subsidiaries (the "Group"). The Group is primarily involved in investment, corporate and retail banking.

The Bank's registered address is Fransabank Center, Hamra, P.O. Box 11-0393 Beirut, Lebanon.

2.
ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRSs)

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

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

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

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

- IFRS 10 *Consolidated Financial Statements* uses control as the single basis for consolidation, irrespective of the nature of the investee and includes a new definition of control. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. IAS 27 *Consolidated and Separate Financial Statements* and IAS 28 *Associates and Joint Ventures* have been amended for the issuance of IFRS 10 and SIC-12 *Consolidation Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10 (Annual periods beginning on or after January 1, 2013).

- IFRS 11 *Joint Arrangements* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of the parties to the joint arrangement, rather than its legal form. Joint control involves the contractual agreed sharing of control, and arrangements subject to joint control are classified as either a joint venture or a joint operation. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and therefore accounts for its share of assets, liabilities, revenues and expenses. Joint ventures arise where the joint venture has rights to the net assets of the arrangement and therefore equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. IAS 28 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11 and SIC-13 *Jointly Control Entities* will be withdrawn upon the effective date of IFRS 11 (Annual periods beginning on or after January 1, 2013).

- IFRS 12 *Disclosure of Interests in Other Entities* is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. IFRS 12 is effective for annual periods beginning on or after January 1, 2013.

- Amendment to IFRSs 10, 11 and 12 on transition guidance: These amendments provide additional transition relief to IFRSs 10, 11 and 12, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. For disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before IFRS 12 is first applied. Effective for annual periods beginning on or after January 1, 2013.

- IFRS 13 *Fair Value Measurement* establishes a single framework for measuring fair value, and requires disclosures about fair value measurement. The Standard defines fair value on the basis of an 'exit price' notion and uses a 'fair value hierarchy', which results in a market-based, rather than entity-specific, measurement. IFRS 13 is applicable for both financial and non-financial items for which other IFRSs require or permit fair value measurement and disclosures about fair value measurements, except in specified circumstances. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis except for the following measured at fair value:

- Financial instruments at fair value through profit or loss.
- Investments in equities.
- Other financial assets not held in a business model whose objective is to hold assets to collect contractual cash flows or whose contractual terms do not give rise solely to payments of principal and interest.
- Derivative financial instruments.

Assets and liabilities are grouped according to their nature and presented in the consolidated financial statements in accordance to their relative liquidity.

The principal accounting policies are set out below:

A. Basis of Consolidation:

The consolidated financial statements of Fransabank SAL incorporate the financial statements of the Bank and enterprises controlled by the Bank (its subsidiaries). Control is achieved when, among other things, the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The consolidated subsidiaries consist of:

Company	Country of Incorporation	Economic Interest 2012 %	Economic Interest 2011 %	Business Activity
Fransa Invest Bank SAL	Lebanon	99.99	99.99	Specialized Bank
Fransabank (France) SA	France	59.98	59.98	Banking
Lebanese Leasing Company SAL	Lebanon	87.47	87.47	Financial Institution
Switch and Electronics Services SAL	Lebanon	99.70	99.70	Financial Services
Sogefon SAL	Lebanon	99.88	99.88	Real Estate Company
Fransabank Insurance Services Co. SAL	Lebanon	99.70	99.70	Insurance
Fransabank El Djazaïr SPA	Algeria	67.99	67.99	Banking
BLC Bank SAL & its Subsidiaries (BLC Services SAL, BLC Finance SAL, BLC Invest SAL & USB Bank PLC)	Lebanon	74.83	74.83	Banking
Express SARL	Lebanon	98.35	98.35	Restaurant
Fransabank Syria	Syria	70.90	70.90	Banking
Fransabank OJSC	Belarus	88.08	80.00	Banking

During 2012, the Bank increased its share in the equity stake of Fransabank OJSC by 8.08% through additional investment of capital.

During 2012, the business activity of the Lebanese Leasing Company SAL changed from leasing company to a financial institution.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the Bank and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with those used by the Bank.

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

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

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

B. Business Combinations:

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognized in profit or loss.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss. Where applicable, adjustments are made to provisional values of recognized assets and liabilities related to facts and circumstances that existed at the acquisition date. These are adjusted to the provisional goodwill amount. All other adjustments including above adjustments made after one year are recognized in profit and loss except to correct an error in accordance with IAS 8.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Non-controlling interests in business acquisitions transacted so far by the Group were initially measured at the non-controlling interests proportionate share of net assets acquired.

Any contingent consideration payable is recognized at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognized in profit or loss.

C. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pound (LBP) which is the reporting currency of the Group. The primary currency of the economic environment in which the Group operates (functional currency) is the US Dollar. The Lebanese Pound rate has been constant to the US Dollars since many years.

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's reporting currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise except for exchange differences on transactions entered into in order to hedge certain foreign currency risks, and except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur in the foreseeable future, which are recognized in other comprehensive income, and presented in the translation reserve in equity. These are recognized in profit or loss on disposal of the net investment.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into Lebanese Pound using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period when this is a reasonable approximation. Exchange differences arising are recognized in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate). Such exchange differences are recognized in profit or loss in the period in which the foreign operation is disposed of.

D. Recognition and Derecognition of Financial Assets and Liabilities:

The Group initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date that they are originated. All other financial assets and liabilities are initially recognized on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset measured at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and discounts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

When the Group enters into transactions whereby it transfers assets recognized on its statement of financial position and retains all risks and rewards of the transferred assets, then the transferred assets are not derecognized, for example, securities lending and repurchase transactions.

The Group derecognizes financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Classification of Financial Assets:

All recognized financial assets are measured in their entirety at either amortized cost or fair value, depending on their classification.

Debt Instruments:

Non-derivative debt instruments that meet the following two conditions are subsequently measured at amortized cost using the effective interest method, less impairment loss (except for debt instruments that are designated as at fair value through profit or loss on initial recognition):

- They are held within a business model whose objective is to hold the financial assets in order to collect the contractual cash flows, rather than to sell the instrument prior to its contractual maturity to realize its fair value changes, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments which do not meet both of these conditions are measured at fair value through profit or loss ("FVTPL").

Even if a debt instrument meets the two amortized cost criteria above, it may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

Equity Instruments:

Investments in equity instruments are classified as at FVTPL, unless the Group designates an investment that is not held for trading as at fair value through other comprehensive income ("FVTOCI") on initial recognition (see below).

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any gains or losses arising on re-measurement recognized in profit or loss.

On initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at fair value through other comprehensive income ("FVTOCI"). Investments in equity instruments at FVTOCI are measured at fair value. Gains and losses on such equity instruments are recognized in other comprehensive income, accumulated in equity and are never reclassified to profit or loss. Only dividend income is recognized in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment, in which case it is recognized in other comprehensive income. Cumulative gains and losses recognized in other comprehensive income are transferred to retained earnings on disposal of an investment.

Designation at FVTOCI is not permitted if the equity investment is held for trading.

Reclassification:

Financial assets are reclassified between FVTPL and amortized cost or vice versa, if and only if, the Group's business model objective for its financial assets changes so its previous model assessment would no longer apply. When reclassification is appropriate, it is done prospectively from the reclassification date.

F. Financial Liabilities and Equity Instruments:

Classification as Debt or Equity:

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Group's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue, or cancellation of the Group's own equity instruments.

The component parts of compound instruments (convertible notes) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

Financial Liabilities:

Financial Liabilities that are not held-for-trading and are not designated as at FVTPL are subsequently measured at amortized cost using the effective interest method.

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- It forms part of a contract containing one or more embedded derivatives, and the entire combined contract is designated as at FVTPL in accordance with IFRS 9.

G. Offsetting:

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

H. Fair Value Measurement of Financial Instruments:

Fair value is the amount agreed to exchange an asset or to settle a liability between a willing buyer and a willing seller in an arm's length transaction.

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

If the market for a financial instrument is not active, the Group establishes fair value by using valuation techniques. Valuation techniques include observable market data about the market conditions and other factors that are likely to affect the instrument's fair value. The fair value of a financial instrument is based on one or more factors such as the time value of money and the credit risk of the instrument and adjusted for any other factors such as liquidity risk.

I. Impairment of Financial Assets:

Financial assets carried at amortized cost are assessed for indicators of impairment at the reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, a loss event has occurred which has an impact on the estimated future cash flows of the financial asset.

Objective evidence that an impairment loss related to financial assets has been incurred can include information about the debtors' or issuers' liquidity, solvency and business and financial risk exposures and levels of and trends in delinquencies for similar financial assets, taking into account the fair value of collateral and guarantees.

The Group considers evidence of impairment for assets measured at amortized cost at both specific asset and collective level.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the corresponding estimated recoverable amounts. Losses are recognized in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been, had the impairment not been recognized.

For investments in equity securities, a significant or prolonged decline in fair value below cost is objective evidence of impairment.

J. Derivative Financial Instruments:

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at each reporting date. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded Derivatives

Derivatives embedded in other financial instruments or other host contracts with embedded derivatives are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contract:

- Is not measured at fair value with changes in fair value recognized in profit or loss.
- Is not an asset within the scope of IFRS 9.

Hedge Accounting

The Group designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges, cash flow hedges, or hedges of net investments in foreign operations. Hedges of foreign exchange risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

Fair Value Hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged item that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in the line of the income statement relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. The adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Cash Flow Hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Amounts previously recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognized in profit or loss, in the same line of the income statement as the recognized hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

K. Loans and Advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are disclosed at amortized cost net of unearned interest and after provision for credit losses. Non-performing loans and advances to customers are stated net of unrealized interest and provision for credit losses because of doubts and the probability of non-collection of principal and/or interest.

L. Financial Guarantees:

Financial guarantees contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, and credit-insurance contracts).

Financial guarantee liabilities are initially measured at their fair value, and subsequently carried at the higher of this amortized amount and the present value of any expected payment (when a payment under the guarantee has become probable). Financial guarantees are included within other liabilities.

M. Investments in Associates:

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate, the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

The entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

N. Property and Equipment:

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1993 are stated at their revalued amounts, based on market prices prevailing during 1995 less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under "Reserves" in equity.

Depreciation is recognized so as to write off the cost or valuation of property and equipment, other than land and advance payments on capital expenditures less their residual values, if any, over the estimated useful lives of the related assets using the straight-line method as follows:

	YEARS
Buildings	50
Office improvements and installations	5 - 17
Furniture, equipment and machines	5 - 12
Computer equipment	3 - 5
Vehicles	5 - 10

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

O. Intangible Assets and Goodwill:

Goodwill

Refer to Note 3B for the measurement of goodwill at initial recognition arising on the acquisition of subsidiaries. Subsequent to initial recognition, goodwill is measured at cost less accumulated impairment losses.

Other Intangible Assets

Other intangible assets consisting of computer software and key money are amortized over a period of 3 to 5 years and 6.66 years respectively and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

P. Assets Acquired in Satisfaction of Loans:

Policy Applicable to the Lebanese Group Entities:

Real estate properties acquired through the enforcement of collateral over loans and advances are measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who require the liquidation of these assets within 2 years from acquisition. In case of default of liquidation the regulatory authorities require an appropriation of a special reserve from the yearly profits and accumulated in equity.

Q. Investment Properties:

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at fair value, as at the balance sheet date. Gain or losses arising from changes in the fair values of investment properties are included in the income statement. Valuations are carried out by independent qualified valuers on the basis of current market values.

The Group's Cypriot entity acquires in its normal course of business properties in satisfaction of debts. These properties are directly held by the Group or by special purpose entities for the sole purpose of managing these properties. To reflect the substance of transactions, these are classified as investment properties and are consolidated without the entities being explicitly disclosed as subsidiaries.

R. Impairment of Non-Financial Assets:

At the end of each reporting period, the Group reviews the carrying amounts of its non-financial, asset other than investment properties and deferred taxes, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Goodwill is tested annually for impairment. Recoverable amount is the higher of fair value less costs to sell and value in use.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

An impairment loss in respect of goodwill is not reversed.

S. Deferred Charges on Business Acquisition:

Deferred charges on business acquisition are stated at cost less accumulated amortization. Such deferred charges are amortized over the period of related benefits deriving from the net return of the invested funds borrowed against the cost of business acquisitions of problematic banks, where applicable. Amortization charge is treated as a yield adjustment to the interest income of the pledged Lebanese Treasury bills acquired from the soft loans proceeds (Refer to Note 17).

T. Provision for Employees' End-of-Service Indemnity:

Policy Applicable to the Lebanese Group Entities:

The provision for staff termination indemnities is based on the liability that would arise if the employment of all the staff were voluntary terminated at the reporting date. This provision is calculated in accordance with the directives of the Lebanese Social Security Fund and Labor laws based on the number of years of service multiplied by the monthly average of the last 12 months' remunerations and less contributions paid to the Lebanese Social Security National Fund and interest accrued by the Fund.

Policy Applicable to Other Jurisdictions:

Obligations in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognized past service costs and the fair value of any plan assets are deducted.

U. Provisions:

Provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are discounted where the impact is material.

V. Revenue and Expense Recognition:

Interest income and expense are recognized on an accrual basis, taking account of the principal outstanding and the rate applicable, except for non-performing loans and advances for which interest income is only recognized upon realization. Interest income and expense include the amortization of discount or premium.

Fee and commission income and expense that are integral to the effective interest rate on a financial asset or liability (e.g. commissions and fees earned on loans) are included under interest income and expense.

Other fee and commission income are recognized as the related services are performed.

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost.
- Changes in fair value of qualifying derivatives, including hedge ineffectiveness, and related hedged items when interest rate risk is the hedged risk.

Interest income on financial assets measured at fair value through profit or loss and interest expense of financial liabilities designated at fair value through profit or loss are presented separately in the income statement.

Other net gain and losses on financial assets measured at fair value through profit or loss includes:

- Dividend income.
- Realized and unrealized fair value changes.
- Foreign exchange differences.

Dividend income is recognized when the right to receive payment is established. Dividends on equity instruments designated as at fair value through other comprehensive income in accordance with IFRS 9, are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the investment, in which case it is presented in other comprehensive income.

W. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated income statement except to the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because of the items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Part of debt securities invested in by the Group is subject to withheld tax by the issuer. This tax is deducted at year-end from the corporate tax liability not eligible for deferred tax benefit, and therefore, accounted for as prepayment on corporate income tax and reflected as a part of income tax provision.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the consolidated statement of financial position and the corresponding tax base used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

X. Fiduciary Accounts:

Fiduciary assets are held or invested on behalf of the Group's customers on a discretionary basis, non-discretionary basis, or both. The related risks and rewards belong to the account holders and accordingly, these accounts are reflected as off-balance sheet accounts.

Y. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months including: cash and balances with the Central Bank and deposits with banks and financial institutions.

4.
CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 3, the directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised or in the future periods if the revision affects both current and future periods.

A. Critical Accounting Judgments in Applying the Group's Accounting Policies:

Classification of Financial Assets

Business Model:

The business model test requires the Group to assess whether its business objective for financial assets is to collect the contractual cash flows of the assets rather than realize their fair value change from sale before their contractual maturity. The Group considers at which level of its business activities such assessment should be made. Generally, a business model can be evidenced by the way business is managed and the information provided to management. However the Group's business model can be to hold financial assets to collect contractual cash flows even when there are some sales of financial assets. While IFRS 9 provides some situations where such sales may or may not be consistent with the objective of holding assets to collect contractual cash flows, the assessment requires the use of judgment based on facts and circumstances.

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

- The frequency and volume of sales;
- The reasons for any sales;
- How management evaluates the performance of the portfolio;
- The objectives for the portfolio.

Characteristics of the Financial Asset:

Once the Group determines that its business model is to hold the assets to collect the contractual cash flows, it exercises judgment to assess the contractual cash flows characteristics of a financial asset. In making this judgment, the Group considers the contractual terms of the acquired asset to determine that they give rise on specific dates, to cash flows that solely represent principal and principal settlement and accordingly may qualify for amortized cost accounting.

Features considered by the Group that would be consistent with amortized cost measurement include:

- Fixed and / or floating interest rate;
- Caps, floors, collars;
- Prepayment options.

Features considered by the Group that would be inconsistent with amortized cost measurement include:

- Leverage (i.e. options, forwards and swaps);
- Conversion options;
- Inverse floaters;
- Variable rate coupons that reset periodically;
- Triggers that result in a significant reduction of principal, interest or both.

B. Key Sources of Estimation Uncertainty:

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Allowances for Credit Losses - Loans and Advances to Customers:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle his advances and the value of collateral and potential repossession. Loans collectively assessed for impairment are determined based on losses incurred by loans portfolios with similar characteristics.

Determining Fair Values:

The determination of fair value for financial assets for which there is no observable market price requires the use of valuation techniques as described in Note 3I. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainly of market factors, pricing assumptions and other risks affecting the specific instrument.

Where available, management has used market indicators in its mark to model approach for the valuation of the Lebanese government debt securities and Central Bank certificates of deposit at fair value. The IFRS fair value hierarchy allocates the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities, and the lowest priority to unobservable inputs. The fair value hierarchy used in the determination of fair value consists of three levels of input data for determining the fair value of an asset or liability.

Level 1 - quoted prices for identical items in active, liquid and visible markets such as stock exchanges,

Level 2 - observable information for similar items in active or inactive markets,

Level 3 - unobservable inputs used in situations where markets either do not exist or are illiquid.

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data. Where practical, the discount rate used in the mark to model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the Lebanese Government debt securities and Central Bank certificates of deposit.

Impairment of Goodwill:

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy under Note 3R. The recoverable amount is deemed to be the value in use using a discounted cash flow model. This requires the directors to estimate the future cash flows and a suitable discount rate. Refer to Note 16 for details.

5.
CLASSIFICATION OF FINANCIAL ASSETS ON THE DATE OF INITIAL APPLICATION OF IFRS 9

Effective January 1, 2011, the Group has early adopted IFRS 9 *Financial Instruments.*

The impact of the early adoption of IFRS 9 on the opening retained earnings and the cumulative change in fair value as at January 1, 2011 was as follows:

LBP'000	Retained Earnings	Cumulative Change in Fair Value of Investment Securities (under equity)	Non-Controlling Interest
Reported balances - December 31, 2010	303,517,452	341,818,315	221,388,432
Allocation to retained earnings of portion of change in fair value related to portfolio classified at fair value through profit or loss (net of deferred tax)	55,744,265	(55,744,265)	-
Offset of change in fair value related to portfolio classified at amortized cost (net of deferred tax)	-	(255,781,067)	(11,129,580)
Other adjustments	(4,934,478)	-	-
Reported balances - January 1, 2011	**354,327,239**	**30,292,983**	**210,258,852**

6.
CASH AND CENTRAL BANKS

LBP'000	DECEMBER 31, 2012 Balance	DECEMBER 31, 2012 of which Compulsory/ Regulatory Deposits	DECEMBER 31, 2011 Balance	DECEMBER 31, 2011 of which Compulsory/ Regulatory Deposits
Cash on hand	141,268,914	-	130,081,058	-
Current accounts with Central Bank of Lebanon	468,385,960	299,119,292	436,805,681	271,159,243
Current accounts with other Central Banks	289,794,238	53,286,150	131,098,070	54,013,834
Term placements with Central Bank of Lebanon	3,437,059,752	1,588,605,336	2,473,364,300	1,474,729,588
Term placements with other Central Banks	149,879,750	-	76,549,050	-
Blocked deposits with Central Bank of Lebanon	-	-	550,000	-
Blocked deposits with other Central Banks (Note 21)	83,487,180	-	-	-
Accrued interest receivable	44,134,042	-	11,906,916	-
TOTAL	**4,614,009,836**	**1,941,010,778**	**3,260,355,075**	**1,799,902,665**

Compulsory deposits under current accounts with Central Bank of Lebanon are in Lebanese Pounds and non-interest earning. These deposits are computed on the basis of 25% and 15% of the average weekly sight and term customers' deposits in Lebanese Pounds in accordance with the local banking regulations.

Regulatory deposits under term placements with Central Bank of Lebanon are in foreign currencies and made in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' deposits in foreign currencies, certificates of deposits and loans acquired from non-resident financial institutions.

7.
DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

LBP'000	2012	2011
Checks in course of collection	35,889,956	20,864,218
Current accounts with banks and financial institutions	234,841,482	257,579,648
Current accounts with related banks and financial institutions	32,349,097	-
Current margin accounts with banks and financial institutions	9,574,171	676,335
Term placements with banks and financial institutions	1,312,234,870	1,129,020,127
Term placements with related banks and financial institutions	957,737	-
Blocked margins with banks and financial institutions	1,271,953	-
Accrued interest receivable	259,255	666,528
Accrued interest receivable - Related parties	7,241	-
Regulatory allowance for country risk	(1,906)	(92,666)
TOTAL	**1,627,383,856**	**1,408,714,190**

The movement of the regulatory allowance for country risk was as follows:

LBP'000	2012	2011
Balance January 1	92,666	57,321
Additions (Note 41)	282,677	922,980
Write-back (Note 41)	(373,548)	(803,402)
Effect of exchange rates changes	111	(84,233)
BALANCE DECEMBER 31	**1,906**	**92,666**

8.
LOANS TO BANKS

Loans to banks are reflected at amortized cost and consist of the following as at December 31:

LBP'000	2012	2011
Regular performing accounts	246,444,752	228,032,158
Accrued interest receivable	976,049	1,791,968
TOTAL	**247,420,801**	**229,824,126**

The movement of loans to banks was as follows during 2012 and 2011:

LBP'000	2012	2011
Balance January 1	228,032,158	231,047,979
Additions	200,184,195	208,268,750
Settlements	(181,722,900)	(212,138,007)
Effects of exchange rate changes	(48,701)	853,436
BALANCE DECEMBER 31	**246,444,752**	**228,032,158**

9.
LOANS AND ADVANCES TO CUSTOMERS

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

	DECEMBER 31, 2012					DECEMBER 31, 2011				
LBP'000	**Gross Amount**	**Unrealized Interest**	**Discount on Loan Book**	**Impairment Allowance**	**Carrying Amount**	**Gross Amount**	**Unrealized Interest**	**Discount on Loan Book**	**Impairment Allowance**	**Carrying Amount**
Regular and Watch List Retail Customers:										
Mortgage loans	1,079,794,921	-	-	-	1,079,794,921	941,103,620	-	-	-	941,103,620
Personal loans	544,381,654	-	-	-	544,381,654	457,968,990	-	-	-	457,968,990
Car loans	302,564,704	-	-	-	302,564,704	323,612,720	-	-	-	323,612,720
Credit cards	47,107,644	-	-	-	47,107,644	55,167,161	-	-	-	55,167,161
Educational loans	16,974,039	-	-	-	16,974,039	13,193,974	-	-	-	13,193,974
Other	19,163,507	-	-	-	19,163,507	6,558,357	-	-	-	6,558,357
Loans to staff	8,736,673	-	-	-	8,736,673	8,144,138	-	-	-	8,144,138
	2,018,723,142	-	-	-	2,018,723,142	1,805,748,960	-	-	-	1,805,748,960
Regular and Watch List Corporate Customers:										
Corporates	3,352,946,213	-	-	-	3,352,946,213	3,167,250,184	-	-	-	3,167,250,184
Small and medium enterprises	1,764,186,353	-	-	-	1,764,186,353	1,558,982,012	-	-	-	1,558,982,012
	5,117,132,566	-	-	-	5,117,132,566	4,726,232,196	-	-	-	4,726,232,196
Accrued interest receivable	31,683,012	-	-	-	31,683,012	23,791,555	-	-	-	23,791,555
Allowance for Collectively Assessed Loans:										
Regular and watch list loans (including allowance for country risk)	-	-	-	(55,661,979)	(55,661,979)	-	-	-	(38,179,066)	(38,179,066)
Total regular and watch list	7,167,538,720	-	-	(55,661,979)	7,111,876,741	6,555,772,711	-	-	(38,179,066)	6,517,593,645
Non-Performing Accounts:										
Purchased loan book	2,199,865	-	-	-	2,199,865	2,539,933	-	-	-	2,539,933
Substandard	91,790,426	(47,140,889)	-	-	44,649,537	71,525,492	(43,397,334)	-	-	28,128,158
Doubtful	969,498,157	(613,795,649)	(6,777,855)	(210,048,280)	138,876,373	929,268,621	(575,706,943)	(7,622,551)	(215,179,313)	130,759,814
Bad	196,249,483	(141,119,944)	(2,737,304)	(52,365,736)	26,499	164,996,597	(113,705,573)	(1,202,641)	(50,087,629)	754
Collective Allowance:										
Doubtful and bad	-	-	-	(2,586,054)	(2,586,054)	-	-	-	(6,500,757)	(6,500,757)
Total non-performing	1,259,737,931	(802,056,482)	(9,515,159)	(265,000,070)	183,166,220	1,168,330,643	(732,809,850)	(8,825,192)	(271,767,699)	154,927,902
TOTAL	8,427,276,651	(802,056,482)	(9,515,159)	(320,662,049)	7,295,042,961	7,724,103,354	(732,809,850)	(8,825,192)	(309,946,765)	6,672,521,547

The carrying value of loans and advances to customers include accidentally temporary debtors with carrying value amounting to LBP 55.2 billion (LBP 34.5 billion in 2011).

The carrying value of loans and advances to customers include loans to related parties in the aggregate of LBP 183.37 billion (LBP 175.23 billion in 2011) (See Note 43).

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

LBP'000	2012	2011
Balance January 1	732,809,850	637,941,682
Additions	139,675,733	117,755,361
Additions from acquired subsidiaries	-	44,255,163
Recoveries (Note 35)	(14,694,223)	(15,960,870)
Write-off	(39,242,643)	(47,575,040)
Transfer to off-balance sheet	(18,101,290)	(8,796)
Reclassification from / (to) allowance account	685,134	(107,503)
Effect of exchange rates changes	923,921	(3,490,147)
BALANCE DECEMBER 31	**802,056,482**	**732,809,850**

The movement of allowance for impairment of loans and advances during 2012 and 2011 is as follows:

LBP'000	2012	2011
Balance January 1	309,946,765	221,818,701
Additions	43,792,390	29,704,444
Additional allowance linked to country risk	17,352,050	22,284,395
Recoveries	(20,076,344)	(23,660,262)
Net allowance charge	41,068,096	28,328,577
Additions / (adjustments) from acquired subsidiaries	-	72,281,584
Write-off	(16,055,637)	(5,192,436)
Transfer from provision for contingencies (Note 25)	4,145,625	-
Transfer to off-balance sheet	(14,562,114)	(19,411)
Reclassification (to) / from unrealized interest	(685,134)	107,503
Other movement	-	(68,304)
Effect of exchange rates changes	(3,195,552)	(7,309,449)
BALANCE DECEMBER 31	**320,662,049**	**309,946,765**

The allowance for credit risk linked to country risk is a collective provision made based on a stress test scenario performed on Syrian credit risk exposure. A provision of LBP 17.35 billion was recognized during 2012 (LBP 22.28 billion during 2011).

The movement of the discount on purchased loan book during 2012 and 2011 is as follows:

LBP'000	2012	2011
Balance January 1	8,825,192	9,820,153
Additions	953,863	176,011
Recoveries	(245,626)	(613,046)
Write-off	(18,270)	(557,926)
BALANCE DECEMBER 31	**9,515,159**	**8,825,192**

10.
INVESTMENT SECURITIES

Investment securities are allocated as follows:

LBP'000	DECEMBER 31, 2012			
	Fair Value Through Profit or Loss	Amortized Cost (Net of Impairment Allowance)	Fair Value Through Other Comprehensive Income	Total
Equities and preference shares	41,502,236	9,796,995	169,044,813	220,344,044
Lebanese Treasury bills	418,012,162	1,946,296,165	-	2,364,308,327
Lebanese Government bonds	105,510,269	1,615,367,020	-	1,720,877,289
Foreign Government bonds	3,146,582	205,586,339	-	208,732,921
Foreign Eurobonds issued by banks	104,333,903	22,512,283	-	126,846,186
Subordinated Eurobonds	761,255	1,507,500	-	2,268,755
Certificates of deposit issued by Central Bank of Lebanon	100,540,303	3,848,677,228	-	3,949,217,531
Certificates of deposit issued by banks	-	24,746,532	-	24,746,532
Corporate bonds	1,121,113	85,195,899	-	86,317,012
Asset-backed securities	-	319,522	-	319,522
Accrued interest receivable	6,046,878	139,226,649	-	145,273,527
TOTAL	**780,974,701**	**7,899,232,132**	**169,044,813**	**8,849,251,646**

LBP'000	DECEMBER 31, 2011			
	Fair Value Through Profit or Loss	Amortized Cost (Net of Impairment Allowance)	Fair Value Through Other Comprehensive Income	Total
Equities and preference shares	47,971,113	2,258,865	128,384,449	178,614,427
Lebanese Treasury bills	173,783,892	1,693,140,267	-	1,866,924,159
Foreign Treasury bills	-	87,477,037	-	87,477,037
Lebanese Government bonds	161,580,071	1,642,272,429	-	1,803,852,500
Foreign Government bonds	-	283,270,236	-	283,270,236
Foreign Eurobonds issued by banks	3,843,670	23,184,530	-	27,028,200
Subordinated Eurobonds	753,722	1,507,500	-	2,261,222
Certificates of deposit issued by Central Bank of Lebanon	226,794,634	4,044,914,713	-	4,271,709,347
Certificates of deposit issued by banks	-	72,149,603	-	72,149,603
Corporate bonds	14,885,523	132,998,278	-	147,883,801
Asset-backed securities	-	1,447,829	-	1,447,829
Accrued interest receivable	8,851,653	127,381,198	-	136,232,851
TOTAL	**638,464,278**	**8,112,002,485**	**128,384,449**	**8,878,851,212**

Investments at Amortized Cost:

Below are the details of investments classified at amortized cost with related fair value at December 31:

	DECEMBER 31, 2012							
	Balances in LBP				Balances in F/Cy			
LBP'000	Amortized Cost	Allowance for Impairment	Carrying Value	Fair Value	Amortized Cost	Allowance for Impairment	Carrying Value	Fair Value
Preference shares	-	-	-	-	9,796,995	-	9,796,995	9,796,995
Lebanese Treasury bills	1,946,296,165	-	1,946,296,165	1,943,767,969	-	-	-	-
Lebanese Government bonds	-	-	-	-	1,615,367,020	-	1,615,367,020	1,611,642,575
Foreign Government bonds	-	-	-	-	206,587,330	(1,000,991)	205,586,339	158,718,613
Foreign Eurobonds issued by banks	-	-	-	-	22,550,886	(38,603)	22,512,283	24,474,623
Subordinated Eurobonds	-	-	-	-	1,507,500	-	1,507,500	1,507,500
Certificates of deposit issued by Central Bank of Lebanon	2,964,917,171	-	2,964,917,171	3,060,940,540	883,760,057	-	883,760,057	782,422,352
Certificates of deposit issued by banks	-	-	-	-	24,746,532	-	24,746,532	24,797,081
Corporate bonds	-	-	-	-	85,195,899	-	85,195,899	86,585,641
Asset-backed securities	-	-	-	-	319,522	-	319,522	319,941
Accrued interest receivable	89,677,412	-	89,677,412	89,677,412	49,549,237	-	49,549,237	49,549,237
TOTAL	**5,000,890,748**	**-**	**5,000,890,748**	**5,094,385,921**	**2,899,380,978**	**(1,039,594)**	**2,898,341,384**	**2,749,814,558**

	DECEMBER 31, 2011							
	Balances in LBP				Balances in F/Cy			
LBP'000	Amortized Cost	Allowance for Impairment	Carrying Value	Fair Value	Amortized Cost	Allowance for Impairment	Carrying Value	Fair Value
Preference shares	-	-	-	-	2,258,865	-	2,258,865	2,258,865
Lebanese Treasury bills	1,693,140,267	-	1,693,140,267	1,722,700,132	-	-	-	-
Foreign Treasury bills	-	-	-	-	87,477,037	-	87,477,037	87,536,145
Lebanese Government bonds	-	-	-	-	1,642,272,429	-	1,642,272,429	1,677,459,122
Foreign Government bonds	-	-	-	-	298,834,778	(15,564,542)	283,270,236	225,303,063
Foreign Eurobonds issued by banks	-	-	-	-	23,230,821	(46,291)	23,184,530	24,619,846
Subordinated Eurobonds	-	-	-	-	1,507,500	-	1,507,500	1,507,500
Certificates of deposit issued by Central Bank of Lebanon	3,174,414,915	-	3,174,414,915	3,400,686,677	870,499,798	-	870,499,798	882,604,373
Certificates of deposit issued by banks	-	-	-	-	72,149,603	-	72,149,603	72,751,445
Corporate bonds	-	-	-	-	132,998,278	-	132,998,278	127,458,776
Asset-backed securities	-	-	-	-	1,447,829	-	1,447,829	1,447,829
Accrued interest receivable	85,983,636	-	85,983,636	85,983,636	41,397,562	-	41,397,562	41,397,562
TOTAL	**4,953,538,818**	**-**	**4,953,538,818**	**5,209,370,445**	**3,174,074,500**	**(15,610,833)**	**3,158,463,667**	**3,144,344,526**

The Group had Treasury bills classified at amortized cost with carrying value of LBP 288 billion that are pledged against soft loans granted by Central Bank of Lebanon – (Notes 21(f) and 46) (LBP 281 billion in 2011).

The Group had Lebanese Government bonds classified at amortized cost with carrying value of LBP 174 billion that are pledged against a stand-by line facility funded by the Central Bank of Lebanon – (Notes 21 (g) and 46).

Investments at amortized cost are segregated over remaining periods to maturity as follows:

LBP'000	DECEMBER 31, 2012				DECEMBER 31, 2011			
Remaining Period to Maturity	Redemption Value	Amortized Cost (Net of Impairment)	Fair Value	Average Interest Rate %	Redemption Value	Amortized Cost (Net of Impairment)	Fair Value	Average Interest Rate %
Lebanese Treasury bills:								
Up to one year	197,488,960	195,538,346	195,454,508	5.08	686,933,650	684,393,393	700,296,511	8.47
1 year to 3 years	542,762,000	545,926,987	550,332,064	7.27	240,798,960	241,297,115	252,327,876	7.63
3 years to 5 years	240,529,230	240,627,788	238,170,424	6.81	332,217,500	335,572,039	336,112,912	6.76
5 years to 10 years	959,900,000	964,203,044	959,810,973	7.82	430,050,000	431,877,720	433,962,833	7.77
	1,940,680,190	**1,946,296,165**	**1,943,767,969**		**1,690,000,110**	**1,693,140,267**	**1,722,700,132**	
Foreign Treasury bills:								
Up to one year	-	-	-	-	87,686,550	87,477,037	87,536,145	4.39
	-	**-**	**-**		**87,686,550**	**87,477,037**	**87,536,145**	
Lebanese Government bonds:								
Up to one year	12,655,462	12,728,228	12,734,835	9.05	-	-	-	-
1 year to 3 years	170,892,841	171,836,216	174,818,372	7.91	147,888,392	148,217,192	152,264,548	8.25
3 years to 5 years	436,810,943	449,842,705	469,831,041	8.54	267,074,730	282,820,892	280,964,643	8.09
5 years to 10 years	891,386,788	888,622,944	857,962,320	6.53	930,780,786	928,379,344	951,673,757	6.96
Beyond 10 years	92,720,295	92,336,927	96,296,007	6.64	285,313,973	282,855,001	292,556,174	7.01
	1,604,466,329	**1,615,367,020**	**1,611,642,575**		**1,631,057,881**	**1,642,272,429**	**1,677,459,122**	
Foreign Government bonds:								
Up to one year	46,713,065	44,996,750	40,140,538	3.75	105,223,860	108,640,614	104,110,241	5.18
1 year to 3 years	105,098,768	98,792,744	78,378,214	4.36	63,329,175	53,885,570	42,775,253	4.58
3 years to 5 years	1,987,790	1,957,415	1,363,823	5.50	69,297,516	59,906,273	40,284,198	4.20
5 years to 10 years	63,609,280	59,480,645	38,477,253	4.63	62,354,880	60,478,994	37,774,586	4.63
Beyond 10 years	358,785	358,785	358,785	4.75	358,785	358,785	358,785	4.70
	217,767,688	**205,586,339**	**158,718,613**		**300,564,216**	**283,270,236**	**225,303,063**	
Foreign Eurobonds issued by banks:								
Up to one year	3,015,000	2,976,397	2,976,397	7.00	1,584,286	1,584,286	1,584,286	7.24
1 year to 3 years	14,226,620	14,196,293	15,076,654	4.81	13,537,076	13,493,353	14,022,518	5.93
3 years to 5 years	845,329	845,329	845,329	30.00	3,617,342	3,615,634	3,753,374	4.25
5 years to 10 years	4,522,500	4,494,264	5,576,243	7.50	4,522,500	4,491,257	5,259,668	7.50
	22,609,449	**22,512,283**	**24,474,623**		**23,261,204**	**23,184,530**	**24,619,846**	
Subordinated Eurobonds:								
5 years to 10 years	1,507,500	1,507,500	1,507,500	6.75	1,507,500	1,507,500	1,507,500	6.75
	1,507,500	**1,507,500**	**1,507,500**		**1,507,500**	**1,507,500**	**1,507,500**	
Certificates of deposit issued by Central Bank of Lebanon:								
Up to one year	1,083,698,000	1,085,056,438	1,104,993,766	10.67	368,442,795	369,301,461	372,616,965	8.57
1 year to 3 years	1,441,303,875	1,451,026,698	1,470,936,496	9.19	2,533,111,000	2,549,554,966	2,723,398,739	9.73
3 years to 5 years	1,074,725,500	1,082,564,805	1,076,677,204	7.71	487,890,875	497,723,148	522,843,705	8.58
5 years to 10 years	235,320,750	230,029,287	190,755,426	5.40	625,000,000	628,335,138	664,431,641	8.07
	3,835,048,125	**3,848,677,228**	**3,843,362,892**		**4,014,444,670**	**4,044,914,713**	**4,283,291,050**	
Certificates of deposit issued by banks:								
Up to one year	10,668,042	10,668,042	10,668,042	2.69	61,654,709	61,599,021	62,200,863	7.53
1 year to 3 years	1,981,208	1,981,208	1,981,208	4.17	10,550,582	10,550,582	10,550,582	2.69
3 years to 5 years	12,162,337	12,097,282	12,147,831	5.38	-	-	-	-
	24,811,587	**24,746,532**	**24,797,081**		**72,205,291**	**72,149,603**	**72,751,445**	
Corporate bonds:								
Up to one year	32,798,535	32,705,651	32,725,981	1.20	62,646,102	62,840,350	62,466,105	1.40
1 year to 3 years	33,928,830	33,454,905	33,712,624	1.34	52,593,323	51,640,973	48,287,277	1.77
3 years to 5 years	12,423,688	11,637,888	11,856,919	0.97	3,897,180	3,462,762	2,982,902	1.99
5 years to 10 years	2,788,931	2,815,296	3,176,317	4.24	11,039,732	10,521,701	9,230,211	2.48
Beyond 10 years	4,572,018	4,582,159	5,113,800	5.00	4,521,678	4,532,492	4,492,281	5.00
	86,512,002	**85,195,899**	**86,585,641**		**134,698,015**	**132,998,278**	**127,458,776**	
Assets-backed securities:								
5 years to 10 years	319,941	319,522	319,941	7.25	1,456,663	1,447,829	1,447,829	7.25
	319,941	**319,522**	**319,941**		**1,456,663**	**1,447,829**	**1,447,829**	

Investments at Fair Value through Other Comprehensive Income:

The Group has designated investments in equity securities as at fair value through other comprehensive income. This classification was chosen as the investments are expected to be held for a long time.

	DECEMBER 31, 2012					
	Balances in LBP			Balances in F/Cy		
LBP'000	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value
Quoted equities	-	-	-	1,307,020	6,597,427	5,290,407
Unquoted equities	87,665,936	159,127,612	71,461,676	3,231,500	3,319,774	88,274
TOTAL	**87,665,936**	**159,127,612**	**71,461,676**	**4,538,520**	**9,917,201**	**5,378,681**

	DECEMBER 31, 2011					
	Balances in LBP			Balances in F/Cy		
LBP'000	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value
Quoted equities	-	-	-	1,307,020	5,022,146	3,715,126
Unquoted equities	87,865,097	120,193,678	32,328,581	3,091,375	3,168,625	77,250
TOTAL	**87,865,097**	**120,193,678**	**32,328,581**	**4,398,395**	**8,190,771**	**3,792,376**

11.
CUSTOMERS' LIABILITY UNDER ACCEPTANCES

Acceptances represent documentary credits which the Group has committed to settle on behalf of its customers against commitments by those customers (acceptances).

The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

12.
INVESTMENTS IN ASSOCIATES

Investments in associates, which are not listed, are as follows:

		Interest Held		DECEMBER 31	
LBP'000	Country of Incorporation	2012 %	2011 %	2012	2011
Bancassurance SAL	Lebanon	59.99	39.99	23,768,877	7,410,323
United Capital Bank	Sudan	20.00	20.00	19,201,427	36,648,453
International Payment Network	Lebanon	20.30	20.30	1,453,223	1,392,322
TOTAL				**44,423,527**	**45,451,098**

The movement of investments in associates is as follows:

LBP'000	2012	2011
Balance January 1	45,451,098	45,828,336
Additional interest in "International Payment Network"	-	87,207
Additional interest in "Bancassurance SAL"	12,060,000	-
Unrealized gain through other comprehensive income	2,862	-
Dividends received	(5,650,695)	(6,592,619)
Share in net profits (Note 40)	11,708,163	7,789,015
Currency translation adjustment	(19,147,901)	(1,660,841)
BALANCE DECEMBER 31	**44,423,527**	**45,451,098**

The equity stake in "Bancassurance SAL" increased to 59.99% through acquisition of additional shares from a third party; however, it is still considered an associate because the Group does not exercise control over the entity.

13.
ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans, representing real estate properties, have been acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in satisfaction of loans during 2012 and 2011 was as follows:

LBP'000	Real Estate
Cost:	
Balance January 1, 2011	223,318,493
Additions	9,552,220
Disposals	(28,661,628)
Balance December 31, 2011	204,209,085
Additions	6,213,530
Disposals	(16,221,808)
Balance December 31, 2012	**194,200,807**
Impairment allowance:	
Balance January 1, 2011	(13,879,429)
Retirement upon disposal	401,814
Balance December 31, 2011	(13,477,615)
Retirement upon disposal	(40,445)
Balance December 31, 2012	**(13,518,060)**
Carrying amount:	
DECEMBER 31, 2012	**180,682,747**
DECEMBER 31, 2011	**190,731,470**

The acquisition of assets in settlement of loans requires the approval of the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 20 years.

Gain on the disposals reflected above amounted to LBP 6.4 billion (LBP 31.9 billion in 2011) – Note 40.

Foreclosed assets acquired by the Group's foreign entities amounted to LBP 53.4 billion (LBP 17.6 billion in 2011). These are presented separately under investment properties and are measured at fair value. During 2012 the Group's foreign entity acquired properties amounting to LBP 35.4 billion through enforcement of security over loans and advances. Positive change in the fair value of these properties amounted to LBP nil during 2012 (LBP 191 million during 2011) (Note 40).

14.
PROPERTY AND EQUIPMENT

LBP'000	Balance at January 1, 2012	Additions and Transfers from Advance Payments	Retirements	Revaluation Adjustment	Provisions for Contingencies	Currency Translation Adjustment	Balance as at December 31, 2012
Cost/Revaluation:							
Owned properties	219,432,956	23,726,260	(2,047,518)	6,435,152	-	(4,643,970)	242,902,880
Furniture, equipment and computer	82,803,969	12,171,089	(6,094,753)	522,770	-	(797,024)	88,606,051
Vehicles	4,288,151	534,685	(347,376)	64,856	-	(55,437)	4,484,879
Office improvements and installations	67,291,338	14,123,847	(207,229)	-	-	(1,246,377)	79,961,579
TOTAL	**373,816,414**	**50,555,881**	**(8,696,876)**	**7,022,778**	**-**	**(6,742,808)**	**415,955,389**
Accumulated Depreciation	(129,696,761)	(18,455,245)	6,643,991	(322,028)	-	634,278	(141,195,765)
Provision for Impairment	(2,962,774)	(321,751)	-	-	17,000	-	(3,267,525)
Advance Payments	71,672,144						63,926,051
NET BOOK VALUE	**312,829,023**						**335,418,150**

LBP'000	Balance at January 1, 2011	Additions and Transfers from Advance Payments	Retirements	Revaluation Adjustment	Addition in Business Combination	Currency Translation Adjustment	Balance as at December 31, 2011
Cost/Revaluation:							
Owned properties	192,062,725	30,494,504	(1,993,756)	7,739,234	8,902,440	(17,772,191)	219,432,956
Furniture, equipment and computer	66,741,875	8,837,241	(2,159,409)	1,779,590	10,893,625	(3,288,953)	82,803,969
Vehicles	3,636,191	1,015,073	(554,112)	121,792	332,778	(263,571)	4,288,151
Office improvements and installations	51,172,014	11,520,051	(667,385)	14,190	6,607,478	(1,355,010)	67,291,338
TOTAL	**313,612,805**	**51,866,869**	**(5,374,662)**	**9,654,806**	**26,736,321**	**(22,679,725)**	**373,816,414**
Accumulated Depreciation	(104,164,143)	(16,736,860)	3,589,588	(633,176)	(14,143,486)	2,391,316	(129,696,761)
Provision for Impairment	(3,339,649)	-	376,875	-	-	-	(2,962,774)
Advance Payments	60,773,148						71,672,144
NET BOOK VALUE	**266,882,161**						**312,829,023**

15.
INTANGIBLE ASSETS

LBP'000	Balance at January 1, 2012	Additions and Transfers from Advance Payments	Retirements	Currency Translation Adjustments	Balance as at December 31, 2012
Cost:					
Purchase software	27,112,247	5,379,602	-	(185,866)	32,305,983
Licenses	8,949	147	(29)	(228)	8,839
Key money	196,017	-	-	-	196,017
TOTAL	**27,317,213**	**5,379,749**	**(29)**	**(186,094)**	**32,510,839**
Accumulated Depreciation:					
Purchase software	(19,970,710)	(3,106,262)	-	169,161	(22,907,811)
Licenses	(2,783)	(1,370)	29	108	(4,016)
Key money	(140,742)	(4,020)	-	-	(144,762)
TOTAL	**(20,114,235)**	**(3,111,652)**	**29**	**169,269**	**(23,056,589)**
Advance Payments:	**2,829,661**				**3,377,134**
NET BOOK VALUE	**10,032,639**				**12,831,384**

LBP'000	Balance at January 1, 2011	Additions and Transfers from Advance Payments	Retirements	Additions in Business Combination	Currency Translation Adjustments	Balance as at December 31, 2011
Cost:						
Purchase software	24,685,748	2,434,018	-	252,075	(259,594)	27,112,247
Licenses	25,050	-	(84)	-	(16,017)	8,949
Key money	196,017	-	-	-	-	196,017
TOTAL	**24,906,815**	**2,434,018**	**(84)**	**252,075**	**(275,611)**	**27,317,213**
Accumulated Depreciation:						
Purchase software	(16,568,978)	(3,599,849)	-	-	198,117	(19,970,710)
Licenses	(4,034)	(2,283)	56	-	3,478	(2,783)
Key money	(136,722)	(4,020)	-	-	-	(140,742)
TOTAL	**(16,709,734)**	**(3,606,152)**	**56**	**-**	**201,595**	**(20,114,235)**
Advance Payments:	**2,253,639**					**2,829,661**
NET BOOK VALUE	**10,450,720**					**10,032,639**

16.
GOODWILL

Goodwill is derived from acquisition of control of subsidiaries as follows:

LBP'000	2012	2011
Fransabank OJSC - Belarus	720,704	720,704
BLC Bank SAL	44,095,440	44,095,440
USB Bank PLC (Cyprus)	41,280,604	40,683,630
TOTAL	**86,096,748**	**85,499,774**

Goodwill Allocated to BLC Bank

The recoverable amount is determined based on the value in use calculation which uses future cash flows over five years based on the current net return to total assets and adding back depreciation. Discount rate used is 12% per annum. The cash flows beyond that five-year period have been extrapolated using a steady 2% per annum.

Goodwill Allocated to USB Bank

Acquiring control of USB Bank PLC (Cyprus) was effective on January 31, 2011 and below are the details of identifiable assets acquired and liabilities assessed, consideration transferred and resulting recognized goodwill:

Euro	January 31, 2011
ASSETS	
Cash and banks	45,743,091
Loans and advances to customers	329,719,524
Investment securities	166,990,361
Impairment adjustment on investment securities (Note 9)	(7,987,592)
Investment property	5,700,000
Property, equipment and other assets	7,794,020
TOTAL ASSETS	**547,959,404**
LIABILITIES	
Customers' accounts at amortized cost	483,568,024
Subordinated loan	10,249,099
Other borrowings	30,033,333
Provisions and other liabilities	8,158,618
TOTAL LIABILITIES	**532,009,074**
Fair value of net assets	15,950,330
Capital increase subscribed by the Group	12,134,834
TOTAL FAIR VALUE OF NET ASSETS	**28,085,164**
Consideration paid and value of previous holding in investee	47,380,066
Amount of non-controlling interest measured at the proportionate share of identifiable assets	1,583,595
	48,963,661
GOODWILL ALLOCATED TO USB BANK PLC (CYPRUS)	**20,878,497**

Subsequent to the acquisition date, the capital of USB Bank was increased by around Euro 22 million, thus bringing total investment in subsidiary to LBP 138 billion (Euro 69.4 million), as of December 31, 2012.

The movement of goodwill allocated to USB Bank during 2012 is as follows:

	Euro	Counter Value in LBP'000
Balance as at January 1, 2012	20,878,497	40,683,630
Adjustments	(111,412)	(217,096)
Effect of foreign currency fluctuation	-	814,070
Balance as at December 31, 2012	**20,767,085**	**41,280,604**

For the purpose of goodwill impairment testing, the recoverable amount allocated to the Cypriot banking unit has been calculated based on the value in use. Value in use was determined by discounting the future cash flows expected to be generated form the continuing use and discounted projected capital value in year five, based on the following key assumptions:

- Post tax cash flows were projected based on the actual results of operations and the five-year business plan prepared by management at 2012 year-end.
- Projected capital value in year five, was weighted at 1.4.
- Discount rate of 14% being the weighted average concluded cost of capital and post-tax cost of debt.

The key assumptions described above may change as economic and market conditions change.

The Group has considered the impact of the assumptions used based on a reasonably possible change in assumptions. Therefore in a single situation where the yearly projected cash flows is only met at 80% (other assumptions remaining unchanged), this would cause the carrying amount of goodwill to exceed recoverable amount by LBP 6 billion. Also an increase of 1% in discount rate, (other assumptions remaining unchanged), the carrying amount would exceed recoverable amount by LBP 4.6 billion.

Subsequent to the balance sheet date, Cyprus has been exposed to a severe restructuring of its banking system led by the Troika as a condition precedent to provide the state of Cyprus a financial bailout to support servicing its foreign debts. In the light of the above, there could be adverse economic consequences that may arise from the prevailing situation, a matter of uncertainty that cannot be determined at present. The assumptions related to financial projections on which impairment test was based were not revised pending a stress test on the probable outcome of this crisis carried on by management. For more details about the Bank's financial position and operations refer to Note 45 (45.1 and 45.2).

17.
OTHER ASSETS

LBP'000	2012	2011
Deferred charges on acquired problematic banks (a)	22,925,983	33,360,080
Derivative assets held for risk management (b)	5,069,826	328,629
Deferred tax asset (c)	2,279,116	1,509,565
Regulatory blocked deposit (d)	18,763,727	14,880,241
Assets in process of acquisition in settlement of loans (e)	1,011,272	1,011,272
Deferred charges (f)	29,836	326,751
Collateral on dealings with "Visa International"	1,713,879	1,804,400
Prepayments	28,016,724	31,116,801
Foreign exchange operations	2,784,579	2,477,761
Accrued income	725,430	665,771
Doubtful claims by banks	1,410,072	456,209
Provision on doubtful claims by banks	(1,410,072)	(456,209)
Sundry accounts receivable (g)	69,562,103	83,232,798
Allowance for doubtful accounts receivable (h)	(3,636,025)	(3,636,025)
TOTAL	**149,246,450**	**167,078,044**

(a) Deferred charges on acquired problematic banks represent losses related to problematic banks acquired in previous years and compensated by the Central Bank of Lebanon in the form of future cash flows and benefits originated from the soft loans granted to the Group (refer to Note 21 f).

The Group is amortizing these charges against the reduction of future economic benefits derived from the soft loans and thus the carrying value of these deferred charges corresponds to the present value of future cash flows expected to be derived from the soft loans.

The unamortized balance of deferred charges on acquired problematic banks is allocated as follows at December 31:

LBP'000	2012	2011
Deferred charges on acquisition of Universal Bank SAL and United Bank of Saudi and Lebanon SAL	538,744	1,187,124
Deferred charges on acquisition of Bank Lati SAL	22,387,239	32,172,956
TOTAL	**22,925,983**	**33,360,080**
Amortization charge for the year	(10,434,097)	(8,980,560)

Amortization charge is treated as a yield adjustment to the interest income on the pledged Lebanese Treasury bills acquired from the soft loan proceeds.

(b) The derivative assets held for risk management consist of the following:

	Fair Value as at December 31,	
LBP'000	**2012**	2011
Over The Counter (OTC) structured derivative	-	328,629
Forward contracts SWAP	5,069,826	-
TOTAL	**5,069,826**	**328,629**

The OTC structured derivative is designated as fair value hedge. The OTC structured derivative represents an embedded derivative in a structured deposit product which guarantee a minimum redemption value of 100% and it matured during 2012 (Note 19).

The forward contract swap derivative is designated as cash flows hedge.

The Group used forward contract swaps to manage its exposure to exchange rate movements on forward contracts with Central Bank of Syria by purchasing foreign currencies against buying Syrian Pound. At December 31, 2012 currencies with notional principal amounts of SYP 3 billion were designated as hedges of future cash flows against USD 35 million and Euro 6 million.

(c) Deferred tax asset as at December 31, 2012 and 2011 represent deferred tax on losses incurred by a Group entity, which can be brought forward against future profits.

(d) The regulatory blocked deposits represent non-interest earning compulsory deposits placed with the Lebanese Treasury and Central Bank of Syria upon the inception of banks according to Article 132 of the Lebanese Code of Money and Credit and Article 19 of the Syrian Law No.28 respectively and are refundable in case of cease of operations.

(e) Assets in process of acquisition in settlement of debts represent the value of loans written-off against enforcement of real estate security held and will be reallocated to "Assets Acquired in Settlement of Loans" when the registration in the name of the Group is finalized.

(f) Deferred charges consist of the following at December 31:

LBP'000	**2012**	2011
Unamortized costs related to deposits with embedded derivatives	-	296,915
Other deferred charges	29,836	29,836
TOTAL	**29,836**	**326,751**

(g) Sundry accounts receivable, as at December 31, 2011, include an amount of LBP 36.5 billion (USD 24,228,000) representing the amount paid by the Group on behalf of one of the shareholders in Fransabank El Djazaïr for the increase of the capital of this subsidiary. This payment was deferred against pledging of the shareholder's shares and possible subsequent acquisition of the shares. During 2012, this amount was transferred to loans and advances to customers.

(h) The majority of the allowance for doubtful accounts receivable relate to old advances made in previous years against purchases of property and equipment.

18.
DEPOSITS AND BORROWINGS FROM BANKS

LBP'000	2012	2011
Current deposits of banks and financial institutions	80,605,218	76,850,830
Current deposits – Central Bank of Syria	170,813,905	1,078,021
Current deposits - Related parties	12,231	66,897
Money market deposits - Central Bank of Belarus	6,636,430	6,811,282
Money market deposits - Central Bank of Syria	3,671,220	206,172,733
Money market deposits – Banks and financial institutions	98,727,783	144,582,870
Money market deposits - Related parties	-	7,794,360
Other short term borrowings	15,075,000	14,249,937
Accrued interest payable	1,025,053	2,889,911
Accrued interest payable - Related parties	-	7,117
TOTAL	**376,566,840**	**460,503,958**

19.
LIABILITIES DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP'000	2012	2011
Customers' deposits with guaranteed capital at fair value through profit or loss	-	38,102,057
Accrued interest payable	-	189,090
TOTAL	**-**	**38,291,147**

Certain deposits from customers have been designated at fair value through profit or loss as they are matched with an embedded derivative. An accounting mismatch would arise if customers' deposits were accounted for at amortized cost, because the related derivative is measured at fair value with movements in the fair value taken through the income statement. By designating those deposits from customers at fair value, the movements in the fair value of these deposits are recorded in the income statement. This instrument provides notional amount protection equivalent to 100% of the initially invested amount and it matured during 2012.

The fair value recognized on these deposits and the related derivatives is as follows:

LBP'000	2012	2011
Customers' deposits at fair value through profit or loss	-	38,102,057
Related derivative contracts - Note 17	-	328,629

20.
CUSTOMERS' ACCOUNTS AT AMORTIZED COST

LBP'000	DECEMBER 31, 2012 LBP	F/Cy	Total
Deposits:			
Current / demand deposits	398,737,644	1,834,646,449	2,233,384,093
Term deposits	6,669,068,662	9,292,762,585	15,961,831,247
Collateral against loans and advances	352,721,865	720,804,254	1,073,526,119
Margins and other collateral:			
Margins for irrevocable import letters of credit	246,145	119,540,631	119,786,776
Margins on letters of guarantee	27,463,008	49,261,762	76,724,770
Other margins	17,684,657	41,391,477	59,076,134
Blocked accounts	20,618,863	36,918,333	57,537,196
Accrued interest payable:	46,204,185	67,875,429	114,079,614
TOTAL	**7,532,745,029**	**12,163,200,920**	**19,695,945,949**

LBP'000	DECEMBER 31, 2011 LBP	F/Cy	Total
Deposits:			
Current / demand deposits	313,080,257	1,480,946,659	1,794,026,916
Term deposits	5,834,008,584	8,731,575,069	14,565,583,653
Collateral against loans and advances	368,097,962	583,004,463	951,102,425
Margins and other collateral:			
Margins for irrevocable import letters of credit	92,390	122,059,955	122,152,345
Margins on letters of guarantee	32,966,650	41,483,292	74,449,942
Other margins	5,924,333	9,698,131	15,622,464
Blocked accounts	10,344,758	32,643,966	42,988,724
Accrued interest payable:	46,028,441	58,606,196	104,634,637
TOTAL	**6,610,543,375**	**11,060,017,731**	**17,670,561,106**

Customers' deposits include related parties deposits detailed as follows:

LBP'000	DECEMBER 31, 2012 LBP	F/Cy	Total
Deposits:			
Current / demand deposits	1,436,080	13,486,424	14,922,504
Term deposits	19,655,042	161,517,627	181,172,669
Collateral against loans and advances	161,095,417	839,542	161,934,959
Margins and other collateral:			
Margins on letters of guarantee	-	11,683	11,683
Blocked accounts	1,554,374	1,270,952	2,825,326
Accrued interest payable:	1,058,675	2,035,262	3,093,937
TOTAL	**184,799,588**	**179,161,490**	**363,961,078**

LBP'000	DECEMBER 31, 2011 LBP	F/Cy	Total
Deposits:			
Current / demand deposits	2,414,252	17,253,113	19,667,365
Term deposits	19,059,229	62,322,933	81,382,162
Collateral against loans and advances	177,392,138	2,031,369	179,423,507
Margins and other collateral:			
Margins for irrevocable import letters of credit	-	847,694	847,694
Margins on letters of guarantee	-	11,683	11,683
Blocked accounts	-	1,221,891	1,221,891
Accrued interest payable:	1,123,920	1,432,276	2,556,196
TOTAL	**199,989,539**	**85,120,959**	**285,110,498**

Deposits at amortized cost are allocated by brackets of deposits as follows:

		DECEMBER 31, 2012				
		LBP Base Accounts		F/Cy Base Accounts		
LBP'000	Nº of Accounts	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
Less than LBP 200 million	459,837	3,131,958,860	42	2,781,760,300	23	5,913,719,160
From LBP 200 million to LBP 1.5 billion	13,498	2,398,752,229	32	3,317,884,656	27	5,716,636,885
Above LBP 1.5 billion	1,632	2,002,033,940	26	6,063,555,964	50	8,065,589,904
TOTAL	**474,967**	**7,532,745,029**	**100**	**12,163,200,920**	**100**	**19,695,945,949**

		DECEMBER 31, 2011				
		LBP Base Accounts		F/Cy Base Accounts		
LBP'000	Nº of Accounts	Total Deposits	% to Total Deposits	Total Deposits	% to Total Deposits	Total
Less than LBP 200 million	440,368	2,912,336,566	44	2,771,557,475	25	5,683,894,041
From LBP 200 million to LBP 1.5 billion	11,177	1,990,418,349	30	3,133,335,623	28	5,123,753,972
Above LBP 1.5 billion	1,187	1,707,788,460	26	5,155,124,633	47	6,862,913,093
TOTAL	**452,732**	**6,610,543,375**	**100**	**11,060,017,731**	**100**	**17,670,561,106**

Deposits from customers at amortized cost include coded deposit accounts totaling LBP 375.21 billion (LBP 307.6 billion in 2011). These accounts are subject to the provisions of Article 3 of the Lebanese Banking Secrecy Law dated September 3, 1956 which provides that the Bank's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

Deposits from customers include fiduciary deposits received from resident and non-resident banks for a total amount of LBP 79.9 billion and LBP 460.7 billion respectively (LBP 68.5 billion and LBP 297.5 billion respectively in 2011).

21. OTHER BORROWINGS

LBP'000	2012	2011
Borrowings from European Investment Bank (a)	58,496,682	49,493,212
Borrowings from Agence Française de Développement (b)	18,664,610	22,362,434
Borrowings from International Finance Corporation (c)	2,780,735	5,561,469
Borrowings from Arab Trade Financing Program (d)	14,605,129	14,383,305
Borrowings from Central Bank of Cyprus (e)	83,487,180	-
Soft loans from Central Bank of Lebanon (f)	288,440,462	281,206,162
Borrowings from Central Bank of Lebanon (g)	354,262,500	211,050,000
Borrowings from European Central Bank (h)	-	217,267,785
Borrowings from the German Investment and Development Company - DEG (related party) (i)	9,045,000	3,015,000
Borrowings from related parties (j)	-	4,483,751
Borrowings from SANAD (k)	6,783,750	7,537,500
Accrued interest payable	3,533,895	2,275,731
TOTAL	**840,099,943**	**818,636,349**

(a) Borrowings from European Investment Bank:

Borrowings from European Investment Bank represent term borrowings obtained by the Group to finance loans extended to customers. These borrowings are divided into 2 types, a 12 years line of credit for touristic loans and a 10 years line of credit for industrial loans. These borrowings mature during 2013, 2015, 2019 and 2020.

(b) Borrowing from Agence Française de Développement:

Borrowing from Agence Française de Développement represents a 10 years line of credit for a limit of Euro 15 million (LBP 29 billion) and is granted to help the small and medium enterprises that were affected by the July and August 2006 Lebanon war. This borrowing matures during 2017.

(c) Borrowing from International Finance Corporation:

The borrowing from International Finance Corporation represents a 6 years line of credit for a limit of USD 25 million (LBP 38 billion) and is granted to help the Group's customers that were affected directly and indirectly by the July and August 2006 Lebanon war. This borrowing matures during 2013.

(d) Borrowing from Arab Trade Financing Program:

The borrowing from Arab Trade Financing Program represents 2 revolving lines of credit for USD 15 million (LBP 23 billion) and USD 4 million (LBP 6 billion) granted in years 2000 and 2011 to support inter-Arab Trade exchanges. These borrowings mature during 2013.

(e) Borrowings from Central Bank of Cyprus:

On March 1, 2012 the Central Bank of Cyprus granted the Group's Cypriot banking unit a loan in the amount of Euro 42 million, due to the deteriorating economic conditions in Cyprus, for the purpose of creating liquidity buffer maturing on February 26, 2015. Proceeds were deposited with the Central Bank of Cyprus on a weekly basis and pledged as collateral (Note 6).

(f) Soft Loans from Central Bank of Lebanon:

This caption represents soft loans granted by the Central Bank of Lebanon as detailed below:

LBP'000	Date Granted	Maturity Date	2012	2011
Additional soft loan against merger with Universal Bank SAL	June 30, 2005	June 28, 2013	8,843,712	8,843,412
Additional soft loan against merger with United Bank of Saudi and Lebanon SAL	December 22, 2005	December 20, 2013	10,468,000	10,468,000
Additional soft loan against merger with United Bank of Saudi and Lebanon SAL	October 25, 2007	October 25, 2012	-	10,500,000
Soft loan against merger with Bank Lati SAL	May 13, 2010	November 6, 2014	185,000,000	185,000,000
Additional soft loan against merger with Bank Lati SAL	August 18, 2011	August 11, 2016	48,765,500	48,765,500
4 Soft loans against providing liquidity to cover 60% of the replacement value of buildings and equipment pertaining to four of the Group's clients who were directly damaged from the July 2006 Lebanon war:				
- Loan 1	February 18, 2010	February 12, 2015	11,678,000	11,678,000
- Loan 2	February 25, 2010	February 21, 2013	5,177,250	5,177,250
- Loan 3	June 8, 2010	July 2, 2015	774,000	774,000
- Loan 4	March 29, 2012	March 21, 2019	17,734,000	-
TOTAL			**288,440,462**	**281,206,162**

Soft loans are secured against pledged Lebanese Treasury bills detailed as follows:

LBP'000	2012	2011
Pledged Treasury Bills against:		
Additional soft loan against merger with Universal Bank SAL	8,843,710	8,843,710
Additional soft loan against merger with United Bank of Saudi and Lebanon SAL	10,468,000	10,468,000
Additional soft loan against merger with United Bank of Saudi and Lebanon SAL	-	10,500,000
Soft loan against merger with Bank Lati SAL	185,000,000	185,000,000
Additional soft loan against merger with Bank Lati SAL	48,765,500	48,765,500
4 Soft loans against providing liquidity to cover 60% of the replacement value of buildings and equipment pertaining to four of the Group's clients who were directly damaged from the July 2006 Lebanon war:		
- Loan 1	11,678,000	11,678,000
- Loan 2	5,177,250	5,177,250
- Loan 3	774,000	774,000
- Loan 4	17,734,000	-
TOTAL	**288,440,460**	**281,206,460**

(g) Borrowings from Central Bank of Lebanon:

The borrowings from Central Bank of Lebanon represent 2 loans of 5 years line of credit for a limit of USD 200 million each (LBP 301 billion). Up to December 31, 2012, USD 110 million and USD 125 million were utilized (USD 15 million and USD 125 million up to December 31, 2011). These borrowings mature during 2016.

(h) Borrowing from the European Central Bank:

The borrowing from the European Central Bank was secured through credit operations in the context of monetary policy in the euro zone. This borrowing was settled during 2012.

(i) Borrowing from The German Investment and Development Company – DEG (related party):

The borrowing from The German Investment and Development Company – DEG represents a loan for a limit of USD 6 million (LBP 9 billion). This borrowing will be repaid through 12 semi-annual payments of USD 500,000 each starting June 2013.

(j) Borrowing from Related Parties:

Borrowings from related parties represent a loan granted during 2010 by an associated company with a fixed interest rate of 11%. The original amount and duration of the borrowing was a USD 10 million (LBP 15.1 billion) for 10 years but during 2011, the majority of the borrowing was settled and the remaining balance of the borrowing was settled during 2012.

(k) Borrowing from SANAD:

Borrowings from SANAD, a non-resident specialized investment fund, represents a loan for USD 5 million (LBP 7.54 billion) obtained on December 28, 2011. The proceeds of the loan are to finance micro, small, and medium enterprises in Lebanon. This borrowing will be repaid through 10 semi-annual payments of USD 500,000 each starting July 2012.

The remaining contractual maturities of all above borrowings are as follows:

LBP'000	2012	2011
Less than one year	58,328,095	256,380,502
From 1 to 3 years	314,628,931	239,721,080
From 3 to 5 years	430,924,030	297,837,158
Over 5 years	36,218,887	24,697,609
TOTAL	**840,099,943**	**818,636,349**

The Group has not had any defaults of principal, interest or other breaches with respect to these borrowings.

22.
SUBORDINATED LOANS

LBP'000	2012	2011
Loan from Proparco	31,874,580	31,874,580
Capital securities	1,935,915	1,897,738
Non-convertible bonds	15,902,320	15,588,720
Convertible bonds	1,842,104	1,805,778
Accrued interest payable	2,476,759	2,469,891
TOTAL	**54,031,678**	**53,636,707**

Loan from Proparco

This caption represents a loan according to a contract signed between the Bank and "Proparco" on January 19, 2010 for an amount of USD 21,144,000 and is to be settled over a period of 10 years including a 6 year grace period. The Group started to accrue interest effective June 30, 2010 and is payable on July 15 of each year starting year 2011 after the meeting of the yearly ordinary general assembly that approves the previous year's financials. Repayment of principal starts on July 15, 2016.

Capital Securities

The Capital Securities were issued on December 30, 2005 by the Group's Cypriot entity and were offered to professional investors and to a specific number of non-professional investors in Cyprus. The Capital Securities rank as Tier I capital and have no maturity date, however, they may be redeemed in whole at the option of the subsidiary subject to the prior consent of the Central Bank of Cyprus, at their nominal amount together with any outstanding interest payments, five years after their issue date or on any interest payment date thereafter, and provided that they will be replaced with capital of equivalent or senior ranking unless the Central Bank of Cyprus concludes that the subsidiary's capital is at a satisfactory level.

The Capital Securities bear floating interest rate, which is revised at the beginning of each period and is valid for that specific period. Interest rate is equal to the base rate of the subsidiary at the beginning of each period interest is charged plus 1.60% annually. Interest is payable every six months, on June 30 and December 31. According to the terms of issue, if the subsidiary does not proceed with the repurchase of Capital Securities within ten years from their issuance date (i.e. up to December 31, 2015), then from January 1, 2016, the Capital Securities will bear floating interest rate that will be revised at the beginning of each period in which interest will be charged and will be equal to the base rate ruling at the beginning of each period interest is charged plus 2.25% annually.

Non-Convertible Bonds

On December 30, 2009 the Group's Cypriot entity issued bonds amounting to Euro 8,000,000 with a maturity date of December 31, 2019. The bonds constitute direct, unsecured, subordinated securities of the subsidiary and bear a fixed interest rate of 7.50% on the nominal value for the period from the issue date to December 31, 2014. From December 31, 2014 to their maturity, the bonds will bear a fixed annual interest rate of 9% on the nominal value. Excluding the first interest rate period commencing on December 22, 2009 (inclusive) and maturing on June 30, 2010 (exclusive), all subsequent interest periods will cover six months.

The subsidiary has the right to redeem fully the bonds at any time before their maturity date, in cash at their nominal value, along with any accrued interest relating to the current interest rate period, on June 30, 2015, or on any following interest payment date, upon approval from the Central Bank of Cyprus.

Convertible Bonds

On June 14, 2010, the Group's Cypriot entity issued Euro 1,209,060 convertible bonds maturing on June 30, 2020. The convertible debentures are direct, unsecured and subordinated obligations of the subsidiary and carry a fixed annual rate of 7.25% on the nominal value for the period from the date of issue until June 30, 2015. From July 1, 2015 until their maturity, the convertible bonds will carry fixed interest rate 8.75% annually on the nominal value. Except the first interest period commencing on May 26, 2010 (inclusive) and maturing on June 30, 2010 (exclusive), each interest period will be 6 months.

The convertible bonds may, at the option of the holder, be converted into ordinary shares of the subsidiary in the year 2012 until 2014 as follows:

- 15-30 March and 15-30 September for 2012
- 15-30 March and 15-30 September for 2013
- 15-30 March and 15-30 September for 2014

The conversion price is set at the average closing price of the share of the subsidiary on the CSE for a period of 30 days prior to the beginning of each conversion period. For the conversion periods of the years 2013 and 2014, the conversion prices are as described above, less 5% and 15% respectively.

The subsidiary in Cyprus has a right of early redemption of convertible bonds in whole, but not in part, a cash at par plus accrued interest of the current interest period on June 30, 2015 or any interest payment date, after approval from the Central Bank of Cyprus.

23.
BONDS ISSUED

This caption represents as at December 31, 2011 debenture bonds issued by Fransabank OJSC, Belarus in accordance with sub item 1.8 of item 1 of Decree of the President of the Republic of Belarus # 277 dated April 28, 2006 with approval of the National Bank of the Republic of Belarus. The decision of issuing bonds is approved by the Supervisory Board of Fransabank OJSC on August 4, 2011. The issue is for 20,000 bonds at BYR 1 million par value for a total amount of BYR 20 billion; as at December 31, 2011, only bonds for the amount of BYR 11.7 billion were sold equivalent to LBP 2.1 billion and the related accrued interest amounted to LBP 54 million.

These bonds are non-convertible interest bearing bonds fixed at the rate of refinancing rate of the National Bank of the Republic of Belarus increased by 4% paid quarterly. These bonds matured on September 12, 2012.

24.
OTHER LIABILITIES

LBP'000	2012	2011
Current tax liability (a)	29,671,007	25,119,107
Deferred tax liability on items recognized in other comprehensive income (Note 31)	7,852,383	3,793,567
Deferred tax liability on undistributed profits of subsidiaries and associates of the Bank	29,911,230	25,236,341
Other deferred tax liability	6,807,223	9,333,413
Withholding and other taxes payable	10,405,811	9,630,499
Due to the Social Security National Fund	1,907,229	1,575,010
Checks and incoming payment orders in course of settlement	30,067,707	31,774,952
Accrued expenses	57,084,587	46,062,662
Accrued interest payable - Cash contribution to capital	3,273	3,282
Provision for early redemption of investments (b)	-	9,556,636
Financial guarantee contracts issued	3,270,208	3,210,567
Effect of exchange rates changes on structural position	401,939	-
Deferred income (c)	12,403,257	4,067,451
Sundry accounts payable	50,670,842	49,473,743
TOTAL	**240,456,696**	**218,837,230**

(a) Current tax liability is computed as follows:

LBP'000	2012	2011
Profit before tax	301,912,750	293,691,044
Income tax on enacted applicable rates	51,383,275	46,147,038
Effect of non-deductible expense and non taxable income	1,143,875	5,601,051
Income tax expense	52,527,150	51,748,089
Less: Tax paid in advance	(22,496,609)	(25,779,693)
Net effect of deferred tax assets (Note 17 (c))	742,551	(632,326)
Deferred tax on temporary differences	(48,183)	(264,748)
Effect of exchange rates changes	(1,053,902)	47,785
CURRENT TAX PAYABLE	**29,671,007**	**25,119,107**

(b) The provision for early redemption of investments is made with respect to Group's investments in certificates of deposit issued by Central Bank of Lebanon classified under the different categories of investments (as reflected in Note 10). These investments include as at December 31, 2011 certificates of deposit with carrying value of LBP 152.93 billion and a nominal value of LBP 150.33 billion maturing in 2015 with a put option exercisable at a redemption value of 91.63% of par in year 2012; however since the Group did not exercise the option, the provision was recognized in profit or loss during 2012 under interest income from investment securities.

(c) As at December 31, 2012, deferred income include an amount of LBP 10 billion representing the income resulted from a swap operation between the Group and Central Bank of Lebanon whereby, the Central Bank of Lebanon redeemed certificates of deposit issued by him which mature during 2014 and the proceeds along with the income were deposited with the Central Bank of Lebanon for 10 years. This income is being amortized as a yield adjustment of the interest income on the deposit with the Central Bank until the maturity.

25.
PROVISIONS

Provisions consist of the following:

LBP'000	2012	2011
Provision for staff termination indemnities	23,166,577	35,147,500
Provision for contingencies	20,749,364	28,476,745
Provision for loss on foreign currency position	194,899	235,836
TOTAL	**44,110,840**	**63,860,081**

The movement of provision for staff termination indemnities is as follows:

LBP'000	2012	2011
Balance January 1	35,147,500	20,436,930
Additions - Employees	7,161,211	7,991,923
Additions - Legal expenses	60,995	78,499
Write-back	(33,111)	(522,770)
Provision no longer required	(3,935,421)	-
Additions in business combination (USB Bank)	-	9,098,063
Settlements	(1,581,203)	(1,575,769)
Transfer to trust bank (deposit)	(13,659,352)	-
Other adjustments	4,258	93,801
Effect of exchange rates changes	1,700	(453,177)
BALANCE DECEMBER 31	**23,166,577**	**35,147,500**

During 2012 the Cypriot Group entity transferred its staff retirement benefits to a trust fund in the aggregate amount of LBP 13.7 billion which was deposited in the fund account opened at the Group's Cypriot banking component under "Customers' Accounts".

Provision no longer required represents interest accumulated by the Lebanese Social Security National Fund computed retroactively by the Group.

The movement of the provision for contingencies was as follows:

LBP'000	2012	2011
Balance January 1	28,476,745	21,640,964
Net additions (Note 41)	1,226,554	7,329,885
Settlements	(4,636,292)	(242,711)
Transfer from other liabilities	59,725	187,776
Transfer from provision for impairment of owned properties	17,000	-
Transfer to allowance for impairment of loans and advances (Note 9)	(4,145,625)	-
Effect of exchange rates changes	(248,743)	(439,169)
BALANCE DECEMBER 31	**20,749,364**	**28,476,745**

During 2012, and as a result of the review by the tax authorities of the Bank's tax returns for the year 2007, the Bank was subject to an additional tax liability of LBP 3.5 billion which was paid from "provision for contingencies".

During 2012, one of the Group's subsidiaries tax returns for the years from 2007 up to 2010 were reviewed by the tax authorities and resulted in an additional tax liability of approximately LBP 1.5 billion which was booked in year 2013 against "provision for contingencies".

Subsequent to the reporting date, the Group settled USD 3.8 million (LBP 5.7 billion) representing lawsuit raised against the Group in previous years booked against provision for contingency account.

26.
SHARE CAPITAL

At December 31, 2012 and 2011, the authorized ordinary share capital of the Bank was LBP 420 billion consisting of 21,000,000 fully paid shares of LBP 20,000 each.

Up to 2012 year-end, the Bank has established a fixed exchange position in the amount of USD 48,888,889 authorized by Central Bank of Lebanon to hedge its equity against exchange fluctuations within the limit of 60% of equity denominated in Lebanese Pounds.

27.
SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP 17.1 billion (USD 11,352,494) as at December 31, 2012 and 2011 and it is subject to a yearly interest of 7% payable from unrestricted profits after securing the approval of Central Bank of Lebanon.

This sort of financial instrument is accounted for in foreign currency and therefore allows hedging against national currency exchange fluctuation.

28.
PREFERENCE SHARES

On June 30, 2008, the Bank issued 500,000 non-cumulative convertible redeemable series "A" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share.

On September 30, 2010, the Bank issued 425,000 non-cumulative convertible redeemable series "B" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share.

On December 21, 2012, the Bank issued 375,000 non-cumulative redeemable series "C" preference shares with nominal value of LBP 20,000 each at an issue price of USD 200 per share.

29.
RESERVES

Reserves consist of the following:

LBP'000	2012	2011
Legal reserve	86,560,618	64,887,034
Reserve for general banking risks	122,689,048	89,224,800
Reserve for assets acquired in satisfaction of loans - Note 13	35,438,497	28,164,882
Owned buildings revaluation reserve	39,281,682	32,613,398
Foreign currency translation reserve	(81,396,160)	(49,222,753)
TOTAL	**202,573,685**	**165,667,361**

The legal reserve is constituted in conformity with the requirements of the Lebanese Money and Credit Code on the basis of 10% of net profit. This reserve is not available for distribution.

The reserve for general banking risks is constituted according to local banking regulations, from net profit, on the basis of a minimum of 2 per mil and a maximum of 3 per mil of the total risk weighted assets, off-financial position risk and global exchange position as defined for the computation of the solvency ratio at year-end. This reserve is constituted in Lebanese Pound and in foreign currencies in proportion to the composition of the Group's total risk weighted assets and off-financial position items. This reserve is not available for distribution.

30.
SPECIAL RESERVE

Based on regulatory requirements, the Bank has allocated during 2012 an amount of LBP 697 million to special reserve for the uncovered portion of the doubtful debts outstanding as at June 30, 2003. This reserve was appropriated from 2011 net income (LBP 942 million during 2011 appropriated from 2010 net income).

31.
CUMULATIVE CHANGE IN FAIR VALUE OF INVESTMENT SECURITIES

This caption represents the cumulative change in fair value of investment securities at fair value through other comprehensive income. It consists of the following:

LBP'000	2012	2011
Cumulative unrealized gain on investments at fair value through other comprehensive income (Note 10)	76,840,357	36,120,957
Less: Deferred tax liability (Note 24)	(7,852,383)	(3,793,567)
Net	68,987,974	32,327,390
Share of non-controlling interests	(879,356)	(776,498)
SHARE OF OWNERS OF THE BANK	**68,108,618**	**31,550,892**

32.
NON – CONTROLLING INTERESTS

Non-controlling interests represent the minority share in the subsidiaries' equities as follows:

LBP'000	2012	2011
Capital	166,461,953	165,129,453
Change in fair value of investment securities through other comprehensive income (Note 32)	879,356	776,498
Preference shares	143,212,501	143,212,501
Reserves and retained earnings	50,370,640	37,510,553
Effect of acquisition of USB Bank – Cyprus	-	3,085,775
Profit for the year	16,286,236	20,068,529
TOTAL	**377,210,686**	**369,783,309**

33.
PROFIT FOR THE YEAR

The consolidated income is allocated as follows between the Bank and its subsidiaries:

LBP'000	YEAR ENDED DECEMBER 31, 2012 Owners of the Bank	Non-Controlling Interests	Total
Income of the Bank	169,254,307	-	169,254,307
Income of subsidiaries:			
Fransa Invest Bank SAL	9,983,728	-	9,983,728
Fransabank France SA	151,523	101,107	252,630
Lebanese Leasing Company SAL	930,003	132,858	1,062,861
Switch and Electronics Services SAL	300,609	-	300,609
Sogefon SAL	(768,286)	-	(768,286)
Fransabank El Djazaïr SPA	13,783,152	6,486,189	20,269,341
Fransabank Insurance Services SAL	2,272,047	-	2,272,047
BLC Bank SAL and subsidiaries	37,580,868	12,586,771	50,167,639
Express SARL	(28,114)	-	(28,114)
Fransabank Syria	(5,378,805)	(2,162,986)	(7,541,791)
Fransabank OJSC	3,664,682	495,947	4,160,629
Deferred tax on undistributed profits of subsidiaries and associates	(6,275,895)	(1,353,650)	(7,629,545)
TOTAL	**225,469,819**	**16,286,236**	**241,756,055**

LBP'000	YEAR ENDED DECEMBER 31, 2011 Owners of the Bank	Non-Controlling Interests	Total
Income of the Bank	146,183,782	-	146,183,782
Income of subsidiaries:			
Fransa Invest Bank SAL	8,170,879	-	8,170,879
Fransabank France SA	336,348	255,218	591,566
Lebanese Leasing Company SAL	853,354	121,908	975,262
Switch and Electronics Services SAL	275,770	-	275,770
Sogefon SAL	(634,980)	-	(634,980)
Fransabank El Djazaïr SPA	8,963,129	4,217,942	13,181,071
Fransabank Insurance Services SAL	1,950,267	-	1,950,267
BLC Bank SAL and subsidiaries	54,250,819	18,243,660	72,494,479
Express SARL	21,529	-	21,529
Fransabank Syria	(7,815,103)	(3,142,697)	(10,957,800)
Fransabank OJSC	7,752,905	1,938,225	9,691,130
Deferred tax on undistributed profits of subsidiaries and associates	(6,232,414)	(1,565,727)	(7,798,141)
TOTAL	**214,076,285**	**20,068,529**	**234,144,814**

34.
DIVIDENDS PAID

The following dividends were declared and paid by the Group:

LBP'000	2012	2011
LBP 2,000 per ordinary share paid by the Bank from 2011 net income (LBP 1,800 during 2011 paid from 2010 net income)	42,000,000	37,800,000
USD 17 (LBP 25,627.50) per preference share series "A" and USD 13.5 (LBP 20,351.25) per preference share series "B" during 2012 (USD 7 (LBP 10,552.50) per preference share series "B" during 2011)	21,463,031	17,298,563
Dividends paid by subsidiaries to non-controlling interests	12,655,014	6,733,958

35.
INTEREST INCOME

LBP'000	2012	2011
Interest income from:		
Deposits with Central Banks	120,806,859	28,648,589
Deposits with banks and financial institutions	7,834,922	12,653,446
Deposits with related party banks and financial institutions	1,788,074	-
Investment securities	623,451,021	606,020,978
Loans to banks	9,420,306	9,595,922
Loans to related party banks	-	2,733,973
Loans and advances to customers	516,673,570	451,064,183
Loans and advances to related parties	8,558,330	8,019,861
Interest recognized on impaired loans and advances to customers (Note 9)	14,694,223	15,960,870
Interest recognized on impaired loans transferred to off-balance sheet	6,507,841	316,992
Other	197,966	668,682
TOTAL	**1,309,933,112**	**1,135,683,496**

Interest income realized on impaired loans and advances to customers represent recoveries of interest. Accrued interest on impaired loans and advances is not recognized until recovery / rescheduling agreements are signed with customers.

Interest income on investments at fair value through profit or loss is reflected separately under "net interest and other gain / (loss) on investments securities at fair value through profit or loss" (Note 39).

36.
INTEREST EXPENSE

LBP'000	2012	2011
Interest expense on:		
Deposits and borrowings from Central Banks	116,556	1,923,940
Deposits and borrowings from banks and financial institutions	8,880,912	14,414,462
Customers' deposits at amortized cost	748,867,127	662,092,414
Related parties' deposits at amortized cost	18,695,344	16,134,304
Other borrowings (Note 21)	17,462,911	12,257,117
Borrowings from related party (Note 21)	411,969	1,387,377
Subordinated loans	3,909,815	3,888,083
Bonds issued	474,649	136,382
Shareholders' cash contribution to capital (Note 27)	1,197,972	1,197,972
TOTAL	**800,017,255**	**713,432,051**

Interest expense on customers' accounts designated at fair value through profit or loss is reflected separately on the face of the consolidated income statement.

37.
FEE AND COMMISSION INCOME

LBP'000	2012	2011
Commission on documentary credits	26,783,041	25,762,347
Commission on letters of guarantee	9,640,253	9,140,322
Service fees on customers' transactions	77,388,689	76,476,207
Commission on transactions with banks	676,355	765,278
Asset management fees	3,107	15,870
TOTAL	**114,491,445**	**112,160,024**

Fee and commission income include fee and commission from related parties with immaterial amounts.

38.
FEE AND COMMISSION EXPENSE

LBP'000	2012	2011
Commission on transactions with banks and financial institutions	2,769,178	2,166,728
Sundry	26,171,477	22,868,500
TOTAL	**28,940,655**	**25,035,228**

Fee and commission expenses include fee and commission to related parties with immaterial amounts.

39.
NET INTEREST AND OTHER NET GAIN / (LOSS) ON INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

LBP'000	2012	2011
Interest income	35,059,782	59,842,042
Dividends income	2,801,709	4,373,536
Net unrealized loss	(3,657,749)	(7,812,452)
Net realized gain	7,214,945	10,566,230
TOTAL	**41,418,687**	**66,969,356**

40.
OTHER OPERATING INCOME

LBP'000	2012	2011
(Loss) / gain on sale of investments at amortized cost	(193,070)	23,319
Dividends income on investment securities	3,290,021	3,291,514
Change in fair value of investment properties (Note 13)	-	190,805
Share in profits of associates (Note 12)	11,708,163	7,789,015
Foreign exchange gain	30,882,843	33,417,114
Gain on disposal of assets acquired in satisfaction of loans (Note 13)	6,371,394	31,933,993
Gain on disposal of property and equipment	462,772	1,922,269
Other operating income – Net	4,401,626	5,394,273
TOTAL	**56,923,749**	**83,962,302**

41.
PROVISIONS FOR CHARGES (NET)

LBP'000	2012	2011
Regulatory allowance for country risk – Deposit with banks (Note 7)	(90,871)	119,578
Write-back of impairment allowance on investments (Note 10)	(6,681)	(21,247)
Impairment allowance of doubtful claims from banks (Note 17)	956,248	-
Impairment allowance of sundry debtors (Note 17)	-	331,498
Provision for contingencies (Net) (Note 25)	1,226,554	7,329,885
TOTAL	**2,085,250**	**7,759,714**

42.
FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

The guarantees and standby letters of credit and the documentary and commercial letters of credit represent financial instruments with contractual amounts representing credit risk. The guarantees and standby letters of credit represent irrevocable assurances that the Group will make payments in the event that a customer cannot meet its obligations to third parties and are not different from loans and advances on the statement of financial position. However, documentary and commercial letters of credit, which represent written undertakings by the Group on behalf of a customer authorizing a third party to draw drafts on the Group up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments documents of goods to which they relate and, therefore, have significantly less risks.

43.
BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, subsidiaries and associates. Also, the Group conducts sale and purchase transactions of investment securities with subsidiary banks and these transactions are made at net book value of the financial instruments. Balances and transactions with related parties are as follows:

LBP'000	**2012**	2011
Current accounts with banks	32,349,097	-
Term placements with banks	957,737	-
Deposits from banks	12,231	66,897
Money market deposits from banks	-	7,794,360
Borrowings	9,045,000	7,498,751
Direct facilities & credit balances		
Loans and advances	183,285,398	174,827,811
Deposits	360,867,141	282,554,302
Indirect facilities		
Letters of guarantees	473,310	11,913,531
Letters of credit	-	3,602,289
Acceptances	-	1,995,285
Accrued interest receivable:		
Term placements with banks	7,241	-
Loans and advances	83,579	398,478
Accrued interest payable:		
Money market deposits from banks	-	7,117
Deposits	3,093,937	2,556,196
Borrowings	15,124	21,548
Cash contribution to capital	3,273	3,282
Income statement accounts:		
Interest income from deposits with banks	1,788,074	-
Interest income from loans to banks	-	2,733,973
Interest income from loans and advances	8,558,330	8,019,861
Interest expense on deposits at amortized cost	18,695,344	16,134,304
Interest expense on borrowings from related parties	411,969	1,387,377
Interest expense on cash contribution to capital	1,197,972	1,197,972

Some loans and advances are covered by real estate mortgage to the extent of LBP 3.5 billion (LBP 1.6 billion in 2011) and by pledged deposits of the respective borrowers to the extent of LBP 161.5 billion (LBP 180.7 billion in 2011).

The remunerations to executive management amounted to LBP 35.8 billion during 2012 (LBP 33.6 billion during 2011). This includes accrued remuneration payable to the chairman and vice chairman calculated on the basis of 8% of profit before tax.

44.
CASH AND CASH EQUIVALENTS

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

LBP'000	2012	2011
Cash	141,268,914	130,081,058
Current accounts with Central Banks	440,402,337	277,800,545
Time deposits with Central Banks	392,071,600	1,004,245,300
Purchased checks	35,889,956	20,864,218
Current accounts with banks and financial institutions	276,762,844	258,163,317
Time deposits with banks and financial institutions	1,182,249,585	1,129,020,127
TOTAL	**2,468,645,236**	**2,820,174,565**

Time deposits with Central Banks and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 day or less.

The following non-cash transactions were excluded from the statement of cash flows:

(a) Positive change in fair value of investment securities at fair value through other comprehensive income of LBP 40.72 billion and related deferred tax liability of LBP 4.06 billion during 2012 (LBP 1.97 billion and related deferred tax liability of LBP 669 million during 2011).

(b) Foreclosed assets in settlement of loans in the amount of LBP 41.6 billion during 2012 (LBP 9.6 billion during 2011).

(c) Transfer of other assets in the amount of LBP 36.5 billion to loans and advances during 2012 (Note 16).

(d) Transfer of provision for contingencies in the amount of LBP 4.15 billion to collective provision under loans and advances during 2012.

(e) Transfer of provision for end-of-service indemnity in the amount of LBP 13.7 billion to trust fund under customers' accounts at amortized cost during 2012.

(f) Change in derivative assets held for risk management in the amount of LBP 329 million during 2012 (LBP 683 million during 2011).

(g) Assets and liabilities acquired during 2011 in business combination including derecognition of the previous holding from the investment securities in the amount of LBP 6.76 billion upon acquisition of control.

(h) Transfer of customer deposits in the amount of LBP 60.3 billion to non-controlling interests upon issuance of preference shares by one of the Bank's subsidiaries during 2011.

(i) Transfer from other assets to investment securities in the amount of LBP 4.5 billion upon subscription in preference shares during 2011.

(j) Effect of initial application of IFRS 9 during 2011 (Note 5).

45.
DISTRIBUTION BY GEOGRAPHICAL LOCATION

Below is the distribution of assets and liabilities and income statement by geographical location of various Group entities:

45.1
Distribution of Assets and Liabilities by Geographical Location

	DECEMBER 31, 2012						
LBP'000	**Lebanon**	**Syria**	**France**	**Algeria**	**Belarus**	**Cyprus**	**Total**
ASSETS:							
Cash and banks	5,548,695,700	161,500,731	40,813,979	170,610,197	45,329,690	274,443,395	6,241,393,692
Loans to banks	247,420,801	-	-	-	-	-	247,420,801
Loans and advances to customers	5,690,851,935	228,834,519	258,157,954	216,414,187	41,726,473	859,057,893	7,295,042,961
Investments securities	8,519,903,717	35,642,476	54,853	302,057	8,600,799	284,747,744	8,849,251,646
Investment properties	53,423,844	-	-	-	-	-	53,423,844
Customers' liability under acceptances	126,936,068	-	7,087,199	124,882,902	-	-	258,906,169
Investments in associates	44,423,527	-	-	-	-	-	44,423,527
Goodwill	86,096,748	-	-	-	-	-	86,096,748
Other assets	477,532,549	38,973,533	1,296,039	63,959,284	26,279,760	70,137,566	678,178,731
TOTAL ASSETS	**20,795,284,889**	**464,951,259**	**307,410,024**	**576,168,627**	**121,936,722**	**1,488,386,598**	**23,754,138,119**
LIABILITIES:							
Deposits and borrowings from banks	115,028,084	242,317,474	11,945,349	12,452	7,263,481	-	376,566,840
Customers' accounts at amortized cost	17,746,371,378	328,637,516	99,709,650	184,670,402	30,337,972	1,306,219,031	19,695,945,949
Customers' acceptance liability	126,936,068	-	7,087,199	124,882,902	-	-	258,906,169
Other borrowings	756,004,002	-	-	-	-	84,095,941	840,099,943
Subordinated loan	34,347,401	-	-	-	-	19,684,277	54,031,678
Other liabilities and provisions	235,711,928	5,150,350	2,005,525	32,470,390	410,429	8,818,914	284,567,536
TOTAL LIABILITIES	**19,014,398,861**	**576,105,340**	**120,747,723**	**342,036,146**	**38,011,882**	**1,418,818,163**	**21,510,118,115**

45.2
Distribution of Income Statement by Geographical Location

	DECEMBER 31, 2012						
LBP'000	**Lebanon**	**Syria**	**France**	**Algeria**	**Belarus**	**Cyprus**	**Total**
Net interest income	420,487,213	15,949,409	8,326,662	17,395,007	6,816,321	40,941,245	509,915,857
Net fee and commission income	63,426,113	(3,995,696)	2,909,066	14,104,364	2,231,330	6,875,613	85,550,790
Interest and net gain on investments at fair value through profit or loss	44,266,130	-	-	-	-	(2,847,443)	41,418,687
Interest on liabilities at fair value through profit or loss	(907,555)	-	-	-	-	-	(907,555)
Other operating income	39,205,447	297,529	267,970	15,652,918	3,495,780	(1,995,895)	56,923,749
Impairment of loans and advances	(14,279,583)	(8,848,270)	(4,071,144)	(470,907)	(168,270)	(13,312,978)	(41,151,152)
Other expenses	(270,840,829)	(10,704,586)	(7,034,270)	(18,407,153)	(7,623,793)	(35,226,995)	(349,837,626)
Income tax expense	(43,545,692)	(240,177)	(145,654)	(8,004,888)	(590,739)	-	(52,527,150)
Deferred tax on undistributed profits of associates and subsidiaries	(7,629,545)	-	-	-	-	-	(7,629,545)
TOTAL	**230,181,699**	**(7,541,791)**	**252,630**	**20,269,341**	**4,160,629**	**(5,566,453)**	**241,756,055**

46.
COLLATERAL GIVEN

Financial assets given as collateral are as follows at December 31:

	DECEMBER 31, 2012			
		Corresponding Facilities		
LBP'000	**Redemption Value of Pledged Assets**	**Nature of Facility**	**Amount of Facility**	**Maturity Date**
Treasury bills at amortized cost	8,843,710	Soft Loan	8,843,712	June 28, 2013
Treasury bills at amortized cost	10,468,000	Soft Loan	10,468,000	December 20, 2013
Treasury bills at amortized cost	11,678,000	Soft Loan	11,678,000	February 12, 2015
Treasury bills at amortized cost	5,177,250	Soft Loan	5,177,250	February 21, 2012
Treasury bills at amortized cost	774,000	Soft Loan	774,000	July 2, 2015
Treasury bills at amortized cost	185,000,000	Soft Loan	185,000,000	November 6, 2014
Treasury bills at amortized cost	48,765,500	Soft Loan	48,765,500	August 11, 2016
Treasury bills at amortized cost	17,734,000	Soft Loan	17,734,000	March 21, 2019
Lebanese Government bonds at amortized cost	174,267,000	Stand-by line facility	165,825,000	Up to 5 years
Blocked deposit with Central Bank of Cyprus	83,487,180	Loan from Central Bank of Cyprus	83,487,180	February 26, 2015
TOTAL	**546,194,640**		**537,752,642**	

LBP'000	DECEMBER 31, 2011			
	Redemption Value of Pledged Assets	Corresponding Facilities		
		Nature of Facility	Amount of Facility	Maturity Date
Treasury bills at amortized cost	8,843,710	Soft loan	8,843,412	June 28, 2013
Treasury bills at amortized cost	10,468,000	Soft loan	10,468,000	December 20, 2013
Treasury bills at amortized cost	10,500,000	Soft loan	10,500,000	October 25, 2012
Treasury bills at amortized cost	11,678,000	Soft loan	11,678,000	February 12, 2015
Treasury bills at amortized cost	5,177,250	Soft loan	5,177,250	February 21, 2012
Treasury bills at amortized cost	774,000	Soft loan	774,000	July 2, 2015
Treasury bills at amortized cost	185,000,000	Soft loan	185,000,000	November 6, 2014
Treasury bills at amortized cost	48,765,500	Soft loan	48,765,500	August 11, 2016
TOTAL	**281,206,460**		**281,206,162**	

47.
RISK MANAGEMENT OF FINANCIAL INSTRUMENTS

Risk Management Framework

The Group is exposed to different types of risk mainly credit risk, liquidity risk, market risk and operational risk. These risks are inherent in the Group's activities but are managed through an ongoing process of identification, measurement, monitoring and mitigation.

The Board of Directors, the Risk Management Committee and the Risk Management Division are responsible for overseeing the Group's risks, while the Internal Audit Department has the responsibility independently to review the implemented risk management process to ensure adequacy and effectiveness of the risk control procedures. The Risk Management Division ensures that the capital is adequate to cover all types of risks that the Group is exposed to and monitors compliance with risk management policies, procedures and risk limits. The Group assesses its risk profile to ensure that it is in line with the Bank's risk strategy and objectives. The Board of Directors receives quarterly risk reports on the Bank's risk profile and capital management process.

Credit Risk

Credit risk is defined as the potential that a bank's borrower or counterparty fail to meet its obligations in accordance with agreed terms. The goal of Fransabank credit risk management is to maximize Bank's risk-adjusted rate of return by maintaining credit risk exposure within the acceptable limits consistent with prudential thresholds stipulated by the Central Bank of Lebanon and the Banking Control Commission. Fransabank SAL manages the credit risk inherent in the entire credit portfolio as well as the risk in individual credits. The role of credit risk management is to continuously identify, measure, control, monitor, and report on credit risk to the Board.

Management of credit risk mainly includes:

a) Identifying credit risk through implementing credit processes related to credit origination, analysis, approval and review.

b) Measuring credit risk by ensuring that the Bank has enough capital to cover unexpected losses from its credit portfolio.

c) Mitigating credit risk by ensuring the implementation of a sound internal control system and that credits are adequately collateralized.

d) Monitoring credit risk by ensuring that credit exposures are within internal and regulatory set limits.

e) Reporting on credit risk is realized through regular and timely escalation of credit risk reports based on the reporting lines which are evidenced by the Bank's organizational chart's hierarchal levels.

Measurement of Credit Risk

Loans and Advances to Customers:

In measuring credit risk of loans and advances, the Bank considers the following:

- Ability of the counterparty to honor its contractual obligations based on the account's performance, recurring overdues and related reasons, the counterparty's financial position and effect thereto of the economic environment and market conditions;
- Exposure levels of the counterparty and unutilized credit limits granted;
- Exposure levels of the counterparty with other banks;
- Purpose of the credit facilities granted to the counterparty and conformity of utilization by the counterparty.

In accordance with Central Bank of Lebanon circular No.58 the Group's customers are categorized into six classifications as described below:

CLASSIFICATION	DESCRIPTION	
1	Standard monitoring	Indicates that borrowers are certainly able to honor their commitments. Some of the indicators related to this category are: continuous cash inflows, and availability of updated financial statements
2	Follow-up	Indicates that borrowers have an adequate ability to honor their commitments. Major characteristics of this category are inadequate documentation regarding borrower's activity and declining profitability.
3	Special mention	Indicates that borrowers are still able to honor their commitments with the existence of some weaknesses that may reduce ability to settle. Some indicators related to this category are delayed payments (60 to 90 days), decline in profitability and cash flows, excess over limit of more than 10%, more than one time debt rescheduling and borrower highly relying on leverage and rising conflict among shareholders.
4	Substandard	Indicates that borrowers' ability to serve their commitments is in question and depending on the improvement of financial and economic conditions on the liquidation of available collateral. The main characteristics of this category are repetitive overdues between 90 and 180 days, inability to cover interest payments for more than 6 months, remarkable decrease in cash flows and losses incurred for over three consecutive years. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment.
5	Doubtful	Indicates that the Group may not be able to recover loan in full. Major indicators are no movement for over six months and borrower is unable to settle rescheduled commitments. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly.
6	Bad	Indicates that commitments cannot be recovered. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the Bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

Loans' classifications are assessed and updated regularly.

Note 9 discloses the distribution of loans and advances to customers by classification.

Most of customers' exposures represent credit facilities granted to corporations which do not have external credit rating.

Loans classified in categories 1, 2 and 3 include overdue accounts as follows:

LBP'000	2012	2011
Less than 30 days	17,332,911	18,293,845
Between 30-60 days	6,666,809	41,121,105
Between 60-90 days	33,296,225	29,040,251
Between 90-180 days	62,032,719	61,529,234
Beyond 180 days	133,843,334	63,670,721
TOTAL	**253,171,998**	**213,655,156**

Above overdue accounts relate to Group entities operating in the following geographies:

LBP'000	2012	2011
Lebanon	160,320,228	107,699,787
Cyprus	78,912,000	105,722,000
Syria	13,939,770	233,369
TOTAL	**253,171,998**	**213,655,156**

Debt Investment Securities and Other Bills:

The risk of the debt instruments included in the investment portfolio relates mainly to sovereign risk (including Central Bank of Lebanon) to the extent of 95% in 2012 and 2011.

Limiting of Credit Risk

The Bank manages the levels of credit risk undertaken by placing limits on the amount of risk accepted in relation to one borrower, and/or groups of related borrowers. Such risk is monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary.

Exposures to any one borrower including banks are further restricted by sub-limits covering on and off-financial position exposures. Actual exposures against limits are monitored on a regular basis.

Concentration of Credit Risk by Geographical Location:

LBP'000	2012						
	Lebanon	Middle East & Africa	North America	Europe	Gulf	Other	Total
Financial Assets:							
Cash and Central Banks	4,052,758,896	272,587,148	-	288,663,792	-	-	4,614,009,836
Deposits with banks and financial institutions	45,709,591	221,405,101	116,053,371	1,052,373,518	190,049,945	1,792,330	1,627,383,856
Loans to banks	100,297,098	139,905,344	-	-	-	7,218,359	247,420,801
Loans and advances to customers	5,532,531,207	577,733,343	3,385,478	1,034,525,283	80,030,780	66,836,870	7,295,042,961
Investments at fair value through profit or loss	673,589,118	-	486,540	106,848,218	50,825	-	780,974,701
Investments at amortized cost	7,572,232,007	-	54,306,884	240,770,927	27,102,948	4,819,366	7,899,232,132
Investments at fair value through other comprehensive income	161,890,340	302,057	5,895,464	84,779	872,173	-	169,044,813
Derivative assets held for risk management	-	5,069,826	-	-	-	-	5,069,826
TOTAL	**18,139,008,257**	**1,217,002,819**	**180,127,737**	**2,723,266,517**	**298,106,671**	**80,666,925**	**22,638,178,926**

LBP'000	2011						
	Lebanon	Middle East & Africa	North America	Europe	Gulf	Other	Total
Financial Assets:							
Cash and Central Banks	3,013,726,700	183,498,205	-	63,130,170	-	-	3,260,355,075
Deposits with banks and financial institutions	16,088,368	105,764,793	143,914,449	1,002,860,097	138,962,361	1,124,122	1,408,714,190
Loans to banks	99,739,529	88,441,092	-	3,254,232	29,079,005	9,310,268	229,824,126
Loans and advances to customers	4,866,540,909	719,864,095	2,374,542	818,558,028	184,903,966	80,280,007	6,672,521,547
Investments at fair value through profit or loss	617,996,789	-	7,316,554	12,955,226	195,709	-	638,464,278
Investments at amortized cost	7,576,839,926	-	107,582,101	400,642,983	26,937,475	-	8,112,002,485
Investments at fair value through other comprehensive income	127,118,329	310,835	-	83,112	872,173	-	128,384,449
Derivative assets held for risk management	319,776	3,082	1,233	2,846	1,430	262	328,629
TOTAL	**16,318,370,326**	**1,097,882,102**	**261,188,879**	**2,301,486,694**	**380,952,119**	**90,714,659**	**20,450,594,779**

Other specific control and mitigation measures are outlined below:

a) Collateral:

The principal collateral types for loans and advances consist of mortgages over real estate properties and bank guarantees.

The Group will seek additional collateral from the counterparty as soon as impairment indicators are noticed for the relevant individual loans and advances.

b) Netting arrangements:

The Group enters into netting arrangements with counterparties having a significant volume of transactions in order to restrict its exposure to credit losses. These arrangements do not generally result in an offset of assets and liabilities balances in the statement of financial position.

Collateral held against Loans and Advances to Customers:

	DECEMBER 31, 2012			
LBP'000	**Gross Exposure Net of Unrealized Interest and Discount**	**Allowance for Impairment**	**Net Exposure**	**Pledge Funds**
Standard and special monitoring	7,167,538,720	-	7,167,538,720	1,057,589,314
Substandard (including restructured debts)	44,649,537	-	44,649,537	10,681,378
Doubtful (including restructured debts)	348,924,653	(210,048,280)	138,876,373	2,307,837
Loss (including restructured debts)	52,392,235	(52,365,736)	26,499	2,347,643
Loan portfolio purchased	2,199,865	-	2,199,865	-
Allowance for collectively assessed loans	-	(58,248,033)	(58,248,033)	-
TOTAL	**7,615,705,010**	**(320,662,049)**	**7,295,042,961**	**1,072,926,172**

	DECEMBER 31, 2011			
LBP'000	**Gross Exposure Net of Unrealized Interest and Discount**	**Allowance for Impairment**	**Net Exposure**	**Pledge Funds**
Standard and special monitoring	6,555,772,711	-	6,555,772,711	957,529,579
Substandard (including restructured debts)	28,128,158	-	28,128,158	4,021,319
Doubtful (including restructured debts)	345,939,127	(215,179,313)	130,759,814	3,853,811
Loss (including restructured debts)	50,088,383	(50,087,629)	754	2,347,643
Loan portfolio purchased	2,539,933	-	2,539,933	-
Allowance for collectively assessed loans	-	(44,679,823)	(44,679,823)	-
TOTAL	**6,982,468,312**	**(309,946,765)**	**6,672,521,547**	**967,752,352**

BEST ESTIMATE OF COLLATERAL HELD						
Bank Guarantees & Kafalat	Mortgage on Properties	Equity Securities	Debt Securities	Others	Total Collateral Held	Lesser of Individual Exposure or Total Collateral
195,889,611	3,552,540,197	225,328,088	1,811,141	703,471,847	5,736,630,198	4,169,549,253
2,106,565	41,317,151	110,439	-	9,425,767	63,641,300	35,434,784
1,050,573	184,240,014	401,336	-	13,729,700	201,729,460	140,764,433
592,192	12,456,182	13,500	-	2,030,518	17,440,035	9,340,874
-	-	-	-	-	-	-
-	-	-	-	-	-	-
199,638,941	**3,790,553,544**	**225,853,363**	**1,811,141**	**728,657,832**	**6,019,440,993**	**4,355,089,344**

BEST ESTIMATE OF COLLATERAL HELD						
Bank Guarantees & Kafalat	Mortgage on Properties	Equity Securities	Debt Securities	Others	Total Collateral Held	Lesser of Individual Exposure or Total Collateral
175,887,674	3,311,600,590	135,775,973	6,999,600	883,786,966	5,471,580,382	3,919,397,156
885,987	29,447,725	163,277	-	8,003,781	42,522,089	17,614,252
142,756	187,710,726	319,980	-	9,828,003	201,855,276	133,248,832
43,908	12,345,375	78,185	301,500	1,271,212	16,387,823	8,916,905
-	-	-	-	-	-	-
-	-	-	-	-	-	-
176,960,325	**3,541,104,416**	**136,337,415**	**7,301,100**	**902,889,962**	**5,732,345,570**	**4,079,177,145**

Market Risks

Market risk is defined as the risk of losses in on and off-financial position, arising from adverse movements in market prices. The risks subject to Market Risk include: Interest Rate Risk and Equity Risk in the trading book, Foreign Exchange Risk and Commodities Risk.

The overall authority for market risk is vested in ALCO.

Foreign Exchange Risk

Foreign exchange risk arises from the exposure on banking assets and liabilities, denominated in foreign currencies.

Assets and liabilities are segregated as follows by major currencies:

	DECEMBER 31, 2012				
LBP'000	**LBP**	**USD**	**Euro**	**Other**	**Total**
ASSETS					
Cash and Central Banks	1,830,739,823	2,124,687,424	429,415,538	229,167,051	4,614,009,836
Deposits with banks and financial institutions	9,934,518	1,297,569,064	218,758,543	101,121,731	1,627,383,856
Loans to banks	96,898,463	30,447,215	120,075,123	-	247,420,801
Loans and advances to customers	1,509,132,358	4,177,070,723	1,131,778,191	477,061,689	7,295,042,961
Investments at fair value through profit or loss	491,893,485	279,791,784	9,289,432	-	780,974,701
Investments at amortized cost	5,000,890,748	2,415,900,757	474,063,263	8,377,364	7,899,232,132
Investments at fair value through other comprehensive income	159,127,612	9,520,585	94,422	302,194	169,044,813
Investment properties	-	-	53,423,844	-	53,423,844
Customers' liability under acceptances	450,000	219,435,744	37,388,120	1,632,305	258,906,169
Investments in associates	18,065,692	26,357,835	-	-	44,423,527
Assets acquired in satisfaction of loans	49,867,063	130,815,684	-	-	180,682,747
Property and equipment	241,582,233	(1,049,974)	11,815,797	83,070,094	335,418,150
Intangible assets	10,668,052	-	1,153,538	1,009,794	12,831,384
Goodwill	44,816,144	-	41,280,604	-	86,096,748
Other assets	60,923,442	48,500,393	3,661,124	36,161,491	149,246,450
TOTAL ASSETS	**9,524,989,633**	**10,759,047,234**	**2,532,197,539**	**937,903,713**	**23,754,138,119**
LIABILITIES					
Deposits and borrowings from banks	21,262,437	258,171,968	20,893,767	76,238,668	376,566,840
Customers' accounts at amortized cost	7,532,745,029	9,418,530,972	2,297,350,283	447,319,665	19,695,945,949
Customers' acceptance liability	450,000	219,435,744	37,388,120	1,632,305	258,906,169
Other borrowings	290,090,327	446,901,921	103,107,695	-	840,099,943
Subordinated loan	-	34,347,401	19,684,277	-	54,031,678
Other liabilities	140,134,893	52,141,080	16,842,825	31,337,898	240,456,696
Provisions	23,999,096	8,499,305	487,009	11,125,430	44,110,840
TOTAL LIABILITIES	**8,008,681,782**	**10,438,028,391**	**2,495,753,976**	**567,653,966**	**21,510,118,115**
NET ASSETS	**1,516,307,851**	**321,018,843**	**36,443,563**	**370,249,747**	**2,244,020,004**

LBP'000	DECEMBER 31, 2011 LBP	USD	Euro	Other	Total
ASSETS					
Cash and Central Banks	1,029,021,525	1,969,050,770	97,288,987	164,993,793	3,260,355,075
Deposits with banks and financial institutions	729,785	809,564,395	457,084,139	141,335,871	1,408,714,190
Loans to banks	99,739,529	53,283,013	76,801,584	-	229,824,126
Loans and advances to customers	1,398,371,744	3,757,926,591	975,316,783	540,906,429	6,672,521,547
Investments at fair value through profit or loss	375,516,232	236,816,231	19,039,249	7,092,566	638,464,278
Investments at amortized cost	4,953,538,818	2,472,677,424	678,227,042	7,559,201	8,112,002,485
Investments at fair value through other comprehensive income	120,193,678	7,787,236	92,559	310,976	128,384,449
Investment properties	-	-	17,595,768	-	17,595,768
Customers' liability under acceptances	449,999	400,236,270	54,769,908	39,565,210	495,021,387
Investments in associates	8,802,645	36,648,453	-	-	45,451,098
Assets acquired in satisfaction of loans	60,954,647	129,776,823	-	-	190,731,470
Property and equipment	229,927,147	(1,049,974)	12,141,830	71,810,020	312,829,023
Intangible assets	8,855,010	-	633,826	543,803	10,032,639
Goodwill	44,816,144	-	40,683,630	-	85,499,774
Other assets	60,394,333	79,985,578	5,609,236	21,088,897	167,078,044
TOTAL ASSETS	**8,391,311,236**	**9,952,702,810**	**2,435,284,541**	**995,206,766**	**21,774,505,353**
LIABILITIES					
Deposits and borrowings from banks	13,864,550	291,006,967	21,996,203	133,636,238	460,503,958
Liabilities designated at fair value through profit or loss	-	38,291,147	-	-	38,291,147
Customers' accounts at amortized cost	6,610,543,375	8,604,553,670	1,996,632,272	458,831,789	17,670,561,106
Customers' acceptance liability	449,999	400,236,270	54,769,908	39,565,210	495,021,387
Other borrowings	282,794,115	295,358,003	240,484,231	-	818,636,349
Subordinated loans	-	34,340,663	19,296,044	-	53,636,707
Bonds issued	-	2,180,996	-	-	2,180,996
Other liabilities	87,131,014	97,532,850	19,546,750	14,626,616	218,837,230
Provisions	41,086,905	2,397,981	12,328,006	8,047,189	63,860,081
TOTAL LIABILITIES	**7,035,869,958**	**9,765,898,547**	**2,365,053,414**	**654,707,042**	**19,821,528,961**
NET ASSETS	**1,355,441,278**	**186,804,263**	**70,231,127**	**340,499,724**	**1,952,976,392**

Interest Rate Risk:

Financial assets and financial liabilities are allocated by maturity bands as follows:

	DECEMBER 31, 2012				
LBP'000	**Not Subject to Interest**	**Less than 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Financial Assets:					
Cash and Central Banks	949,665,964	1,407,380,622	1,193,080,750	1,063,882,500	4,614,009,836
Deposits with banks and financial institutions	142,786,999	1,476,408,456	8,188,401	-	1,627,383,856
Loans to banks	913,342	160,515,284	44,623,175	41,369,000	247,420,801
Loans and advances to customers	176,223,421	5,574,680,191	851,143,166	692,996,183	7,295,042,961
Investment securities	306,883,877	1,853,589,618	4,252,824,471	2,435,953,680	8,849,251,646
Derivative assets held for risk management	5,069,826	-	-	-	5,069,826
TOTAL	**1,581,543,429**	**10,472,574,171**	**6,349,859,963**	**4,234,201,363**	**22,638,178,926**
Financial Liabilities:					
Deposits and borrowings from banks	7,155,656	361,873,684	7,537,500	-	376,566,840
Customers' accounts at amortized cost	1,865,653,146	17,669,404,368	160,714,785	173,650	19,695,945,949
Other borrowings	1,176,995	219,372,125	586,647,851	32,902,972	840,099,943
Subordinated loan	2,472,821	3,938	35,617,629	15,937,290	54,031,678
TOTAL	**1,876,458,618**	**18,250,654,115**	**790,517,765**	**49,013,912**	**20,966,644,410**

	DECEMBER 31, 2011				
LBP'000	**Not Subject to Interest**	**Less than 1 Year**	**1 to 5 Years**	**Over 5 Years**	**Total**
Financial Assets:					
Cash and Central Banks	708,933,477	1,644,147,887	657,273,711	250,000,000	3,260,355,075
Deposits with banks and financial institutions	158,020,428	1,250,693,762	-	-	1,408,714,190
Loans to banks	1,791,968	124,583,185	42,656,973	60,792,000	229,824,126
Loans and advances to customers	119,031,631	3,865,933,248	1,762,587,388	924,969,280	6,672,521,547
Investment securities	312,498,393	1,433,812,675	4,461,706,064	2,670,834,080	8,878,851,212
Derivative assets held for risk management	328,629	-	-	-	328,629
TOTAL	**1,300,604,526**	**8,319,170,757**	**6,924,224,136**	**3,906,595,360**	**20,450,594,779**
Financial Liabilities:					
Deposits and borrowings from banks	19,138,848	441,365,110	-	-	460,503,958
Liabilities designated at fair value through profit or loss	525,257	37,765,890	-	-	38,291,147
Customers' accounts at amortized cost	1,684,611,442	15,875,356,283	110,593,381	-	17,670,561,106
Other borrowings	2,226,852	257,461,218	534,250,670	24,697,609	818,636,349
Subordinated loan	2,466,083	1,901,546	-	49,269,078	53,636,707
Bonds issued	54,247	2,126,749	-	-	2,180,996
TOTAL	**1,709,022,729**	**16,615,976,796**	**644,844,051**	**73,966,687**	**19,043,810,263**

Liquidity Risk

Liquidity risk is the risk of being unable to meet net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately. To face this risk, management distributes its sources of funding and manage its assets according a cash policy that seeks to preserve an adequate liquidity balance and financial instruments than can be readily liquidated in the financial market. Management manages the maturities of its assets and liabilities in a way to provide and maintain a satisfactory liquidity ratio.

	DECEMBER 31, 2012					
LBP'000	**Accounts with no Maturity**	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Financial Liabilities:						
Deposits and borrowings from banks	5,000,129	322,585,452	41,443,759	7,537,500	-	376,566,840
Customers' accounts at amortized cost	1,302,186,832	15,216,342,864	3,106,420,294	70,822,259	173,700	19,695,945,949
Other borrowings	-	15,042,265	43,285,831	748,999,445	32,772,402	840,099,943
Subordinated loan	-	3,938	2,472,821	15,937,290	35,617,629	54,031,678
TOTAL FINANCIAL LIABILITIES	**1,307,186,961**	**15,553,974,519**	**3,193,622,705**	**843,296,494**	**68,563,731**	**20,966,644,410**

	DECEMBER 31, 2011					
LBP'000	**Accounts with no Maturity**	**Up to 3 months**	**3 months to 1 year**	**1 to 5 years**	**Over 5 years**	**Total**
Financial Liabilities:						
Deposits and borrowings from banks	14,392,485	374,685,199	71,426,274	-	-	460,503,958
Liabilities designated at fair value through profit or loss	517,719	-	37,773,428	-	-	38,291,147
Customers' accounts at amortized cost	1,649,608,067	13,429,946,624	2,480,413,034	110,593,381	-	17,670,561,106
Other borrowings	-	219,168,810	40,519,260	534,250,670	24,697,609	818,636,349
Subordinated loan	1,897,738	2,469,891	-	-	49,269,078	53,636,707
Bonds issued	-	54,247	2,126,749	-	-	2,180,996
TOTAL FINANCIAL LIABILITIES	**1,666,416,009**	**14,026,324,771**	**2,632,258,745**	**644,844,051**	**73,966,687**	**19,043,810,263**

48.
FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair value of financial assets and liabilities as at December 31, 2012 and 2011 was as follows:

	DECEMBER 31, 2012				
LBP'000	**Investments at Fair Value through Profit or Loss**	**Investments at Fair Value through other Comprehensive Income**	**Amortized Cost**	**Total Carrying Value**	**Total Fair Value**
Financial Assets:					
Cash and Central Banks	-	-	4,614,009,836	4,614,009,836	4,689,819,635
Deposits with banks and financial institutions	-	-	1,627,383,856	1,627,383,856	1,627,383,856
Loans to banks	-	-	247,420,801	247,420,801	257,063,300
Loans and advances to customers	-	-	7,295,042,961	7,295,042,961	7,296,786,770
Investments at fair value through profit or loss	780,974,701	-	-	780,974,701	780,974,701
Investments at amortized cost	-	-	7,899,232,132	7,899,232,132	7,844,200,479
Investments at fair value through other comprehensive income	-	169,044,813	-	169,044,813	169,044,813
Derivative assets held for risk management	5,069,826	-	-	5,069,826	5,069,826
TOTAL	**786,044,527**	**169,044,813**	**21,683,089,586**	**22,638,178,926**	**22,670,343,380**
Financial Liabilities:					
Deposits and borrowings from banks	-	-	376,566,840	376,566,840	376,566,840
Customers' accounts	-	-	19,695,945,949	19,695,945,949	19,695,945,949
Other borrowings	-	-	840,099,943	840,099,943	836,937,679
Subordinated loan	-	-	54,031,678	54,031,678	58,885,479
TOTAL	**-**	**-**	**20,966,644,410**	**20,966,644,410**	**20,968,335,947**

LBP'000	DECEMBER 31, 2011 Investments at Fair Value through Profit or Loss	Investments at Fair Value through other Comprehensive Income	Amortized Cost	Total Carrying Value	Total Fair Value
Financial Assets:					
Cash and Central Banks	-	-	3,260,355,075	3,260,355,075	3,253,780,836
Deposits with banks and financial institutions	-	-	1,408,714,190	1,408,714,190	1,408,714,190
Loans to banks	-	-	229,824,126	229,824,126	218,549,266
Loans and advances to customers	-	-	6,672,521,547	6,672,521,547	6,675,689,415
Investments at fair value through profit or loss	638,464,278	-	-	638,464,278	638,464,278
Investments at amortized cost	-	-	8,112,002,485	8,112,002,485	8,353,714,971
Investments at fair value through other comprehensive income	-	128,384,449	-	128,384,449	128,384,449
Derivative assets held for risk management	328,629	-	-	328,629	328,629
TOTAL	**638,792,907**	**128,384,449**	**19,683,417,423**	**20,450,594,779**	**20,677,626,034**
Financial Liabilities:					
Deposits and borrowings from banks	-	-	460,503,958	460,503,958	460,503,958
Customers' accounts	38,291,147	-	17,670,561,106	17,708,852,253	17,708,852,253
Other borrowings	-	-	818,636,349	818,636,349	817,723,993
Subordinated loan	-	-	53,636,707	53,636,707	59,710,468
Bonds issued	-	-	2,180,996	2,180,996	2,180,996
TOTAL	**38,291,147**	**-**	**19,005,519,116**	**19,043,810,263**	**19,048,971,668**

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

LBP'000	DECEMBER 31, 2012 Level 1	Level 3	Total
Assets at Fair Value:			
Investments at fair value through profit or loss	38,834,858	742,139,843	780,974,701
Investments at fair value through other comprehensive income	6,597,427	162,447,386	169,044,813
	45,432,285	904,587,229	950,019,514

	DECEMBER 31, 2011		
LBP'000	**Level 1**	**Level 3**	**Total**
Assets at Fair Value:			
Investments at fair value through profit or loss	38,233,671	600,230,607	638,464,278
Investments at fair value through other comprehensive income	5,022,146	123,362,303	128,384,449
	43,255,817	723,592,910	766,848,727
Liabilities at Fair Value:			
Customers' deposits at fair value through profit or loss	38,291,147	-	38,291,147

49.
CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon, the Group's lead regulator. The Group's foreign entities are also required to respect particular ratios according to the competent authorities of supervisions.

The Group's capital is split as follows:

Tier I capital: Comprises share capital after deduction of treasury shares, shareholders' cash contribution to capital, preference shares, certain reserves from appropriation of profits, retained earnings and non-controlling interests. Goodwill is deducted from Tier I capital.

Tier II capital: Comprises qualifying subordinated liabilities, collective impairment allowance and cumulative change in fair value for investment at fair value through other comprehensive income.

Investments in associates are deducted from Tier I and Tier II capital.

The Group has complied with the imposed capital requirements throughout the period.

LBP'000	**2012**	2011
Tier I capital	1,663,677,000	1,319,187,000
Tier II capital	164,907,000	102,034,000
Total regulatory capital	1,828,584,000	1,421,221,000
Credit risk	13,284,218,000	12,800,508,000
Market risk	318,323,000	485,381,000
Operational risk	1,099,798,000	919,043,000
RISK-WEIGHTED ASSETS OF CREDIT, MARKET AND OPERATIONAL RISKS	**14,702,339,000**	**14,204,932,000**
CAPITAL ADEQUACY RATIO – TIER I	**11.32%**	**9.29%**
CAPITAL ADEQUACY RATIO – TIER I AND TIER II	**12.44%**	**10.01%**

50.
APPROVAL OF THE FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Bank's Board of Directors in its meeting held on April 10, 2013.

	2012	2011
A. PROFITABILITY		
ROAA (Return on Average Assets)	**1.06%**	1.16%
ROACE (Return on Average Common Equity)	**13.20%**	13.25%
Total interest paid to Total interest received	**59.55%**	59.99%
Net interest income to Average assets	**2.39%**	2.38%
Net commissions to Net financial revenues (before allocation to provisions)	**12.35%**	13.27%
Operating expenses to Net financial revenues (Cost-to-income ratio)	**50.76%**	49.85%
Non-interest income to Net financial revenues (before allocation to provisions)	**21.48%**	27.15%
Operating expenses to Average customers' creditor accounts	**1.88%**	1.99%
EPS in USD (Earnings per common share in US Dollar)	**6.63**	6.59
DPS in USD (Dividend per common share in US Dollar)*	**1.39**	1.33
Dividend payout ratio* (Dividends on common and preferred shares / Distributable profits)*	**54.32%**	62.78%
B. LIQUIDITY		
Average net customers' loans to Average customers' creditor accounts	**37.34%**	34.67%
Average customers' creditor accounts to Average total deposits	**97.81%**	97.41%
Foreign currency customers' loans to Foreign currency customers' creditor accounts	**47.57%**	47.52%
C. CAPITAL ADEQUACY		
Shareholders' equity to Total assets	**9.45%**	8.97%
Shareholders' equity to Loans and acceptances	**29.71%**	27.25%
Capital Adequacy Ratio (as per Basel III)	**12.44%**	10.01%
D. ASSET QUALITY RATIOS		
Doubtful debts (net) to Total customers' loans (net)	**1.90%**	1.90%
Doubtful debts (net) to Shareholders' equity	**6.17%**	6.49%
Provisions for doubtful debts to Doubtful debts	**88.14%**	88.44%
Substandard accounts (net) to Total customers' loans (net)	**0.61%**	0.42%
Unrealized interest for substandard accounts to Substandard accounts	**51.36%**	60.67%
Total provisions and unrealized interest to Total customers' loans	**13.44%**	13.61%

(*) On an unconsolidated basis.

06

GROUP NETWORK

. LEBANON - PARENT COMPANY, SUBSIDIARIES AND ASSOCIATES

115 branches subdivided as follows:

as of June 2013

- **66 Fransabank branches**
- **47 BLC Bank branches**
- **1 branch for Fransa Invest Bank**
- **1 branch for BLC Invest**

PARENT COMPANY

- **Fransabank SAL**

  66 branches
  - 17 branches in Beirut
  - 22 branches in Mount Lebanon
  - 10 branches in Northern Lebanon
  - 7 branches in the Bekaa Region
  - 9 branches in Southern Lebanon
  - 1 branch temporarily closed

SUBSIDIARIES

- **BLC Bank SAL (with BLC Invest, BLC Services & BLC Finance)**

  47 branches
  - 9 branches in Beirut
  - 19 branches in Mount Lebanon
  - 6 branches in Northern Lebanon
  - 3 branches in Bekaa Region
  - 3 branches in Southern Lebanon
  - 7 branches temporarily closed
- **Fransa Invest Bank SAL (FIB)**
- **Société Générale Foncière SAL (Sogefon)**
- **Lebanese Leasing Company SAL (LLC)**
- **Fransabank Insurance Services Company SAL**
- **Switch & Electronic Services SAL**
- **Société Express SARL**

ASSOCIATED COMPANIES

- **Bancassurance SAL**
- **International Payment Network SAL**

Fransabank SAL

HEADQUARTERS

Fransabank Center, Hamra Str.,
P.O.Box 11-0393
Riad El Solh Beirut 1107 2803
Lebanon
Tel (961) 1 340180/8
(961) 1 745761/4
(961) 3 650700
Fax (961) 1 354572
Cable FRANSBANK
Swift FSAB LB BX
Email fsb@fransabank.com
Website www.fransabank.com
Call Center (961) 1 734000
1552
Forex Tel (961) 1 343706
(961) 1 344216
Reuters FRBK

Retail@Fransabank
Fransabank Center,
Hamra Str., Ground Floor
Tel (961) 1 340180/8
Fax (961) 1 740281

BEIRUT

• Ain El Mreisseh
Nawrass Bldg., Opposite
Ain El Mreisseh Mosque
Tel (961) 1 373240/1/2
Fax (961) 1 373243

• Ashrafieh (Rmeil)
Akra Bldg., St. Louis Str., Rmeil
Tel (961) 1 571844/499
Fax (961) 1 446804

• Ashrafieh (Sassine)
Notre Dame Center, Sassine Square
Tel (961) 1 203466/7
Fax (961) 1 200651

• Ashrafieh (Sodeco)
Dakota Bldg., Sodeco
Tel (961) 1 423573/4/5
(961) 70 677360
Fax (961) 1 423577

• Bab Edriss
Sabbagh Bldg., Patriarch Hoayek Str.,
Beirut Central District
(Temporarily closed)

• Badaro
Khatoun Bldg., Badaro Str.
Tel (961) 1 387024
(961) 1 386900/1
Fax (961) 1 390409

• Basta
Fransabank Bldg., Cross Roads
of Saleh Ben Yehia, Basta Str.
Tel (961) 1 663116/8
Fax (961) 1 663117

• Foch
Focheville Bldg., Foch Str.
Beirut Central District
Tel (961) 78 809280
(961) 1 998230/240
Fax (961) 1 998230

• Hamra
Fransabank Center, Hamra Str.,
1st Floor
Tel (961) 1 340180/1/8
(961) 1 750679
Fax (961) 1 341413

• Hamra (Sadat)
Itani Bldg., Sadat Str.
Tel (961) 1 743135/6
Fax (961) 1 743138

• Jnah
Assaf Bldg., Adnan El Hakim Str.
Tel (961) 1 857972/3/4
Fax (961) 1 857972

• Mar Elias
Metco Center, Moussaitbeh,
Mar Elias Str.
Tel (961) 1 818529/30
(961) 1 817770
Fax (961) 1 300617

• Moussaitbeh
Al Lou'loua Bldg., Selim Salam Str.
Tel (961) 1 308791/2/3
(961) 70 677651
Fax (961) 1 305189

• Saifi
Andraos Bldg., El-Arz Str.
Tel (961) 1 442418
(961) 1 585899
(961) 3 650703
Fax (961) 1 442417

• Starco
Starco Center, Bloc C,
Omar Daouk Str.
Tel (961) 1 367346/8
Fax (961) 1 367350

• Tabaris
Saifi 311 Bldg., Fouad Chehab Avenue
Tel (961) 1 203422
(961) 1 328600
Fax (961) 1 201141

• Tarik Jdide
Kassar Bldg., Loubos Str.
Tel (961) 1 702930/1
(961) 3 650705
Fax (961) 1 309090

• Verdun
Verdun 730 Center,
Rachid Karame Str., 1st Floor
Tel (961) 1 788690/1/2/3/4
(961) 3 650709
Fax (961) 1 788691

MOUNT LEBANON

• Aley
Said Chehayeb Bldg. (DANA),
Main Road
Tel (961) 5 557042/3/4
Fax (961) 5 557046

• Antelias
Order Antonin Maronite Bldg.,
Catholicossat Armenien Str.
Tel (961) 4 417240 /1
Fax (961) 4 412990

• Baakline
Akram El Eid Center, El Marj
Tel (961) 5 303005
(961) 5 301267
Fax (961) 5 303006

Fransabank SAL

• Bauchrieh
Bakhos & Aoun Bldg., Square One Center
Tel (961) 1 897490/1/2
Fax (961) 1 898786

• Bikfaya
Adel Dagher Bldg., Bikfaya Square
Tel (961) 4 986901/2
(961) 70 910700
Fax (961) 4 986903

• Bourj El Brajneh
Ahmad Nabbouh Bldg.,
Ain El Sekkeh, Dr Hosni Jalloul Str.
Tel (961) 1 453200/1
(961) 3 740410
Fax (961) 1 453203

• Bourj Hammoud
Harboyan Center,
Near St. Vartan Church,
Bourj Hammoud entrance, 2nd Floor
Tel (961) 1 258101/2/3
Fax (961) 1 264446

• Chehim
Wehbe Center, Main Road
Tel (961) 7 241916/7
Fax (961) 7 241921

• Chiyah
Tayyar Bldg., facing Moawad junctions,
Ghobeiri Blvd., Chiyah
Next to the Ministry of Labor
Tel (961) 1 279671/3
(961) 3 740412
Fax (961) 1 279680

• Choueifat
Mahmoud El Kheshen Bldg.,
Haret Al Oumara, Saida Main Road
Tel (961) 5 431152
(961) 5 431178
Fax (961) 5 431183

• Elyssar (Mazraat Yachouh)
Fransabank Bldg.,
Mazraat Yachouh, Bikfaya Main Road
Tel (961) 4 914803/4/7
Fax (961) 4 914805

• Furn El Chebbak
Saadeh Center,
Facing Planete Abraj, Beirut/Damascus Str.
Tel (961) 1 293025/6
Fax (961) 1 293027

• Hadath
Bechara Beik Karam Str., Al Saha,
Near Al Saydeh Church, Main Road
Tel (961) 5 463975/7
Fax (961) 5 463980

• Hazmieh
Unigroup Bldg., Sayyad Square
Tel (961) 5 459602
(961) 5 450350
Fax (961) 5 457312

• Jal El Dib
Le Baron Center, Jal El Dib Highway,
1st Floor
Tel (961) 1 889884/5
Fax (961) 1 902959

• Jbeil
Byblos Sun Bldg., Jbeil Roundabout
Tel (961) 9 945108
(961) 3 650719
Fax (961) 9 540968

• Jounieh
Saint Paul Center, P.T.T. Str.
Tel (961) 9 830190/1
Fax (961) 9 830192

• Mansourieh
Maalouf Center, Opposite P.T.T.,
Main Road
Tel (961) 4 409840/1
Fax (961) 4 409840

• Mreijeh
Chahine Bldg., Hadi Nasrallah Blv.
Tel (961) 1 469014/015/016
Fax (961) 1 469006

• Sarba
Antoine & Youssef Kallas Bldg.,
Sarba Highway
Tel (961) 9 640293
(961) 9 640060
Fax (961) 9 640543

• Sin El Fil
Kibinian & Kazangian Bldg.,
Delta Center, Horch Tabet
Tel (961) 1 510571/2/3
(961) 3 650708
Fax (961) 1 481680

• Zouk
Zouk Mosbeh, Jeita Main Road
Tel (961) 9 217271/2/3
Fax (961) 9 219696

NORTH

• Chekka
Ragheb Center, Main Road
Tel (961) 6 540642/3
(961) 6 545035
Fax (961) 6 545035

• Dahr El Ain
Michel Frangieh Bldg., Main Road
Dahr El Ain, Koura
Tel (961) 78 809580/680
Fax (961) 1 340180

• Halba
Marwan Ibrahim Bldg., Main Road
Tel (961) 6 693331/2
Fax (961) 6 692001

• Kalamoun
Ezzedine Almir Bldg., Main Road
Tel (961) 6 400102/3
Fax (961) 6 400096

• Meryata
Ayoush Bldg., Ardeh Road
Tel (961) 6 255560/1/2
Fax (961) 6 255564

• Tripoli (Abou Samra)
Sayadi Bldg., Saadoun Square
Tel (961) 6 424617/9
Fax (961) 6 424611

• Tripoli (Al Mina)
Hassan & Hassane Abbas Bldg.,
Bawabet Al Mina Str.
Tel (961) 6 611524
(961) 6 611249/50
Fax (961) 6 611250

• Tripoli (Gemmayzat)
Fattal Bldg., Gemmayzat Str.
Tel (961) 6 430012/3
Fax (961) 6 625735

• Tripoli (Tell)
Gaston Habib Bldg., Kayal Square
Tel (961) 6 442815
(961) 6 441881/2
Fax (961) 6 441881/2

• Zgharta
El-Kareh & Zakhia Center, Road 1,
Zgharta El-Abbeh
Tel (961) 6 667951/2/3
(961) 70 676255
Fax (961) 6 667956

BEKAA

• Baalbeck
Mohammad Said El Lakiss Bldg.,
Ras Al-Ayn, Main Road
Tel (961) 8 378800/1/2
(961) 8 371800/1
Fax (961) 8 370379

• Bednayel
Ali Fouad Sleiman Bldg., Main Road
Tel (961) 8 911124/5
Fax (961) 8 911124

• Chtaura
Haddad Bldg., Main Road
Tel (961) 8 541988
(961) 8 542498
Fax (961) 8 543843

• Laboue
Near Laboue Square, Main Road
Tel (961) 8 230801/2/3
Fax (961) 8 230805

• Riyak
Hosch Hala, Main Road
Tel (961) 8 900333/444/555
Fax (961) 8 900107

• Zahle (Barbara)
Ghossain Bldg., St. Barbe Str.
Tel (961) 8 811060
(961) 8 803715
Fax (961) 8 822335

• Zahle (Warde)
Warde Center, Main Road
Tel (961) 8 803566
(961) 8 821411
Fax (961) 8 810187

SOUTH

• Bint Jbeil
Fransabank Bldg., Saf El-Hawa,
Main Road
Tel (961) 7 450701/2/3/4
(961) 3 239092
Fax (961) 7 450701

• Ghazieh
Khalifeh Center, Ghazieh, Main Road
Tel (961) 7 224430/60
Fax (961) 7 224480

• Jezzine
St. Therese Center, Jezzine Highway
Tel (961) 7 780941
(961) 7 780052
Fax (961) 7 780941

• Marjeyoun
Raef Abla Bldg., Main Road
Tel (961) 7 830139
(961) 7 830140
Fax (961) 7 830139

• Nabatieh
Kodeih Center, Sabbah Str.
Tel (961) 7 760258
(961) 7 764264
Fax (961) 7 761750

• Nakoura
Hamzeh Bldg., Near UNIFIL,
Main Road, 1st Floor
Tel (961) 7 460235/6/7
(961) 3 067702
Fax (961) 7 460236

• Saida
Fransabank Bldg., Riad El Solh Str.
Tel (961) 7 722180/1
(961) 3 650701
Fax (961) 7 721194

• Tyr
Abou Saleh Bldg., Senegal Str.,
Tyr Main Entrance, 1st Floor
Tel (961) 7 345253
(961) 7 345315
Fax (961) 7 345308

• Tyr (Abbasieh)
Khalaf Bldg., Jal El Bahr,
Main Road
Tel (961) 7 740388
(961) 7 740486
Fax (961) 7 740084

OFF-PREMISES ATM'S

- **UFA Insurance, Beirut Central District**
- **Verdun 730 Center, Verdun**
- **Verdun 732 Center, Verdun**
- **Hamra Street**
- **Caserne El Helou, Mar Elias**
- **Biel Convention Center, Beirut Central District**
- **Defense Ministry, Baabda**
- **General Security, Adlieh**
- **City Center Mall, Hazmieh**
- **US Embassy, Aoukar**
- **Mema Gas Station, Faraya**
- **Caliprix Supermarket, Jounieh**
- **Obeid Supermarket, Kabrechmoun**
- **Club La Marina, Dbayeh**
- **United Nations Center, Nakoura**
- **Hospital Tell Chiha, Zahle**

. LEBANON - SUBSIDIARIES AND ASSOCIATE

BLC Bank SAL

BLC Bank Bldg., Adlieh Square
P.O.Box 2064-5809 Beirut, Lebanon
Tel (961) 1 387000
(961) 1 429000
Fax (961) 1 616984
Email info@blcbank.com
Website www.blcbank.com

Lebanese Leasing Company SAL (LLC)

Fransabank Center, Hamra Str., 9th Floor
P.O.Box 11-0144 Beirut, Lebanon
Tel (961) 1 738610/1/2/3
(961) 1 750310/1
Fax (961) 1 738614
Email llc@leasing.com.lb

Fransa Invest Bank SAL (FIB)

Fransabank Center, Hamra Str., 2nd Floor
P.O.Box 11-0393 Riad El Solh Beirut
1107 2803, Lebanon
Tel (961) 1 745978/9
Fax (961) 1 351030
Email fib@fransabank.com

Bancassurance SAL

Gefinor Center, Clemenceau Str., Bloc A, 2nd Floor
P.O.Box 11-0393 Beirut, Lebanon
Tel (961) 1 744403
Fax (961) 1 738347
Email Bancassurance@ebancassurance.com
Website www.ebancassurance.com

BLC Invest Bank SAL

Royal Tower Bldg., Nicolas Turk Str., Medawar, Ashrafieh
P.O.Box 2064-5809 Beirut, Lebanon
Tel (961) 1 566 207/8/9
Fax (961) 1 565311

Société Générale Foncière SAL (Sogefon)

Fransabank Center, Hamra Str., 6th Floor
P.O.Box 11-0393 Riad El Solh Beirut
1107 2803, Lebanon
Tel (961) 1 749418
Fax (961) 1 340180-Ext. 1816

FRANCE

Fransabank (France) SA

Headquarters & Main Branch
104, Champs-Elysées Avenue, 75008 Paris, France
Tel (33) 1 53 76 84 00
Fax (33) 1 45 63 57 00
Swift FRAF FR PP
Email info@fransabank.fr

ALGERIA

Fransabank El Djazaïr SPA

Headquarters & Main Branch
45B, Lot Petite Provence, Sidi Yahia, Hydra, 16405, Algiers, Algeria
Tel (213) 21 48 12 96 / 21 48 27 48 - Headquarters
Tel (213) 21 48 00 29 / 21 48 02 12 - Main Branch
Fax (213) 21 60 66 06
Swift FSBK DZ AL
Email info@fransabank.dz

Oran
El-Zouhour Cooperative, no. 12 Cité Dar El Beida, Oran, Algeria
Tel (213) 41 46 09 06
Fax (213) 41 46 09 07

Constantine
Cité Ali Besbas, Lot G no 23, Sidi Mabrouk, Constantine, Algeria
Tel (213) 31 62 93 66
Fax (213) 31 63 06 40

SYRIA

Fransabank Syria SA

Damascus
Headquarters & Main Branch
Al Mahdi Ben Barakeh Str., Al Otaki Bldg.
Abou Remmaneh, Damascus, Syria
Tel (963) 11 33 53 030
Fax (963) 11 33 53 037
Swift FSBS SY DA
Email info@fransabank.sy

Baghdad Street
Baghdad Str., facing Lycée (Al Horria), Damascus, Syria
Tel (963) 11 23 26 890/1
Fax (963) 11 23 26 892

Rif Damascus
Sit Zaynab
Sit Zaynab Str., Safir Hotel, Rif Damascus, Syria
Tel (963) 11 64 86 011/12
Fax (963) 11 64 86 014
(Temporarily closed)

Aleppo
Al Aziziyeh
Al Aziziyeh Str., Shallal Roundabout, facing Public Garden, Kurdi Bldg., Aleppo, Syria
Tel (963) 21 22 42 601/2
Fax (963) 21 22 42 603

Faisal
Faisal Avenue, facing Georges Salem Institute, Aleppo, Syria
Tel (963) 21 22 18 265/8
Fax (963) 21 22 18 270

Homs
Hachem Al Atasi Avenue, Plaza Bldg., Homs, Syria
Tel (963) 31 24 56 030/1
Fax (963) 31 24 56 033
(Temporarily closed)

Tartous
Thawra Avenue, Ali Abdel Latif Ismail Bldg., Tartous, Syria
Tel (963) 43 32 90 60
Fax (963) 43 32 90 64

Latakia
West Ridge, Latakia, Syria
Tel (963) 41 45 98 29/30/31
Fax (963) 41 45 99 07

Damascus Free zone
(Temporarily closed)

BELARUS

Fransabank OJSC

Minsk
Headquarters & Main Branch
95A, Nezavisimosty Avenue,
220012 Minsk, Republic of Belarus
Tel (375) 17 389 36 36
Fax (375) 17 389 36 37
Swift GTBN BY 22
Email office@fransabank.by
Website www.fransabank.by

Branch 1
4 Kalvariyskaya Str., 220004 Minsk, Republic of Belarus
Tel (375) 17 389 37 59
Fax (375) 17 210 07 15

Branch 2
9 Dombrovskaya Str., 220140, Minsk, Republic of Belarus
Tel (375) 17 389 37 47
Fax (375) 17 313 29 08

Branch 3
7 Jipunovitcha Str., 220124, Minsk, Republic of Belarus
Tel/Fax (375) 29 344 82 07

Gomel
Branch 1
22 Krestianskaya Str., 246050 Gomel, Republic of Belarus
Tel/Fax (375) 23 274 51 30

Branch 2
5A Krasnaarmeiskaya Str., 246017 Gomel, Republic of Belarus
Tel (375) 23 275 03 40
Fax (375) 23 275 03 36

Grodno
10, Dominikanskaya Str., 230023 Grodno, Republic of Belarus
Tel (375) 15 277 35 30
Fax (375) 15 277 04 06

Brest
Branch 1
105/2 Suvorova Str., 224022 Brest, Republic of Belarus
Tel (375) 16 248 56 56
Fax (375) 16 243 30 43

Branch 2
46 Sovetskaya Str., 224005 Brest, Republic of Belarus
Tel/Fax (375) 16 223 56 05

Lida
12, Kyaza Gedechina Blvd., 231291 Lida, Republic of Belarus
Tel (375) 15 452 88 58
Fax (375) 15 460 61 37

CYPRUS

USB Bank PLC (Subsidiary of BLC Bank)

Headquarters
83 Digeni Akrita Avenue, 1070 Nicosia, Cyprus
Tel (357) 22 88 33 33
Fax (357) 22 87 58 99
Email usbmail@usb.com.cy
Website www.usb.com.cy

17 branches subdivided into
6 branches in Nicosia
3 branches in Limassol
3 branches in Paphos
3 branches in Famagusta
2 branches in Larnaca

. OVERSEAS ASSOCIATE

SUDAN

United Capital Bank

Headquarters & Main Branch
Plot 411, Square 65, Mamoun Beheiry Str.,
South the Green Square
P.O.Box 8210 Al Amarat, Khartoum, Sudan
Tel (249) 183 24 77 00 - Headquarters & Main Branch
Fax (249) 183 23 50 00 - Headquarters & Main Branch
(249) 183 24 81 11 / 24 63 33 - Main Branch
Swift CBSK SD KH
Email Kamal@bankalmal.net
Website www.bankalmal.net

Khartoum
Plot 130, Square 8, Industry Str., North Bahri,
P.O.Box 1173 Khartoum, Sudan
Tel (249) 185 32 40 01
Fax (249) 185 32 44 80

Rabak
Plot 390, Square 3, Khartoum Str.
P.O.Box 203 Rabak, Sudan
Tel (249) 572 82 94 81
Fax (249) 572 82 94 80

Omdurman Branch
Plot 6, Square 4/5, Al Arda District, Omdurman, Sudan
(Under establishment)

. REPRESENTATIVE OFFICES

LIBYA

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P.O.Box 81963 Tripoli, Libya
Tel (218) 21 335 1250
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UAE (ABU DHABI)

BLC Bank SAL

Khalidiya Park Bldg., 1st Floor, Khalidiya Str.,
P.O. Box 6204, Abu Dhabi, UAE
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