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*BANQUE DU LIBAN*, THE CENTRAL BANK OF LEBANON, HAS NOT PASSED UPON AND TAKES NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE MERITS OF THE NOTES.

**Confirmation of Your Representations:** In order to be eligible to view the Prospectus, you must be outside the United States (within the meaning of Regulation S under the Securities Act). By accessing the Prospectus, you shall be deemed to have represented to us (a) that you are a person outside the United States and (b) that you consent to delivery of the Prospectus by electronic transmission.

In addition, you shall be deemed to have represented to us that (x) you are a sophisticated investor with sufficient knowledge and experience in business and financial matters in general, and regarding the political and economic conditions prevailing in Lebanon in particular, and are capable of independently investigating and evaluating the risks involved in purchasing and owning investments such as the Notes and (y) you are purchasing the Notes solely on the basis of your own independent appraisal of the economic, political and social conditions prevailing in Lebanon and in the Middle East region, the financial condition and results of operations of Byblos Bank S.A.L. and the terms and conditions of the Notes (as set forth in this Prospectus), as well as all such other information and matters as you deem appropriate in determining whether to purchase Notes, without relying upon any representation or warranty, express or implied, made to you by Byblos Bank S.A.L. or any other person with respect thereto.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorized to, deliver the Prospectus to any other person.

The Prospectus has been transmitted to you in an electronic form. You are reminded that documents transmitted *via* this medium may be altered or changed during the process of electronic transmission and consequently neither Byblos Bank S.A.L. nor Byblos Invest Bank S.A.L., nor any person who controls it or them nor any director, officer, employee nor agent of any such person nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Byblos Bank S.A.L. and Byblos Invest Bank S.A.L.



# BYBLOS BANK S.A.L.

(incorporated in Lebanon with limited liability)  
List of Banks No 39. Commercial Registry: Beirut 14150

## U.S.\$300,000,000 7.0% Notes due 2021

### Issue Price: 100%

The U.S.\$300,000,000 7.0% Notes due 2021 (the “Notes”) are being issued by Byblos Bank S.A.L. (the “Bank”) at an issue price of 100% of their principal amount (the “Issue Price”). It is expected that the Notes will be issued on or about June 24, 2011 (the “Issue Date”) and, unless previously purchased by the Bank or earlier redeemed or accelerated, repaid on June 24, 2021 (the “Maturity Date”) at their principal amount, together with accrued but unpaid interest (if any). The Notes will bear interest at the rate of 7.0% per annum, payable semi-annually in arrear on June 24 and December 24 of each year, commencing on December 24, 2011, through but excluding the Maturity Date (or such earlier date, if any, on which the Notes are fully repaid upon acceleration or redemption, as the case may be). The Notes will be constituted by, subject to, and have the benefit of, a trust deed to be dated on or around June 21, 2011 (the “Trust Deed”) between the Bank and Deutsche Trustee Company Limited, as trustee (the “Trustee”) for the holders of the Notes (the “Noteholders”). See “Terms and Conditions of the Notes”.

All payments of principal and interest in respect of the Notes by the Bank will be made free and clear of, and without deduction or withholding for, any Lebanese Taxes (as defined below), unless such withholding or deduction is required by law. If the Bank shall be required to make any such deduction or withholding, it shall, subject to certain customary exceptions, make payment of the amount so deducted or withheld to the appropriate governmental authority and shall forthwith pay to the holders of Notes such Additional Amounts (as defined below) in respect of Lebanese Taxes (as defined below) as will result in the payment to the Noteholders of the amount that would otherwise have been received by them in respect of payments on the Notes in the absence of such withholding or deduction. The Notes are redeemable, in whole but not in part, at the option of the Bank at any time after the first anniversary of the Issue Date, in the event that the Bank has or will become obligated to pay Additional Amounts in excess of the Additional Amounts that would be payable if Lebanese Taxes were applied to payments of interest on the Notes at the rate of 10% or more. See “Terms and Conditions of the Notes— Early Redemption for Tax Reasons”.

The Notes will constitute general, unsubordinated and, subject to the Bank’s negative pledge (as described herein), unsecured obligations of the Bank and will rank *pari passu*, without any preference among themselves, with all other unsubordinated and, subject to the Bank’s negative pledge, unsecured obligations of the Bank, other than such obligations as may be preferred by mandatory provisions of applicable law. See “Terms and Conditions of the Notes— Negative Pledge”. The Notes are subject to acceleration upon the occurrence of certain events of default. See “Terms and Conditions of the Notes— Events of Default”.

Application has been made to the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 (the “UK Listing Authority”) to approve this Prospectus as a prospectus, and this Prospectus constitutes a prospectus for the purposes of article 5 of Directive 2003/71/EC. Application has also been made to admit the Notes described in this Prospectus to listing on the official list of the UK Listing Authority (the “Official List”) and to trading on the London Stock Exchange plc’s (the “London Stock Exchange”) Regulated Market (the “Regulated Market”). The Regulated Market is a Regulated Market for the purposes of Directive 2004/39/EC (the Markets in Financial Instruments Directive). References in this Prospectus to Notes being listed (and all related references) shall mean that such Notes have been admitted to the Official List and to trading on the Regulated Market. The Bank also intends to make an application to the Beirut Stock Exchange (the “BSE”) to list and admit to trading the Notes.

#### **An investment in the Notes involves certain risks. See “Risk Factors” for a discussion of certain factors that should be considered in connection with an investment in the Notes**

The Notes have not been and will not be registered under the United States Securities Act of 1933, as amended (the “Securities Act”), or any state securities law, and may not be offered, sold, transferred or delivered within the United States to, or for the account or benefit of, any U.S. person, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. The Notes will be offered and sold in offshore transactions outside the United States in reliance on Regulation S under the Securities Act (“Regulation S”). See “Selling Restrictions”.

The Notes will initially be represented by a single global note (the “Global Note”) in registered form without interest coupons attached, which will be deposited on or about the Issue Date with, and will be registered in the name of a nominee for, a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“Euroclear”), and Clearstream Banking, *société anonyme* (“Clearstream”). Interests in the Notes may also be held through Midclear S.A.L., Lebanon’s central clearing and settlement agency (“Midclear”). Notes held through Midclear will be settled through Midclear’s participant accounts with Euroclear and Clearstream. Notes in definitive registered form without interest coupons attached will be issued only in limited circumstances. Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective participants, including Midclear.

*Placement Agent*

**Byblos Invest Bank S.A.L.**

June 16, 2011

## IMPORTANT NOTICE

This Prospectus contains information provided by the Bank in connection with its applications for a listing of the Notes on the Official List and their admission to trading on the London Stock Exchange's Regulated Market. The Bank accepts responsibility for the information contained in this Prospectus. The information under the heading "*The Banking Sector and Banking Regulation in Lebanon*" and certain similar information relating to Lebanon and the Lebanese banking sector throughout this Prospectus are given as general information and have been reproduced from publicly-available information. See "*Information from Public Sources*". The Bank confirms that, as far as it is aware and is able to ascertain from publicly-available information, no facts have been omitted that would render the reproduced information inaccurate or misleading, but the Bank accepts responsibility only for the accurate extraction of such information from publicly-available sources. To the best of the knowledge and belief of the Bank, having taken all reasonable care that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

The credit ratings included or referred to in this Prospectus will be treated for the purposes of Regulation (EC) No 1060/2009 on credit rating agencies (the "**CRA Regulation**") as having been issued by Standard & Poor's Credit Market Services Europe Limited ("**S&P**"), Moody's Investors Service Ltd. ("**Moody's**") and Fitch Ratings Limited ("**Fitch**"), respectively. Each of S&P, Moody's and Fitch is established in the European Union and has applied to be registered under the CRA Regulation, although the result of such applications has not yet been determined.

No person may reproduce or distribute this Prospectus, in whole or in part, or disclose any of its contents or use any information herein for any purpose other than the applications for a listing of the Notes on the Official List and their admission to trading on the London Stock Exchange's Regulated Market, as well as the application for a listing of the Notes on the BSE.

No person has been authorized to give any information or make any representation other than as contained in this Prospectus and, if given or made, such information or representation must not be relied on as having been authorized by the Bank. The publication of this Prospectus does not, under any circumstances, constitute any representation or create any implication that there has been no change in the affairs of the Bank since, or that the information contained herein is correct at any time subsequent to, the date of this Prospectus or such earlier date as of which such information is stated to be given. This Prospectus may only be used for the purpose for which it has been published.

None of Byblos Invest Bank S.A.L., in its capacity as placement agent ("**Byblos Invest Bank**" or the "**Placement Agent**"), the Trustee nor any of their respective directors, affiliates, advisors or agents has made an independent verification of the information contained in this Prospectus in connection with the issue and offering of the Notes and no representation or warranty, expressed or implied, is made by the Placement Agent, the Trustee or any of their respective directors, affiliates, advisors or agents with respect to the accuracy or completeness of such information.

Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a promise, warranty or representation, whether relating to the past or the future, by the Placement Agent, the Trustee or any of their respective directors, affiliates, advisors or agents in any respect. Furthermore, none of the Placement Agent, the Trustee nor any of their respective directors, affiliates, advisors or agents makes any representation or warranty or assumes any responsibility, liability or obligation in respect of the legality, validity or enforceability of the Notes, the performance and observance by the Bank of its obligations in respect of the Notes or the recoverability of any sums due or to become due from the Bank under the Notes.

**The distribution of this Prospectus and the offer or sale of the Notes in certain jurisdictions may be restricted by law. The Bank requires persons into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or an invitation to purchase, Notes in any jurisdiction. No one has taken any action that would permit a public offering to occur in any jurisdiction.**

This Prospectus may only be communicated to persons in the United Kingdom in circumstances where section 21(1) of the Financial Services and Markets Act 2000 (the "FSMA") does not apply.

The Notes have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States at any time. Neither the U.S. Securities and Exchange Commission, nor any state securities commission nor any other regulatory authority, has approved or disapproved the securities or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

Further information with regard to restrictions on offers and sales of the Notes and the distribution of this Prospectus is set out under “Selling Restrictions”.

*BANQUE DU LIBAN*, THE CENTRAL BANK OF LEBANON (THE “**CENTRAL BANK**”), HAS NOT PASSED UPON AND TAKES NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE MERITS OF THE NOTES.

The contents of this document are not to be construed as legal, business or tax advice. In making an investment decision regarding the Notes, prospective investors must rely solely on their own independent appraisal of the economic, political and social conditions prevailing in Lebanon and in the Middle East region, the financial condition and results of operation of the Bank and the terms and conditions of the Notes, as well as all such other information and matters as the investor deems appropriate in determining whether to purchase Notes, and each prospective investor is urged to consult his, her or its own counsel, accountant or independent financial, business or tax advisor regarding legal, tax and related matters in connection with its purchase, holding and sale of Notes. In particular, an investor should be aware that it may be required to bear the risk of no liquidity, as well as the financial and other risks associated with its investment, for an indefinite period of time.

## FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus constitute “forward-looking statements” within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Prospectus and include statements regarding the Bank’s intent, belief or current expectations or those of the Bank’s Management (as defined below) with respect to, among other things:

- statements regarding the Bank’s results of operations, financial condition or future economic performance or any strategy or plans regarding its business;
- statements regarding the Bank’s competitive position and the effect of such competition on its results of operations;
- statements of the Bank’s plans, including those related to new products or services;
- statements of assumptions;
- statements regarding the impact of the recent global financial and market crisis and the ongoing political and military developments in the Middle-East and North Africa (“**MENA**”) region;
- statements regarding the potential impact of regulatory actions on the Bank’s business, competitive position, financial condition and results of operations; and
- statements regarding the possible effects of adverse determinations in litigation, investigations, contested regulatory proceedings and other disputes.

These forward-looking statements can be identified by the use of forward-looking terminology such as “believes”, “expects”, “may”, “is expected to”, “will”, “will continue”, “should”, “approximately”, “would be”, “seeks”, or “anticipates” or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and that actual results, performance or achievements of the Bank may differ materially from those expressed or implied in the forward-looking statements as a result of various factors. The information contained in this Prospectus, including, without limitation, the information under “*Risk Factors*”, “*Overview of the Bank*” and “*The Banking Sector and Banking Regulation in Lebanon*”, identifies important factors that could cause such differences. In addition, many other factors could affect the Bank’s actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. The Bank does not undertake to update any forward-looking statements made herein.

## PRESENTATION OF INFORMATION

Information in this Prospectus relates to Byblos Bank S.A.L., a bank incorporated in Lebanon with limited liability, and its consolidated subsidiaries as at December 31, 2010: Byblos Bank Europe S.A. (“**Byblos Bank Europe**”), Byblos Bank Africa Ltd. (“**Byblos Bank Africa**”), Byblos Bank Syria S.A. (“**Byblos Bank Syria**”), Byblos Bank Armenia CJSC (“**Byblos Bank Armenia**”), Byblos Invest Bank, Byblos Bank RDC S.A.R.L. (“**Byblos Bank RDC**”), Adonis Insurance and Reinsurance Co. (ADIR) S.A.L. (“**ADIR Lebanon**”), Adonis Insurance and Reinsurance (ADIR) Syria (“**ADIR Syria**”) and Adonis Brokerage House S.A.L. (“**Adonis Brokerage House**”) (collectively, the “**Subsidiaries**”). References to the “**Group**” shall mean, unless otherwise specified, the Bank and its Subsidiaries. References to “**Management**” are to the Bank’s senior management team. References to the “**Government**” are to the government of the Lebanese Republic (the “**Republic**” or “**Lebanon**”).

Financial information included in this Prospectus has, unless otherwise indicated, been derived from the Bank’s audited consolidated financial statements as at and for the years ended December 31, 2010 and 2009 and the Bank’s unaudited consolidated financial statements as at and for the three-month periods ended March 31, 2011 and 2010. The Bank’s consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and the general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission of Lebanon (the “**Banking Control Commission**”), and include the results of the Bank and its Subsidiaries. Ernst & Young p.c.c. and Semaan, Gholam & Co., members of the Lebanese Association of Certified Public Accountants, have audited the consolidated financial statements of the Bank as at and for the years ended December 31, 2010 and 2009. As used in this Prospectus, references to “**IFRS**” are to International Financial Reporting Standards.

The Bank maintains its accounts in Lebanese Pounds. Accordingly, U.S. Dollar amounts stated in this Prospectus have been translated from Lebanese Pounds at the rate of exchange prevailing at the relevant balance sheet date, in the case of balance sheet data, and at the average rate of exchange for the relevant period, in the case of income statement data, and are provided for convenience only. In each case, the relevant rate for both balance sheet data and income statement data was LBP 1,507.5 per U.S.\$ 1.00, as, throughout the periods covered by this Prospectus, the Central Bank has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1,507.5 per U.S.\$ 1.00.

In this Prospectus:

- references to “**U.S.\$**” or “**U.S. Dollars**” are to the United States Dollar, the lawful currency of the United States;
- references to “**EUR**” or “**Euros**” refer to the currency established for participating member states of the European Union as of the beginning of stage three of the European Monetary Union on January 1, 1999; and
- references to “**LBP**” or “**Lebanese Pounds**” are to the Lebanese Pound, the lawful currency of Lebanon.

Certain figures included in this Prospectus have been subject to rounding adjustments and substantially all figures herein are approximations of the actual figures. Accordingly, figures shown as totals in certain tables may not represent an exact arithmetic aggregation of the figures that precede them. Certain currency amounts stated in this Prospectus, other than those in U.S.\$ or LBP, have been calculated based on a relevant recent exchange rate published in the Financial Times, London.

## INFORMATION FROM PUBLIC SOURCES

Certain information included in the sections “*Risk Factors—Considerations Relating to Lebanon*”, “*Overview of the Bank*” and “*The Banking Sector and Banking Regulation in Lebanon*” has been extracted from information and data publicly released by official sources and other sources that are believed to be reliable, including Central Bank and Bankdata Financial Services WLL (“**Bankdata**”) figures. Throughout this Prospectus, the Bank has also set forth certain statistics, including market shares, from official sources and other sources it believes to be reliable, including its own sources and estimates. Such information, data and statistics may be approximations or estimates or use rounded numbers. The Bank has not independently verified such information, data or statistics, does not guarantee their accuracy and completeness and accepts no responsibility in respect of such information, data and

statistics, other than that this information has been accurately reproduced and that, accordingly, as far as the Bank is aware and is able to ascertain from information published, no facts have been omitted that would render the reproduced information inaccurate or misleading. All third party information used in this Prospectus has been derived from official information published by the Government, unless otherwise specified herein.

Certain statistical and other information relating to the Lebanese banking sector generally and to the Bank's competitive position in its market and the relative positions of its primary competitors in the sector in particular are generally based on information made available from Bankdata, Central Bank statistics and the Bank's internal sources. Bankdata numbers may differ in certain respects from the Bank's own financial statements.

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## SUMMARY

*This summary should be read as an introduction only to this Prospectus and an investment decision regarding the Notes should be based on consideration of this document as a whole by prospective Noteholders. Prospective Noteholders should note that, if a claim relating to the information contained in this document is brought by such holders before a court, such holders bringing the claim might, under the national legislation of the EEA States, have to bear the costs of translating the document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus.*

### Overview of the Bank

The Bank is one of the leading banks in Lebanon providing a full range of banking services through its extensive branch network, which, as at December 31, 2010, was the third largest in Lebanon. Through its overseas banking and other subsidiaries, the Bank also conducts a wide range of commercial banking and financial activities in Europe and the MENA region. As at December 31, 2010, the Group had 2,719 employees, approximately 640,000 active accounts and 100 branches (77 branches in Lebanon, one in Limassol, Cyprus, one in Baghdad, Iraq, one in Erbil, Iraq and 20 other international branches owned by the Group's subsidiaries). As at December 31, 2010, Byblos Bank Europe, the Bank's 99.95% owned subsidiary, had its main branch in Brussels, a branch in London and a branch in Paris; Byblos Bank Africa, the Bank's 56.86% owned subsidiary, had two branches in Khartoum and one in Bahri, Sudan; and Byblos Bank Syria, the Bank's 41.5% owned subsidiary, had ten branches in Syria in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia and Tartous. In September 2007, the Bank acquired 100% of ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC. In June 2008, the European Bank for Reconstruction & Development ("EBRD") and OPEC Fund for International Development ("OFID") acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. On March 27, 2010, the Bank participated in the capital increase of Solidaire Banque Internationale SARL ("**Solidaire Banque Internationale**") in the Democratic Republic of the Congo ("**DR Congo**") by investing U.S.\$10 million in the share capital of Solidaire Banque Internationale. Following such capital increase, the Bank holds 66.67% of the outstanding share capital of Solidaire Banque Internationale and, as the major shareholder of Solidaire Banque Internationale, exercises management control. Solidaire Banque Internationale has been renamed Byblos Bank RDC. Byblos Bank RDC has a branch in Kinshasa, DR Congo. The Bank has also had a representative office in Abu Dhabi, United Arab Emirates, since 2005, as well as a representative office in Lagos, Nigeria, since 2009.

As at December 31, 2010, according to Bankdata, based on unaudited financial statements of banks operating in Lebanon provided to Bankdata by such banks, the Bank ranked third among all banks operating in Lebanon in terms of net profit of LBP 268,879 million (U.S.\$178.4 million), total assets of LBP 23,042,367 million (U.S.\$15,484 million), total shareholders' equity (excluding subordinated notes) of LBP 2,456,763 million (U.S.\$1,630 million) and total deposits of LBP 17,928,081 million (U.S.\$11,893 million).

Total assets of the Bank increased by 12.6% from LBP 20,465 billion (U.S.\$13,576 million) as at December 31, 2009 to LBP 23,047 billion (U.S.\$15,288 million) as at December 31, 2010; customers' deposits increased by 15.6% from LBP 15,506 billion (U.S.\$10,286 million) as at December 31, 2009 to LBP 17,928 billion (U.S.\$11,892 million) as at December 31, 2010; net customer advances increased by 18.0% from LBP 4,819 billion (U.S.\$3,197 million) as at December 31, 2009 to LBP 5,685 billion (U.S.\$3,771 million) as at December 31, 2010; total equity (excluding subordinated notes) increased by 25.8% from LBP 1,953 billion (U.S.\$1,296 million) as at December 31, 2009 to LBP 2,456 billion (U.S.\$1,629 million) as at December 31, 2010; and net income increased by 22.1% from LBP 219,422 million (U.S.\$145.6 million) for the year-ended December 31, 2009 to LBP 267,819 billion (U.S.\$177.7 million) for the year-ended December 31, 2010.

The Bank has a high level of nominal liquidity, with cash placements with the Central Bank, interbank deposits and investments in Lebanese treasury bills and other marketable securities representing 71.9% of total assets as at December 31, 2010. As at December 31, 2010, the Bank's capital adequacy ratio was 24.08%, while, for the year ended December 31, 2010, its return on average assets was 1.23% and its return on average common equity was 14.06%.

## **The Bank's Objectives and Strategy**

The Bank's strategy is focused on protecting its depositors and creditors, creating value for its shareholders through continued domestic and regional growth, geographic and product diversification, operational efficiency and cost containment and optimizing its capital structure. The Bank's related medium- and long-term key strategies are to:

- strengthen its platform and consolidate its leading position in the Lebanese market;
- continue to expand in selected growth markets in the MENA region, while bearing in mind security and political developments in the region;
- enhance earnings stability through an improved business mix and risk profile;
- enhance cost efficiency and profitability; and
- diversify further its funding structure.

## **Risk Factors**

The Bank's business, operating results and financial condition could be materially and adversely affected by a number of risks, including (without limitation) considerations relating to Lebanon (such as risks relating to political, military and economic conditions in Lebanon, prices and inflation, the status of the Government's privatizations program, refinancing risk and Lebanon's budget deficit and macroeconomic instability, debt ratings, foreign exchange risk and monetary policy, as well as general risks relating to emerging markets); considerations relating to the Bank and the Lebanese and regional banking industry such as risks relating to the Bank's foreign operations and related plans for regional and international expansion, currency and devaluation considerations, liquidity and maturity mismatching, interest rate sensitivity, international capital adequacy reform, competition, risks relating to the regional and international social and civil unrest (including those occurring in countries where the Bank has operations, such as Sudan, Syria and DR Congo), risks relating to the recent market turmoil and financial crisis, the Bank's financial condition, and effecting service of process and enforcing liabilities and foreign judgments; and considerations relating to the Notes (such as risks relating to price volatility and illiquidity, legal investment considerations, modification of the Notes, early redemption for tax reasons, the absence of insurance and the EU Savings Directive).

## Summary Terms of the Offering

*This summary must be read as an introduction to this Prospectus and any decision to invest in the Notes should be made based on consideration of this Prospectus as a whole. Capitalized terms not specifically defined in this summary have the meaning set out in the "Terms and Conditions of the Notes".*

<b>Issuer .....</b>	Byblos Bank S.A.L.
<b>The Notes .....</b>	7.0% Notes in an aggregate principal amount of U.S.\$300,000,000 due 2021. The Notes will be constituted by, be subject to, and have the benefit of, the Trust Deed.
<b>Arranger and Placement Agent.....</b>	Byblos Invest Bank S.A.L.
<b>Trustee.....</b>	Deutsche Trustee Company Limited.
<b>Issuing and Paying Agent....</b>	Deutsche Bank AG, London Branch.
<b>Registrar and Transfer Agent and .....</b>	Deutsche Bank Luxembourg S.A.
<b>Noteholder Representative.....</b>	<p>It is expected that Mr. Moussa Maksoud will be elected as the Noteholder representative at the first meeting of holders on or following the Issue Date.</p> <p>The Trust Deed provides that neither the Trustee nor the Agents are: (i) responsible for the appointment of the Noteholder Representative; (ii) accountable for the action or inaction of the Noteholder Representative; and (iii) required to supervise the Noteholder Representative in the conduct of its affairs in connection with its appointment.</p>
<b>Principal Amount .....</b>	U.S.\$300,000,000.
<b>Issue Price .....</b>	100% of the principal amount.
<b>Use of Proceeds .....</b>	The net proceeds of the issue will be used for general corporate purposes. The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or DR Congo.
<b>Issue Date .....</b>	June 24, 2011.
<b>Maturity Date .....</b>	June 24, 2021, unless previously accelerated, redeemed for tax reasons or purchased and surrendered for cancellation.
<b>Interest Rate .....</b>	Interest will accrue on the outstanding principal amount of the Notes at a rate of 7.0% per annum from and including the Issue Date to but excluding the Maturity Date (or such earlier date, if any, on which the Notes are fully repaid upon acceleration or redemption, as the case may be).
<b>Interest Payment Dates.....</b>	Accrued and unpaid interest will be payable in arrear on June 24 and December 24 of each year, commencing on December 24, 2011 through and including the Maturity Date (or such earlier date, if any, on which the Notes are fully repaid upon acceleration or redemption, as the case may be) (each, an " <b>Interest Payment Date</b> ").
<b>Status and Ranking.....</b>	The Notes will constitute general, unsubordinated and, subject to the Bank's negative pledge (as set forth in Condition 5), unsecured obligations of the Bank and will rank <i>pari passu</i> , without any preference among themselves, with all other unsubordinated and, subject to the Bank's negative pledge (as set forth in Condition 5), unsecured obligations of the Bank, other than such obligations as may be preferred by mandatory provisions of applicable law.

<b>Negative Pledge .....</b>	The Bank undertakes that, so long as any Notes remain outstanding, it shall not, and shall not permit any of its Material Subsidiaries (as defined in Condition 11) to, create, incur, assume or permit to exist any lien, pledge, security interest or other encumbrance (other than customary permitted liens) upon or with respect to any of their respective undertakings, assets or revenues to secure any Relevant Indebtedness, unless the Bank's obligations under the Notes and the Trust Deed are secured equally and rateably with such other indebtedness or are otherwise given the benefit of such other arrangements as shall be approved by the Noteholders in the manner set out in the Trust Deed.
<b>Taxation .....</b>	All payments of principal and interest in respect of the Notes by the Bank will be made free and clear of, and without deduction or withholding for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of, or by or within any political subdivision of or any authority having power to tax in, Lebanon (" <b>Lebanese Taxes</b> "), unless such withholding or deduction is required by law. If the Bank shall be so required to make any deduction or withholding of Lebanese Taxes, it shall, subject to certain customary exceptions, make payment of the amount so deducted or withheld to the appropriate governmental authority and shall forthwith pay to the holders of Notes such additional amounts (" <b>Additional Amounts</b> ") in respect of Lebanese Taxes as will result in the payment to the Noteholders of the amount that would otherwise have been received by them in respect of payments on the Notes in the absence of such withholding or deduction.
<b>Early Redemption for Tax Reasons .....</b>	<p>The Notes are redeemable, in whole but not in part, at the option of the Bank at any time after the first anniversary of the Issue Date, in the event that, as a result of any actual change in any law, regulation or ruling of Lebanon or any political subdivision of or any authority thereof or therein having power to tax or any change in the application or official interpretation of such laws, regulations or rulings, the Bank has or will become obligated on the next Interest Payment Date to pay Additional Amounts in excess of the Additional Amounts that would be payable if Lebanese Taxes were applied to payments of interest on the Notes at the rate of 10% or more, which change or amendment becomes effective after the Issue Date and cannot be avoided by the Bank taking reasonable measures available to it.</p> <p>The Notes are not otherwise subject to early redemption.</p>
<b>Purchase of Notes by the Bank .....</b>	The Bank may, at any time, after the first anniversary of the Issue Date, purchase or procure others to purchase for its account Notes at any price in the open market or otherwise, subject to all applicable Lebanese and other laws and regulations. Notes so purchased may be held or resold, or surrendered for cancellation, at the option of the Bank. Any Notes so purchased, while held by or on behalf of the Bank, shall not entitle the holder of Notes to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purposes of calculating quorums at meetings of Noteholders.
<b>Events of Default .....</b>	The terms of the Notes will permit the acceleration of the Notes following the occurrence of certain customary events of default, including a cross default in respect of certain indebtedness of the Bank and certain of its subsidiaries.
<b>Selling Restrictions .....</b>	The offer and sale of the Notes have not been, and will not be, registered under U.S. federal or state securities laws, and no action has been or will be taken by any person that would permit a public offering of the Notes in any country or jurisdiction where the Notes would be required to be registered. Accordingly, the Notes are subject to restrictions on transfer and resale in certain jurisdictions, including the United States and the United Kingdom.
<b>Form and Settlement .....</b>	The Notes will initially be represented by a single Global Note in registered form without interest coupons attached, which will be deposited on or about the Issue Date with, and will be registered in the name of a nominee for, a common depository for Euroclear and Clearstream. Interests in the Notes may also be held through Midclear. Notes held through Midclear will be settled through Midclear's participant accounts with Euroclear and Clearstream. Notes in definitive

registered form without interest coupons attached will be issued only in limited circumstances.

Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective participants, including Midclear.

**Denominations** ..... The Notes will be offered and sold, and may be transferred, only in denominations of U.S.\$1,000.

**Admission and Listing** ..... This Prospectus relates to the admission on the Official List and to trading on the Regulated Market of the Notes. The Bank also intends to make an application to the BSE to list and admit to trading the Notes.

**Governing Law** ..... The Notes, and any non-contractual obligation arising out of or in connection therewith, shall be governed by, and construed in accordance with, the laws of England, subject to compliance with mandatory provisions of Lebanese law relating to the Notes and the rights of Noteholders, as set out in Articles 122 to 143 of the Lebanese Code of Commerce.

**Jurisdiction** ..... English courts.

**Security Numbers** ..... ISIN: ..... XS0637805374  
Common Code: ..... 063780537

## SUBSCRIPTION TIMETABLE AND PROCEDURES

### Timetable and Authorizations

*The following is a summary timetable and schedule of authorizations relating to the offering of the Notes. Prospective purchasers should note that this timetable is tentative and subject to change. Nevertheless, subject only to the right of certain prospective purchasers to rescind their Purchase Application by giving written notice to the Bank within three business days following the date of publication by the Bank in two Lebanese newspapers to the effect that this Prospectus has been made available at the Bank's Head Office and its branches (as set out in the relevant Purchase Applications), and to acceptance by, or on behalf of, the Bank, each Purchase Application is final and irrevocable under all circumstances, regardless of delays in the closing of the transaction.*

February 21, 2011	A letter was sent by the Bank to the Governor of the Central Bank seeking approval in principle to issue the Notes.
April 6, 2011	A letter was received from the Governor of the Central Bank addressed to the Bank approving in principle the issuance of the Notes.
May 5, 2011	The Annual Ordinary Meeting of Shareholders was held, which authorized the issuance of the Notes, determined the size of the issue and approved the terms and conditions of the issuance of the Notes.
May 19, 2011	A letter was sent by the Bank to the Governor of the Central Bank, attaching a copy of all documents required pursuant to Decision No. 6856 dated December 19, 1997 (" <b>Decision No. 6856</b> "), including the minutes of the Ordinary General Meeting of Shareholders held to authorize the issuance of the Notes and seeking final approval to issue the Notes.
June 8, 2011	The Central Bank, acting through its Central Council, approved the issuance of the Notes.
June 16, 2011	As required pursuant of Lebanese law, publication was made by the Bank in the <i>Official Gazette</i> , as well as in two Lebanese newspapers (as required pursuant to Lebanese law) regarding the issuance of the Notes.
June 17, 2011 to 12:00 p.m., Beirut time, June 20, 2011	<b>Subscription Period:</b> Prospective purchasers wishing to subscribe for Notes must submit duly completed Purchase Applications to the Bank in accordance with the instructions contained therein no later than 12:00 p.m., Beirut time, on June 20, 2011.
June 21, 2011	<b>Final Allotment Date:</b> The final allotments of the Notes are expected to be made by the Bank. The Bank is expected to notify prospective purchasers of its acceptance or rejection, in whole or in part, of their Purchase Applications and allotments, if applicable.
June 24, 2011	<b>Issue Date:</b> The Notes are expected to be issued and recorded in the Commercial Registry of Beirut as required under Article 129 of the Lebanese Code of Commerce.  A meeting of the Board of Directors is scheduled to be held to convene the first meeting of the association of holders of Notes.
July 29, 2011 ( <i>tentative</i> )	First meeting of the association of Noteholders is scheduled to be held.

## **Procedures for Subscription**

### ***Applications for Subscription***

Prospective purchasers wishing to subscribe for Notes must submit a signed Purchase Application, substantially in the form of Exhibit A hereto or an earlier version thereof as may have been previously made available to it by the Bank (the “**Purchase Application**”). Copies of this Prospectus and the form of Purchase Application are also available at the Head Office of the Bank located at the address indicated on the back cover of this Prospectus and at the Bank’s branch offices.

A Purchase Application must be duly completed in full in accordance with the instructions contained therein, signed by the prospective purchaser and submitted to the Bank. A Purchase Application submitted by a corporation must be signed by a duly authorized representative in accordance with the constitutive documents of such corporation. A Purchase Application shall be deemed accepted only upon due completion and execution by the prospective purchaser, payment of the aggregate Issue Price for the Notes being subscribed and acceptance by the Bank, such acceptance to be evidenced by the return of an executed copy of the Purchase Application to the prospective purchaser.

The Bank or the Placement Agent may, in its sole discretion, reject any Purchase Application in whole or in part and, whether or not any Purchase Application has been accepted, terminate the offering of the Notes at any time and for any reason whatsoever. No person shall have any right to purchase any Notes (or any portion of such Notes to the extent) covered by a rejected Purchase Application or any Notes following the termination of the offering.

### ***Right of Rescission***

The form of Purchase Application provides that prospective purchasers are entitled to rescind their Purchase Applications by giving written notice to the Bank within three business days following the date of publication by the Bank in two Lebanese newspapers, which publication is expected to be made approximately one week prior to the Issue Date, to the effect that this Prospectus has been made available at the Bank’s Head Office and its branches, if (but only if) the final terms of the Notes as described in this Prospectus are substantially and adversely different from the terms described in the Term Sheet. A prospective purchaser, which has previously submitted a Purchase Application (including an earlier version thereof), together with payment of the aggregate Issue Price for the Notes covered by such Purchase Application, may exercise its rescission right by delivering written notice to the Bank no later than June 20, 2011 of its election to rescind.

If written notice of rescission is not received from a prospective purchaser by the Bank prior to such date, such prospective purchaser will be deemed to have confirmed its offer to purchase as set forth in the relevant Purchase Application.

### ***Payment of Issue Price***

Upon submission of a Purchase Application, a prospective purchaser is required to transfer funds, in U.S. Dollars, to the Bank for credit to the Notes subscription account (the “**2021 Notes Subscription Account**”), in an amount equal to the aggregate Issue Price for the Notes covered by such Purchase Application (*i.e.*, the product of the principal amount of Notes being subscribed times the Issue Price per Note (*i.e.*, 100%)). Bank charges and other related fees, if any, incurred in connection with the payment of such monies will be for the account of the relevant prospective purchaser.

In the event that the offering of the Notes is terminated or if a Purchase Application is rejected, in whole or in part, the funds deposited by the prospective purchaser into the 2021 Notes Subscription Account in respect of the Issue Price paid by it for Notes (or a corresponding portion thereof) will be promptly refunded to the relevant prospective purchaser, together with interest, if any, earned thereon.

It is expected that the Bank will invest all funds received by it in respect of the Issue Price for any Notes in overnight U.S. dollar deposits at standard call rates paid by it for such deposits for the benefit of the prospective purchasers to purchase Notes. Each prospective purchaser shall be entitled to receive, promptly following the Issue Date or such earlier date (if any) on which the offering of the Notes is terminated or its Purchase Application is rejected (in whole or in part), its *pro rata* share of the interest, if any, earned on such funds from and including the value date as of which such amount was deposited by the relevant prospective purchaser into the 2021 Notes Subscription Account to but excluding the Issue Date (or such earlier date, as the case may be).

### ***Allotment***

The acceptance by, or on behalf of, the Bank of a Purchase Application does not entitle the prospective purchaser to an allocation of all or part of the Notes for which it has applied and the prospective purchaser might be allocated only part or none of the Notes for which it has applied; moreover, even if a Purchase Application has been accepted, the Bank retains the right to reduce, in its sole discretion, the principal amount of Notes (if any) allocated to the prospective purchaser.

If the aggregate principal amount of Notes subscribed for by all prospective purchasers to purchase Notes exceeds the maximum aggregate principal amount of Notes being offered, the Notes will be allocated among such prospective purchasers in the sole discretion of the Bank prior to the Issue Date.

The Bank will send notices of allotments to prospective purchasers promptly following the end of the Official Subscription Period once the final allotments have been made. Until such time, no prospective purchaser shall have any right or interest in any Notes.

### ***Powers of Attorney and Authorizations***

Pursuant to its Purchase Application, each prospective purchaser will be required to grant the Placement Agent a power of attorney (i) to attend the first meeting of the Association of Noteholders for the purposes of (x) approving the by-laws of the Association of the Noteholders and (y) electing one or more representatives to act on behalf of all Noteholders in connection with matters affecting the Notes, subject as provided in the terms and conditions of the Notes; and (ii) to vote, as it may deem appropriate, in its sole discretion, on all resolutions to be passed at such first meeting of the Association of Noteholders.

### ***Delivery of the Notes***

The Notes will be issued in registered form, without interest coupons attached, and will be serially numbered. The Notes will initially be evidenced by a Global Note, which will be deposited on or about the Issue Date with, and registered in the name of a nominee for, a common depository for Euroclear and Clearstream. Definitive Notes may be issued only in limited circumstances in accordance with Condition 2(c), whereupon the principal amount of the Global Note will be reduced by the principal amount of Definitive Notes.

Interests in the Notes will be delivered, upon issuance, by deposit to the respective accounts of Noteholders with Euroclear or Clearstream. Interests in the Notes may also be held through Midclear. In the case of Noteholders purchasing interests through the Bank, such interests in the Notes will be delivered, upon issuance, by deposit to the account of the Bank currently maintained with Euroclear (Account No. 21269), and the Bank will hold the Notes in custody for the benefit of the respective purchaser in accordance with its standard custody arrangements. Neither the Bank nor the Placement Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of interests in the Notes or for maintaining, supervising or reviewing any records relating to ownership of Notes. At any time after the Issue Date, a holder of Notes may request that the Bank arrange for the transfer of the custody of the Notes to another participant in Midclear, Euroclear or Clearstream. So long as the Notes are evidenced by a Global Note, interests in the Notes will be shown only on, and transfers thereof will be effected only through, the book-entry system maintained by Euroclear and Clearstream and their respective participants, including Midclear.

## RISK FACTORS

*All of the information set forth in this Prospectus and, in particular, the following risks relating to the Notes should be carefully considered. The Bank believes that the factors described below represent all material risks inherent in investing in Notes; however, the risks and uncertainties described below are not the only ones the Bank faces. Additional risks and uncertainties that the Bank is not aware of or that the Bank currently believes are immaterial may also materially adversely affect the Bank's business, financial condition, results of operations or prospects. If any of the possible events described below, or other events which the Bank cannot foresee, occurs, the Bank's business, financial condition, results of operations or prospects could be materially and adversely affected.*

*This Prospectus contains forward-looking statements. Actual results and the timing of certain events could differ materially from those projected in the forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Prospectus. See "Forward-Looking Statements".*

### **Considerations Relating to Lebanon**

The Bank's principal operations are in Lebanon and, accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the geo-political situation in the region.

#### ***Political and Military Considerations***

Lebanon's financial environment is related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the absence of military conflict in Lebanon and among its neighbors and continued internal stability.

A combination of internal and external factors led to a heavily militarized conflict, which lasted from April 1975 until October 1990. Successive rounds of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982. The conflict resulted in significant human losses, a substantial decline in GDP and reduction of economic activity, a significant reduction of Government authority, substantial physical and infrastructure damage, and a large public sector deficit and capital outflows. The post-conflict era has been characterized by large reconstruction and institution-building efforts, which resulted in large public sector deficits and setbacks in the implementation of political and economical reforms due, among other matters, to differences in views between political leaders and disagreements within the executive branch of the Government.

The Republic witnessed a series of significant adverse events in recent years which have affected and may continue to affect the economy of the Republic and the finances of the Government and, accordingly, the Bank, including the assassination of the former Prime Minister, Rafik Hariri, a campaign of assassinations and attempted assassinations of other political leaders and public figures, the adoption of a series of United Nations Security Council Resolutions, including Resolution 1757, which established the Special Tribunal for Lebanon (the "STL") to prosecute persons responsible for the bombing that killed former Prime Minister Hariri, the withdrawal of Syrian army troops from Lebanon, Israel's war on Lebanon in July 2006 (the "July 2006 War") and its effects on the Republic's population, economy and infrastructure, the resignation of six ministers representing the opposition from the Government, followed by the opposition's sit-in in downtown Beirut, as well as the failure of Parliament to convene during an 18-month period, the Lebanese Security Forces taking over control of Nahr El-Bared camp after clashes with a terrorist organization from May to September 2007, the armed clashes that took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains in May 2008, the six-month vacancy in the office of the President of the Republic, which ended with the election of General Michel Sleiman as President on May 25, 2008, rising tensions surrounding the filing of an indictment by the Prosecutor of the STL, Mr. Daniel Bellemare, in the case of the assassination of former Prime Minister Rafik Hariri and his companions, including speculation surrounding the identity of parties who could be charged, the resignation of the Government headed by Prime Minister Saad Hariri pursuant to Article 69 of the Constitution following the resignations of ten ministers representing the March 8 Coalition, as well as one of the five ministers representing the President of the Republic, and the delay in the formation of the government following the appointment of Mr. Najib Mikati as Prime Minister-designate.

On June 13, 2011, after nearly five months of negotiations, a new Government comprised of 30 ministers was formed. Certain significant decisions require the approval of two-thirds of the Ministers pursuant to Article 65 of

the Constitution. These decisions include the amendment of the Constitution, the declaration of a state of emergency and its termination, the declaration of war, the general mobilization of forces, the execution of international agreements and treaties, the adoption of the annual budget, the approval of comprehensive and long-term development projects, the appointment of certain high-level Government employees, the dissolution of Parliament, the amendment of electoral laws, nationality laws and personal status laws and the dismissal of Ministers. Members of the March 14 Coalition did not participate in the Government.

The Government must obtain a vote of confidence from Parliament on the basis of a policy declaration. Pending receipt of this vote of confidence, the Ministers' activities are limited to caretaker functions.

### ***Regional and International Social and Civil Unrest***

Lebanon is located in a region that is and has been subject to ongoing political and security concerns. Political instability in the Middle East has increased since the terrorist attacks of September 11, 2001 and the U.S. intervention in Iraq and Iran's reported nuclear programme. Some Middle Eastern and North African countries (including Syria and other countries where the Bank has operations) have experienced in the recent past or are currently experiencing political, social and economic instability, extremism, terrorism, armed conflicts and war, some of which have negatively affected Lebanon and, accordingly, the Bank in the past. The continuation of such events or the outbreak of new problems in the region could strain the general resources and finances of Lebanon and negatively affect Lebanon's economy and, accordingly, the Bank.

As a result of the political turmoil and social instability in Lebanon and the surrounding region, Lebanon has experienced frequent social and civil unrest, which has, on occasion, escalated into violence, sometimes of a general nature and more often with particular political or civil targets. The social, political and economic conditions behind this unrest, which have, at times, adversely affected the banking sector in Lebanon, including the Bank, are not likely to be resolved in the near future and, accordingly, could continue to adversely affect the Republic's economy and, accordingly, the Bank. If these were to occur, such disturbances could lead to further political and economic instability, as well as loss of confidence in business investment in Lebanon both generally and in the banking sector in particular.

Since January 2011, a number of Arab countries have experienced significant political and military upheaval, conflict and revolutions leading, for example, to the departure of long-time rulers in Tunisia and Egypt. Other countries experiencing turmoil include Bahrain, Yemen, Libya (in respect of which the U.N. Security Council has adopted a resolution authorizing limited military intervention and sanctions) and more recently Syria. These events, especially those effecting Syria, may negatively affect the Bank's operations in these countries and the finances and economy of Lebanon and, accordingly, the Bank.

Moreover, the impact, if any, on Lebanon and, accordingly, the Bank of the military action and political developments affecting Iraq and the surrounding region and the ensuing reconstruction efforts in that country cannot be determined at this time.

### ***Prices and Inflation***

Depreciation of the Lebanese Pound has, in the past, created pressure on the domestic price system that generated high rates of inflation reaching 120 percent in 1992 prior to the first Hariri Government. Since 2001, estimated inflation has fluctuated, increasing to 1.8 percent in 2002 and decreasing to 1.3 percent in 2003, before increasing back to 3 percent in 2004 and decreasing to (0.7) percent in 2005. This marked the first prolonged return to relative price stability. However, inflation in 2006 stood at 5.6 percent, mainly due to shortages of supply and consequent price increases as a result of the July 2006 War. In 2007, the Central Administration of Statistics ("CAS") estimated the 2007 inflation figure at 9.3 percent on an end-of-period basis. The International Monetary Fund (the "IMF"), based on data from the Central Bank, estimated inflation at 6.0 percent on an end-of-period basis and 4.1 percent on a period average basis. In 2007, the increase in inflation was due to, *inter alia*, the appreciation of the Euro against the Lebanese Pound (the Euro is the currency of the principal trading partners of the Republic) and the worldwide increase in oil and other commodity prices. CAS estimated inflation for 2008 at 5.5 percent on an end-of-period basis, while IMF's inflation estimates were at 6.4 percent on an end-of-period basis and at 10.8 percent on a period average basis. The increase in inflation in 2008 was due to the same factors as in 2007, but was tempered by the global financial crisis. Inflation slowed in 2009, with CAS estimating inflation at 3.4 percent on an end-of-period basis and at 1.2 percent on a period average basis, and IMF's inflation estimate

was 1.2 percent on an annual period average basis. Inflation increased in 2010, with CAS estimating inflation at 4.6 percent on an end-of-period basis and at 4.0 percent on a period average basis, and IMF's inflation estimate was 4.5 percent on an annual period average basis. These increases are principally due to the worldwide increase in energy and food prices. The inflation figure published by CAS for February 2011 (as compared to February 2010) is 5.8 percent, due mainly to the increase in the prices of consumer goods (such as clothing and footwear), energy and food. IMF's preliminary inflation projection for 2011 is at 6.5 percent on a period average basis.

There is no assurance that the inflation rates will not rise in the future. Significant inflation could have a material adverse effect on the Republic's economy and the ability to service the Republic's debt, including the Notes.

#### ***Failure to Implement Privatization Program***

As part of the Paris III Conference, the then-Government agreed to an economic reform program of which privatization is an essential component. Disagreements among political parties and the July 2006 War have contributed to delay the implementation of the program. There is no assurance that some of these obstacles will not persist.

In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established a Higher Council for Privatization and provides that the proceeds from privatization will be applied towards debt repayment. Plans for privatization included, *inter alia*, the electricity, water and telecommunications sectors. However, due to political interference and disagreements within the executive branch of the Government, the Republic's privatization program has not been successfully implemented.

#### ***Refinancing Risk***

The Republic has large amounts of domestic and international debt. Net public sector domestic debt was LBP 36,836 billion and public sector external debt was LBP 31,046 billion as of the end of 2010. The Republic has a high net public debt to GDP ratio, at 137 percent as of the end of 2010. In the recent past, in order to meet its debt service obligations, the Republic has relied on international financial assistance provided in particular following the Paris II Conference and the Paris III Conference.

The Republic faces significant debt maturities in the coming years, with approximately LBP 30,203 billion (approximately U.S.\$20 billion) maturing in 2011, and may have to rely in part on financing from the domestic and international capital markets and on international financial assistance in order to reduce its debt service payments.

On January 25, 2007, the "International Conference for Support to Lebanon", known as the Paris III Conference, was held in Paris at the invitation of the President of France. It was attended by representatives of 36 countries and 14 multilateral and supranational institutions, including the United Nations, the EU, the World Bank, the IMF and the Arab League, and resulted in pledges of financial assistance to Lebanon of approximately U.S.\$7.6 billion. The Government is actively pursuing finalization and collections of these pledges.

Some of the promised international assistance from the Paris III Conference may largely depend on the willingness and ability of the Republic to implement its reform program, which it submitted to the Paris III Conference. The implementation of some significant aspects of the reform program submitted by the then-Government during the Paris III Conference, such as privatization and securitization, has been delayed in the past because of differences in views among political leaders and the inability of Parliament to meet and vote on draft laws. The current reform program may also be delayed because of ongoing political disputes.

#### ***Budget Deficit and Public Debt***

The Bank's performance and the quality and growth of its assets are necessarily dependent on the health of the overall Lebanese economy.

Any continuation or worsening of economic conditions in Lebanon, including any significant increases in the budget deficit, could materially adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

In recent years, the Government has incurred significant internal and external debt, principally for the purpose of financing the budget deficits. Expenditures during this period, mainly consisting of payments for wages and salaries, reconstruction and expansion projects, other current expenditures and debt service, have exceeded revenues. Total expenditures decreased by approximately 0.7 percent in 2010, as compared to 2009. Net outstanding public debt as a percentage of estimated GDP has increased from approximately 46.0 percent in 1992 to approximately 167 percent as at December 31, 2006 before decreasing to 155 percent as at December 31, 2007, 138 percent as at December 31, 2008, 126 percent as at December 31, 2009 and 117 percent as at December 31, 2010, principally as a result of GDP growth rather than debt decrease. As such, the Republic is suffering from a large budget deficit. In addition, although not necessarily representative of the results for the entire year, the budget deficit grew considerably in the first two months of 2011, as compared to the corresponding period in 2010.

The debt burden of the Government is significant, accounting for the largest part of expenditures in recent years. In 2010, debt service represented approximately 36.5 percent of total expenditures and 49.0 percent of total revenues.

The Government currently owns *Electricité du Liban* (“EdL”), which supplies virtually all electricity in the Republic. EdL’s significant continuing losses, which are due in large part to increases in oil prices and collection difficulties, are funded through the Treasury. This has adversely affected the Republic’s expenditures and increased the Republic’s budget deficit. Treasury transfers to EdL amounted to approximately U.S.\$1,612 million in 2008, U.S.\$1,498 million in 2009 and U.S.\$1,192 million in 2010.

### ***Sovereign Debt Ratings***

As at the date of this Prospectus, the foreign currency obligations of the Republic are rated as follows:

<b>Rating Agency</b>	<b>Tenor</b>	<b>Rating</b>	<b>Outlook</b>
Standard & Poor’s Credit Market Services Europe Limited	Long-term	B	Stable
	Short-term (less than one year)	B	
Moody’s Investors Service Ltd.	Long-term	B1	Stable
Fitch Ratings Limited	Long-term	B	Stable
	Short-term (less than one year)	B	

All of the ratings referred to above are non-investment grade and a credit rating is not a recommendation by the rating organization or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organization; each should be evaluated independently from the other. The credit ratings included or referred to in this Prospectus will be treated for the purposes of the CRA Regulation as having been issued by S&P, Moody’s and Fitch, respectively. Each of S&P, Moody’s and Fitch is established in the European Union and has applied to be registered under the CRA Regulation, although the result of such applications has not yet been determined.

The definition applicable to S&P’s ratings referred to above is that debt of this rating is generally regarded as having significant speculative characteristics, and that the Republic’s capacity or willingness to meet its financial commitment on the Notes will be dependent upon favorable business, financial, and economic conditions.

The definition applicable to the Moody’s ratings referred to above is that debt of this rating is generally regarded as lacking characteristics of desirable investment, and that assurance of interest and principal payments or maintenance of other terms in connection with such debt over a long period may be small.

The definition applicable to the Fitch’s ratings referred to above is that debt of this rating is generally regarded as indicating that significant credit risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

### ***Foreign Exchange Risk; Monetary Policy***

The national currency, the Lebanese Pound, is convertible and its exchange rate is generally determined on the basis of demand and supply conditions in the exchange market. The Central Bank intervenes when necessary in order to maintain orderly conditions in the foreign exchange market.

The Central Bank's exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. The Central Bank has been successful during the past several years in maintaining a stable rate of exchange, through the use of its foreign exchange reserves and its interest rate policy.

The period after the assassination of Mr. Hariri has been marked by significant conversions from Lebanese Pound deposits to foreign currency deposits followed by a decline in foreign currency reserves due to the intervention of the Central Bank in the foreign exchange markets. Foreign currency reserves (excluding gold reserves) at the Central Bank were approximately U.S.\$8,611 million as at July 31, 2005. Similarly, the period of the July 2006 War saw significant conversions from the Lebanese Pound to foreign currency deposits resulting in a decline in the Central Bank's foreign currency reserves from U.S.\$11,020 million at the end of June 2006 to U.S.\$10,563 million at the end of July 2006 as it intervened in the foreign exchange markets. The decline in the Central Bank's foreign currency reserves reversed as hostilities ended, reaching U.S.\$10,868 million at end August 2006. Foreign currency reserves were aided by deposits from Saudi Arabia and Kuwait. As at February 28, 2011, gold reserves and gross foreign currency reserves (excluding gold reserves) at the Central Bank were approximately U.S.\$13,010 million and U.S.\$28,424 million, respectively.

Although the authorities expect to continue to gear their monetary policy towards maintaining stability in the exchange rate, there can be no assurance that the Central Bank will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise. Lebanon's economy is highly dollarized. Central Bank's data indicate that the proportion of foreign currency deposits as a share of total deposits stood at approximately 70 percent as at December 31, 2008, 64 percent as at December 31, 2009 and 63 percent as at December 31, 2010.

The possible depreciation of the Lebanese Pound against the U.S. Dollar, or the decline of the level of foreign reserves as a result of the Central Bank's intervention in the currency markets, could materially impair the Lebanese economy and, in turn, materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

### ***Emerging Markets***

Investing in securities involving emerging market risk, such as Lebanese risk, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. These higher risks include, but are not limited to, higher volatility, limited liquidity and changes in the regulatory, tax and political environment that may affect the ability of investors to receive their expected return, if any, on their investments. Lebanon's below-investment grade credit ratings, large budget deficit and other weaknesses characteristic of emerging market economies make it susceptible to future adverse effects similar to those suffered by other emerging market countries. There can be no assurance that the market for securities reflecting Lebanese risk, such as the Notes, will not be affected negatively by events elsewhere, especially in emerging markets.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved and investors are urged to consult with their own legal and financial advisors before making an investment in the Notes. Accordingly, investors should exercise particular care in evaluating the risks involved and must consider those risks in deciding whether an investment in the Notes is appropriate.

### **Considerations Relating to the Bank and the Lebanese Banking Industry**

#### ***Global Financial Crisis***

The recent global financial crisis has contributed to the failures of a number of financial institutions in the United States and Europe, as well as in certain emerging markets, and prompted unprecedented action by governmental authorities, regulators and central banks around the world. Its effects continue to be felt. In particular, the global disruption in the world financial markets has impacted certain economies and financial markets in the MENA

region, where a substantial portion of the assets and investments of the Bank are concentrated. Although the Lebanese economy and financial sector appear to have been less affected by the global credit crisis, there is evidence of significant continued weakness and a number of other concerns impacting consumer and investor confidence in other economies where the Bank has growing operations.

Moreover, since the widespread dislocation in international financial markets began in mid-2007, it has become increasingly difficult to accurately predict likely short to medium-term trends in many of the economies in which the Bank operates. It is also difficult to predict how long the volatility in the financial sector and capital markets will persist or whether related concerns about further failures of financial and other institutions will exacerbate the prevailing difficulties in the global economy and, accordingly, it is not possible to foresee the specific impacts these conditions may have in Lebanon or on the Bank. Although the Bank intends to continue its focus on controlled growth and asset quality, any contraction of its key markets will impact the Bank. In particular, if current global market conditions and circumstances deteriorate further, or continue for protracted periods of time, this could lead to a decline in available funding and credit quality and increases in defaults and non-performing debt, which may impact the rating, investments and finances of the Bank.

As a result of all of the foregoing, there is significant price volatility in the secondary market for instruments similar to the Notes and the systemic risks within the global financial system and the related general deterioration in global economic conditions could result in a decline in the market price of the Notes.

### ***Lebanese Banking Sector***

On February 10, 2011, the U.S. Department of the Treasury designated the Lebanese Canadian Bank S.A.L. (“LCB”) as “a financial institution of primary money laundering concern” under Section 311 of the USA PATRIOT Act. In its finding, the U.S. Department of the Treasury noted that the Lebanese banking sector faces certain vulnerabilities. The Central Bank is taking measures to address the concerns raised by the U.S. Department of the Treasury and has arranged for the sale of assets of LCB. In April 2011, the U.S. Ambassador to Lebanon stated that the U.S. government is not targeting the Lebanese banking sector in general and views LCB as an isolated case.

### ***Exposure to Lebanese Government Risk***

In common with other Lebanese banks, a significant portion of the Bank’s liquidity in both Lebanese Pounds and foreign currency is invested in Government obligations or maintained as reserves with the Central Bank. The composition of the Bank’s investment and trading portfolio and placements with the Central Bank remained relatively stable as at December 31, 2010 and 2009, with Lebanese treasury bills and bonds and placements with the Central Bank (in both Lebanese Pounds and foreign currency) comprising 48.1% of the Bank’s interest-earning assets at the end of 2010, as compared to 52.7% at the end of 2009. In addition, in 2010, 55.3% of the Bank’s revenues (interest income, commissions received, profit on financial operations and other income) derived from Government securities and Central Bank placements, as compared to 53.7% in 2009. Such investments are generally considered to be relatively illiquid such that, in the event that the Bank were to attempt to sell a significant portion of its holdings, it would likely experience a discount on the price, which could be substantial. See “—*Liquidity and Maturity Mismatching*”. As a result, any default by the Government or the Central Bank on any of its obligations, or any significant reduction in value or liquidity of government securities the Bank holds, or in the regulatory or accounting treatment thereof, would have a material adverse effect to the Bank’s business, liquidity, results of operations, financial condition and prospects, as well as on other Lebanese banks.

### ***Regional and International Expansion***

Many of the countries in which the Bank has existing operations, or is considering developing operations, have in the past experienced or are currently experiencing periods of political instability and, in some cases, civil unrest and clashes, or are located in regions characterized by instability. Such political and social unrest that may characterize the regions where the Bank has or may commence operations has, at times, adversely affected the banking sectors in these jurisdictions and there can be no assurance that social and civil disturbances will not occur in the future. In fact, in many cases, these conditions are not likely to be resolved quickly and, accordingly, could lead to further political and economic instability, as well as loss of confidence in business investment in the regions where the Bank currently operates or may operate in the future. As a result, particularly as the Bank expands its operations geographically, regional political and social instability both generally and in local banking sectors in

particular could materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects. In addition, there can be no assurance that the Bank will be able to achieve and effectively manage the growth of its operations in foreign countries. A failure to expand and manage growth as planned or to achieve effective marketing strategies may have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

#### ***Acquisitions and Divestitures***

The Bank has historically pursued and intends to continue to implement a strategic plan that envisages selective acquisitions to further its growth. Risks relating to recent and future acquisitions include:

- difficulties in the integration of operations, technologies, products and personnel of acquired entities;
- diversion of Management's attention away from other business concerns;
- expenses relating to undisclosed or unknown potential liabilities of acquired entities;
- limitations on foreign ownership of banking or corporate institutions; and
- the incurrence of debt and the assumption of liabilities, including contingent liabilities, which could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Moreover, the Bank's ability to implement its acquisition strategy in certain countries may be hindered due to a scarcity of acquisition targets or competition from other potential acquirers in the acquisition process.

#### ***U.S. Sanctions on Sudan, Syria and DR Congo***

The Bank has banking operations in Sudan and Syria, which respectively accounted for 5.1% and 3.0% of the Bank's consolidated net income for 2010, as compared to 7.9% and 2.6%, respectively, in 2009. In March 2010, the Bank started banking operations in DR Congo, which accounted for (1.19)% of the Bank's consolidated net income for 2010. As the Bank expands its operations, these countries are expected to constitute an increasing percentage of its consolidated revenues. See "*Overview of the Bank—Subsidiaries*". The U.S. Treasury Department Office of Foreign Assets Control ("**OFAC**") administers separate sanctions regimes for each of these countries.

OFAC regulations impose a trade embargo against Sudan and a total asset freeze against the Sudanese government. In particular, the Sudanese Sanctions Regulations prohibit the import into the United States of goods or services of Sudanese origin, as well as the export of goods, technology or services from the United States to Sudan. Certain Sudanese individuals and entities have also been placed on the List of Specially Designated Nationals ("**SDNs**"), a listing that is subject to separate OFAC sanctions. Even though a peace agreement was signed between the Sudanese People's Liberation Army/Movement and the government of Sudan in January 2005, the Sudanese Sanctions Regulations remain in place because of continuing U.S. concerns about reported Sudanese support for international terrorism, the more recent human rights abuses and claimed genocide in western Sudan (Darfur).

Former U.S. President George W. Bush signed the Sudan Accountability and Divestment Act in early 2008, allowing state and local governments to cut investment ties with companies doing business in Sudan. The measure aims to pressure Sudan to end the violence in the Darfur region. The bill, which passed both houses of Congress unanimously, makes it easier for mutual funds and private pension fund managers to sell their investments and allows states to prohibit debt financing for companies that do business in Sudan. It also requires companies seeking contracts with the U.S. federal government to certify that they are not doing business in Sudan. The bill targets specifically companies involved in oil, power production, mining and military equipment, which are considered sectors that provide vital revenue for Sudan's government. President Bush's signature was accompanied by a proviso known as a signing statement, in which he said he was reserving the authority to overrule state and local divestment decisions if they conflicted with foreign policy.

On April 12, 2011, OFAC released guidance regarding the application of the Sudanese Sanctions Regulations to the new state to be formed in July 2011 by the secession of Southern Sudan. OFAC noted that none of the sanctions currently imposed on Sudan and the Sudanese Government will apply to the new Southern Sudan state. However, activities performed in the new state that involve the Sudanese Government will be subject to the pre-existing OFAC sanctions.

OFAC administers sanctions on Syria prohibiting U.S. persons from engaging in certain transactions, including investments, with the Syrian Government. Certain Syrian individuals and entities have also been placed on the List of SDNs.

In 2003, the United States enacted the Syria Accountability and Lebanese Sovereignty Restoration Act of 2003, which authorizes the potential imposition of a number of sanctions on Syria. Some of these sanctions have already been imposed, including a general prohibition of U.S. exports to Syria, except for food and medicine; a prohibition of flights from Syria to the United States; and sanctions against Syria's largest bank, the Commercial Bank of Syria.

In recent months, Syria's relations with the United States have deteriorated further. On April 29, 2011, the President of the United States signed an Executive Order that, among other things, placed certain Syrian individuals and entities on the List of SDNs. If relations between the United States and Syria deteriorate significantly, it is possible that the Bank's operations in Syria may be affected.

OFAC administers sanctions on DR Congo that consist entirely of placing certain persons and entities on the List of SDNs.

OFAC imposes sanctions on SDN property and SDN property interests broadly defined that are in the United States or that come within the possession or control of U.S. persons. The List of SDNs includes but is not limited to those SDNs of Sudan, Syria and DR Congo. SDNs may be located in a variety of jurisdictions and include, among others, persons or entities alleged to be supporting terrorism or drug trafficking.

There can be no assurance regarding OFAC's enforcement policy with regard to Sudan, Syria, DR Congo or other countries where the Bank may develop operations, and it is possible that OFAC may take a different view regarding the measures the Bank has taken or the status of the Bank's Sudanese, Syrian or Congolese operations. Dealing in the property, or property interests of SDNs, especially property or property interests that may flow through the U.S. banking system, could pose a risk of disruption to the Bank's operations. The imposition of any OFAC sanctions or designations of individuals or entities within the Bank as SDNs may result in U.S. persons or affiliates associated with the Bank being subject to restrictions and penalties.

All of these OFAC sanctions could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

### ***Currency Considerations and Devaluation Risks***

The Central Bank has been successful during the past several years in maintaining a stable rate of exchange. However, there can be no assurance that the Central Bank will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise. In the event the Lebanese Pound devalues against the U.S. Dollar, the financial condition or results of operations of Lebanese companies, including the Bank and its customers located or doing business in the Republic, would be affected. Furthermore, because a substantial portion of the loans of banks operating in Lebanon, including the Bank, are denominated in U.S. Dollars, a devaluation of the Lebanese Pound would increase the debt service burden of borrowers whose income is in Lebanese Pounds and, therefore, would likely increase the level of the Bank's non-performing loans.

### ***Liquidity and Maturity Mismatching***

Although the Bank's balance sheet appears to indicate a high level of liquidity, the Bank, along with other Lebanese financial institutions, has utilized a portion of these liquidity levels to invest in longer-term higher-yielding assets, namely Lebanese treasury bills and other financial papers traded in regulated markets. While much of the Bank's investment portfolio is funded by comparatively shorter-term customer deposits, the investments are comprised principally of Lebanese governmental securities, including, in particular, Lebanese treasury bills, which are often, in practice, characterized by limited liquidity. See "*—Exposure to Lebanese Government Risk*". As a result, although historically the Bank has been able to roll over the significant majority of its deposits, and these securities typically may be liquidated in times of crisis according to discount arrangements or repurchase agreements with the Central Bank, there can be no assurance that the Bank will be able to liquidate all or a portion of its portfolio of Lebanese treasury bills if it became necessary or advisable to do so. As a result, one should not assume that the Bank's liquidity, as measured by its balance sheet, will continue to be available, but instead should

be aware that the Bank, in common with other banks in Lebanon, may be required to rely on other, more expensive funding sources in order to finance growth in its loan portfolio. Any failure to source funding through less expensive deposits, if at all, would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

### ***Interest Rate Sensitivity***

As a result of the maturity mismatch between its deposits and assets, the Bank, in common with most Lebanese banks, is exposed to the risk of any sharp increase in short-term interest rates. Like most commercial banks in Lebanon and the MENA region, the Bank realizes income from the margin between interest earned on its assets and interest paid on its liabilities. Because many of the Bank's assets and liabilities reprice at different times, the Bank is vulnerable to fluctuations in market interest rates. Typically, the Bank's liabilities reprice substantially more frequently than its assets and, as a result, if interest rates rise, the Bank's interest expense will increase more rapidly than its interest income, which could negatively affect interest margins and result in liquidity problems. The Bank is limited in its ability to reprice assets more frequently and to mitigate this risk, since many of the securities held in the Bank's investment portfolio either have fixed interest rates or longer-term variable interest rates. As a result, volatility in interest rates could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

### ***International Capital Adequacy Reform***

In 2001, the Basel Committee issued a proposal for a new capital adequacy framework to replace the previous Basel Accord issued in 1988. In this proposal, the Basel Committee proposes replacing the existing approach with a system that would use both external and internal credit assessments for determining risk weightings to be applied to exposures to sovereign states. It is intended that such an approach will also apply, either directly or indirectly and to varying degrees, to the risk weighting of exposures to banks, securities firms and corporations. Pursuant to Central Bank Decision No. 9302 dated April 1, 2006, as amended ("**Decision 9302**"), adopted with respect to the application of the Basel II International Convention regarding Capital Adequacy (the "**Basel II Accord**"), all banks operating in Lebanon must apply the Basel II Accord for the calculation of capital adequacy on a consolidated and non-consolidated basis, where applicable, starting from January 1, 2008 in accordance with the standards set forth in Decision 9302 and any subsequent decisions adopted in that regard. In addition, since December 31, 2006, Lebanese banks include reserves for unspecified banking risk in their calculation of their capital adequacy ratio. Pursuant to Article 7 of Decision 9302, banks operating in Lebanon were required to appoint an expert in risk management to be in charge of applying the Basel II Accord and notify the Banking Control Commission of the name of such person and contact details prior to April 30, 2006; the Bank has fulfilled these requirements.

This new framework could cause financial institutions that lend to Lebanese banks, including the Bank, to be subject to higher capital requirements as a result of the credit risk rating assigned to Lebanon and, accordingly, to Lebanese entities constrained by the sovereign ceiling. The framework could also require Lebanese banks to be subject to higher capital requirements based on loans made to, and investments in securities issued by, Lebanese entities (including the Government) of up to 150.0% of the respective asset class. As a result, along with other Lebanese banks, the Bank may become subject to higher borrowing costs, which may adversely affect the Bank's results of operations and financial condition, and the Bank may be required to raise new equity, which may or may not be available to it, in order to meet new, more stringent capital requirements.

### ***Competition***

The market for financial and banking services in the Republic is competitive. As at December 31, 2010, there were 54 active commercial banks (with 912 operational branches in Lebanon), 45 financial institutions, 14 investment banks and 13 specialized medium- and long-term credit banks, as well as 11 branches of foreign banks, licensed by the Central Bank to operate in Lebanon, which has a population of approximately 4.0 million people. These banks include large international financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in the Republic, in common with other Lebanese banks, the Bank's lending margins, especially in respect of retail loans, have decreased in 2010. Depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank's expenses may increase and its revenues may decrease.

### ***Service of Process; Enforcement of Liabilities and Foreign Judgments***

Legal recourse against the Bank may be limited. The Bank is a joint-stock company organized under the laws of Lebanon. Moreover, most of the members of the Board of Directors (the “**Board of Directors**” or the “**Board**”) and executive officers of the Bank and certain of the experts named herein are residents of Lebanon and the substantial majority of the assets of the Bank and of such persons are located in Lebanon. As a result, it may not be possible to effect service upon the Bank or such persons outside Lebanon or to enforce judgments obtained against such parties outside Lebanon. Enforcement of such foreign judgments in Lebanon is subject to the satisfaction of various conditions (including that such judgments not be contrary to public policy in Lebanon) and also involves the payment of significant court and related fees, which may be as high as 3.0 percent of the amount claimed. Court costs and fees in connection with a direct action brought in Lebanese courts may at each level of prosecution or appeal also be as high as 3.0 percent of the amount claimed.

### **Considerations Relating to the Notes**

#### ***Price Volatility and Illiquidity***

The Notes may experience significant volatility in their market price and may decline in value. Prior to their listing and admission to trading, there has been no prior public market for the Notes. In addition, an active market may not develop for the Notes on the London Stock Exchange or the BSE. In particular, the Lebanese securities markets have from time to time experienced significant price fluctuations, which are heightened by lower overall trading volumes than the volumes that typically characterize larger, more established markets.

Furthermore, sales, or the possibility or perceived possibility of sales, of Notes in the public market subsequent to their listing and admission to trading could have an adverse effect on the market prices of the Notes.

#### ***Legal Investment Considerations***

The investment activities of certain investors are subject to legal investment laws and regulation, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent: (i) the Notes are legal investments for it; (ii) the Notes can be used as collateral for various types of borrowing; and (iii) other restrictions apply to its purchase or pledge of the Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules

#### ***Early Redemption for Tax Reasons***

In the event that the Bank is obliged to increase the amounts payable in respect of the Notes due to any change or amendment to the laws or regulations of Lebanon or any political subdivision of or any authority thereof or therein having power to tax or any change in the application or official interpretation of such laws or regulations, the Bank may redeem all outstanding Notes in accordance with the Conditions. See “*Terms and Conditions of the Notes—Early Redemption for Tax Reasons*”

#### ***Modification***

The Conditions of the Notes contain provisions for calling meetings of Holders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Holders, including Holders who did not attend and vote at the relevant meeting and Holders who voted in a manner contrary to the majority. See “*Terms and Conditions of the Notes — 18. Meetings of Holders and Modification and Waiver*”.

#### ***No Insurance***

The Notes (a) are not guaranteed, insured or otherwise backed, by the credit of any government or any agency or political subdivision thereof, and (b) are not guaranteed or insured by any private deposit insurance corporation or agency.

### *EU Savings Directive*

Under EU Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”), Member States are required to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period Austria and Luxembourg may instead (unless during that period they elect otherwise) apply a withholding tax system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date. The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Bank nor any issuing and paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Bank is required to maintain an issuing and paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive.

## **USE OF PROCEEDS**

The net proceeds of the issue of the Notes will be used by the Bank for general corporate purposes. The Bank has undertaken not to use any of the proceeds of the issue in Sudan, Syria or DR Congo.

The expenses incurred in connection with the issue of the Notes (approximately U.S.\$250,000) will be paid by the Bank on or around the Issue Date.

## STATEMENT OF CAPITAL AND LONG-TERM LIABILITIES

The following table sets forth the consolidated long-term liabilities and shareholders' equity of the Bank as at December 31, 2009 and 2010:

	As at and for the Years Ended December 31,			
	2009		2010	
	(U.S.\$ thousand) <sup>(1)</sup>	(LBP million)	(U.S.\$ thousand) <sup>(1)</sup>	(LBP million)
<b>Long-term liabilities</b>				
Central Bank.....	—	—	5,847	8,814
Certificates of deposits <sup>(2)</sup> .....	141,600	213,462	141,600	213,462
Arab Trade Finance Program <sup>(3)</sup> .....	9,594	14,463	9,101	13,720
Loans from FMO <sup>(4)</sup> .....	1,071	1,615	—	—
Proparco <sup>(5)</sup> .....	9,864	14,870	7,198	10,851
OPEC Fund for International Development <sup>(6)</sup> .....	—	—	10,000	15,075
European Investment Bank <sup>(7)</sup> .....	182,011	274,382	168,961	254,708
Govco Incorporated NY <sup>(8)</sup> .....	74,179	111,824	70,357	106,063
Citibank loan <sup>(8)</sup> .....	9,750	14,698	8,667	13,065
Agence Française de Développement <sup>(9)</sup> .....	34,194	51,548	37,614	56,703
Equity-linked notes.....	49,418	74,498	—	—
Subordinated notes.....	31,169	46,987	31,169	46,987
Convertible subordinated notes.....	173,000	260,798	173,000	260,798
Interest payable.....	7,739	11,666	7,438	11,213
Unamortized front-end fees and cost of issuance.....	(12,630)	(19,039)	(5,915)	(8,917)
End of service indemnity.....	18,757	28,276	20,512	30,922
<b>Total long-term-liabilities</b> .....	<b>729,716</b>	<b>1,100,048</b>	<b>685,549</b>	<b>1,033,464</b>
<b>Shareholders' equity</b>				
Issued and paid-in capital.....	342,842	516,835	457,123	689,113
Reserves and premiums.....	661,049	996,532	853,150	1,286,123
Notes issued.....	—	—	9,936	14,979
Treasury shares.....	(117)	(176)	(10,739)	(16,189)
Retained earnings.....	16,553	24,954	10,935	16,484
Net income.....	137,067	206,628	169,665	255,770
Revaluation variance.....	1,312	1,978	1,312	1,978
Fair value changes.....	43,798	66,026	35,816	53,993
Foreign currency translation reserve.....	8,885	13,394	(6,350)	(9,573)
Minority shareholders.....	81,625	123,049	106,155	160,029
<b>Total shareholders' equity<sup>(10)</sup></b> .....	<b>1,293,014</b>	<b>1,949,220</b>	<b>1,627,003</b>	<b>2,452,707</b>
<b>Total capitalization</b> .....	<b>2,022,730</b>	<b>3,049,268</b>	<b>2,312,552</b>	<b>3,486,171</b>

Notes:

- (1) Translated at U.S.\$1.00 = LBP 1,507.5, which was the closing exchange rate on each of December 31, 2009 and December 31, 2010 as reported by the Central Bank.
- (2) Represents U.S.\$101.15 million outstanding principal amount of the 6.5% Certificates of Deposit due March 2012, issued by the Bank in March 2009 and bearing interest payable quarterly, and U.S.\$40.45 million outstanding principal amount of the 7.25% Certificates of Deposit due March 2014, issued by the Bank in March 2009 and bearing interest payable quarterly.
- (3) Represents the outstanding principal amount drawn under a loan agreement with Arab Trade Finance Program (ATFP).
- (4) Represents the outstanding principal amount drawn under a loan agreement with Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V. (FMO).
- (5) Represents the outstanding principal amount drawn under a loan agreement with *Société de Promotion et de Participation Pour La Cooperation Economique S.A.* (Proparco).
- (6) Represents the outstanding principal amount drawn under a loan agreement with OPEC Fund for International Development.
- (7) Represents the outstanding principal amount drawn under a loan agreement with European Investment Bank.
- (8) Represents the outstanding principal amount drawn under a loan agreement with Citibank.
- (9) Represents the outstanding principal amount drawn under a loan agreement with *l'Agence Française de Développement*.
- (10) Excluding LBP 3,711 million (U.S.\$2.46 million) representing revaluation of fixed assets not accepted by the Central Bank as tier II capital for the calculation of certain regulatory ratios.

On May 5, 2011, upon the expiration of the priority rights' period on the date of the Ordinary General Meeting of Shareholders of the Bank at which the final accounts of the Bank for the year 2010 were approved, the Priority Shares (as defined below) were automatically converted into Common Shares in accordance with their terms and applicable laws and regulations. See "*Share Capital and Principal Shareholders—Share Capital*".

Except as otherwise described above or elsewhere in this Prospectus, there has been no material adverse change in the consolidated long-term liabilities and shareholders' equity of the Bank since December 31, 2010.

## SELECTED FINANCIAL INFORMATION AND OPERATING DATA

### Financial Information as at and for the three-month periods ended March 31, 2010 and March 31, 2011

The following information as at and for the three-month periods ended March 31, 2010 and March 31, 2011 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the unaudited consolidated financial statements of the Bank as at and for the three-month periods ended March 31, 2010 and March 31, 2011, which appear elsewhere in this Prospectus:

<b>Balance Sheet Data</b>	<b>As at</b>			
	<b>December 31, 2010</b>		<b>March 31, 2011</b>	
	<i>(LBP million)</i>	<i>(U.S.\$ thousand)<sup>(1)</sup></i>	<i>(LBP million)</i>	<i>(U.S.\$ thousand)<sup>(1)</sup></i>
	<i>(audited)</i>		<i>(unaudited)</i>	
Net loans and advances to customers .....	5,685,240	3,771,303	5,680,520	3,768,172
Total assets .....	23,047,393	15,288,486	23,987,236	15,911,931
Total customer deposits .....	17,927,678	11,892,324	18,420,610	12,219,310
Total liabilities .....	20,590,974	13,659,021	21,515,786	14,272,495
Shareholders' equity <sup>(2)(3)</sup> .....	2,452,707	1,627,003	2,467,739	1,639,974

Notes:

- (1) Balance sheet data is translated at U.S.\$1.00 = LBP 1,507.5, which was the closing exchange rate as at each of December 31, 2010 and March 31, 2011, as reported by the Central Bank.
- (2) Excluding subordinated notes.
- (3) Excluding LBP 3,711 million (U.S.\$2.46 million) representing revaluation of fixed assets not accepted by the Central Bank as tier II capital for the calculation of certain regulatory ratios.

<b>Income Statement Data</b>	<b>For the three-month periods ended March 31</b>			
	<b>2010</b>		<b>2011</b>	
	<i>(LBP million)</i>	<i>(U.S.\$ thousand)<sup>(1)</sup></i>	<i>(LBP million)</i>	<i>(U.S.\$ thousand)<sup>(1)</sup></i>
	<i>(unaudited)</i>			
Net interest income .....	96,592	64,074	114,146	75,719
Net non-interest income <sup>(2)</sup> .....	58,486	38,797	52,284	34,683
Operating expenses .....	(83,468)	(55,368)	(82,491)	(54,720)
Net income .....	47,350	31,410	58,124	38,557

Notes:

- (1) Income statement data is translated at U.S.\$1.00 = LBP 1,507.5, which was the period average exchange rate for the three-month periods ended of March 31, 2010 and March 31, 2011, as reported by the Central Bank.
- (2) Including net fees and commissions income, net trading income, net gain or loss on financial assets, other operating income and net impairment losses on financial investments.

## Financial Information as at and for the years ended December 31, 2009 and December 31, 2010

The following information (other than the financial ratios and statistical data) as at and for the years ended December 31, 2009 and December 31, 2010 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements of the Bank as at and for the years ended December 31, 2009 and December 31, 2010, including the notes thereto, which appear elsewhere in this Prospectus.

	<b>As at and for the Years ended December 31,</b>			
	<b>2009</b>		<b>2010</b>	
	<i>(U.S.\$ thousand)<sup>(1)</sup></i>	<i>(LBP million)</i>	<i>(U.S.\$ thousand)<sup>(1)</sup></i>	<i>(LBP million)</i>
<b>Income Statement</b>				
Interest income .....	757,474	1,141,893	811,949	1,224,014
Interest expense .....	(499,577)	(753,113)	(528,525)	(796,751)
Net interest income <sup>(2)</sup> .....	257,897	388,780	283,425	427,263
Net provisions for doubtful loans and other provisions ...	(17,410)	(26,245)	(19,417)	(29,272)
Net non-interest income .....	111,492	168,074	164,535	248,036
Operating expenses .....	(175,640)	(264,777)	(211,491)	(318,822)
Net income before taxes .....	176,339	265,831	217,051	327,205
Taxes .....	(30,786)	(46,410)	(39,394)	(59,386)
<b>Net income<sup>(3)</sup> .....</b>	<b>145,553</b>	<b>219,422</b>	<b>177,658</b>	<b>267,819</b>
<b>Balance Sheet</b>				
Cash and due from banks .....	6,179,069	9,314,947	7,801,836	11,761,268
Government securities .....	3,372,628	5,084,237	2,824,210	4,257,496
Loans and advances to customers (net) .....	3,196,781	4,819,148	3,771,303	5,685,240
Other assets .....	827,101	1,246,854	891,137	1,343,389
<b>Total assets .....</b>	<b>13,575,579</b>	<b>20,465,186</b>	<b>15,288,486</b>	<b>23,047,393</b>
Due to banks .....	1,119,410	1,687,511	969,047	1,460,838
Customers' deposits .....	10,286,015	15,506,168	11,892,324	17,927,678
Certificates of deposits .....	141,626	213,501	141,626	213,501
Equity-linked notes .....	45,180	68,108	—	—
Other liabilities .....	491,571	741,043	457,278	689,348
<b>Total liabilities .....</b>	<b>12,083,802</b>	<b>18,216,331</b>	<b>13,460,275</b>	<b>20,291,365</b>
Tier I capital .....	1,239,020	1,867,823	1,596,225	2,406,309
Tier II capital <sup>(4)(5)</sup> .....	252,757	381,032	231,986	349,719
<b>Total capital .....</b>	<b>1,491,777</b>	<b>2,248,855</b>	<b>1,828,211</b>	<b>2,756,028</b>

Notes:

- (1) Both income statement data and balance sheet data are translated at U.S.\$1.00 = LBP 1,507.5, which was the closing exchange rate as at each of December 31, 2009 and December 31, 2010, as reported by the Central Bank, as well as the period average exchange rate for the years then ended.
- (2) Including net fees and commissions income, net trading income, net gain on financial assets, other operating income and impairment losses on other financial assets.
- (3) Prior to distribution of dividends and including minority interest.
- (4) Including subordinated notes.
- (5) Excluding LBP 3,711 million (U.S.\$2.46 million) representing revaluation of fixed assets not accepted by the Central Bank as tier II capital for the calculation of certain regulatory ratios.

**Selected Financial Ratios and Statistics<sup>(1)</sup>**

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	(%)	
<b>Growth</b>		
Total assets .....	20.89%	12.62%
Customers' deposits .....	23.00%	15.62%
Loans and advances to customers, net .....	14.56%	17.97%
Net income .....	19.31%	22.06%
<b>Profitability</b>		
ROA (Return on average assets) <sup>(2) (3)</sup> .....	1.17%	1.23%
ROCE (Return on average common equity) <sup>(2)(3)(4)</sup> .....	15.05%	14.06%
Interest on average earning assets <sup>(2)</sup> .....	6.38%	5.84%
Funding cost <sup>(5)</sup> .....	4.64%	4.23%
Net interest differential .....	1.74%	1.62%
Net interest income on average earning assets (net interest margin) .....	2.17%	2.04%
Non-interest income to operating income <sup>(6)</sup> .....	30.18%	36.73%
Operating expenses to operating income (cost-to-income ratio) <sup>(6)</sup> .....	47.55%	47.21%
Operating expenses on average customers' deposits .....	1.88%	1.91%
Operating expenses on average assets .....	1.42%	1.47%
Operating income on average assets (assets yield) <sup>(6)</sup> .....	2.98%	3.10%
Net income on operating income (profit margin) <sup>(6)</sup> .....	39.40%	39.66%
Earnings per share for Common Shares (in LBP) .....	384.65	399.61
Earnings per share for Priority Shares (in LBP) .....	433.05	448.01
Net book value per share (in LBP) <sup>(7)</sup> .....	3,227	3,300
Net dividend per Common Share (in LBP) .....	190	190
Net dividend per Priority Share (in LBP) .....	235.98	233.93
Dividend payout ratio .....	58.65%	63.87%
<b>Capital adequacy</b>		
Leverage multiplier <sup>(8)</sup> .....	14.77 x	13.46 x
Capital to asset ratio .....	10.99%	11.96%
Tier I capital on RWA <sup>(9)</sup> .....	20.61%	23.55%
Tier II capital on RWA <sup>(9)</sup> .....	1.52%	0.53%
Cooke ratio <sup>(10)</sup> .....	22.13%	24.08%
<b>Liquidity</b>		
Net loans to deposits .....	31.08%	31.71%
Customers' deposits to total assets .....	75.77%	77.79%
Liquid assets ratio to total assets .....	72.43%	71.85%
Net liquid assets to customers' deposits .....	84.71%	84.22%
Interbank assets to interbank liabilities .....	3.47x	4.89x
<b>Asset quality ratios</b>		
Loan loss provision to total loans .....	3.64%	3.45%
Non-performing loans to total loans .....	2.63%	2.38%
Non-performing loans (net of provisions) to total loans .....	0.34%	0.34%
Loan loss provision to non-performing loans <sup>(11)</sup> .....	85.49%	88.57%

**Notes:**

- (1) The selected financial ratios and statistical information appearing above have been prepared by the Bank and have not been submitted to, or reviewed or validated by, third parties or governmental agencies, including the Central Bank.
- (2) Average assets and average common equity are computed as the average of period-beginning and period-ending balances.
- (3) Based on net income.
- (4) Excluding subordinated notes, preferred shares and minority interest.
- (5) Funding cost is the ratio of interest expenses to interest bearing liabilities.
- (6) Operating income = total operating income - impairment losses on other financial assets
- (7) Net book value = total assets - (liabilities + subordinated notes) - preferred shares.
- (8) Leverage multiplier = average assets/average net book value.
- (9) RWA = risk weighted assets.
- (10) Cooke Ratio is determined in accordance with applicable Central Bank regulations, which are based on the guidelines of the Committee on Banking Regulation and Supervisory Practices of the Bank for International Settlement (the Basel Committee).
- (11) Excluding general provisions and collective provisions.

## OVERVIEW OF THE BANK

*The following summary should be read in conjunction with the consolidated financial statements of the Bank as at and for the years ended December 31, 2009 and December 31, 2010, including the notes thereto, which appear elsewhere in this Prospectus.*

*For a discussion of certain matters that should be considered by prospective investors in the Notes, refer to “Risk Factors”.*

### **The Bank**

The Bank is one of the leading banks in Lebanon providing a full range of banking services through its extensive branch network, which, as at December 31, 2010, was the third largest in Lebanon. The Bank’s objects and purposes can be found in Article 2 of its by-laws. Through its overseas banking and other subsidiaries, the Bank also conducts a wide range of commercial banking and financial activities in Europe and in the MENA region. As at December 31, 2010, the Group had 2,719 employees, approximately 640,000 active accounts and 100 branches (77 branches in Lebanon, one in Limassol, Cyprus, one in Baghdad, Iraq, one in Erbil, Iraq and 20 other international branches owned by the Group’s subsidiaries). As at December 31, 2010, Byblos Bank Europe, the Bank’s 99.95% owned subsidiary, had its main branch in Brussels, a branch in London and a branch in Paris; Byblos Bank Africa, the Bank’s 56.86% owned subsidiary, had two branches in Khartoum and one in Bahri, Sudan; and Byblos Bank Syria, the Bank’s 41.5% owned subsidiary, had ten branches in Syria in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia and Tartous. In September 2007, the Bank acquired 100% of ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC. In June 2008, the EBRD and OFID acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. On March 27, 2010, the Bank participated in the capital increase of Solidaire Banque Internationale in DR Congo by investing U.S.\$10 million in the share capital of Solidaire Banque Internationale. Following such capital increase, the Bank holds 66.67% of the outstanding share capital of Solidaire Banque Internationale and, as the major shareholder of Solidaire Banque Internationale, exercises management control. Solidaire Banque Internationale has been renamed Byblos Bank RDC. Byblos Bank RDC has a branch in Kinshasa, DR Congo. The Bank has also had a representative office in Abu Dhabi, United Arab Emirates, since 2005, as well as a representative office in Lagos, Nigeria, since 2009.

The Bank has developed a reputation as a pioneer in the development and marketing of new products designed principally to serve the rapidly growing consumer market in Lebanon. In recent years, the Bank has undertaken a number of steps to expand its business and improve its market share and profile by setting up subsidiaries in key MENA countries, by striving to provide tailor-made banking services to its customers in terms of retail and commercial banking and by launching new financial products. See “—History”.

As at December 31, 2010, according to Bankdata, based on unaudited financial statements of banks operating in Lebanon provided to Bankdata by such banks, the Bank ranked third among all banks operating in Lebanon in terms of net profit of LBP 268,879 million (U.S.\$178.4 million), total assets of LBP 23,042,367 million (U.S.\$15,484 million), total shareholders’ equity (excluding subordinated notes) of LBP 2,456,763 million (U.S.\$1,630 million) and total deposits of LBP 17,928,081 million (U.S.\$11,893 million).

Total assets of the Bank increased by 12.6% from LBP 20,465 billion (U.S.\$13,576 million) as at December 31, 2009 to LBP 23,047 billion (U.S.\$15,288 million) as at December 31, 2010; customers’ deposits increased by 15.6% from LBP 15,506 billion (U.S.\$10,286 million) as at December 31, 2009 to LBP 17,928 billion (U.S.\$11,892 million) as at December 31, 2010; net customer advances increased by 18.0% from LBP 4,819 billion (U.S.\$3,197 million) as at December 31, 2009 to LBP 5,685 billion (U.S.\$3,771 million) as at December 31, 2010; total equity (excluding subordinated notes) increased by 25.8% from LBP 1,953 billion (U.S.\$1,296 million) as at December 31, 2009 to LBP 2,456 billion (U.S.\$1,629 million) as at December 31, 2010; and net income increased by 22.1% from LBP 219,422 million (U.S.\$145.6 million) for the year-ended December 31, 2009 to LBP 267,819 billion (U.S.\$177.7 million) for the year-ended December 31, 2010.

The Bank has a high level of nominal liquidity, with cash placements with the Central Bank, interbank deposits and investments in Lebanese treasury bills and other marketable securities representing 71.9% of total assets as at December 31, 2010. As at December 31, 2010, the Bank's capital adequacy ratio was 24.08%, its return on average assets was 1.23% and its return on average common equity was 14.06%.

As at the date of this Prospectus, the Bank's foreign currency deposit and Individual ratings assigned by international rating agencies were as follows:

<b>Rating Agency</b>	<b>Tenor</b>	<b>Rating</b>	<b>Outlook</b>
Moody's Investors Service Ltd.	Long-term	B1	Stable
Fitch Ratings Limited	Long-term	B	Stable
	Short-term (less than one year)	B	

All of the ratings referred to above are non-investment grade and a credit rating is not a recommendation by the rating organization or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organization and each should be evaluated independently from the other. The credit ratings included or referred to in this Prospectus will be treated for purposes of the CRA Regulation as having been issued by Moody's and Fitch, respectively. Each of Moody's and Fitch is established in the European Union and has applied to be registered under the CRA Regulation, although the result of such applications has not yet been determined.

## **History**

The origins of the Bank date to 1950 when Mr. Semaan Melkan Bassil, Mr. Joseph Melkan Bassil, Mr. Victor Ferneiné and Mr. Fouad Ferneiné founded a company in Jbeil (Byblos) under the name "*Société Commerciale et Agricole Byblos Bassil Frères et Co.*", with a paid-up capital of LBP 30,000. The company initially dealt with natural silk and leather tanning and carried out some lending activities related to the agricultural, commercial and transportation sectors. In 1956, this company was converted into a limited partnership, its capital was increased to LBP 500,000, and it obtained a license from the Ministry of Finance to take deposits. The Bank was incorporated on November 14, 1959 as a *société anonyme libanaise* (joint-stock company), pursuant to a presidential decree (No. 2511) and the Bank's capital was increased to LBP 2,000,000 effective December 21, 1959.

The scope of the Bank's activities was broadened to include the discounting of bills and the extension of credit. Non-financial activities were either terminated or transferred to a separate entity. In 1961, its name was changed to "*Société Bancaire Agricole Byblos Bassil Frères et Co.*" and the Bank was granted a banking license. In 1963, it was renamed Byblos Bank S.A.L. and the paid-up capital was increased to LBP 5,000,000. The Bank expanded gradually from 1963 to 1975, and had 13 branches by the end of 1977.

The Bank continued to expand during the conflict period of 1975 to 1990. From 1976 to 1984, the Bank's principal shareholders continued the Bank's expansion in Lebanon and established overseas operations in Brussels (1976), Paris (1980), London (1981) and Cyprus (1984). ADIR Lebanon, the Bank's affiliated insurance company, was established in 1983.

The end of the conflict in 1990 led to a significant improvement in the Lebanese economy. Beginning in the mid-1990s, the Bank began to implement a number of programs aimed at expanding its business. In 1993, the Bank became the first bank in Lebanon to enter the retail banking market when it launched mortgage, personal lending and revolving credit card products. At this time, the Bank also provided services to small and medium-sized enterprises and select corporate clients, while also focusing on servicing both personal and business requirements of the Lebanese expatriate community.

On November 22, 1997, the Bank acquired all of the net assets and liabilities of *Banque Beyrouth pour le Commerce S.A.L.* ("**BBC**"). As a result of the merger, the Bank acquired 19 additional branches, through which it began to provide retail lending and deposit taking services in geographical areas outside Beirut, which had not traditionally been served by the Bank. In connection with the merger, pursuant to applicable law, the Central Bank provided the Bank with a "soft" loan of LBP 52.0 billion (U.S.\$34.5 million), which matured and was fully repaid on May 28, 2006.

On January 1, 1998, the Bank acquired 99.96% of the outstanding share capital of Byblos Bank Europe. The Bank's rationale for the Byblos Bank Europe acquisition was to diversify its activities and enlarge its international presence. Following the Byblos Bank Europe acquisition, the Bank has been able to benefit from economies of scale in staffing and technology costs as it has consolidated and centralized its business and marketing strategy and credit decision making for its global business in its Head Office in Lebanon. See "*—Subsidiaries—Byblos Bank Europe S.A.*".

On May 9, 2001, the Bank sold 34% of ADIR Lebanon, its then wholly-owned insurance company to *Assurances Banque Populaire*, the fifth largest bancassurance group in France (today named Natixis Assurances); as at the date of this Prospectus, the Bank retains a controlling interest (63.95%) in ADIR Lebanon. See "*—Subsidiaries—Adonis Insurance and Reinsurance Co (ADIR). S.A.L.*".

On June 20, 2001, the Bank acquired 100% of the outstanding share capital of Wedge Bank Middle East S.A.L. ("**Wedge Bank**"), a medium-sized Lebanese bank concentrating its commercial activities in the retail banking sector, and having six branches and over 6,000 customers. The Bank believes that the larger combined structure will continue to provide the Bank with additional banking resources, which, in particular, have facilitated, and are expected to continue to facilitate, cross-selling activities. In connection with the merger, pursuant to applicable law, the Central Bank provided the Bank with a "soft" loan of LBP 40.0 billion (U.S.\$26.5 million), which matured and was fully repaid on November 15, 2009. See "*—Funding Sources*".

In order to acquire additional large corporate clients and thereby diversify its risk and enhance returns, on October 21, 2001, the Bank acquired the loan book and fixed assets of ING Barings in Lebanon. The aggregate principal amount of the purchased loans, net of specific provisions and reserved interest, totaled U.S.\$13.5 million; the fixed assets acquired by the Bank were valued at U.S.\$1 million at the time of the acquisition.

On July 1, 2002, the Bank issued U.S.\$100 million 9% subordinated participating notes due 2012 (the "**Subordinated Participating Notes**"), which were subscribed by more than 1,000 investors. To the extent it remains outstanding, this issue, which is accounted for as tier II capital, was designed to strengthen the Bank's capital base and allowed it to have access to supplementary financing for potential external growth, both in the local market and abroad, in addition to entering into new banking activities, such as investment banking. In addition to fixed interest, holders of these notes may be entitled to receive contingent interest at a rate, not exceeding 6% per annum, equivalent to 5% of the adjusted annual net income of the Bank. In May 2006, the Bank offered to purchase, for cash, any and all of its Subordinated Participating Notes, validly tendered by holders and accepted for purchase by the Bank, at a price equal to 106% of the principal amount thereof, plus any accrued and unpaid fixed interest, and any accrued and unpaid contingent interest (as determined in accordance with the terms and conditions of the Subordinated Participating Notes), in each case, to, but not including, the date of purchase; 68.7% of the total principal amount of the Subordinated Participating Notes was redeemed by the Bank in June 2006. See "*—Funding Sources—Subordinated Participating Notes*".

On November 10, 2002, the Bank acquired the assets and certain liabilities of ABN AMRO Bank N.V. Lebanon Branch, in line with the Bank's continuing external growth strategy, which reflects its intent to expand in the local market through selected acquisitions that attract prime clientele and increase profitability and shareholders' value.

In May 2003, the Bank issued its U.S.\$100 million Series 2003 Preferred Shares, which were fully redeemed in accordance with their terms in May 2009 (the "**Series 2003 Preferred Shares**").

In 2003, building on its presence in the Sudanese market for more than three decades, with a focus on trade financing and international trade and commercial transactions, the Bank obtained a license to operate a bank in Sudan under the name Byblos Bank Africa, which commenced its operations in the beginning of 2004 and, as at the date of this Prospectus, is 56.86%-owned by the Bank. See "*—Subsidiaries—Byblos Bank Africa Ltd.*".

In October 2003, the Bank established Byblos Invest Bank, as a "specialized bank" in Lebanon. See "*—Subsidiaries—Byblos Invest Bank S.A.L.*".

In December 2005, the Bank issued 206,023,723 priority shares, with a par value of LBP 1,210 each, at a price equal to their par value (the "**Priority Shares**"). In May 2011, the Priority Shares were automatically converted into Common Shares in accordance with their terms and applicable laws and regulations. See "*Share Capital and Principal Shareholders—Share Capital*".

At the end of 2005, the Bank began operations in Syria through its subsidiary Byblos Bank Syria, which is the sixth private bank to set up operations in Syria following legislation to reform and modernize the banking sector. The Bank has management control and a 41.5% stake in Byblos Bank Syria. The Organization of Petroleum Exporting Companies (“OPEC”) Fund for International Development has a 7.5% stake, and the remaining 51% was acquired by Syrian investors. See “—Subsidiaries—Byblos Bank Syria S.A.”.

Also in 2005, the Bank began its operations in Abu Dhabi by setting up its United Arab Emirates’ representative office.

On January 16, 2006, the Extraordinary General Meeting of Shareholders of the Bank approved the listing of all of the Bank’s shares on the BSE. Also in 2006, the Bank obtained approval for its wholly-owned subsidiary, Byblos Invest Bank, to hold a seat on the BSE.

On September 19, 2007, Adonis Syria was established in Damascus, Syria, marking the initial step in the geographical expansion of ADIR Lebanon in the MENA region. The Bank is the main shareholder of ADIR Syria with a 55% stake, followed by ADIR Lebanon with a 21% stake, with the remaining shares held by high-net-worth Syrian investors. See “—Subsidiaries—Adonis Insurance and Reinsurance (ADIR) Syria”.

In September 2007, the Bank acquired a 100% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which was then renamed Byblos Bank Armenia. Following a capital increase by Byblos Bank Armenia, EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. Management believes that Armenia is a significant potential market for the Bank with high potential for retail and commercial activities and that, accordingly, the expansion into Armenia has helped, and is expected to continue to help, to diversify the Bank’s assets and revenues and promote the Bank’s overseas expansion. See “—Subsidiaries—Byblos Bank Armenia CJSC”.

In November 2007, the Bank obtained a U.S.\$200,000,000 6.5% subordinated loan (the “**Subordinated Loan**”), which was financed by the issuance by The Bank of New York (Luxembourg) S.A., in its fiduciary capacity, of U.S.\$200,000,000 6.5% Convertible Fiduciary Notes due 2012 (the “**Fiduciary Notes**”), which are convertible into common shares of the Bank (the “**Common Shares**”). Holders of Fiduciary Notes have the right to convert Fiduciary Notes held by them into Common Shares on a quarterly basis and following certain extraordinary events at a price of U.S. \$2.25 per Common Share.

In January 2008, a holder of Fiduciary Notes exercised its right to convert U.S.\$27 million in nominal amount of Fiduciary Notes, together with accrued interest thereon, into Common Shares at a conversion price of U.S.\$2.25 per Common Share. As a result of this conversion, 12,088,834 new Common Shares were issued increasing the share capital of the Bank by LBP 14,506,600,800 (U.S.\$9,622,952) to LBP 508,963,536,000.

In August 2008, the Bank issued its U.S.\$200 million Series 2008 Preferred Shares (the “**Series 2008 Preferred Shares**”).

In December 2008, the Bank purchased all of the assets and liabilities of Unicredit Banca Di Roma SPA in Lebanon (“**UBDR Lebanon**”) for an aggregate amount of U.S.\$6.76 million (including legal fees and other expenses). As at the date of the acquisition, UBDR Lebanon had total assets of LBP 37,816 million (U.S.\$25.1 million), total customers’ deposits of LBP 21,453 million (U.S.\$14.2 million), total loans to customers of LBP 13,678 million (U.S.\$9.1 million) and total equity of LBP 9,667 million (U.S.\$6.4 million).

On February 6, 2009, the Bank entered into a depositary agreement with The Bank of New York Mellon (acting as depositary) and established a Global Depositary Receipts Program (the “**GDR Program**”) pursuant to which holders of Common Shares were given the option to deposit their Common Shares in exchange for the issuance of Global Depositary Shares (“**GDSs**”) at a ratio of 50 Common Shares per GDS. On February 19, 2009, GDSs representing 23.94% of the Common Shares were issued under the GDR Program and admitted to trading on the London Stock Exchange’s Regulated Market, making the Bank the first Lebanese bank to obtain a listing on the Official List of the UK Listing Authority in 12 years.

In March 2009, the Bank issued U.S.\$101.15 million in certificates of deposit due March 2012, which bear interest at an annual rate of 6.5% payable quarterly, and U.S.\$40.45 million in certificates of deposit due March 2014, which bear interest at an annual rate of 7.25% payable quarterly.

In September 2009, the Bank issued its U.S.\$192 million Series 2009 Preferred Shares (the “**Series 2009 Preferred Shares**”).

Also in 2009, the Bank began its operations in Lagos by setting up its Nigeria representative office.

In January 2010, the Bank’s principal shareholder, Byblos Invest Holding S.A. (Luxembourg) (“**Byblos Invest Holding**”) entered into a share purchase agreement with the International Finance Corporation (“**IFC**”) for the purchase by IFC from Byblos Invest Holding of 47,619,047 Common Shares of the Bank at a price of U.S.\$2.1 per Common Share, for an aggregate amount of approximately U.S.\$100 million. As at the date of this Prospectus, IFC owns 8.36% of the Bank’s share capital. IFC was granted certain information and shareholder protection rights in connection with its subscription.

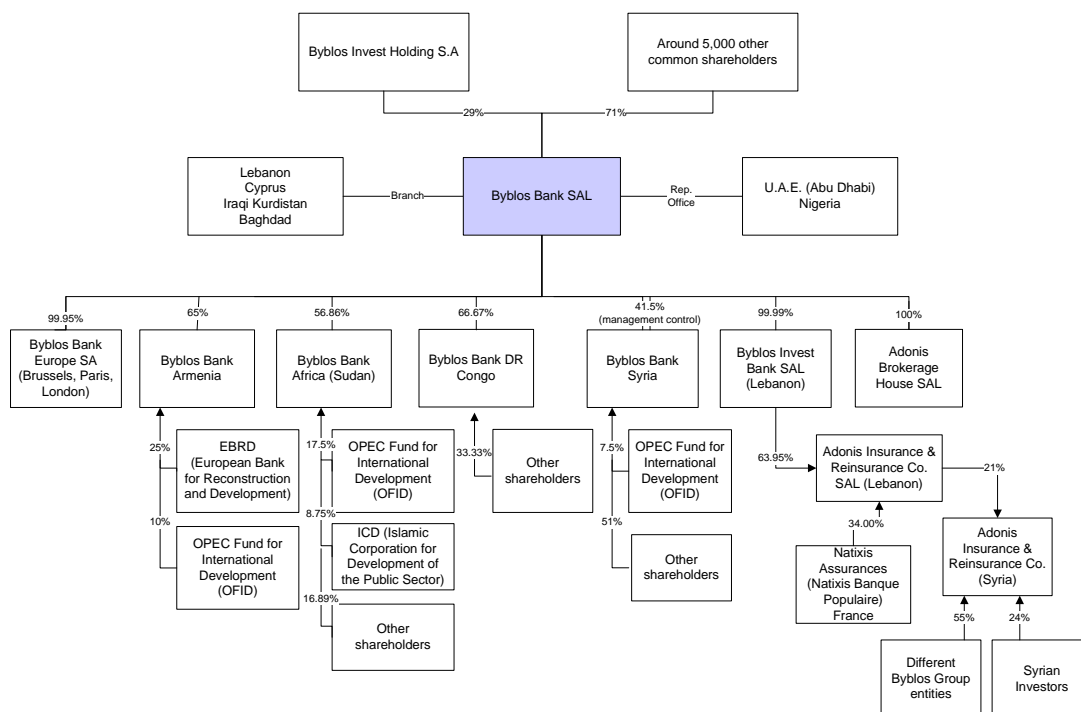
On March 27, 2010, the Bank participated in the capital increase of Solidaire Banque Internationale in DR Congo by investing U.S.\$10 million in the share capital of Solidaire Banque Internationale. Following such capital increase, the Bank holds 66.67% of the outstanding share capital of Solidaire Banque Internationale and, as the major shareholder of Solidaire Banque Internationale, exercises management control. On March 27, 2010, Solidaire Banque Internationale was renamed Byblos Bank RDC. See “—*Subsidiaries—Byblos Bank RDC*”.

In April 2010, Byblos Invest Holding entered into a share purchase agreement with *Société de Promotion et de Participation Pour La Coopération Economique S.A.* (“**Proparco**”) for the purchase by Proparco from Byblos Invest Holding of 13,636,363 Common Shares of the Bank at a price of U.S.\$2.2 per Common Share, for an aggregate amount of approximately U.S.\$30 million. As at the date of this Prospectus, Proparco owns 2.39% of the Bank.

In June 2010, the Bank completed a U.S.\$249.2 million capital increase through the issuance of 142,378,760 Common Shares at an issue price of U.S.\$1.75 per Common Share. Such capital increase took place following a rights issue to the Bank’s existing shareholders (including holders of then-outstanding Series 2008 Preferred Shares, Series 2009 Preferred Shares and Priority Shares), at a ratio of one new Common Share for three old shares (whether Common Shares, Series 2008 Preferred Shares, Series 2009 Preferred Shares or Priority Shares).

## Corporate Structure

The following diagram sets out the structure of the Bank and its subsidiaries as at the date of this Prospectus:



## The Bank's Objectives and Strategy

The Bank's corporate strategy is focused on protecting its depositors and creditors, creating value for its shareholders through continued domestic and regional growth, geographic and product diversification, operational efficiency and cost containment and optimizing its capital structure. In order to realize these objectives, the Bank's medium- and long-term key strategies are as follows:

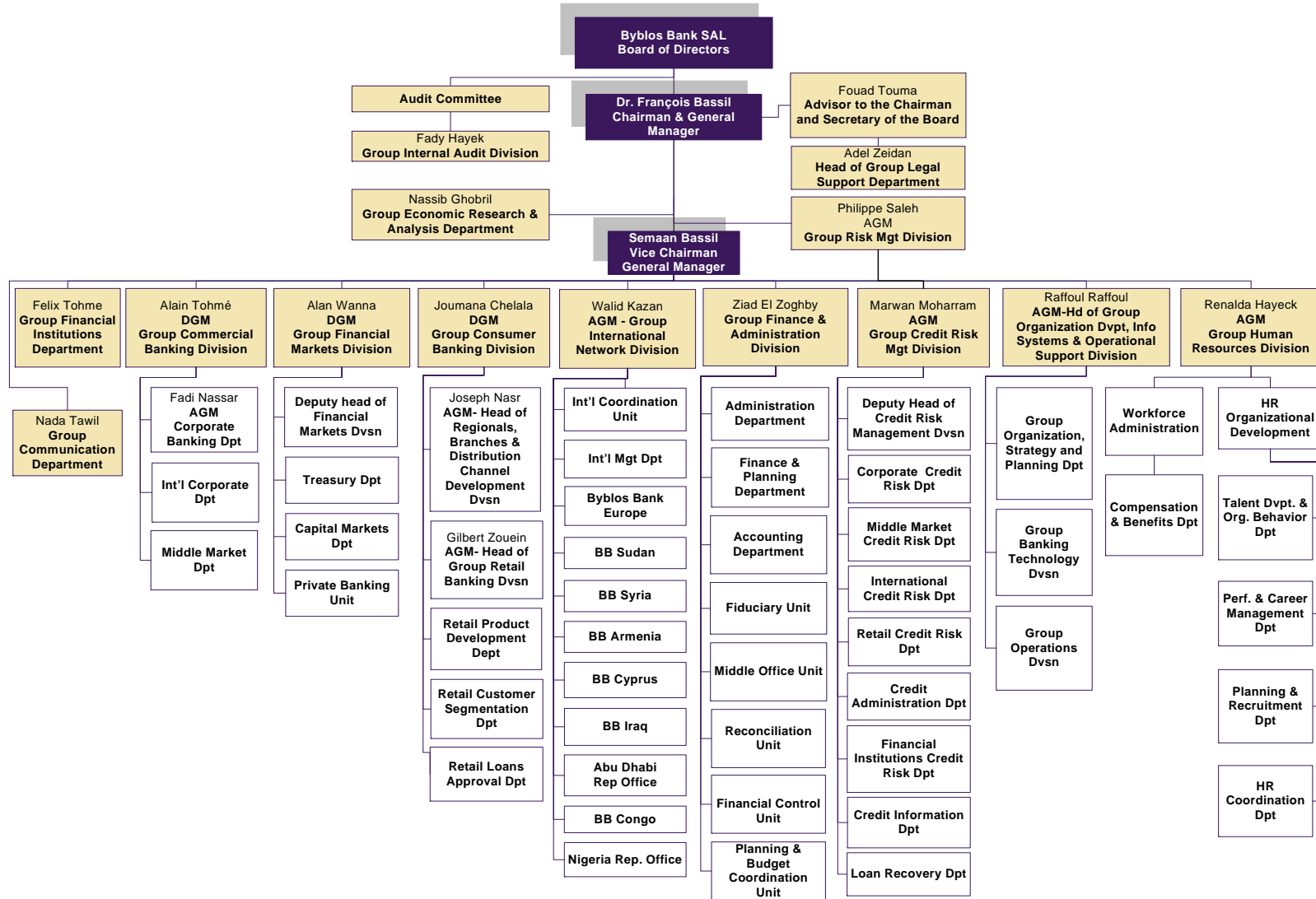
- ***To strengthen its platform and consolidate its leading position in the Lebanese market.*** The Bank intends to continue to enhance its domestic market penetration, increase market share and achieve a top three market share in each product that it offers through:
  - o ***Organic growth:*** the Bank intends to continue to expand its branch network and other distribution channels and particularly to target customers in previously underserved areas in Lebanon (principally the Bekaa Valley, North Lebanon and South Lebanon);
  - o ***External growth:*** the Bank intends to pursue selective acquisitions of smaller domestic banks with significant synergies and complementary branch networks; and
  - o ***Aggressive and targeted marketing campaigns:*** the Bank plans to conduct directed promotional activities to grow its businesses in Lebanon, including through telemarketing, marketing campaigns to employees of corporate clients and other cross-selling initiatives focused on offering additional products to the Bank's existing client base.
- ***To continue to expand in selected growth markets in the MENA region.*** Geographic expansion is one of the Bank's key strategic objectives in order to diversify its revenues in the MENA region. The Bank believes that its entry into underdeveloped, high-growth markets with low levels of traditional banking activity will allow it to leverage on its competitive advantages in terms of regional expertise and its strategic geographic position relative to other international players. While bearing in mind security and political developments in the region, the Bank plans to continue to expand internationally through organic growth, by opening subsidiaries and branches in selected countries, and through selective acquisitions of established financial institutions that are able to add new distribution capabilities while

adopting the Bank's corporate culture. The Bank intends to target markets where it can benefit from the presence of the Lebanese diaspora or significant trade flows with Lebanon and gain a first-mover advantage. All targets are evaluated by the Bank in the context of its strict returns criteria and its intention to focus on trade finance and certain niche segments of the markets it enters.

- ***To enhance earnings stability through an improved business mix and risk profile.*** The Bank intends to continue to strive to improve its capital and balance sheet management in order to further enhance profitability and support anticipated asset growth. The Bank will aim to achieve a more balanced mix of income and assets, both geographically, with an increasing share of the Bank's business deriving from international markets, and across products. The Bank will particularly pursue growth in its consumer lending activities through the sustained marketing, including cross-selling and segmentation, of its current retail products (such as revolving credit cards, housing loans, professional and small business loans and bancassurance products), as well as the development of new differentiated products and services. In addition, the Bank plans to position itself to take advantage of the expected growth in the SME lending market, which the Bank believes will generate an important source of both interest and fee income. The Bank also intends both to develop existing relationships with its corporate customers and to seek new corporate clients, while introducing new lines of commercial business, such as factoring and leasing both in the domestic market and through international partnerships. The Bank will also strive to further develop fee-based products and services in order to achieve a more diversified, stable revenue stream. In particular, the Bank plans to focus on maintaining its leading position in trade finance activities and developing further its treasury operations and private banking services.
  
- ***To enhance cost efficiency and profitability.*** Following on the Bank's achievement of a 47.21% cost-to-income ratio in 2010, which was among the lowest in the Lebanese banking sector for the year and was a result of significant efforts made in the centralization and automation of the processing of banking operations, the Bank intends to reduce its cost-to-income ratio further. To this end, the Bank plans to continue reducing its cost base by focussing on the introduction and development of automated solutions and centralized processing systems, achieving scalable cost and size synergies through further expansion, improving the efficiency of the workflow within and between branches, further focussing resource allocation within branches toward revenue generating activities, continuing to upgrade the Bank's IT and control systems and leveraging potential cost savings by further analysing and refining processes based on international best practices across all its operations and markets. At the same time, the Bank aims to enhance income generation as described above.
  
- ***To diversify further its funding structure.*** The Bank's funding objectives are maturity extension, cost effectiveness, growth and stability. To fulfill these objectives, the Bank is concentrating its efforts on generating a higher volume of small deposits, through its branch network and its specialized savings programs, and is investigating ways in which it may develop new saving schemes to ensure stable and low-cost funding. The Bank intends to continue to strengthen its balance sheet with new sources of international and other longer-term funding, thereby reducing its dependency on local market funding and on medium-term and other expensive funding sources.

## Organizational Structure of the Bank

The following chart shows the Bank's organizational structure as at the date of this Prospectus.



The organizational structure of the Bank, which has been implemented gradually since 1998, both reflects and promotes the Bank's strategy to pursue development along two business lines: retail banking and commercial banking. The Group Consumer Banking Division focuses on the expansion of the Bank's branch network, the promotion of retail lending through the development of innovative retail products and the delivery of these products through the Group's various distribution channels. Under the Group Commercial Banking Division, branches are subdivided into geographic regions with regional centers created to monitor deposit taking and retail and middle market lending at each branch location within the relevant geographical area. The Group Commercial Banking Division, which operates through relationship managers resident in the Bank's Head Office, focuses on the development of commercial lending in two segments: loans to medium and large corporations and transactions in the international markets. The Group Financial Markets Division comprises the Treasury Department, the Capital Markets Department and the Private Banking Department. The Group Financial Control and Administration Division is responsible for analyzing the financial performance of the Bank, planning related strategies and optimizing and controlling operating expenses. The Group Banking Technology Division supports the Bank's objectives through the implementation of technology and development of the Bank's systems. The Bank's structure also comprises an independent Group Risk Management Division, which is responsible for monitoring and managing all risks inherent to banking activities, including credit risk analytics, anti-money laundering, interest rate, liquidity, information security and operational risks.

In February 2010, the International Network Division was established to supervise and control the business in all of the Bank's overseas subsidiaries, branches and representative offices in line with the Bank's strategy and business plan.

### **Business Description**

The Bank provides a full range of banking services to three core sectors of the Lebanese economy: retail customers, small to medium-size companies (defined as companies with an annual turnover below U.S.\$10 million or its equivalent in Lebanese Pounds, "SMEs") and large corporations (defined as companies with an annual turnover of U.S.\$10 million and above or its equivalent in Lebanese Pounds).

#### ***Retail Banking***

The Bank has developed a diversified retail banking product mix, including traditional and innovative services designed to address the needs of its customers. The Bank's retail products include checking and term deposits; credit, charge and debit cards; personal, housing, and professional loans; financial planning; insurance; foreign exchange services; and ATM services, through a network, as at the date of this Prospectus, of 116 ATMs spread across Lebanon. As at December 31, 2010, the Bank had approximately 55,000 retail borrowers and 262,000 depositors (many with multiple accounts).

Specific lending programs, such as auto, housing and small business loans, have also been developed and are widely available. The Bank has taken an active role in developing and participating in Government-sponsored loan programs, such as the Public Housing Corporation Loan Project for housing loans and loans for small business and professional loans from Kafalat Company S.A.L., a limited liability company incorporated in Lebanon ("**Kafalat**"). The Bank was also the first Lebanese financial institution to offer specially designed saving schemes, such as "*Ghadi*", a children savings program, and "*CreDEX*", a young adult savings program, both of which have since been developed into a range of Bancassurance, protection and investment products.

In addition, the Bank was the first banking institution in Lebanon to offer personal loans to retail customers and create a comprehensive residential mortgage program. As at December 31, 2010, according to Bankdata, based on unaudited financial statements of banks operating in Lebanon provided to Bankdata by such banks, the Bank held the leading market share in Lebanon in personal loans, housing loans and Kafalat small business and professional loans and credit cards; the Bank also has strong market shares in car loans, travel loans and other consumer lending products.

One of the Bank's objectives in consumer banking is to develop a relationship management approach with its retail customers. Accordingly, the Bank is focusing on developing solutions based on customer needs and product innovation. In this respect, the Bank has created the following products and services based on identified customer needs:

- *Bancassurance*: the Bank offers a wide range of bancassurance products encompassing investment plans (children's education's insurance as well as retirement scheme's insurance) and protection plans (car insurance, income insurance and life insurance) with competitive features and good pricing;
- *Borrowing*: the Bank targets a broad client and segment base and focuses mainly on customer needs and enhancement of procedures, such as simplified application forms and processes and the "Group Offering" approach (see "—Commercial Banking");
- *Cash flow management*: the Bank focuses on creating account packages, which address customer needs and comply with international banking standards, promoting the use of debit cards and consolidating insurance and banking services; current accounts have been linked to term deposit accounts, enabling clients to better manage their cash flows;
- *Investment products*: the Bank offers several deposit-structured products for retail investors, such as five-year step-up deposits marketed to customers through the Bank's branch network;
- *Branch network*: consistent with the Bank's retail and marketing strategy, the Bank has remodeled its branch network and centralized many administrative functions with the aim of permitting branches to focus resources and personnel on sales and customer service; and
- *e-channels*: the Bank has developed its ATM, phone banking and Internet banking services giving its clients on-line, real time and 24/7 access to their accounts, as well as to the Bank's banking services, and enabling them to transfer their funds among their different accounts within the Bank, as well as to other clients' accounts within the Bank, in order to offer customers a global view on-line; moreover, the Bank is continuously developing its e-channels services in order to meet its clients expectations.

The main retail product lines and services currently offered by the Bank include:

#### *Debit, Charge and Credit Cards*

The Bank offers a full range of segmented debit cards and credit cards (charge and revolving) in several currencies, including Lebanese Pounds, U.S. Dollars and Euros. Internet and prepaid cards are also available. In 2010, the Bank began managing its ATM and debit cards in-house by implementing its own switch and debit card management system, while it continues to outsource its credit cards. As at December 31, 2010, the Bank had approximately 165,000 payment cards outstanding, including 50,000 Visa and MasterCard credit cards (charge and revolving), as well as 110,000 debit cards and 5,000 Internet and pre-paid youth cards.

The Bank's payment cards offerings include the following:

- *Charge cards*: MasterCard charge (U.S.\$), MasterCard Euro charge (EUR), MasterCard Lira Charge (LBP), MasterCard Platinum charge (U.S.\$), Visa charge (U.S.\$) and Visa Infinite (U.S.\$);
- *Revolving credit cards*: MasterCard revolving (U.S.\$), MasterCard Lira revolving (LBP) and Visa revolving (U.S.\$);
- *Debit card*: Visa Electron, Visa Debit Gold and Visa Platinum; and
- *Pre-paid cards*: MasterCard Websurfer and MasterCard Cool pre-paid.

The Bank was the first Lebanese bank to launch a credit card denominated in Lebanese Pounds, a military card targeting military personnel, a photo card specifically dedicated to mothers and a fuel credit card. The Bank offers a cards loyalty program, which covers all of its revolving and charge cards, including its new debit cards launched in 2010, and allows cardholders to accumulate points redeemable for gasoline, mobile minutes, travel, tree planting to reforest the country and other rewards. In 2009, the Bank partnered with Air France, offering its cardholders travel tickets to worldwide destinations including, *inter alia*, Paris, other major European cities, New York, Montreal, Buenos Aires and Mexico City. In 2010, the Bank launched the "Loyalty is Gold" campaign allowing its

clients to redeem their points for gold. The Bank continuously innovates in its loyalty programs with the aim of increasing its cardholder usage and satisfaction.

#### *Personal Loans*

Personal loans with maturities of up to five years and amounts ranging from U.S.\$4,000 to U.S.\$20,000 (or more in exceptional cases) are granted to qualifying individuals. As at December 31, 2010, the Bank held outstanding personal loans of U.S.\$239 million.

The Bank has adopted a strategy to segment its personal loan portfolio into specific industries and, accordingly, offers specialized personal loan programs for physicians, teachers, students, wedding and travel needs.

#### *Residential Mortgage Loans*

The Bank offers residential mortgage loans (denominated in U.S.\$ or LBP) with maturities of up to 30 years, targeted to Lebanese residents, as well as to expatriates to finance the purchase of a house or apartment in their home country. Residential housing loans are also offered to members of the Lebanese Army with preferential features. In addition to the traditional mortgage loan program, the Bank also offers mortgage loans in Lebanese Pounds, at preferential rates, with maturities ranging from 10 to 15 years and in amounts up to LBP 270 million (or U.S.\$180,000), under the Public Housing Corporation Loan Project.

As at December 31, 2010, the Bank held outstanding residential mortgage loans of U.S.\$355 million, which Management believes constituted the largest housing loan portfolio among Lebanese banks as at that date.

#### *Car Loans*

The Bank offers car loans on certain types of eligible models with maturities of up to six years. The borrower is required to pledge the car being financed to the Bank and to obtain a compulsory all-risks insurance policy issued by ADIR Lebanon, the Bank's insurance subsidiary.

As at December 31, 2010, the Bank held outstanding car loans balance of U.S.\$176 million, which the Bank believes ranks amongst the three largest car loan portfolios in the Lebanese banking sector as at that date.

#### *Small Business Loans*

The Bank's small business and professional loans program is aimed at craftsmen, small traders and manufacturers. These loans are mainly used to finance the purchase of equipment or other fixed assets, as well as for working capital needs. Loans may be denominated in Lebanese Pounds or U.S. Dollars, for amounts ranging from the equivalent of U.S.\$15,000 up to U.S.\$150,000 for overdraft facilities or from the equivalent of U.S.\$5,000 up to U.S.\$150,000 loans, with maturities of up to three years for working capital-related loans, five years for equipment-related loans and ten years for premises-related loans.

As at December 31, 2010, the Bank held outstanding small business loans equivalent to U.S.\$47 million.

#### *Kafalat*

Kafalat loans are a form of subsidized loan granted by the Bank, with the benefit of a guarantee from Kafalat. Kafalat loans are granted to customers in the industrial, agricultural, tourism, craftsmen and technological sectors to finance machinery and equipment purchases and working capital needs, in amounts up to LBP 300 million (U.S.\$200,000) for Kafalat Basic Program loans and up to LBP 600 million (U.S.\$400,000) for Kafalat Plus Program loans, in each case, for terms of up to seven years.

The Bank was a pioneer in launching and marketing Kafalat loans and Management believes the Bank currently holds the highest market share in Kafalat loans among Lebanese banks.

As at December 31, 2010, the Bank held outstanding Kafalat loans equivalent to U.S.\$105 million.

### *Insurance and Bancassurance Products*

The Bank offers several bancassurance products through ADIR Lebanon, its insurance subsidiary, which is also partially owned by Natixis Assurance. These products are divided into investment products, such as “*Insure Your Retirement*” and “*Insure Your Child’s Education*”; protection products, including various life insurance products such as “*Insure Your Life*” and “*Insure Your Income*”; and car insurance products, such as “*Insure Your Car*” and “*Motor Bodily Injury*”. These products, in addition to providing non-interest income to the Bank, present the Bank with cross-selling opportunities, which, in turn, facilitate customer retention by allowing broader penetration of the Bank’s customer base, with many customers purchasing two or more different product offerings.

As at December 31, 2010, the Bank had sold 55,000 outstanding insurance plans.

### **Commercial Banking**

Commercial banking is another core activity of the Bank. The Bank’s Commercial Banking Division comprises the Corporate Department, the Middle Market Department (SMEs) and the International Corporate Department.

The Corporate Department, which concentrates on clients with an annual turnover exceeding U.S.\$5 million, focuses on the following business lines: trading and manufacturing; real estate and contracting; project finance; and syndications and special projects.

The Middle Market Department serves clients with an annual turnover ranging between U.S.\$500,000 and U.S.\$5 million.

The International Corporate Department serves non-resident Lebanese traders and industrialists whose principal place of business is outside of Lebanon, as well as Arab traders and industrialists located in selected markets. A team of dedicated relationship managers travels regularly to these clients’ places of business. Lending criteria are established for each country, taking into account the underlying country risk and subject to approved overall risk acceptance criteria, which are regularly updated.

The Bank continues to consistently grow its commercial loan portfolio, while not compromising its credit principles. Its focus remains on the productive, rather than the speculative, sectors of the economy.

The Bank has pursued a strategy of seeking to match the tenor of the medium-term portion of its commercial portfolio with medium-term funded facilities. In this respect, the Bank ranks among the leading beneficiaries of various trade and industrial programs offered by international banks and agencies, such as the IFC, Proparco, European Investment Bank (“**EIB**”) and the Arab Trade Finance Program (“**ATFP**”), and has passed on the benefit of such funding to its customers. See “—*Funding Sources*”.

### **Financial Markets**

The Financial Markets Department serves as a platform for the Bank’s treasury, capital markets and private banking services. The Financial Markets Department comprises the Treasury Department, the Private Banking Department and the Capital Markets Department. Whilst the Treasury Department manages the Bank’s available liquidity, residual foreign currency and market positions within the guidelines and limits set by the Assets and Liabilities Management Committee (“**ALCO**”), the Private Banking Department offers investment opportunities to corporate and high-net worth customers and the Capital Markets Department manages the Bank’s equity and fixed income portfolio. The Equities Desk within the Financial Markets Department conducts limited proprietary trading in local equities and offers brokerage services for institutional and private clients, while the Fixed Income Desk acts as a market maker for Government Eurobonds. Byblos Invest Bank has had a license to hold a seat on the BSE since 2006.

In line with the Group’s strategic development to diversify its financial instruments and provide financial resources to its clients, in 2004, the Capital Markets Department launched an innovative approach to structure financial instruments tailored to its customers’ demands, including index-linked notes, equity-linked notes and commodity-linked notes, each with capital guarantees and high annual coupons, some of which were the first of their kind to be offered in Lebanon.

The Bank started its private banking activities in 2003 to attract high-net-worth clients by offering them personalized banking services, financial solutions and investment alternatives. The private banking services offered by the Bank include exposure to the financial markets, asset allocation and portfolio advisory services, as well as traditional branch banking services in a specialized, quiet and confidential environment. Private banking officers act as private money advisors and offer customized solutions, banking and brokerage services covering global markets, through the Group's many subsidiaries and branches around the world. As at December 31, 2010, the Bank had 237 high-net-worth individuals as private banking clients.

To keep in touch with its customers and expose them further to available money markets, the Financial Markets Department has developed *Financially Yours*, a daily capital markets publication.

### ***International Banking***

The International Banking Division manages and supervises the Bank's correspondent banking activities, as well as the activities of the Bank's overseas entities. The aim of the Bank's international activities is the establishment of "home-country" banks providing comprehensive and fully-developed banking services through a branch network that covers the country's territory. The Bank has more than 70 correspondent banking relationships in more than 40 countries.

Within the International Banking Division, the Financial Institutions Department plays a major role in the Bank's fund-raising operations aimed at supporting commercial lending. The Financial Institutions Department is responsible for the Bank's agreements with certain international organizations (such as ATFP, the Islamic Corporation for the Development of the Private Sector and EIB ) granting credit lines for purposes of on-lending to specific commercial entities.

The Bank provides correspondent banking services to long-standing relationship banks located principally in the MENA countries. The Bank's efforts are concentrated around the financing of trade with (principally) the MENA region, Europe and Asia. The related products include letters of credit, documentary collection, letters of guarantee, reimbursements and other payment services.

Management believes that the Bank has competitive advantages in international banking based on its strong knowledge and experience in handling and structuring trade finance products, its extensive coverage of the MENA countries, its long-established relationships with regional banks, its strong relationships with European suppliers and its ability to rapidly adapt to local banking cultures and requirements, such as Islamic banking.

The Overseas Entities Department within the International Banking Division provides support to Byblos Bank Europe, Byblos Bank Africa, Byblos Bank Syria, Byblos Bank Armenia, Byblos Bank RDC, the Bank's branches in Cyprus and Iraq and the Bank's representative offices in the United Arab Emirates and in Nigeria.

In February 2010, the International Network Division was established to supervise and control the business in all of the Bank's overseas subsidiaries, branches and representative offices in line with the Bank's strategy and business plan.

## Subsidiaries

The following table shows the Bank's equity interest in its subsidiaries as at December 31, 2010:

	As at December 31, 2010	
	Equity Interest (%)	Book Value (LBP million)
Byblos Bank Europe S.A. ....	99.95	43,583
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.....	63.95	2,082
Adonis Brokerage House S.A.L. ....	100.00	30
Adonis Insurance and Reinsurance (ADIR) Syria.....	76.00	28,864
Byblos Invest Bank S.A.L .....	99.99	29,998
Byblos Bank Africa Ltd. ....	56.86	32,268
Byblos Bank Syria S.A. ....	41.50	50,471
Byblos Bank Armenia CJSC.....	65.00	26,966
Byblos Bank RDC S.A.R.L. ....	66.67	15,075

### ***Byblos Invest Bank S.A.L.***

Byblos Invest Bank was established in October 2003 as a specialized bank pursuant to Article 1 of Decree Law 50 dated July 15, 1983. Specialized banks are governed by the Code of Money and Credit, by Decree Law No. 50/83 dated July 15, 1983 and by Central Bank Decisions No. 5996 (dated September 7, 1995), 6101 (dated February 8, 1996), 6156 (dated November 10, 1998), 7739 (dated December 21, 2000) and 7835 (dated June 2, 2001).

The object of a specialized bank is restricted to the use of its funds in medium- and long-term credit applications, direct investment, acquiring equity participations not exceeding 50% of deposits and borrowed funds whose maturity exceeds five years, the purchase and sale of financial instruments for its own account or for the accounts of other parties, the issuance of medium- and long-term guarantees against sufficient collateral and the issuance of short-term guarantees provided that they relate to medium- and long-term operations. Specialized banks may also engage in fiduciary operations and asset management on behalf of third parties, carry out brokerage operations, including trading operations on the floor of the BSE, and participate in the establishment of mutual investment funds or mutual investment companies.

Byblos Invest Bank's main objective is to allow customers to benefit from attractive products and advisory services and to offer medium- and long-term loans to customers in different economic sectors. The establishment of Byblos Invest Bank has allowed the Bank to capitalize on the advantages offered to investment banks operating in Lebanon, including certain regulatory advantages and exemptions from reserve requirements. Byblos Invest Bank has had a license to hold a seat on the BSE since 2006.

Byblos Invest Bank had total assets of LBP 1,398.0 billion (U.S.\$927.4 million) and total shareholders' equity of LBP 78.9 billion (U.S.\$52.3 million) as at December 31, 2010 and net profits of LBP 31.0 billion (U.S.\$20.5 million) for the year then ended.

### ***Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.***

ADIR Lebanon was established in 1983 as part of the Bank's strategy to expand its business to encompass activities relating to other financial services. ADIR Lebanon provides a broad range of standard and tailored insurance products to both individual and institutional clients. Its products include, among others, life, fire, general accident and medical coverage. In 2001, Natixis Assurances (formerly *Assurances Banque Populaire*) purchased a 34.0% stake in ADIR Lebanon and the Bank began marketing bancassurance products through its branch network. In May 2005, the Bank transferred its 64.0% ownership interest in ADIR Lebanon to Byblos Invest Bank. The remaining 2.0% interest in ADIR Lebanon is owned by the General Manager of ADIR Lebanon.

The Bank believes that the association with the French banking group will continue to facilitate the Bank's offerings of bancassurance products to its customers in Lebanon and selected Middle Eastern countries

ADIR Lebanon had total assets of LBP 183.7 billion (U.S.\$121.8 million) and total shareholders' equity of LBP 33.0 billion (U.S.\$21.9 million) as at December 31, 2010 and net profits of LBP 6.2 billion (U.S.\$4.1 million) for the year then ended.

***Adonis Insurance and Reinsurance (ADIR) Syria***

ADIR Syria was established in Damascus, Syria in September 2007 as part of the Bank's strategy to expand ADIR Lebanon's operations outside Lebanon to the MENA region. As at the date of this Prospectus, ADIR Syria has capital of U.S. \$25 million, with the Bank as main shareholder with a 40% stake, followed by ADIR Lebanon with a 16% stake and Byblos Bank Syria with a 5% stake, with the remaining shares held by high-net-worth Syrian investors.

ADIR Syria had total assets of 1.9 billion Syrian pounds (U.S. \$40.1 million) and total shareholders' equity of 1.4 billion Syrian Pounds (U.S. \$29.2 million) as at December 31, 2010 and net profits of 66.9 million Syrian pounds (U.S.\$1.4 million) for the year then ended.

***Adonis Brokerage House S.A.L.***

Adonis Brokerage House is an insurance and reinsurance brokerage company, established in 2002.

Adonis Brokerage House had total assets of LBP 3.1 billion (U.S.\$2.0 million) and total shareholders' equity of LBP 2,319 million (U.S.\$1.5 million) as at December 31, 2010 and net profits of LBP 544 million (U.S.\$0.4 million) for 2010.

***Byblos Bank Europe S.A.***

Byblos Bank Europe is headquartered in Brussels and has branches in London and Paris. Established in 1976, Byblos Bank Europe specializes in short-term trade finance operations for selected export companies in Europe and offers correspondent banking services for banks in the MENA region. In addition, the Paris branch provides banking services to customers located in French-speaking African countries, whilst the London branch provides services to customers located in the English-speaking countries in Africa.

Byblos Bank Europe had total assets of EUR 661.8 million (U.S.\$876.9 million) and total shareholders' equity (excluding subordinated notes) of EUR 50.2 million (U.S.\$66.5 million) as at December 31, 2010 and net profits of EUR 3.1 million (U.S.\$4.1 million) for the year then ended.

***Byblos Bank Africa Ltd.***

In 2003, after three decades of conducting business in Sudan with local banks and a selective customer base, the Bank established Byblos Bank Africa, a full-fledged Islamic bank, which is headquartered in Khartoum, Sudan and has a branch in Bahri. Byblos Bank Africa operates under Sudanese law and the supervision of the Central Bank of Sudan. As at the date of this Prospectus, the Islamic Corporation for the Development of the Private Sector and OFID also hold stakes of 8.75% and 17.5%, respectively, in Byblos Bank Africa.

Byblos Bank Africa's main lines of business are commercial banking (mainly short-term trade finance operations for selected large local and multinational companies), private banking and correspondent banking.

Byblos Bank Africa had total assets of 972.1 million Sudanese Guineas (U.S.\$313.7 million) and total shareholders' equity of 175.6 million Sudanese Guineas (U.S.\$56.7 million) as at December 31, 2010 and net profits of 23.2 million Sudanese Guineas (U.S.\$9.1 million) for the year then ended. Byblos Bank Africa is managed by the Bank pursuant to a management agreement dated July 13, 2003.

***Byblos Bank Syria S.A.***

Byblos Bank Syria became fully operational in December 2005. As at the date of this Prospectus, the Bank owns a 41.5% stake in Byblos Bank Syria; because the Bank also has management control pursuant to a technical assistance agreement dated September 15, 2005, Byblos Bank Syria is consolidated with the Bank's financial

results. As at the date of this Prospectus, the remaining share capital of Byblos Bank Syria is 51%-owned by high-net-worth individual Syrian investors, some of whom are permitted by law to own more than 5% of the total share capital, and 7.5%-owned by OFID.

Byblos Bank Syria is the sixth private bank to set up operations in Syria following new legislation in Syria to reform and modernize the banking sector. Byblos Bank Syria provides a wide range of banking services such as retail products and corporate services aimed at addressing the needs of Syrian nationals. Byblos Bank Syria endeavors to become a leading provider of financial services in Syria. Its operations are carried out from its head office in the Abou Remmaneh district (Damascus), as well as ten branches in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia and Tartous.

Byblos Bank Syria had total assets of 43.9 billion Syrian pounds (U.S.\$937.7 million) and total shareholders' equity of 4.4 billion Syrian Pounds (U.S.\$93.9 million) as at December 31, 2010 and net profits of 245.1 million Syrian Pounds (U.S.\$5.3 million) for the year then ended.

### ***Byblos Bank Armenia CJSC***

In September 2007, the Bank acquired a 100% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC and is operated as an independent subsidiary of the Bank. Following a capital increase by Byblos Bank Armenia, EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. The Bank's development of Byblos Bank Armenia is in line with the Bank's strategy of diversifying its assets and revenues and expanding overseas. Management believes that Armenia represents a significant market with particular opportunities for retail and commercial activities. Moreover, the Bank expects its expansion into Armenia will allow it to capitalize on the need to serve the Armenian diaspora in the United States, Europe, Lebanon, Syria and other parts of the world.

Byblos Bank Armenia had total assets of 28.8 billion Armenian Drams (U.S.\$80.2 million) and total shareholders' equity of 8.7 billion Armenian Drams (U.S.\$24.1 million) as at December 31, 2010 and net profits of 246.6 million Armenian Drams (U.S.\$0.7 million) for the year then ended.

### ***Byblos Bank RDC S.A.R.L.***

On March 27, 2010, the Bank participated (as sole subscriber) in the capital increase of Solidaire Banque Internationale in DR Congo by investing U.S.\$10 million in the share capital of Solidaire Banque Internationale. Following such capital increase, the Bank acquired 66.67% of the outstanding share capital of Solidaire Banque Internationale (for a purchase price of U.S.\$15 million) and, as a result, became the major shareholder of Solidaire Banque Internationale and acquired management control. On March 27, 2010, Solidaire Banque Internationale was renamed Byblos Bank RDC. Byblos Bank RDC's main activities consist of basic cash and transfers operations for Congolese companies (mainly owned by Lebanese Nationals).

Byblos Bank RDC had total assets of 31.6 billion Congolese Francs (U.S.\$19.4 million) and total shareholders' equity of 19.2 billion Congolese Francs (U.S.\$11.8 million) as at December 31, 2010.

### **Branch Network**

The Bank's headquarters are located in the centre of the Achrafieh business district in Beirut. As at December 31, 2010, according to Bankdata, based on unaudited financial statements of banks operating in Lebanon provided to Bankdata by such banks, the Bank's domestic network comprised the third largest branch network in Lebanon and represented 8.4% of all Lebanese commercial bank branches.

As at the date of this Prospectus, the Bank has 77 branches operating in Lebanon organized by regional centers (Beirut, Metn, Kesserwan-Jbeil, North Lebanon, Bekaa and South Lebanon). As at December 31, 2010, the Bank's branches in the Greater Beirut area represented 49.3% of all the Bank's branches (as compared to 54.4% in the Lebanese banking sector), whilst branches located in Mount Lebanon and North Lebanon represented 37.3% of total branches (as compared to 28.0% in the Lebanese banking sector), branches located in the Bekaa Valley represented 4.0% of total branches (as compared to 7.1% in the Lebanese banking sector) and branches located in South Lebanon represented 9.3% of total branches (as compared to 10.5% in the Lebanese banking sector).

As at the date of this Prospectus, the Bank has a network of 116 ATMs spread throughout Lebanon.

Outside Lebanon, the Bank has branches in Limassol, Cyprus, Baghdad and Erbil, Iraq and representative offices in Abu Dhabi, United Arab Emirates and Lagos, Nigeria, as well as a branch in each of Brussels, London and Paris through its subsidiary, Byblos Bank Europe; branches in Khartoum and Bahri through its subsidiary, Byblos Bank Africa; branches in Abou Remmaneh, Mazzeh (Damascus), Abbasyin, Aleppo (two branches), Hama, Homs, Hosh Blass, Lattakia and Tartous through its subsidiary, Byblos Bank Syria; branches in Yerevan, Vanadzor and Malatia through its subsidiary, Byblos Bank Armenia; a branch in Kinshasa through its subsidiary, Byblos Bank RDC.

### Loan Portfolio

As at December 31, 2010, the Bank's total loan portfolio, excluding acceptances and before deduction of loan loss provisions, was LBP 5,976.4 billion (U.S.\$3,964.4 million) and, as a result, the Bank ranked third among banks operating in Lebanon in terms of loans and advances according to Bankdata, based on unaudited financial statements of banks operating in Lebanon provided to Bankdata by such banks.

### Analysis of Loans by Type of Borrower

The following table shows the breakdown of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions), by type of borrower, as at December 31, 2009 and 2010:

	As at December 31,					
	2009			2010		
	(U.S.\$ thousand)	(LBP million)	(% of total)	(U.S.\$ thousand)	(LBP million)	(% of total)
Corporate customers .....	1,242,127	1,872,506	36.7	1,503,904	2,267,135	37.9
International customers .....	878,293	1,324,027	25.9	1,006,853	1,517,830	25.4
Middle market customers.....	192,241	289,804	5.7	228,265	344,109	5.8
Retail customers .....	849,600	1,280,772	25.1	1,018,507	1,535,400	25.7
Syndication.....	103,425	155,913	3.1	55,437	83,572	1.4
Others .....	119,627	180,337	3.5	151,458	228,322	3.8
<b>Total loans .....</b>	<b>3,385,313</b>	<b>5,103,359</b>	<b>100.0</b>	<b>3,964,423</b>	<b>5,976,368</b>	<b>100.0</b>

The Bank generally does not make loans to the public sector (excluding the purchase of Lebanese treasury bills). As at December 31, 2010, loans to the public sector represented an insignificant proportion of the Bank's total loans.

The 20 largest groups of borrowers of the Bank accounted for loans outstanding of LBP 943.7 billion (U.S.\$626 million) as at December 31, 2010, representing approximately 15.8% of total loans outstanding. The Bank's internal lending limit with respect to loans to a single borrower or group of related borrowers is 10% of combined tier I and tier II capital. Large exposures (exceeding the internal lending limits of 10% of tier I capital) are submitted to the full Board of Directors for approval. See "Central Credit Committee".

### Analysis of Loans by Geographic Distribution

The following table shows the percentage breakdown of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions), by geographic area, as at December 31, 2009 and 2010:

	As at December 31,	
	2009	2010
	(% of total)	
Beirut and suburbs .....	72.5	70.5
Mount Lebanon .....	14.5	15.4
North Lebanon .....	4.6	4.2
South Lebanon .....	4.1	4.9
Bekaa .....	4.2	5.0

As at December 31, 2010, approximately 85.9% of the Bank's loan portfolio consisted of loans to borrowers in Beirut and Mount Lebanon. This distribution generally mirrors the concentration of economic activity in Lebanon in these two areas.

#### *Analysis of Loans by Maturity*

The following table shows the maturity profile of the loan portfolio of the Bank (excluding acceptances and after deduction of loan loss provisions) as at December 31, 2009 and 2010:

	As at December 31,			
	2009		2010	
	(U.S.\$ thousand)	(LBP million)	(U.S.\$ thousand)	(LBP million)
1 month or less .....	1,199,169	1,807,747	1,426,218	2,150,023
1 month through 3 months .....	254,277	383,323	327,758	494,096
3 months through 1 year .....	491,114	740,354	687,781	1,036,829
1 to 5 years .....	817,201	1,231,931	1,029,790	1,552,408
Greater than 5 years .....	435,021	655,793	299,757	451,884
<b>Total</b> .....	<b>3,196,782</b>	<b>4,819,148</b>	<b>3,771,304</b>	<b>5,685,240</b>

Loans with maturities less than 1 month constituted 37.8% of total loans as at December 31, 2010, as compared to 37.5% as at December 31, 2009, while loans with maturities between 1 and 5 years increased, as a percentage of total loans, to 27.3% as at December 31, 2010, as compared to 25.6% as at December 31, 2009.

#### *Analysis of Loans by Economic Sector*

The following table shows the percentage breakdown of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions), by economic sector, as at December 31, 2009 and 2010:

	As at December 31,			
	2009		2010	
	(LBP million)	(% of total)	(LBP million)	(% of total)
Commercial .....	1,390,837	27.3	1,683,581	28.2
Manufacturing .....	980,256	19.2	1,143,544	19.1
Agriculture .....	73,012	1.4	70,828	1.2
Services .....	603,901	11.8	800,062	13.4
Construction .....	631,983	12.4	618,214	10.3
Retail .....	1,280,309	25.1	1,533,561	25.7
Others .....	143,061	2.8	126,578	2.1
<b>Total</b> .....	<b>5,103,359</b>	<b>100.0</b>	<b>5,976,368</b>	<b>100.0</b>

The Bank's loan portfolio is fairly diversified and stable by economic sector. Commercial loans (loans to wholesale and retail trading entities) and retail loans, as well as loans to the manufacturing sector, comprise the largest components.

### *Analysis of Loans by Currency*

The following table shows the percentage breakdown of the loan portfolio of the Bank (excluding acceptances and after deduction of loan loss provisions), by currency, as at December 31, 2009 and 2010:

	As at December 31,	
	2009	2010
	<i>(% of total)</i>	
Loans in LBP.....	13.11	16.28
Loans in foreign currencies.....	86.89	83.72
<b>Total.....</b>	<b>100.00</b>	<b>100.00</b>
Number of clients.....	80,365	102,495
Average balance per client (in LBP million).....	60.0	55.5

As at December 31, 2010, the Bank's foreign currency lending accounted for 83.72% of its loan portfolio and was principally (approximately 67.2%) in U.S. Dollars.

The Bank limits the ratio of its foreign currency loans to deposits to a maximum of 70% in conformity with the limit imposed by the Central Bank. As at December 31, 2010, the Bank's foreign currency loan-to-deposits ratio was 44.7%.

### **Lending Policies**

The Bank has developed a comprehensive set of lending policies and guidelines covering loan approval procedures, collateral requirements, credit limits and credit monitoring, provisioning and write-off policies. As its lending activities have expanded, the Bank has also developed and implemented credit risk policies designed to maintain high asset quality in its loan portfolio.

The Credit Policies and Procedures Manual (the "CPPM") covers the full range of the Bank's credit activities and applies to all domestic and international branches and offices, subject to all local laws and regulations.

The objectives of the CPPM are:

- to assist and guide the Bank's risk officers and relationship managers in developing a quality loan portfolio;
- to establish minimum criteria for sound credit practices to ensure quality assets portfolio;
- to define and establish the credit limits for each Committee;
- to establish functions and responsibilities of the Bank's staff, particularly those involved in marketing and credit functions;
- to define, establish and implement a continuous and effective system of credit administration and provide tools and techniques for monitoring the utilization of established facilities; and
- to set policies and procedures for identifying and monitoring classified accounts, creating loan loss provisions and determining write-offs.

### **Loan Approval Procedures**

The Bank conducts its credit approval process through several committees. Each Credit Committee may approve, within specific guidelines, the extension of credit for amounts not exceeding its authorized credit limits. The Central Credit Committee (the "CCC") has the authority to approve all extensions of credit for amounts not exceeding 2% of the Bank's tier I capital. Amounts ranging between 2% and 10% of the Bank's tier I capital require the authorization of the Chairman of the Board of Directors. Large exposures (exceeding the internal

lending limits of 10% of tier I capital) are submitted to the full Board of Directors for approval. See “—*Central Credit Committee*”.

*The Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee*

The principal function of the Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee (the “**Board Risk Committee**”) is supervision, oversight and monitoring of all risks taken by the Bank. Its mission is to assist the Board of Directors in fulfilling its risk management responsibilities. The Board Risk Committee is headed by a member of the Board of Directors and comprised of two other members of the Board, as well as the Group Risk Management Head (permanent attendee). As at the date of this Prospectus, the members of the Board Risk Committee are Dr. Nasser H. Saidi (appointed as chairman of the Board Risk Committee by the Board), Mr. Bassam A. Nassar, Mr. Arthur G. Nazarian and Mr. Philippe A. Saleh.

The objectives of the Board Risk Committee are:

- to review and assess the strategies, policies, structures, models and procedures in place to govern the understanding, identification, measurement, reporting and mitigation of significant banking risks;
- to review and critically assess (in compliance with Central Bank and Banking Control Commission rules and regulations) the Bank’s risk profile , including as follows in respect of:
  - o *Credit risk*: to approve or delegate approval authority for facilities exceeding the Bank’s internal lending limits imposed at management-level credit committees; to approve major credit policy exceptions, deviations and changes; and to analyze the performance of credit products by monitoring arrears, balance sheet exposure, trend analysis and industry and geographic concentration;
  - o *Market risk*: to review relevant issues relating to financial markets activities (particularly trading and derivatives), as well as market risk limits, policies and management framework;
  - o *Interest rate risk*: to assess the effects of changes in market interest rates on the Bank’s assets and liabilities and market positions;
  - o *Funding and liquidity risk*: to assess liquidity policies for the Bank, as well as the contingency plan for management of an escalated liquidity requirement (where the Bank experiences either restricted access to wholesale funding or a large and sudden increase in withdrawals of funds);
  - o *Capital adequacy risk*: to review the adequacy of the Bank’s capital and its efficient allocation to the Bank’s businesses, assess the Bank’s compliance with Basel recommendations concerning capital adequacy and ensure that the Bank is equipped with a proper capital adequacy assessment process;
  - o *Operational risk*: to assess the policies and procedures in place to control monetary losses resulting from inadequate or failed internal processes, personnel and systems or from external events;
  - o *Regulatory and reputation risk*: to monitor, on a regular basis, changes in laws and regulations that may affect the Bank’s positions locally and overseas and assess how Management anticipates and responds to changes of a market or regulatory nature that impact its reputation in the marketplace; and
  - o *Anti-money laundering and combating the financing of terrorism*: to review and ensure the Bank’s compliance with local regulations and international best practice standards (such as the standards set forth by the Financial Action Task Force), by applying proper processes and using adequate and relevant sources of information for anti-money laundering and combating the financing of terrorism.
- to assess the implementation of risk management and internal compliance and control systems throughout the Bank (including its branches and Subsidiaries);
- to monitor the ongoing effectiveness and independence of risk management functions and review and approve the budget allocated to risk management functions;
- to review issues raised by the Internal Audit Division that impact the Bank’s risk management framework or the implementation of the Bank’s risk management policies and practices;
- to consider and provide advice to the Board of Directors, when deemed required or appropriate, on the risk impact of any strategic decision that the Board may be contemplating, including considering whether any strategic decision is within the “risk appetite” established for the Bank;

- to brief the Board of Directors on the Board Risk Committee's activities and make recommendations when deemed required or appropriate;
- to promote awareness of a risk-based culture and the achievement of a balance between risk minimization and reward for accepted risks;
- to perform an annual self-assessment of the Board Risk Committee's own performance; and
- to review and assess on a regular basis the adequacy of its charter and recommend any proposed changes to the Board of Directors for approval.

The Board Risk Committee has direct access to, and receives regular reports from, Management and has the power to conduct or authorize investigations into any matter within its scope and responsibilities, as well as to assign (after notifying the Chairman of the Board of Directors) external independent parties to conduct impartial evaluations of the Bank's risk management system, policies and processes. The Board Risk Committee's mission covers the activities of the Bank, as well as of its subsidiaries.

The Board Risk Committee meets on a quarterly basis, before meetings of the Board of Directors and otherwise when deemed necessary at the request of its chairman.

#### *Central Credit Committee*

The CCC is the highest level of authority in the Bank's credit approval process. The CCC is comprised of the Vice-Chairman – General Manager, the Commercial Division Head (Deputy General Manager) and the Credit Risk Management Division Head (Assistant General Manager), as well as the Corporate Department Head when commercial files are included in the CCC's agenda (including those initiated by the Corporate Department and the International Corporate Department, as well as overseas branches and subsidiaries).

The CCC is entrusted with the following responsibilities:

- to approve credit proposals recommended by the Corporate Department, the Financial Institutions Department, the International Corporate Department and overseas subsidiaries and branches;
- to approve country limits;
- to approve credit proposals, which exceed the delegated authorities to other committees; and
- to establish and delegate approval authorities to various committees in accordance with the recommendations of the Division Head.

The CCC also operates through two sub-committees, the CCC1 and the CCC2. The CCC1 is authorized to approve loans originating from the Corporate Department, the Financial Institutions Department, the International Corporate Department and the Middle Market Department, as well as overseas branches and subsidiaries. The members of the CCC1 vary according to the business segment. The CCC2 is authorized to approve corporate loans in amounts greater than U.S.\$1,000,000 up to U.S.\$3,000,000 and has three members (the Head of the Commercial Division, the Head of the Credit Risk Division and the Head of the Corporate Department).

The following table sets forth the members and approval authorities of the CCC1 and the CCC2:

<b>Level</b>	<b>Amount approved (US\$ equivalent)</b>	<b>Business Segment</b>	<b>Members</b>
CCC1	Less or equal to US\$1,000,000	Corporate	- Head of Corporate Department - Delegated Head of Unit - Deputy Head of Credit Risk - Head of Corporate Risk
		International Corporate and overseas branches	- Head of Commercial Division - Head of Credit Risk Division - Head of International Corporate Department - Head of International Corporate Credit Risk
		Overseas Subsidiaries	- Head of Commercial Division - Head of Credit Risk Division - Head of International Corporate Credit Risk
		Financial Institutions	- Head of Commercial Division - Head of Credit Risk Division - Head of Financial Institutions - Head of Financial Institutions Credit Risk
CCC2	Less or equal to US\$3,000,000 and greater than US\$1,000,000	Corporate	- Head of Commercial Division - Head of Credit Risk Division - Head of Corporate Department

All decisions of the CCC, CCC1 and CCC2, respectively, must be approved unanimously. The CCC meets at least once a week, while the CCC1 and CCC2 each meets on an *ad hoc* basis.

#### *Loan Recovery Committee*

The Loan Recovery Committee (the “**LRC**”) is comprised of the Head of the Credit Risk Management Division (who acts as the chairman of the LRC), the Vice-Chairman—General Manager, the Head of the Commercial Banking Division, the Head of the Consumer Banking Division and the Head of the Loan Recovery Department.

The LRC has the following responsibilities:

- to assess and implement strategies for the recovery and settlement of loans that have been transferred to the Loan Recovery Department;
- to approve recovery and work-out plans prepared by the Loan Recovery Department;
- to approve legal actions against defaulting borrowers;
- to approve write-offs upon recommendations from different divisions and the Loan Recovery Department;
- to analyze all the statistical data compiled by the Loan Recovery Department and follow-up the evolution of the Bank’s loan portfolio; and
- to establish and delegate approval limits for various sub-committees.

All decisions of the LRC must be approved by the majority of the members, including the chairman of the LRC or his delegate. The LRC meets once a month or more frequently depending on the materiality and urgency of the agenda items to be discussed.

*Middle Market Credit Committee*

The Middle Market Credit Committee (the “MMCC”) is comprised of the Credit Risk Division Head, the Commercial Division Head, the Middle Market Department Head, the Middle Market Credit Risk Head and the relevant Regional Manager, with active participation by such members varying depending on the amount and type of the credit facility under consideration.

The MMCC is responsible for approving, through its relevant members (subject to their respective authority levels), credit proposals generated from the Middle Market Department. Credit approvals must be granted by the members of the sub-committee (MMCC1, MMCC2 or MMCC3) with the appropriate credit approval authority in accordance with following:

			Clean or Secured basis (excluding Cash Collateral)
MMCC3	Credit Risk & Commercial Division Heads		U.S.\$1,250,000
	MMCC2	Middle Market Credit Risk Department	U.S.\$750,000
		MMCC1	Middle Market Department Head
		Regional Manager	—

At the lowest level, decisions by the MMCC require the mandatory joint approval of the Middle Market Department Head and the Middle Market Credit Risk Department Head. In the event of divergences, including the rejection of a loan application by the relevant Risk Officer, the credit application will be resubmitted to the next higher level for a final decision. At the highest level, decisions by the MMCC require the mandatory joint approval of the Credit Risk Management Division Head and the Commercial Division Head, which, in turn, have the authority to resubmit an application to the CCC if the joint approval is not obtained. Referral to the CCC is required for accounts exceeding the MMCC limit, for accounts classified at level 3 or below and when there are deviations from prescribed guidelines. See “—Loan Classifications”.

*Retail Credit Committee*

The Bank has numerous Retail Credit Committees, with varying authorities to approve proposals relating to different retail loans, within defined limits. The prerogatives of these committees differ depending on the segment of the retail loan such as, *inter alia*, personal, housing, Kafalat, wedding, travel and credit cards.

*Branch Credit Committee*

Each branch has its own Branch Credit Committee comprised of the relevant Branch Manager, Assistant Branch Manager and Retail Banking Officer.

Branch Credit Committee functions and responsibilities are to approve any loan, which does not exceed U.S.\$500,000 and is covered by cash collateral. Due diligence is completed with respect to the customer with the aim of ensuring that each qualifying transaction is commercially sound and in full compliance with the Bank’s money laundering procedures. In the event that a loan is requested for an amount exceeding U.S.\$500,000, the application is submitted through the relevant approval channels.

***Lending Limits***

Central Bank Decision No. 7055 dated August 13, 1998, as amended by Intermediary Decision No. 9456 dated November 9, 2006, sets the maximum allowable weighted credit limit for loans to a single borrower (or a group of related borrowers) at (i) 20% of a bank’s tier I capital with respect to loans extended to any borrowers (or a group

of related borrowers), (ii) 20% of a bank's tier I capital with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings of A+ and above and (iii) 10% of a bank's tier I capital with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings below A+, provided that (x) the aggregate exposure for countries rated from A to BBB- is not to exceed 200% of the bank's tier I capital and the aggregate exposure to each of these countries is not to exceed 50% of the bank's tier I capital or (y) the aggregate exposure for countries rated below BBB- is not to exceed 100% of the bank's tier I capital and the aggregate exposure to each of these countries is not to exceed 25% of the bank's tier I capital. See "*The Banking Sector and Banking Regulation in Lebanon—Banking Regulations—Credit Limits*". The Bank is currently in compliance with this Decision.

The Bank undertakes regular reporting on its loan portfolio industry distribution to make sure it is well diversified. Analyses of various sectors of the Lebanese economy, namely for those sectors where the concentration is higher, are also performed and updated in order to monitor industry risk. An internal rating system, Moody's Risk Advisor, which complies with the Basel II Accord, has been implemented and the model was reviewed to meet local macroeconomics and market structure conditions. The internal rating system is a judgmental, multi-criteria model formed of 10 grades and a multitude of financial ratios and business criteria, where borrower rating is essentially based on a peer ratio comparison complemented by a trend ratio analysis and a qualitative assessment of the company and the business. See "*—Risk Management—Portfolio Management and Credit Risk Analytics (PM CRA)*".

#### ***Methodology of Valuation of Collateral***

The Bank's method of valuing the collateral supporting any loan made by it varies depending upon the type of collateral. With respect to real estate, the Bank appoints one or more independent appraisers, depending on the geographic location and the value of the property, to conduct a site survey and provide an estimated market value of the appraised property. Property rights and liens in respect of the appraised property are generally reviewed on an annual basis or, if needed, on a semi-annual or more frequent basis.

For collateral consisting of securities, the Bank accepts only securities that are traded on organized exchanges and lending is capped at 50% of the market value of these securities. The market value of exchange-traded securities is monitored by the Capital Markets Department. In the event of any decrease in market value, the borrower is immediately required to provide additional collateral or reduce the loan outstanding amount.

With respect to cash collateral, collateral denominated in an OECD currency (other than the currency of the facility) is required in the amount of 110% to 120% of the principal amount of the facility. In cases where the collateral and the facility are denominated in the same currency, the required coverage is 100% to 110% of the principal amount of the facility. The required coverage for collateral denominated in Lebanese Pounds is 140% to 150% of the principal amount of the facility.

The following table shows a breakdown of the Bank's loan portfolio Bank (excluding acceptances and after deduction of loan loss provisions), by type of collateral, as at December 31, 2009 and 2010:

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	(% of total)	
Unsecured.....	37.47	36.86
Secured by financial securities .....	0.32	4.56
Secured by real guarantees.....	16.58	13.86
Secured by bank guarantees.....	3.47	0.76
Secured by cash collateral.....	8.42	10.49
Secured by personal guarantees .....	33.74	33.48
<b>Total</b> .....	<b>100.00</b>	<b>100.00</b>

Article 152 of the Code of Money and Credit and Central Bank Decision No. 7776 dated February 21, 2001, as amended from time to time, provide that advances and credit facilities to directors or managers of banks or to companies having common directors with a bank must not exceed in aggregate 2% of the bank's shareholders' equity; such ceiling may reach in aggregate 5% of the bank's shareholders' equity, provided that the loans (i) are

covered by a real guarantee or bank guarantee and (ii) were subject to a prior approval of the Board of Directors and General Meeting. The Bank was in compliance with Article 152 of the Code of Money and Credit in all respects, as at December 31, 2010, since it had a net direct and indirect exposure to related parties of LBP 1,207 million (U.S.\$0.8 million), representing, in the aggregate, only 0.07% of the Bank's shareholders' equity. Management believes the Bank remains in compliance with Article 152 of the Code of Money and Credit as at the date of this Prospectus.

### ***Credit Review Procedures for Approval***

Each account manager who originates a loan remains vested with the responsibility of monitoring the Bank's exposure to the relevant customer and to renew the file on an annual basis or on such more frequent basis as may be warranted by the status of each loan.

Credit monitoring within the Credit Risk Management Division is carried out through specialized units which monitor the loan portfolio as a whole and individual loans, granted to small, medium, corporate and international clients, respectively. In addition, credit officers review and approve or, depending on the size and type of loan, make recommendations for submission to the relevant credit committees.

In addition, the loan portfolio is reviewed by a separate Credit Review Department as part of the Internal Audit Division. This review is performed on a sampling of credit facilities, taking into account all direct, indirect and contingent outstanding liabilities, across loans booked by the Bank's Head Office or in another unit of the Bank or its subsidiaries. The main objective is to provide an independent appraisal of the loan portfolio and process and ensure compliance with the Bank's Credit Policy and Procedures. Findings and comments that have not been regularized are reported to the Audit Committee through the quarterly report regularly submitted by the Internal Audit Department.

The Chairman or the Board of Directors may at its option appoint external auditors to undertake an independent risk asset review, either of selected countries or units or of all units.

### ***Loan Classifications***

On November 10, 1998, the Central Bank issued Decision No. 7159, which requires all banks and financial institutions in Lebanon to classify loans according to five categories of risk: (i) ordinary/regular loans (sub-divided into (a) unconditional and (b) incomplete documentation); (ii) loans to be followed-up and regularized (watch list); (iii) less than ordinary/sub-standard loans; (iv) doubtful loans; and (v) bad or loss loans. The Bank's internal classification system described below, which has been followed since 1992, generally incorporates and refines the requirements set out in Central Bank Decision No. 7159. The Bank's internal classification criteria are more detailed than those of the Central Bank. The Bank continues to adhere to its own loan classification criteria for internal purposes, although reports to the Central Bank and the Banking Control Commission are made in accordance with Central Bank classifications. Management believes that, as at the date of this Prospectus, the Bank is in compliance with all related requirements.

Central Bank loan classifications are more fully described as follows:

- ***Classification 1*** covers regular loans. This classification is subdivided as follows:
  - o *Classification 1A (unconditional)* covers loans that are fully current and the orderly repayment of which is without a doubt; adequacy of the borrower's internal cash flows ensures regular replenishment of the accounts to serve obligations on time; updated financials are available and collateral (if existing) ensures alternative exits; and
  - o *Classification 1B* covers loans that are current, but where credit information or documentation remains to be completed.

All Classification 1 loans, irrespective of the sub-class, are considered acceptable risks and no losses are foreseen.

- ***Classification 2 (watch list)*** covers loans the principal and interest of which are generally covered by the financial strength of the borrower or by adequate collateral. Such loans, however, are placed on the watch list (rather than being classified as regular loans, Classification 1) due to one or more of the

following criteria or other similar credit issues: (i) the unavailability of recent financial statements; (ii) the absence of a recent collateral valuation leading to the lack of information relating to the borrower's or guarantor's (if any) financial means; or (iii) the decreasing profitability or insufficient cash flow of the borrower leading to occasional excesses over approved lines.

No loss is foreseen at this stage but early attention, including substantive discussions with borrowers, is required to correct deficiencies.

- **Classification 3 (substandard)** covers loans the normal repayment of which may be or has been jeopardized by reason of: (i) a substantial deterioration in the borrower's cash-flows during more than two consecutive years; (ii) significant weaknesses in the value of collateral (especially if reimbursement stems from liquidation of submitted guarantees); (iii) recurrent delays (not exceeding 90 days) in settling payments; or (iv) the partial or total use of the proceeds from the credit facility for purposes other than those originally intended.

Classification 3 is also warranted when principal or interest payments are over 90 days past due (from the scheduled payment date), in which case, interest must be placed on a non-accrual basis.

- **Classification 4 (doubtful)** covers loans showing weaknesses for the reasons listed under Classification 3 as well as: (i) the absence of cash flow for the past six months; or (ii) the failure to comply over three consecutive months with the restructuring of the loan.

Non-accrual of interest and commissions is required, while partial provision against principal should be reserved.

- **Classification 5 (loss)** covers loans that are regarded as uncollectible.

Classification 5 covers credits regarded as uncollectible after it is established that no further repayment or recovery is possible either from borrowers' cash flow or from the liquidation of the collateral. A full provision should be reserved against amounts so classified.

The frequency of the Bank's review of problem loans is dependent upon the applicable classification. Loans that are classified as Classification 1 or Classification 2 are reviewed by the Bank on a monthly basis, whereas loans that are classified as Classification 3 or Classification 4 are reviewed on a quarterly basis.

#### **Analysis of Loans by Classification**

The following tables set forth the breakdown of the Bank's loan portfolio, by classification, on a gross and net basis, respectively, as at December 31, 2009 and 2010:

	<b>As at December 31,</b>			
	<b>2009</b>		<b>2010</b>	
	<i>(LBP million)</i>	<i>(% of total)</i>	<i>(LBP million)</i>	<i>(% of total)</i>
<b>Gross balances:</b>				
Good loans.....	4,730,021	92.7	5,641,404	94.4
Watch loans.....	227,746	4.5	190,380	3.2
Substandard loans.....	11,204	0.2	2,317	0.04
Doubtful loans.....	61,066	1.2	35,856	0.6
Bad loans.....	73,322	1.4	106,412	1.8
<b>Total.....</b>	<b>5,103,359</b>	<b>100</b>	<b>5,976,369</b>	<b>100.0</b>

	As at December 31,			
	2009		2010	
	(LBP million)	(% of total)	(LBP million)	(% of total)
<b>Net balances:</b>				
Good loans.....	4,730,021	94.9	5,641,404	96.4
Watch loans.....	227,746	4.6	190,380	3.3
Substandard loans .....	5,455	0.1	1,640	0.03
Doubtful loans.....	19,497	0.4	16,260	0.3
Bad loans .....	—	—	—	—
<b>Total.....</b>	<b>4,982,719</b>	<b>100</b>	<b>5,849,684</b>	<b>100.0</b>

As at December 31, 2010, good and watch loans represented 97.6% of gross loans and 99.7% of net loans, as compared to 97.2% and 99.5% as at December 31, 2009. The continuing predominant share of good and watch loans to total loans reflects the overall quality of the loan portfolio.

Substandard loans represented 0.04% of gross loans and 0.03% of net loans as at December 31, 2010, as compared to 0.2% and 0.1% as at December 31, 2009. Doubtful and bad loans represented 2.4% of gross loans and 0.3% of net loans as at December 31, 2010, as compared to 2.6% and 0.4% as at December 31, 2009.

Pursuant to Banking Control Commission Circular No. 240 dated January 2, 2004, banks are required to transfer any bad debt more than two years overdue to off-balance sheet accounts. In compliance with this Circular, the Bank wrote off bad debts (including related provisions and unrealized interest) of LBP 98.7 billion (U.S.\$65.5 million) for the year ended December 31, 2010.

#### Provisions for Loan Losses

The Banking Control Commission retains the right to review periodically the entire loan portfolio of every Lebanese bank and has power to impose provisions relating to loans if it assesses them as doubtful or inadequately secured. The Banking Control Commission requires specific provisions to be established for identified credit losses. Full or partial provisions must be made in respect of doubtful loans in accordance with applicable Central Bank regulations. Furthermore, doubtful loans must be put on a non-accrual basis and any interest subsequently received booked on a cash basis, as and when received. Doubtful loans are those as to which the Central Credit Department has determined that the borrower may be unable to meet principal or interest payment obligations, or performance is otherwise unsatisfactory, unless the loans are adequately secured and/or are in the process of liquidation. The Bank deems its loans in Classifications 4 and 5 to be doubtful loans.

Pursuant to Central Bank Basic Decision No. 7129, dated October 15, 1998, Lebanese banks are required to allocate, on an yearly basis, a general reserve (which is included in tier I capital) for unspecified risks out of net profits in an amount equal to a minimum of 0.2% and a maximum of 0.3% of risk-weighted assets. The reserve for unspecified banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from Decision 7129's issuance and 2.0% of risk-weighted assets within 20 years from Decision 7129's issuance.

Effective December 14, 2001, the Central Bank requires banks to constitute provisions in LBP on newly-classified doubtful and bad debts irrespective of their currency of denomination. The Bank, however, is permitted to translate a portion of these provisions into foreign currency to the extent of its profits realized in foreign currency.

The Bank's policy is to maintain a high level of adequate provisions against doubtful and bad loans. As a result, the ratio of provisions to bad and doubtful loans reached 100.0% as at December 31, 2009 and 2010.

The following table shows the level of the Bank's provisioning and coverage ratios as at December 31, 2009 and 2010:

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(LBP million)</i>	
Classification 3 loans (substandard loans) .....	11,204	2,317
Classification 4 & 5 loans (non-performing loans).....	134,388	142,268
<b>Total classified loans</b> .....	<b>145,592</b>	<b>144,585</b>
Specific provisions for loan losses.....	56,800	67,018
General provisions.....	65,317	79,516
<i>out of which general provisions for retail</i> .....	20,832	22,736
Reserved interest (substandard loans).....	5,749	677
Reserved interest (non-performing loans).....	58,901	58,990
<b>Total provisions and cash collateral</b> .....	<b>185,957</b>	<b>206,202</b>
Classified loans (3) / Total loans.....	0.2%	0.04%
Classified loans (4 & 5) / Total loans.....	2.6%	2.4%
Total classified / Total loans.....	2.8%	2.4%
Total provisions / Total loans.....	3.6%	3.5%
Non-performing loans provisions /Non-performing loans <sup>(1)</sup> .....	85.5%	88.6%
Total provisions / Total classified loans (3, 4 & 5) <sup>(1)</sup> .....	82.9%	87.6%

Note:

(1) Including specific provisions and reserved interest.

In 2010, the Bank continued to follow a conservative classification for its non-performing loans within the context of the overall weakness of the Lebanese economy, which continues to experience oversupply, significant competition in several sectors and an increase in operating costs coupled with lower disposable incomes, which may lead to a consolidation of different businesses.

Customer advances (other than consumer loans) receive a non-accrual status immediately if, in the opinion of Management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement or when principal or interest is 90 days or more past due. Interest accrued but not collected at the date of the loan receives a non-accrual status and is reserved against interest income.

Specific provisions are also made against loans and off-balance sheet items based on Management's ongoing assessment of the Bank's credit exposure, prevailing and anticipated domestic and international economic conditions, the current and projected financial status and creditworthiness of borrowers, certain off-balance sheet credit risks, the nature and level of non-performing loans identified as potential problems, past and expected loss experience and other factors deemed relevant by Management. A major factor in determining the level of specific provisions is the adequacy of collateral (*i.e.*, where the Bank provides for the difference between the amount of the non-performing loan and the current value of the real collateral). Specific provisions for retail loans are based principally on delinquencies and historical loss rates. The Bank believes that it maintains the highest ratio of total provisions to total classified loans among the top banks in Lebanon.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote.

The Bank did not experience any significant loan losses during 2009 and 2010, and does not anticipate recording significant loan losses in 2011.

### **Investment and Trading**

The Bank's investment portfolio includes Lebanese treasury bills and other governmental bills, bonds and financial instruments with fixed income and marketable securities and financial instruments with variable income.

The following table sets forth the breakdown of the Bank's securities portfolio by type of instrument and currency as at December 31, 2009 and 2010:

	<b>As at December 31,</b>			
	<b>2009</b>		<b>2010</b>	
	<i>(LBP million)</i>	<i>(% of total)</i>	<i>(LBP million)</i>	<i>(% of total)</i>
<b>Lebanese and other governmental treasury bills and bonds</b>				
Lebanese treasury bills in LBP <sup>(1)</sup> .....	2,865,576	32.04	2,668,930	28.45
Lebanese governmental bonds in foreign currency .....	2,218,660	24.81	1,588,567	16.94
<b>Bonds and financial assets with fixed income.....</b>				
Corporate bonds in foreign currency.....	431,197	4.82	557,490	5.94
Corporate certificates of deposit in foreign currency .....	42,904	0.48	22,669	0.24
Central Bank certificates of deposits in LBP and foreign currency <sup>(2)</sup> .....	3,293,987	36.83	4,448,481	47.43
<b>Shares, securities and financial assets with variable income in LBP and foreign currency .....</b>				
	<b>99,703</b>	<b>1.12</b>	<b>110,771</b>	<b>1.18</b>
<b>Collective provisions.....</b>	<b>(8,758)</b>	<b>(0.10)</b>	<b>(16,681)</b>	<b>(0.18)</b>
<b>Total .....</b>	<b><u>8,943,269</u></b>	<b><u>100.00</u></b>	<b><u>9,380,227</u></b>	<b><u>100.00</u></b>

***Lebanese and other governmental treasury bills and bonds***

Following the sale of a portion of its portfolio, Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currency) decreased, as a percentage of the Bank's total securities portfolio, to 45.4% as at December 31, 2010, as compared to 56.9% as at December 31, 2009. Investments in Central Bank certificates of deposits (in both Lebanese Pounds and foreign currency) represented 47.4% of the Bank's portfolio as at December 31, 2010, as compared to 36.8% as at December 31, 2009.

The following tables show the breakdown of the Bank's portfolio of Lebanese and other governmental securities by maturity as at December 31, 2009 and 2010:

	<b>As at December 31, 2009</b>		
	<b>Amount denominated in LBP</b>	<b>Amount denominated in foreign currency (equivalent in LBP)</b>	<b>Total Amount</b>
	<i>(LBP million)</i>		
<b>Maturity</b>			
Up to 1 month.....	49,809	1,709	51,518
1 to 3 months.....	306,417	165,867	472,284
3 months to 1 year.....	387,847	214,192	602,039
1 year to 5 years.....	2,121,503	563,148	2,684,651
Over 5 years.....	—	1,273,744	1,273,744
<b>Total.....</b>	<b><u>2,865,576</u></b>	<b><u>2,218,660</u></b>	<b><u>5,084,236</u></b>

	<b>As at December 31, 2010</b>		
	<b>Amount denominated in LBP</b>	<b>Amount denominated in foreign currency (equivalent in LBP)</b>	<b>Total Amount</b>
		<i>(LBP million)</i>	
<b>Maturity</b>			
Up to 1 month .....	44,758	11,541	56,299
1 to 3 months .....	490,809	44,691	535,500
3 months to 1 year .....	887,076	173,089	1,060,165
1 year to 5 years .....	945,489	682,046	1,627,535
Over 5 years .....	299,181	678,816	977,997
<b>Total.....</b>	<b>2,667,313</b>	<b>1,590,183</b>	<b>4,257,496</b>

### ***Investments by Classification***

The Bank's investment securities portfolio is divided between investments held for trading and non-trading investments and financial assets, which are further classified pursuant to IAS 39 as set outlined below.

#### *Trading Investments*

Investments held for trading are initially recognized at cost and subsequently re-measured at fair value. All related realized and unrealized gains or losses are included in gains and losses arising from trading investments. Interest earned or dividends received are included in interest and similar income and dividend income, respectively.

#### *Non-trading investments and financial assets*

Pursuant to IAS 39, financial assets are classified as follows:

- Held-to-maturity investments – non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold these investments to maturity. Investments intended to be held for an undefined period, however, are not included in this classification;
- Investments carried at fair value through profit and loss account – investments are classified as fair value through profit and loss account if the fair value of the investment can be reliably measured and the classification as fair value through profit and loss account is in accordance with the documented strategy of the Bank;
- Investments carried at amortized cost (loans and receivables) – loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market; and
- Available-for-sale investments – available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified to any of the three preceding categories.

Financial assets are initially measured at fair value, plus, in the case of an investment not carried at fair value through profit or loss, directly attributable transaction costs. The Bank classifies its financial assets at the time of initial recognition and, where allowed and appropriate, re-evaluates its classifications at each financial year-end.

The following tables set forth a breakdown of the Bank's investment securities portfolio, by classification, as at December 31, 2009 and 2010:

	As at December 31, 2009					
	Held for trading	Held to maturity	Available for sale	Loans and receivables	Accrued interest	Total
	<i>(LBP million)</i>					
Central banks' certificates of deposit .....	—	—	—	3,225,577	68,410	3,293,987
Lebanese and other governmental treasury bills and bonds .....	152,988	493,582	1,516,505	2,820,948	100,213	5,084,236
Bonds and financial assets with fixed income .....	22,565	58,097	162,152	179,829	8,554	431,197
Shares, securities and financial instruments with variable income....	24,918	—	74,785	—	—	99,703
Certificates of deposits. ....	—	—	—	42,179	725	42,904
Collective provisions .....	—	(4,909)	—	(3,849)	—	(8,758)
<b>Total by category .....</b>	<b>200,471</b>	<b>546,770</b>	<b>1,753,442</b>	<b>6,264,684</b>	<b>177,902</b>	<b>8,943,269</b>

	As at December 31, 2010					
	Held for trading	Held to maturity	Available for sale	Loans and receivables	Accrued interest	Total
	<i>(LBP million)</i>					
Central banks' certificates of deposit .....	—	—	—	4,366,501	81,980	4,448,481
Lebanese and other governmental treasury bills and bonds .....	142,007	385,789	1,433,865	2,203,391	92,445	4,257,497
Bonds and financial assets with fixed income .....	33,929	42,790	316,422	155,342	9,007	557,490
Shares, securities and financial instruments with variable income....	26,447	—	84,324	—	—	110,771
Certificates of deposits. ....	—	—	—	22,613	56	22,669
Collective provisions .....	—	(3,722)	—	(12,959)	—	(16,681)
<b>Total by category .....</b>	<b>202,383</b>	<b>424,857</b>	<b>1,834,611</b>	<b>6,734,888</b>	<b>183,488</b>	<b>9,380,227</b>

### Funding Sources

The Bank's sources of funds are comprised of Central Bank loans, deposits from banks and financial institutions, customers' deposits, liabilities under financial instruments, subordinated notes and shareholders' equity. See "Overview of the Bank—The Bank's Objectives and Strategy".

The primary source of funds for the banking sector in Lebanon is customers' deposits, which represented 83.2% of total funding for the sector and 80.2% of total funding for the Bank, respectively, as at December 31, 2010. See "—Business Description—Retail Banking". In addition, the Bank issues certificates of deposit and various structured products (index-linked notes, equity-linked notes and commodity-linked notes) and has entered into a number of debt facilities.

The following tables show the breakdown of the Bank's sources of funding as at December 31, 2009 and 2010 for the Bank's LBP-based funds and U.S. Dollar-based funds, respectively:

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(LBP million)</i>	
<b>LBP-Based Funds</b>		
Loans from the Central Bank .....	—	8,814
Banks and financial institutions .....	47,562	3,891
Sight deposits .....	706	2,295
Time deposits .....	46,856	1,596
Accrued interest .....	3,035	48
<b>Total LBP placements from banks .....</b>	<b>50,597</b>	<b>12,753</b>
Customers' deposits		
Current deposits .....	257,599	307,244
Term deposits .....	5,736,894	6,689,401
Blocked deposits .....	142,195	173,538
Related party deposits .....	50,328	61,504
Accrued interest .....	37,889	41,929
<b>Total LBP customers' deposits .....</b>	<b>6,224,905</b>	<b>7,273,616</b>
Paid up capital .....	516,835	689,113
Reserves and premiums .....	292,064	338,564
Retained earnings .....	20,338	7,957
Net income for the year <sup>(1)</sup> .....	168,572	228,151
Revaluation variance accepted a supplementary capital .....	1,978	1,978
Cumulative changes in fair value .....	42,333	32,037
Minority interest .....	10,639	31,040
<b>Total LBP capital funds .....</b>	<b>1,052,759</b>	<b>1,328,840</b>
<b>Total LBP funds .....</b>	<b>7,328,261</b>	<b>8,615,209</b>

Note:

(1) Before dividend distributions.

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(U.S.\$ thousand)</i>	
<b>U.S. Dollar-based funds</b>		
Banks and financial institutions .....	751,595	635,380
Sight deposits .....	245,518	141,497
Time deposits .....	506,077	493,883
Accrued interest .....	365	1,084
<b>Total foreign currency placements from banks.....</b>	<b>751,960</b>	<b>636,464</b>
Customers' deposits .....		
Sight deposits .....	1,100,572	1,464,144
Time deposits .....	4,646,063	5,131,534
Saving deposits .....	329,597	410,996
Related party deposits.....	58,206	33,228
Accrued interest .....	22,287	27,469
<b>Total foreign currency customers' deposits .....</b>	<b>6,156,725</b>	<b>7,067,371</b>
Certificates of deposit .....	141,600	141,600
Arab Trade Finance.....	9,594	9,101
Loans from FMO .....	1,071	-
Proparco .....	9,864	7,198
OPEC Fund for International Development .....	—	10,000
European Investment bank.....	182,011	168,961
Govco Incorporated New York.....	74,179	70,357
Agence Française de Développement.....	34,194	37,614
Citibank .....	9,750	8,667
Equity Linked Notes .....	49,418	—
Unamortized front end fees and cost of issuance .....	(5,034)	(733)
Accrued interest .....	6,284	5,932
<b>Total foreign currency debt .....</b>	<b>512,931</b>	<b>458,697</b>
Subordinated notes <sup>(1)</sup> .....	32,010	32,072
Convertible subordinated notes <sup>(1)</sup> .....	166,752	169,138
Reserves and premiums .....	467,309	628,563
Notes issued .....	—	9,936
Retained earnings.....	3,062	5,656
Net income for the year <sup>(2)</sup> .....	25,245	18,321
Treasury shares.....	(117)	(10,739)
Foreign currency translation reserve .....	8,885	(6,352)
Cumulative changes in fair value .....	15,717	14,564
Minority interest.....	74,567	85,565
<b>Total foreign currency capital funds<sup>(3)</sup> .....</b>	<b>793,430</b>	<b>946,724</b>
<b>Total foreign currency funds .....</b>	<b>8,215,046</b>	<b>9,109,257</b>

Notes:

(1) Including accrued interest payable and up-front fees.

(2) Before dividend distributions.

(3) Excluding "Revaluation variance".

As a part of the Bank's strategy to match its longer-term loan portfolio with longer-term funding sources, the Bank has entered into several types of long-term funding resources, as set out in the above tables and described in more detail below:

#### **Central Bank Soft Loans**

The Bank has obtained soft loans from the Central Bank to finance certain of its acquisitions, including the Wedge Bank merger; following the merger of Wedge Bank into the Bank, the Bank entered into a loan agreement with the Central Bank in the principal amount of LBP 40 billion (U.S.\$26.5 million) in November 2001. The loan was fully drawn down and matured and was fully repaid in accordance with its terms in November 2009.

### ***Arab Trade Finance Program (“ATFP”)***

The ATFP was established by the Arab Monetary Fund to provide financing of Inter-Arab trade transactions at low and competitive interest rates in order to enhance the competitive abilities of traders in the Arab World and Arab trade with non-Arab countries. Crude oil is now eligible for ATFP financing.

In March 2010, the Bank renewed a U.S.\$25 million credit line agreement with the ATFP. The line is available to the Bank, on a revolving basis, with numerous drawdowns and settlements being made on a semi-annual basis (up to a maximum of ten settlements). Drawdowns can be effected at any time within the agreement’s validity (one year renewable) and bear interest at various LIBOR-based rates (six month-LIBOR at the date of each disbursement). As at the date of this Prospectus, the Bank has drawn down U.S.\$15.5 million under this credit facility, U.S.\$15.3 million of which remains outstanding. This line with Arab Trade Finance program is expected to be renewed in June 2011.

### ***Proparco***

In April 2000, the Bank signed an agreement with Proparco, a French development bank owned by the state institution “*Agence Française de Développement*”, pursuant to which the Bank was permitted to borrow up to EUR 10 million to finance general-purpose projects. This loan was disbursed in three installments, as follows:

- in December 2000, the Bank drew down U.S.\$3,232,000, which bore interest at a rate equal to six-month LIBOR plus 225 basis points and was fully repaid in April 2011;
- in May 2001, the Bank drew down a further amount of U.S.\$3,500,000, which also bore interest at the rate equal to six-month LIBOR plus 225 basis points and was fully repaid in April 2011; and
- in December 2001, the Bank drew down a further amount of approximately U.S.\$2 million, which bears interest at a fixed rate of 7.43% and is repayable in October 2011.

In September 2003, the Bank signed a second similar agreement with Proparco, also consisting of a credit line amounting to EUR 10 million. This loan was disbursed in four installments as, follows:

- on April 9, 2004, the Bank drew down U.S.\$3,600,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting April 30, 2004) and capital repayments (starting October 31, 2006 and ending April 30, 2014 of U.S.\$225,000 each);
- on September 29, 2004, the Bank drew down a further amount of U.S.\$3,000,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting October 31, 2004) and capital repayments (starting April 30, 2007 and ending October 31, 2014 of U.S.\$187,500 each);
- on December 29, 2004, the Bank drew down a further amount of U.S.\$3,150,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting April 30, 2005) and capital repayments (starting October 31, 2007 and ending April 30, 2015 of U.S.\$196,875 each); and
- on April 15, 2005, the Bank drew down a further amount of U.S.\$3,000,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting April 30, 2005) and capital repayments (starting October 31, 2007 and ending April 30, 2015 of U.S.\$187,500 each).

### ***Agence Française de Développement***

In January 2007, the Bank signed an agreement with the French state-owned institution “*Agence Française de Développement*”, pursuant to which the Bank was permitted to borrow up to EUR 25 million to finance general-purpose, working capital and treasury needs of SME’s, which suffered from the July 2006 War. The Bank was allowed to draw down the loan through the end of July 2009 in up to five draw-downs, three of which were drawn down by the Bank, as follows:

- in May 2007, the Bank drew down EUR 3,334,000, which bears interest at the rate equal to the EURIBOR minus 25 basis points and is repayable in April 2017;
- in February 2008, the Bank drew down an additional EUR 5,690,175, which also bears interest at the rate equal to EURIBOR minus 25 basis points and is repayable in April 2017; and
- in June 2009, the Bank drew down an additional EUR 14,840,990, which also bears interest at the rate equal to EURIBOR minus 25 basis points and is repayable in April 2017.

***OPEC Fund for International Development (OFID)***

In October 2001, the Bank signed an agreement with OFID, pursuant to which the Bank was permitted to borrow up to U.S.\$5 million over seven years to finance projects undertaken by small and middle market enterprises. The loan was fully drawdown in January 2002 and matured in installments, with a final maturity in February 2009.

In May 2010, Byblos Bank Africa signed a mudaraba agreement with OFID, pursuant to which OFID was permitted to invest in Byblos Bank Africa U.S.\$5 million over five years. The net profit of the investment amount will be shared as follows: 70% of the net profit will be paid over to OFID and 30% of the net profit will be retained by Byblos Bank Africa. The investment is repayable semi-annually and the average net investment return ranges between 8% and 12%.

In September 2010, Byblos Bank Armenia signed an agreement with OFID, pursuant to which Byblos Bank Armenia was permitted to borrow up to U.S.\$5 million over three years. The loan is repayable semi-annually and bears an annual interest rate of 8%.

***European Investment Bank***

In 1998, 1999 and 2007, respectively, EIB granted the Republic of Lebanon three APEX Global loans. The first two loans are in the amount of EUR 30 million each, while the third loan is in the amount of EUR 60 million. These loans were disbursed, respectively, to provide financing for the hotel sector in Lebanon, financing for the expansion, modernization and rehabilitation of the industrial plants and financing for several other sectors of the economy. All APEX Global loans are managed by the Central Bank. The proceeds were on-lent to eligible SMEs through 14 major Lebanese commercial banks (acting as intermediary banks), including the Bank.

Within this framework, the Bank signed three agreements with the Central Bank dated November 19, 2003, February 19, 2004 and October 8, 2007, respectively, granting the Bank the right to drawdown specific amounts under each loan, with maturities of 10, 8 and 12 years, respectively, subject to annual payments of principal and interest. In each case, interest is calculated in line with the average LIBOR rate paid for Euros or U.S. Dollars, as the case may be, in effect on the date of the disbursement. The Bank has made several further drawdowns of the three types of financings, most of which mature in 2020.

On December 22, 2005, the Bank and EIB signed a finance contract, without the need of a state guarantee, in the amount of EUR 50 million for the financing of small and medium-sized private sector projects approved by EIB and to be carried out by private sector enterprises located in Lebanon, as well as selected public sector infrastructure investments. The credit line was made available to the Bank on January 22, 2006. The loan bears interest at the annual rate of 6.13%, which is payable semi-annually, and is repayable in annual installments of principal from January 23, 2009 through January 23, 2016.

On April 27, 2006, Byblos Bank Syria signed an agreement with EIB, the Syrian Bank of Commerce and the Unit of Finance Management for Small and Medium Syrian Enterprises FMU for a loan in the amount of EUR 40 million, pursuant to a program submitted by EIB to Syria for the financing of long-term development projects. The loan finances investment projects in the industry, agriculture industry, tourism and services sectors (excluding local and foreign trade, real estate and car trade).

On December 20, 2007, Byblos signed a second finance contract with EIB, without a state guarantee in the amount of U.S.\$87 million, with the objective of promoting economic growth and sustainable employment in all the productive sectors of the Lebanese economy. The credit line was made available to the Bank on January 10, 2008. Each loan bears interest at the annual rate of 5.975% and is repayable in semi-annual installments of principal from

January 10, 2012 through January 10, 2018 (in the case of the 2006 loan) and July 10, 2012 through July 10, 2018 (in the case of the 2007 loan).

***Netherlands Finance Development Company (“FMO”)***

In 2000, the Bank entered into a ten-year loan agreement with FMO, pursuant to which the Bank was permitted to borrow up to U.S.\$15 million to finance SMEs. The loan, which bore interest at the rate of six-month LIBOR plus 287.5 basis points (with the first installment in September 2003), has been fully repaid in accordance with its terms in March 2010.

***Citibank Loan Guaranteed by the Overseas Private Investment Corporation (“OPIC”)***

In January 2007, the Bank signed an agreement with Govco Incorporated and Citibank N.A. (“**Citibank**”) for a loan in the amount of U.S.\$50 million in two tranches, as follows:

- a U.S.\$45 million tranche granted by Govco Incorporated and guaranteed by OPIC, which bears interest at a fixed annual rate of 7.100% and is repayable in 28 consecutive semi-annual installments commencing on July 22, 2008 through its final maturity on January 23, 2022; and
- a U.S.\$5 million tranche granted by Citibank and guaranteed by OPIC, which bears interest at a fixed annual rate of 8.525%, and is repayable in 12 consecutive semi-annual installments commencing on July 22, 2008 through its final maturity on January 22, 2014.

The purpose of this loan is to provide financing to SMEs, housing loans in amounts up to U.S.\$120,000 and consumer loans.

In July 2009, the Bank signed a second agreement with Govco LLC and Citibank for a loan in the amount of U.S.\$40 million in two tranches, as follows:

- a U.S.\$34 million tranche granted by Govco LLC and guaranteed by OPIC, which bears an interest at an annual rate of one-month LIBOR plus 1.95% and is repayable in 56 consecutive quarterly installments commencing on October 11, 2010 through its final maturity on July 11, 2024; and
- a U.S.\$6 million tranche granted by Citibank, which bears an interest at an annual rate of one-month LIBOR plus 4% and is repayable in 24 consecutive quarterly installments commencing on October 11, 2010 through its final maturity on July 11, 2016.

The funds acquired from this loan were allocated across the Bank’s commercial and retail portfolios.

***Certificates of Deposits***

In 2004, the Bank issued U.S.\$78 million in certificates of deposit, which matured and were fully repaid in accordance with their terms in July 2009; the certificates of deposit bore interest at an annual rate of 6.5% payable semi-annually.

In 2009, the Bank issued U.S.\$101.15 million in certificates of deposit due March 2012, which bear interest at an annual rate of 6.5% payable quarterly, and U.S.\$40.45 million in certificates of deposit due March 2014, which bear interest at an annual rate of 7.25% payable quarterly.

***Equity-Linked Notes***

In August 2005, the Bank raised an additional U.S.\$50 million through the issuance by Byblos Invest Bank of equity-linked notes, which matured and were fully repaid in accordance with their terms in August 2010. This innovative five-year structured product comprised bonds, the repayment of which was tied to a basket of ten shares of well-known international firms. The equity-linked notes bore interest at the annual rate of 8% payable semi-annually. Interest paid on the equity-linked notes was tax exempt, based on Byblos Invest Bank’s status as a

specialized bank. The repayment of 95% of the principal amount was guaranteed at maturity, together with an amount equal to the sum of the two highest annual average performances of the ten shares comprising the basket.

### ***Subordinated Participating Notes***

In July 2002, the Bank issued Subordinated Participating Notes in an aggregate principal amount of U.S.\$100 million. The Subordinated Participating Notes have a stated final maturity of June 2012. The Subordinated Participating Notes bear fixed interest at a rate of 9% per annum, payable quarterly, and may bear contingent interest, payable annually, at a rate, not exceeding 6% per annum, equivalent to 5% of the adjusted annual net income of the Bank.

In May 2006, the Bank offered to purchase, for cash, any and all of its Subordinated Participating Notes, validly tendered by holders and accepted for purchase by the Bank, at a price equal to 106% of the principal amount thereof, plus any accrued and unpaid fixed interest, and any accrued and unpaid contingent interest (as determined in accordance with the terms and conditions of the Subordinated Participating Notes), in each case, to, but not including, the date of purchase. In June 2006, the Bank made a tender offer to purchase any and all of the Subordinated Participating Notes, and 68.7% of the total principal amount was redeemed. As at the date of this Prospectus, U.S.\$31.3 million in principal amount of Subordinated Participating Notes remains outstanding.

### ***Convertible Subordinated Notes***

In November 2007, the Bank obtained a U.S.\$200,000,000 6.5% Subordinated Loan, which was financed by the issuance by The Bank of New York (Luxembourg) S.A., in its fiduciary capacity, of U.S.\$200,000,000 6.5% Convertible Fiduciary Notes due 2012, which are convertible into Common Shares. Holders of Fiduciary Notes have the right to convert Fiduciary Notes held by them into Common Shares on a quarterly basis and following certain extraordinary events at a price of U.S. \$2.25 per Common Share, which is subject to adjustment upon the occurrence of certain events. In January 2008, a holder of Fiduciary Notes exercised its right to convert U.S.\$27 million in nominal amount of Fiduciary Notes, together with accrued interest thereon, into Common Shares. As a result of this conversion, 12,088,834 new Common Shares were issued increasing the share capital of the Bank by LBP 14,506,600,800 (U.S.\$9,622,952) to LBP 508,963,536,000. As at the date of this Prospectus, U.S.\$173 million in principal amount of Fiduciary Notes remains outstanding.

In addition, each holder of Fiduciary Notes has the right to cause The Bank of New York, in its capacity as lender under the Subordinated Loan, to exercise the rights granted to it by the Bank to subscribe, on a priority basis, to (i) any capital increase (other than any such capital increase that results in an adjustment of the conversion price in accordance with the terms of the Subordinated Loan) or (ii) any new issue of convertible loans or convertible bonds, to the extent necessary to permit such holder to maintain its *pro rata* ownership interest in the Bank, assuming that such holder had, at the time of such subscription, previously converted the aggregate outstanding nominal amount of Fiduciary Notes held by it into Common Shares in accordance with the terms thereof. Upon becoming aware that it is entitled to exercise any priority subscription rights in respect of a particular capital increase or new issue of convertible loans or convertible bonds, the fiduciary (or its agent) must give written notice of such rights to the holders, including relevant details of the subject offering, whereupon the holder shall give its written notice to the fiduciary indicating (among other things) the aggregate nominal amount of Fiduciary Notes held by such holder and the maximum amount which such holder wishes to subscribe.

To the extent that any holder of Fiduciary Notes is unable to benefit from any such priority subscription rights granted to The Bank of New York, in its capacity as lender under the Subordinated Loan, Byblos Invest Holding has agreed that, subject to the approval of the Central Bank, to the extent required, and to all applicable fiscal or other laws and regulations, and provided that Byblos Invest Holding shall have received timely notice from such holder that it wishes to participate in such capital increase, Byblos Invest Holding shall (i) exercise its pre-emptive rights in connection with the relevant capital increase in a manner sufficient to accommodate the participation of such holder and (ii) assign such rights to each electing holder (on a proportional basis) at no additional consideration.

### **Customers' Deposits**

Customers' deposits comprise the substantial majority of the Bank's funding sources, comprising 80.2% of total funding as at December 31, 2010 and 78.6% as at December 31, 2009.

Customers' deposits grew by 15.6% in 2010 to LBP 17,927.7 billion (U.S.\$11,892.3 million) as at December 31, 2010, as compared to LBP 15,506.2 billion (U.S.\$10,286.0 million) as at December 31, 2009.

### *Customers' Deposits by Currency*

The following table shows the breakdown of the Bank's deposits by currency, as a percentage of total deposits, as at December 31, 2009 and 2010:

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(% of total)</i>	
Deposits in LBP .....	40.14	40.57
Deposits in foreign currencies .....	59.86	59.43
<b>Total</b> .....	<b>100.00</b>	<b>100.00</b>

Customers' deposits denominated in foreign currencies constituted 59.4% of total customers' deposits as at December 31, 2010, as compared to 59.9% as at December 31, 2009.

The Bank fixes the interest rates it offers on foreign-currency deposits by reference to the relevant LIBOR plus an appropriate margin, taking into account the rates offered by its competitors in Lebanon. The Bank sets its own rate for Lebanese Pound deposits regularly by reference to Lebanese Pound treasury bill rates, general market conditions and the rates being offered by its competitors in Lebanon. The Lebanese Pound deposit rates are communicated to branch managers who are given limited discretion to vary rates within a specified margin in order to take account of competing rates offered locally.

### *Customers' Deposits by Type of Account*

The following table shows the breakdown of the Bank's customers' deposits, by type of account, as at December 31, 2009 and 2010:

	<b>As at December 31,</b>			
	<b>2009</b>		<b>2010</b>	
	<i>(LBP million)</i>	<i>(% of total)</i>	<i>(LBP million)</i>	<i>(% of total)</i>
Current deposits .....	1,916,710	12.36	2,514,441	14.03
Term deposits .....	12,740,834	82.17	14,425,189	80.46
Blocked deposits .....	639,064	4.12	793,115	4.42
Related parties' deposits .....	138,073	0.89	111,595	0.62
Accrued interest .....	71,487	0.46	83,339	0.46
<b>Total</b> .....	<b>15,506,168</b>	<b>100</b>	<b>17,927,679</b>	<b>100</b>

As at December 31, 2010, the Bank's customers' deposits were comprised 84.9% of term and blocked deposits, as compared to 86.2% as at December 31, 2009.

### **Maturity Profile of Customers' Deposits**

The following table shows the maturity profile of the Bank's customers' deposits as at December 31, 2009 and 2010:

	<b>As at December 31,</b>			
	<b>2009</b>		<b>2010</b>	
	<i>(LBP million)</i>	<i>(% of total)</i>	<i>(LBP million)</i>	<i>(% of total)</i>
Less than 1 month.....	11,221,679	72.37	12,495,114	69.70
1 month to 3 months.....	1,760,379	11.35	2,205,037	12.30
3 months to 1 year.....	1,932,889	12.47	2,642,482	14.74
1 year to 5 years.....	587,753	3.79	581,580	3.24
Over 5 years.....	3,467	0.02	3,466	0.02
<b>Total</b> .....	<b>15,506,168</b>	<b>100.00</b>	<b>17,927,679</b>	<b>100.00</b>

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 96.7% and 96.2% of total customers' deposits as at December 31, 2010 and December 31, 2009, respectively.

### **Asset and Liability Management**

Interest rate risk management and trading activities are managed by the ALCO. See "*Management and Employees—Committees—Risk Management Committee—Assets and Liabilities Management Committee (ALCO)*".

Daily exceptions reports in relation to transactions in excess of agreed limits and deposits and withdrawals are sent to the Chairman, the Audit Department and the Deputy General Manager Financial Markets Division.

In order to measure its interest rate sensitivity, the Bank uses static gap analysis. Assets and liabilities are categorized based on their respective maturities and based on their currency. In addition, a dynamic gap analysis is performed annually to project any future mismatch in interest rates.

As with many banks in Lebanon, the Bank's Lebanese Pound assets are not matched, in terms of maturities, on the liability side. As at December 31, 2010, the average life of customers' deposits, the Bank's primary source of funding in Lebanese Pounds, was approximately 70 days and the average duration of its Lebanese treasury bill portfolio was 626 days. As at the same date, 35.3% of customers' loans, compared to 3.3% of customers' deposits, had maturities of over one year. The Bank's ability to manage its interest rate risk is limited as a result of these circumstances. The Bank generally is more able to match maturities in its U.S. Dollar-denominated assets. Moreover, as at December 31, 2010, the ratio of loans to deposits in Lebanese Pounds was 12.7%, while the ratio of loans to deposits in foreign currencies was 44.7%. Interest rate risk on foreign currency loans is insignificant, as virtually all such loans are made at floating rates of interest.

### **Risk Management**

The Group Risk Management function ("**GRM**") at the Bank was established in early 2004 as an independent and dedicated function to handle measurement and management of the risks facing the Bank. The GRM is broadly following the guidelines of the Basel II Accord to measure and assess the risks identified under Pillars 1 and 2 (*i.e.*, credit, operational and market risks), as well as interest rate risk, liquidity risk and credit concentration (by borrower, group of connected borrowers, industry and country). The Bank's current levels of capital under common equity, tier I capital and total capital are in compliance with the minimum ratios set forth in the Basel III Accords.

The Board Risk Committee has been formed with the principal function of supervision, oversight and monitoring of all risks taken by the Bank. It also assists the Board of Directors in fulfilling its risk management responsibilities by periodically reviewing and assessing the integrity and adequacy of the risk function of the Bank, reviewing the adequacy of the Bank's capital and its efficient allocation to the Bank's business, reviewing risk limits and regular

risk reports with recommendations to the Board of Directors and approving major policies related to different risks to which the Bank is exposed. See “—Lending Policies—Loan Approval Procedures—The Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee”.

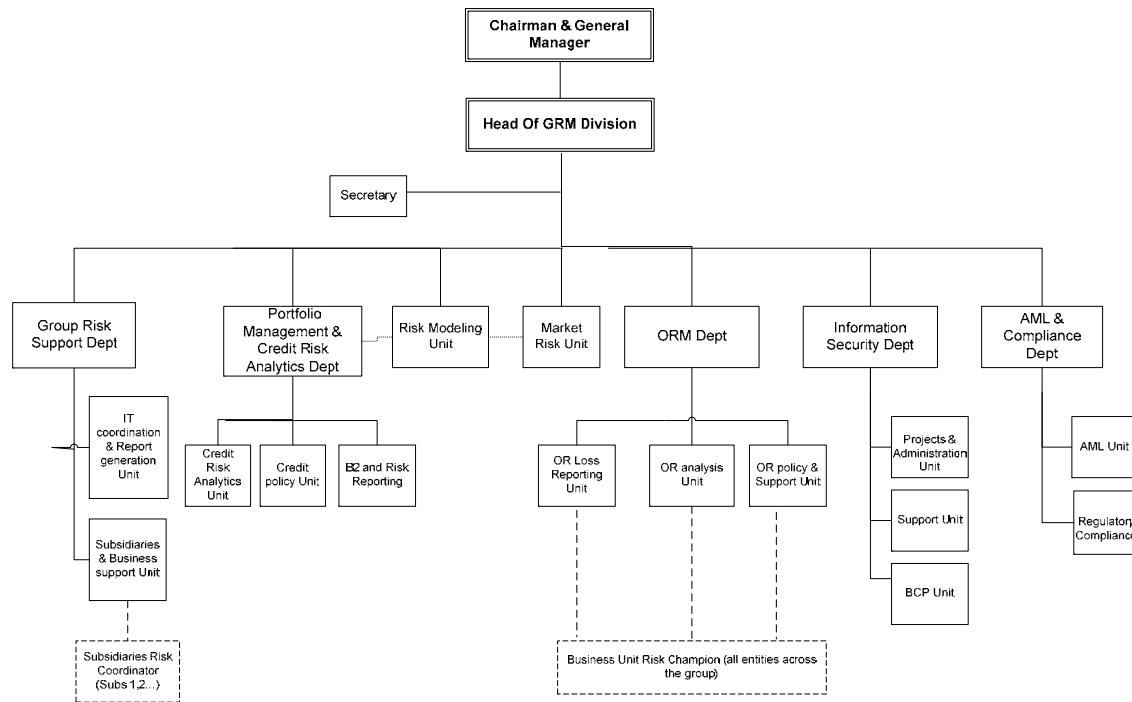
The Bank is currently implementing a tool for the calculation and reporting of its capital adequacy ratio in accordance with Basel II Accord, starting with the standardized approach. Such tool is expected to be implemented by the end of 2012 throughout the Bank’s group for both stand-alone reporting at each subsidiary and consolidated reporting.

In January 2008, the GRM has established a risk management charter (the “**GRM Charter**”), which sets out the appropriate organization structure to manage the Bank’s strategic, operational and financial risks, as well as compliance risks with internal and external laws and regulations. The GRM Charter is evaluated annually and updated, as necessary, by the Board Risk Committee.

The GRM Charter was revised in 2010, particularly to reflect the inclusion of two new entities within the GRM Division with the aim of adequately supporting the Bank’s expansion strategy and facing growing risk management requirements, as follows:

- *The Group Risk Support Department:* this Department has an important role in providing technical and business support to ensure proper coordination for the implementation of the Basel II Accord and risk principles overseas. It is also responsible for the implementation of data driven business solutions and the automated generation of the different risk reports aiming to improve the business decisions and processes.
- *The Risk Modeling Unit (“RMU”):* this Unit is responsible for developing credit and market portfolio models, advising and directing the technical aspects of portfolio policy, analytics and introducing the latest risk management techniques. The RMU is responsible for assisting the GRM in implementing economic capital models, credit portfolio management, internal rating models and performance measurement methodologies.

The organization chart of the GRM is illustrated below:



### ***Portfolio Management and Credit Risk Analytics (PMCRA)***

Since 2003, the Bank has been applying Moody's Risk Analyst – RA™ (“**RA**”), an international platform developed by Moody's Analytics that supports the consistent preparation and presentation of financial information and the risk rating of commercial (non-retail) borrowers across the Group. RA is a judgmental, multi-criteria model formed of 10 grades and a multitude of financial ratios and business criteria where borrower rating is essentially based on a peer ratio comparison complemented by a trend ratio analysis and a qualitative assessment of the company and the business. Using RA, the Bank undertook a ratings customization project that led to the creation of three new models: a corporate model, a middle markets model and a contracting model aiming to better reflect size and industry specific risks within the Lebanese lending culture; these new models have been in use throughout the Bank since 2009. As at December 31, 2010, loans representing over 90% of the Bank's commercial portfolio were assigned an internal rating. The remaining, unrated loans are loans fully secured by cash or marketable securities or loans granted to start-up businesses or individuals considered to be creditworthy persons and backed by cash collateral. The rating process is strictly governed pursuant to specific internal policies and procedures developed with the benefit of the Bank's mature internal ratings culture. In particular, the Bank has developed a set of policies aimed at enabling Management to quantify individual and portfolio credit risks, set ratings-based lending limits and loan loss provisions and assess risk-based borrower profitability. The Bank was required by the Central Bank to measure capital adequacy ratios according to Basel II Standardized Approach by December 31, 2010. In compliance with such requirement, the Bank had a capital adequacy ratio according to Basel II Standardized Approach of 14.75% as at December 31, 2010.

Although the use of retail scorecards has been limited to date, the GRM has built an extensive retail loss database (encompassing consumer loans (personal loans and auto loans), credit cards and housing loans), which has enabled it to calculate probabilities of default and expected levels of related loss across the retail portfolio and thereby monitor the performance of the Bank's different retail products.

### ***Interest Rate, Exchange Rate and Liquidity Risk***

Interest rate risk, exchange rate risk and liquidity risk are managed by the ALCO. See “*Management and Employees—Committees—Risk Management Committee—Assets and Liabilities Management Committee (ALCO)*”.

### ***Operational Risks***

In order to recognize operational risk as a distinct risk function with its own discipline and principles and establish a group-wide framework to manage this risk, the Bank established an independent Operational Risk Management Department (“**ORM**”) in 2004. The ORM has created a set of policies to outline the Bank's operational risk strategy, governance and approaches for identifying, assessing, monitoring and mitigating operational risk.

Operational risk management is a decentralized function, and management at all levels in the organization is responsible for managing this risk. In order to help management fulfill this role in a consistent manner, the Bank has established a number of mechanisms:

- *Loss reporting*: a mechanism that captures and reports losses across the business and support lines, which is necessary to perform root-cause analysis about loss events and recommend remedial actions to minimize similar recurrence; and
- *Risk and control assessment*: a structured approach that helps the business and support lines to identify and assess operational risk, including assessment of related controls inherent in existing or new products, processes, activities or systems, with the aim of enhancing the Bank's internal controls.

The Bank is in the process of implementing the key risk indicators tool being developed by the ORM, which permits the Bank to monitor its operational risk profile through identification of certain key indicators. The key risk indicators tool is designed to give early warning signals to management on the level of operational risk in the Bank's activities and over time builds trend analyses for improved monitoring. Such tool is expected to be implemented by the end of 2011.

## **Risk Governance**

To oversee the GRM function, the Bank currently has five senior management committees dealing with risk related issues: the Risk Committee, the Assets and Liabilities Management Committee, the Operational Risk Management Committee, the Anti-Money Laundering Committee and the Information Security Committee. See “*Management and Employees—Committees—Risk Management Committees*”.

## **Liquidity and Reserves**

The Bank believes it has sufficient liquid assets to meet foreseeable liability maturity requirements. As at December 31, 2010, the Bank’s total loan portfolio (net of provisions) comprised 24.7% of total assets and liquid assets (comprised of cash, reserves and placements held with the Central Bank, Lebanese treasury bills, placements with banks and marketable securities) comprised 71.9% of total assets. The Bank focuses its liquidity policy on meeting customers’ demands to withdraw deposits, servicing debt obligations and providing funds to satisfy the demand for lending.

Short-term liquidity needs are managed by maintaining cash and overnight deposits in the local interbank market. Seasonal liquidity needs are managed by maturing Lebanese treasury bills and short-term deposits with local banks, including the Central Bank. The Central Bank will, to the extent necessary, provide additional liquidity in the Lebanese banking sector by discounting Lebanese treasury bills, thereby effectively acting as a lender of last resort.

Structural liquidity needs arising from changes to the composition of the Bank’s assets, in particular, the longer maturity of its loan portfolio, are being satisfied by the provision of longer-term funding. See “—*Funding Sources*.” Excluding the reserve requirements, surplus liquidity is invested on a short-term basis with large international banks.

The table below sets forth a breakdown of the liquid assets of the Bank, expressed as a percentage of total assets, as at December 31, 2009 and 2010:

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(%)</i>	
Cash and banks .....	45.52	51.03
Lebanese treasury bills .....	24.84	18.47
Fixed income securities .....	2.11	2.42
<b>Total</b> .....	<b>72.47</b>	<b>71.92</b>

The Central Bank requires banks operating in Lebanon to maintain 15.0% of their term Lebanese Pound customers’ deposits as cash reserves with the Central Bank, which do not earn interest. Lebanese banks are also required to maintain 25.0% of their demand Lebanese Pound customers’ deposits as additional non-interest-bearing cash reserves with the Central Bank.

The Central Bank requires banks operating in Lebanon to maintain 15.0% of their foreign currency deposits as reserves with the Central Bank. The banks may select the maturity of the deposits placed with the Central Bank as reserves; these deposits bear interest at varying rates in accordance with their tenor.

The Bank believes that, as at the date of this Prospectus, it is in compliance with all of Central Bank’s reserve requirements.

## **Anti-Money Laundering**

The Bank recognizes the global problem of money laundering and has implemented organizational and supervisory initiatives to combat money laundering, the financing of terrorism and other criminal or illegal activities.

In 2001, the Government issued Law No. 318 (fighting money laundering) (“**Law 318**”) in which money laundering and terrorism are prohibited. Law 318 established the “Special Investigation Commission” and gave it

the right to access and block suspicious accounts and lift banking secrecy; it also describes certain means for the prevention of money laundering and penalties, including imprisonment, fines and the retention of suspicious funds of non-complying institutions and persons.

The Central Bank has issued several circulars concerning money laundering and terrorism financing and has established regulations and measures to prevent dealings with shell banks and identify and report illegal operations and suspicious customers to the “Special Investigation Commission” established at the Central Bank.

In 2002, the Bank established its Compliance and Anti-Money Laundering Committee (the “**CAMLC**”) with the mission to ensure that the Bank complies with applicable anti-money laundering laws and regulations. See “*Management and Employees—Committees—Compliance and Anti-Money Laundering and Compliance Committee (CAMLC)*”.

Inspired by Basel committee consultative document “Customer Due Diligence for Banks”, the CAMLC adopted the Bank’s “Know Your Customer” (“**KYC**”) policy, which has been implemented within the Group. One of its main objectives is to prevent the Group from being used in illegal and criminal operations by persons whose identity appears to be forged. Customers’ names are screened against “World-Check” database and local watch lists in this respect. Customers are required to determine the “source of their funds”. Their operations are monitored and transactions which are inconsistent with their normal line of business and suspected for hiding illegal activity are disclosed and reported to the Special Investigation Commission (the “**SIC**”).

The objectives of the Bank’s KYC policy consist, *inter alia*, of:

- Determining the true identity of all counterparties requesting the Bank’s services by requiring a suite of predetermined identity documents and creating a complete customer profile designed to allow the Bank to understand all facets of a customer’s intended relationship with the Bank and thereby determining when transactions are responding to the real needs of the customer or if these may be suspicious or potentially illegal.
- Increasing compliance with all applicable anti-money laundering laws and regulations in conformity with international and local industry standards for the purpose of adhering to sound and recognized banking practices;
- Decreasing the likelihood of illegal activities being perpetrated against and through the Bank by customers or counterparties and assisting the Bank’s customers in identifying such acts that may be perpetrated against them;
- Protecting the good name and reputation of the Bank and its customers; and
- Improving the quality of services provided by the Bank to its customers.

### **Internal Audit**

The Group Internal Audit Division is responsible for providing independent and objective appraisals and consultations, adding value and improving the Bank’s operations. It assists the Bank in achieving its objectives by bringing a systematic, disciplined and risk-based approach to evaluate and improve the effectiveness of risk management, control and governance processes. The role of the Group Internal Audit Division has evolved with the expansion of the Bank in order to cover all countries where the Bank is operating.

In order to maintain its independence, carry-out its work objectively and render an impartial opinion, the Group Internal Audit Division has no direct or indirect authority or responsibility for any of the activities it audits. The Group Internal Audit Division derives its authority from the Audit Committee of the Board of Directors to which it reports directly. In addition, audit staff within the Group Internal Audit Division are granted the right of unrestricted access to all Bank properties, records, information and personnel to the extent they deem necessary to perform its duties.

The Group Internal Audit Division currently consists of five main audit departments: the Credit Review Audit Department, the Centralized Operations Audit Department, the Branch Audit Department, the Information Technology Audit Department and the Investigations Audit Department, as well as the Data Mining Unit. Management believes that the Group Internal Audit Division activities are performed with proficiency and due professional care in line with the International Standards for the Professional Practice of Internal Auditing by a group of qualified auditors. The Group Internal Audit Division currently consists of 31 experienced local auditors in addition to 6 resident auditors in the Group's subsidiaries.

The Credit Review Department's main function is to provide an independent evaluation of the credit portfolio, the adequacy of the policies and procedures for credit risk monitoring and the quality of credit risk management and reporting, as well as compliance with the relevant supervisory authorities' regulations in the different countries where the Bank has a presence.

The Centralized Operations Audit Department's main function is to provide an independent assessment of the internal controls over all banking activities centralized in the Head Office and subsidiaries, including, *inter alia*, trade finance, treasury and capital markets operations, transfers and payments, risk management, compliance, human resources, financial controls, accounting, administration and other back office activities.

The Branch Audit Department's main functions are to undertake an efficient and effective internal audit of the branch network and deliver an independent and objective assessment of the existing controls over branch operations.

The Information Technology Audit Department's main functions are to provide an independent appraisal of controls over all software and hardware systems and applications used by the Bank and their compliance to local laws and regulations, to monitor and assess the acquisition and development of new systems and changes to existing applications and to ensure the security, confidentiality and integrity of all the Bank's data.

The Investigations Audit Department's main function is to prevent, detect and deter internal and external fraud in the Head Office, branches, subsidiaries and representative offices of the Bank. It identifies and analyzes weaknesses and provides recommendations for continuous improvement. The Investigations Department works closely with the Data Mining Unit, which identifies exceptional trends and transactions for investigation.

### Capital Expenditures

The table below shows the Bank's actual capital expenditures for the years ended December 31, 2009 and 2010.

	<b>For the Years Ended December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(LBP million)</i>	
Buildings .....	29,673	21,970
Fixed assets acquired in settlement of debt .....	826	5,389
Motor vehicles .....	886	608
Furniture and equipment .....	32,407	25,950
<b>Total</b> .....	<b>63,792</b>	<b>53,917</b>

In accordance with the Bank's strategic emphasis on retail banking, capital expenditures were largely applied in 2009 and 2010 to purchase real estate for opening new branches and relocating existing ones. In 2010, the Bank had capital expenditures of LBP 8.4 billion (U.S.\$5.6 million), as compared to LBP 4.5 billion (U.S.\$3.0 million) in 2009, in each case, exclusive of furniture and fittings.

The tables below show the Bank's estimated capital expenditures requirements for the years ended December 31, 2011 and 2012.

	<b>For the Years Ended December 31,</b>	
	<b>2011</b>	<b>2012</b>
	<i>(LBP million)</i>	
Premises in use for operations <sup>(1)</sup> .....	12,407	13,000
Information technology.....	17,028	18,000
Machines.....	940	1,000
Furniture and equipment <sup>(2)</sup> .....	25,042	26,000
Motor vehicles.....	272	300
<b>Total</b> .....	<b>55,689</b>	<b>58,300</b>

Notes:

- (1) Represents the estimated remaining construction costs for the regional headquarters building.
- (2) Represents the estimated cost for the furniture and installations for the regional headquarters building.

Generally, the Bank finances all its capital expenditure requirements from its own funds, and the Bank expects to provide for its capital expenditures in 2011 and 2012 in this manner.

### **Information Systems and Technology (“IT”)**

The Bank has always considered it crucial to maintain up-to-date management information systems to support its growth and has, accordingly, continuously upgraded its information systems. The Bank uses a world-class system, called Temenos 24, throughout the Bank for its domestic and international subsidiaries and affiliates. Temenos 24 covers banking functions ranging from corporate banking and trade finance to retail-oriented banking.

The Bank's systems are all run directly from Beirut, a cost-effective measure that requires minimal IT investment in local and overseas branches. To enlarge its client offerings, the Bank has also implemented electronic channels through on-line real-time Siebel Internet banking and a 24/7 Siebel call center, an EMV compliant ATM switch that operates a network of 120 ATMs and over 120,000 Visa debit cards, Genesis IVR systems and SMS banking, which are fully operational and allow customers to conduct operations on a 24/7 basis.

The Bank also uses Peoplesoft HR System, a state-of-the-art competency-based human resources management system that enables the Bank to efficiently manage personnel through recruitment, career planning, training and performance evaluations. On the management level, the Bank has taken advantage of its centralized core banking system and can deliver management reports, to meet requirements set by its Department heads through a convenient centralized Internet-based management information system. The Bank has made significant efforts to achieve full compliance with Basel II Accord, by, *inter alia*, implementing FinStudio, a tool for the calculation of the Bank's capital adequacy ratio in accordance with Basel II Accord. The Bank has implemented FinStudio in the Bank's Head Office and in Byblos Bank Europe and is in the process of implementing this tool in its remaining subsidiaries.

To promote system functionality with 99.99% high availability, the Bank has established a fully redundant infrastructure both for telecom and hardware, which is managed by a team of IT specialists on a 24/7 basis across the Bank's global network. A disaster recovery site is maintained in Jbeil to preserve business continuity and avoid disruption in the Bank's main operations across branches and key business functions.

### **Competition**

The market for financial and banking services in Lebanon is competitive. As at December 31, 2010, there were 54 active commercial banks (including eleven branches of foreign banks in Lebanon), with 912 operational branches in Lebanon, 50 financial institutions, 11 brokerage institutions, 13 specialized medium-and long-term credit banks, two leasing companies in the financial sector and ten representative offices licensed by the Central Bank to operate in Lebanon, which has a population of approximately 4.0 million people. These banks include large international financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in Lebanon, in common with other Lebanese banks, the Bank has experienced a decrease in its

lending margins, especially in respect of retail loans. Depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank's expenses may increase and its revenues may decrease.

As at December 31, 2010, based on unaudited financial statements of banks operating in Lebanon provided to Bankdata, the Bank ranked third among all banks operating in Lebanon with net profit of LBP 268,879 million (U.S.\$178.4 million), total assets of LBP 23,042,367 million (U.S.\$15,285 million), total equity (according to Bankdata calculation which excludes revaluation variance of other fixed assets and subordinated notes) of LBP 2,456,763 million (U.S.\$1,630 million) total deposits of LBP 17,928,081 million (U.S.\$11,893 million) and aggregate customer loans of LBP 5,685,013 million (U.S.\$3,771 million). See "*The Banking Sector and Banking Regulation in Lebanon—Banking Sector*".

### **Property**

The Bank owns the property in which 52 of its branches are located and leases the premises for the remaining branches from unrelated third parties. In February 1999, the Bank moved its main branch and Head Office to a new building, the "Byblos Tower", in the Achrafieh business district in Beirut, which it owns and of which it is the sole occupant.

The Bank also owns five floors in the Aya Building in Dora (Metn region), which house the Metn Regional Management offices and the Banking Technology Division, as well as the Aya branch.

The Netherlands Tower, which is also owned by the Bank and which is located in Achrafieh, accommodates the East Beirut Regional Management offices as well as the Risk Management Division, the Internal Audit Division, the Branch Distribution Management Division and the Economic Research & Analysis Department.

In 2007, the Bank completed construction of a new building in Jbeil. Major support activities (such as the accounting, financial control, trade finance, the back-office operations and transfers and payments operations) were moved to this new office by the second half of 2007.

### **Insurance**

The Bank maintains insurance policies, which cover theft, forgery, cash in transit and forged and counterfeit currency, with its subsidiary, ADIR Lebanon. In addition, the Bank holds an insurance policy with ADIR Lebanon covering buildings, fixtures and fittings, computer equipment and motor vehicles. As is the case with many banks and companies in Lebanon, the Bank's insurance policies do not provide the same level of coverage as would be normally provided in the United States or Europe, as Lebanon's recent history has resulted in insurance premiums being so high as to make full coverage uneconomical. The Bank is subject to the additional risk that the policies are issued by its subsidiary; however, a significant percentage of the risk is reinsured.

### **Legal Proceedings**

The Bank is not and has not been involved in any governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Bank is aware) that may have or have had in the 12 months preceding the date of this Prospectus a significant effect on the financial position or profitability of the Bank.

## MANAGEMENT AND EMPLOYEES

### Board of Directors

The administration of the Bank is conducted through the Board of Directors, which is presided over by the Chairman of the Board and comprised of a minimum of three and a maximum of twelve members, each elected for a three-year term by the shareholders. Directors may be re-elected for any number of consecutive terms; the Board of Directors ordinarily meets once every quarter.

Lebanese law stipulates that the Board of Directors must be comprised of a majority of Lebanese nationals. Board members are jointly and severally liable to the Bank, shareholders and third parties for improper performance of their duties, for violations of law, the Bank's by-laws or external or internal regulations and for any damage caused by fraud, abuse of authority or gross negligence.

The Board appoints two of its members as Chairman and Vice-Chairman. The Chairman of the Board of Directors, in his capacity as General Manager, has extensive powers to execute resolutions adopted by a General Meeting of Shareholders of the Bank, undertake operations necessary for the daily functioning of the Bank and generally represent the Bank in its commercial activities. In the event that he is temporarily unable to perform his duties, the Chairman may delegate some or all of his powers to a member of the Board of Directors for a specific period of time, provided that the delegation is published in the Register of Commerce. In addition, the Chairman may delegate, subject to the approval of the Board of Directors, some of his managerial responsibility to another General Manager or managers. The Chairman remains personally responsible for such delegation.

According to the provisions of Article 153 of the Lebanese Code of Commerce, the Chairman of the Board and the General Manager may represent the Bank in dealings with third parties, implement resolutions of the Board of Directors and conduct the daily business of the Bank, under the supervision and control of the Board.

The Board of Directors is currently comprised of twelve members, of which nine are non-executive directors and eight are independent. The official business address for each member of the Board of Directors is c/o Byblos Bank S.A.L., Byblos Tower Building, Elias Sarkis Avenue, Achrafieh, P.O. Box 11-5605, Beirut, Lebanon. As at the date of this Prospectus, the Directors of the Bank, elected to serve until the annual Ordinary General Meeting to be held in 2012 to approve the financial statements of the Bank as at and for the year ending December 31, 2011, are as follows:

#### *Dr. François S. Bassil*

Chairman of the Board of Directors and General Manager since 1979; Director and co-founder of the Bank; Managing Director of Byblos Bank Europe; Chairman and General Manager of Byblos Invest Holding; Chairman of the Board of Byblos Bank Africa; Member of the Board of Byblos Bank Syria; and President of the Lebanese Bankers' Association (for the third time). Received a Doctorate in Law from the University of Louvain (Belgium). Has worked in the banking sector since 1960.

#### *Mr. Semaan F. Bassil*

Director since 1992; Vice-Chairman and General Manager; Chairman and General Manager of Byblos Invest Bank; Chairman and General Manager of ADIR Lebanon; Member of the Board of Byblos Bank Europe; Member of the Board of Byblos Invest Holding; Member of the Board of Byblos Bank Africa; and Chairman of the Board and General Manager of Byblos Bank Syria. Received a B.A. from Boston University (United States) and an M.B.A. from Cambridge University (United Kingdom). Has worked in the banking sector since 1990.

#### *Mr. Samir A. K. Makdessi*

Director since 2000; Dean of the Institute of Money and Banking at the American University of Beirut and ex-Minister of the Economy in Lebanon (1992); Professor of Economics at the American University of Beirut.

***Mr. Ahmad T. Tabbarah***

Director since 1999 and co-owner of Les Dunes S.A.L. (Lebanon).

***Dr. Hassan N. Mounla***

Director since 1992 and former President of Tripoli Chamber of Commerce (Lebanon).

***Mr. Bassam A. Nassar***

Director since 1992; Member of the Board of *La Foncière Jbeil S.A.L.*; Chairman of the Board of Byblos Bank Europe; Member of the Board of Byblos Invest Holding; Director of Niger Biscuits (Lagos, Nigeria); and Director of Sleiman Nassar & Sons Ltd. (Lagos, Nigeria).

***Mr. Faysal M.A. Tabsh***

Director since 2000; Deputy-Chairman of Byblos Bank Europe; Member of the Board of Byblos Invest Holding; and Owner and General Manager of M.A. Tabsh (Kingdom of Saudi Arabia).

***Mr. Nasser H. Saidi***

Director since 2006; Executive Director of the Hawkamah – Institute for Corporate Governance and Chief Economist of the Dubai International Financial Centre; former Minister of Economy and Trade and Minister of Industry of Lebanon (1998–2000); First Vice-Governor of the Central Bank for two successive mandates (1993–1998 and 1998–2003); Co-Chair, with the OECD, of the MENA Corporate Governance Working Group; former Member of the U.N. Committee for Development Policy for two mandates (2000–2006); has served as economic advisor and director to a number of central banks and financial institutions in the Arab countries, Europe and Central and Latin America; was a Professor of Economics at the Department of Economics of the University of Chicago, *the Institut Universitaire des Hautes Etudes Internationales* (Geneva) and the *Université de Genève* and was a lecturer at the American University of Beirut and the *Université Saint Joseph* in Beirut; holds a Ph.D. and an M.A. in Economics from the University of Rochester (United States), a M.Sc. from University College, London University and a B.A. from the American University of Beirut.

***Mr. Abdelhadi A. Shayif***

Director since 2006; Member of the Board, the Executive Committee, the Credit Committee, the Risk Management Committee and the Audit Committee; General Manager of the National Commercial Bank, Saudi Arabia (1999–2005); Member of the Board of Saudi Railroad Organization; Member of the Board of Saudi Cables Co., Jeddah; Member of the Board of Arab Cement (Jeddah); Member of the Board of Sab Scavel Co. (Riyadh); Member of the Board of Majed El Fatim Trust (Dubai); Member of the Board of Awal Bank (Bahrain); Member of the Board of Majdouhi Group (Al Dammam); Member of the Board of Attieh Group for Steel; Member of the Advisory Board of FWU (Munich); Member of the Advisory Board of BMG (Jeddah); Member of the Advisory Board of NBK Capital (Dubai).

***Mr. Arthur G. Nazarian***

Director since 2006; Businessman, Chairman – General Manager of Bycop S.A.L.; former Minister of Tourism of the Republic (1998).

***Mr. Sami F. Haddad***

Director since 2009; Chairman – General Manager of Byblos Invest Bank; former Minister of Economy and Trade of Lebanon (2005 - 2008); former director at the IFC.

***Mr. Alain C. Tohmé***

Director since 2011; Deputy General Manager – Head of Commercial Banking Division. M.B.A. from Boston College (United States). Has worked in the banking sector since 1985. Worked at Byblos Bank Europe from 1985 to 1997. Received an M.B.A. from Boston University (United States). Has worked at the Bank in Beirut since 1997.

***Compensation and Benefits***

In 2010, the Bank paid LBP 690 million (U.S.\$457,650) as compensation and benefits for Board members, as approved at the General Meeting of Shareholders held on May 5, 2011. As at the date of this Prospectus, no options for the purchase of any of the Bank’s securities were held by any of the Directors.

None of the Bank’s directors currently have service contracts with the Bank or any of its subsidiaries that provide for benefits upon termination of employment.

**Senior Management**

As at the date of this Prospectus, the senior managers of the Bank (the “**Senior Managers**”) were:

***Dr. François S. Bassil***

Chairman General Manager. See “—*Board of Directors—Dr. François S. Bassil*”.

***Mr. Semaan F. Bassil***

Vice-Chairman-General Manager. See “—*Board of Directors—Mr. Semaan F. Bassil*”.

***Mr. Alain C. Tohmé***

Deputy General Manager – Head of Commercial Banking Division. See “—*Board of Directors—Mr. Alain C. Tohmé*”.

***Mr. Marwan Moharram***

Assistant General Manager – Head of Credit Risk Management Division. B.A in Finance from George Washington University (United States). M.B.A from University of Southern California (United States). Between 1993 and 1995 has worked at Bank Audi (Beirut) and BAI Asset Management (London). Has worked at the Bank since 1996.

***Mr. Alan F. Wanna, CFA***

Deputy General Manager – Head of Financial Markets Division. Masters in Money and Banking from the American University of Beirut (Lebanon). Has worked in the banking sector since 1992. Worked at British Bank of the Middle East from 1992 to 1993. Has worked at the Bank since 1993.

***Mr. Fadi N. Nassar***

Assistant General Manager – Head of Commercial Banking Division. Civil engineer. M.B.A. from McGill University (Canada). Has worked in the banking sector since 1990. Worked at Bank of Boston (Canada) from 1990 to 1991 and at the National Bank of Canada from 1991 to 1995. Has worked at the Bank since 1995.

***Mr. Philippe A. Saleh***

Assistant General Manager – Head of Corporate Risk Management Division. DEA in Business Administration from Paris IX - Dauphine University (France). Has worked in the banking sector since 1980. Worked at Citibank

from 1980 to 1988 and at Saudi National Commercial Bank from 1995 to 1998. Worked at the Bank from 1988 to 1995, before rejoining the Bank in 1998.

***Mr. Raffoul E. Raffoul***

Assistant General Manager – Head of Organization, Development, Information Systems and Operational Support Services Division. Qualified as Certified Public Accountant and Certified Internal Auditor. M.B.A. from the American University of Beirut (Lebanon). Has 16 years of international experience in accounting and auditing. Worked at Ernst & Whinney Beirut from 1987 to 1989, at Metaloplastica Holdings Lagos, Nigeria from 1987 to 1992, at Tilloston Corporation (USA) from 1994 to 1995 and at Ernst & Young Beirut from 1995 to 1999. Has worked at the Bank since 1999.

***Mrs. Joumana F. Chelala***

Deputy General Manager – Head of Consumer Banking Division. M.B.A. from the Lebanese American University (Lebanon). Masters in Marketing from *Ecole Supérieure des Affaires* (Lebanon). Has worked at the Bank since 1992.

***Mrs. Renalda Hayek***

Assistant General Manager – Head of Corporate Human Resources Division. Doctorate in Business Administration and Organizational Behaviour from Newport University. M.B.A. from Newport University. B.A. in Human Resources from London School of Economics. B.A. in Organizational Behaviour from the University of London. Has worked more than 18 years in the field of HR Management and Organizational Development and has occupied several HR Management positions in several institutions, including Cellis (France Telecom Mobile Liban) and Holcim Liban. Lecturer in Organizational Behaviour and Human Resources at Lebanese American University, Lebanese Canadian University and St. Joseph University. Has worked at the Bank since 2008.

***Mr. Walid J. Kazan***

Assistant General Manager – Head of International Network Division. Qualified as Chartered Accountant, Certified Internal Auditor. Certification in Control Self Assessment. Graduate Diploma in Chartered Accountancy from Concordia University (Canada). E.M.B.A. from *Ecole Supérieure des Affaires* (Lebanon). Worked at Ammar Cousineau Telio Hadid (Canada) from 1996 to 1997. Worked at Deloitte & Touche L.L.P. (Canada) from 1997 to 2000. Worked at National Bank Financial (Canada) from 2000 to 2002. Has worked at the Bank since 2002.

***Mr. Fadi Hayek***

Head of Group Internal Audit Division. Qualified as Chartered Accountant from Canada and Certified Public Accountant from the USA. Obtained his Master degree in Accounting from Concordia University (Canada) in 1996. Has around 15 years of experience in external audit, finance and internal audit fields. Governor in the Institute of Internal Auditors in Lebanon. Has worked at the Bank since 2007.

***Mr. Ziad Zoghbi***

Head of Group Finance & Administration Division. BS in Banking and Finance, MBA from Notre Dame University (Lebanon), and law degree from the Lebanese University. Has around 14 years of banking experience in the finance and planning. Headed the Finance and Planning Department at the Bank from March 2007 to January 2011 and became Head of Group Finance & Administration Division in February 2011.

***Compensation***

In 2010, the aggregate compensation (excluding bonuses) paid to the Senior Managers of the Bank was LBP 6,768 million (U.S.\$4.49 million), which constituted 4.6% of the aggregate compensation paid to all of the Bank's employees for such period.

### ***Conflicts of Interest***

There are no potential conflicts of interest between any duties of the members of the Board of Directors and Senior Managers of the Bank owed to the Bank and their private interests and/or other duties.

### **Employees and Training**

The Bank values its human resources as an asset with a high return on investment. During 2010, the Bank recruited 379 employees, of which 258 were recruited by the Bank in Lebanon, 14 by the Bank's branches in Baghdad and Erbil, one by the Bank's branch in Cyprus, 28 by Byblos Bank Africa, 49 by Byblos Bank Syria, five by Byblos Bank Europe, 16 by Byblos Bank Armenia, eight by Byblos Bank RDC, four by Nigeria's representative office, nine by ADIR Lebanon and 26 by ADIR Syria.

The Bank's turnover rate is low (about 4.9% in 2010) primarily due to its competitive compensation and benefits policies, succession planning, career management and development, as well as its strategy of promoting personnel from the Bank to higher-level positions.

Management of the Bank's human resources is largely centralized at the Bank's Head Office in Beirut. The Human Resources Division is responsible for establishing and supervising the implementation of human resources strategy covering recruitment and staff development, compensation and benefits, training, performance and career management and personnel administration and communication, across all operations of the Bank. The Bank's policies, as reflected in a separate personnel policies and procedures manual adopted by each of the Bank and its affiliates, respectively, are in full compliance with all applicable local labour laws, tax regulations and social security rules.

In 2009, the Human Resources Division was awarded the Targeted Selection certification by Development Dimension International (DDI) with respect to its recruitment policy.

In 2010, the Bank launched the E-Performance module on PeopleSoft, one of the most advanced human resources system, which coordinates the Bank's strategy and operations and establishes key performance indicators for each function within the Bank.

In order to motivate and retain the best candidates, special training programs were offered in 2009 and 2010, ranging from induction programs to other training programs on new systems and procedures, customer service and business etiquette, leadership and people management, retail lending module and financial statements analysis. The Bank has also established a retail school, "Byblos way" training academy, which focuses on providing training with respect to retail banking products and services.

The Bank is a party to the Collective Work Contract, which is an agreement between the Association of Lebanese Banks and the Syndicate of Bank Employees. This contract is renewable on a yearly basis and supersedes labour laws to the extent it affords greater benefits to staff, principally in terms of minimum basic salaries, working hours, vacation and leave entitlement, education allowances for children of employees, family allowances, health care and end of service indemnity. Management believes that the Bank's relationship with its employees is good. Apart from countrywide strikes, the banking sector has experienced very few strikes during the past eight years and the Bank itself has experienced no strikes other than sector-wide strikes.

### **Board Committees**

The Bank has two Board committees, as follows:

- The Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee (the Board Risk Committee); and
- the Audit Committee.

### ***The Board Risk Committee***

See “—Overview of the Bank—Loans Approval Procedures—Board Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee”.

### ***The Audit Committee***

The Audit Committee is comprised of four directors, each of whom is required to be independent and appointed from amongst the non-executive directors. Each member of the Audit Committee shall enjoy a good financial, ethical and reputational standing. At least one member shall have accounting or related audit or financial management expertise and at least one member shall have banking or related financial management expertise. Audit Committee members serve for a period of three years. No director may serve as a member of the Audit Committee if such director serves on audit committees of other companies unless the latter companies are subsidiaries or affiliated companies. Exceptions to this rule are to be authorized by the Board of Directors. As at the date of this Prospectus, the members of the Audit Committee are Mr. Bassam A. Nassar (appointed as Chairman of the Audit Committee by the Board), Mr. Ahmad T. Tabbarah, Dr. Samir A. Makdessi and Mr. Abdelhadi A. Shayif.

The Audit Committee meets at least four times a year. The Audit Committee’s function is to oversee the Internal Audit Division of the Bank.

The mission of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities for the Bank’s financial and operational reporting processes, internal control systems and audit processes, as well as the Bank’s process for monitoring compliance with laws and regulations and the Bank’s code of conduct, which comprises a set of internal regulations related to disciplinary and ethical standards to be followed by the Bank’s employees.

The Audit Committee’s oversight extends to the activities of the Bank in Lebanon, in addition to the Bank’s foreign subsidiaries, including Byblos Invest Bank, ADIR Lebanon and Adonis Brokerage House.

The Audit Committee assists the Board of Directors in:

- the oversight of accuracy of the Bank’s annual and quarterly financial statements and their compliance with the applicable international accounting standards (IFRS);
- the review with senior management and external auditors of significant accounting, income tax, financial, reporting policies or issues made in connection with the preparation or audit of the Bank’s financial statements and other financial or informational reports, including any major issues regarding significant changes in the Bank’s selection or application of accounting principles;
- the recommendation for the appointment of the external auditors, confirmation of their independence, evaluation of their competencies, performance and objectivity in performing the audit task and discussion of the important recommendations and remarks raised in their reports;
- the supervision of the Bank’s internal audit function, ensuring its independence and reviewing and controlling the quality and scope of their work; and
- the oversight of compliance with the Bank’s ethical standards, policies, plans and procedures (including Anti-Money Laundering and anti-terrorism financing procedures) and with applicable laws and regulations and the adequacy of the Bank’s management and control systems (including information systems and security).

The Audit Committee also exists to facilitate communication between the Directors, the Management Committee, the Internal Audit Department, the Bank’s statutory auditors and the Banking Control Commission members.

The Audit Committee submits a report on the tasks accomplished to the Board of Directors on a quarterly basis. The Audit Committee is authorized by the Board of Directors to obtain outside legal or other independent professional advice and to ensure the attendance of advisors with relevant experience and expertise if it deems it necessary.

## **Committees**

In addition to the Board Committees, the Bank operates through a number of management level committees, as follows:

### ***The Management Committee***

The Management Committee is comprised of the Vice-Chairman (who acts as chairman of the Management Committee), the Head of the Group Commercial Banking Division (who acts as vice-chairman of the Management Committee), the Head of the Group Consumer Banking Division, the Head of the Group Credit Risk Management Division, the Head of the Group Finance and Administration Division, the Head of the Group Financial Markets Division, the Head of the Group Risk Management Division and the Head of the Group Organization, Development, Information Systems & Operational Support Services.

The Management Committee meets weekly at the Head Office of the Bank and has numerous functions and responsibilities with regards to the activities and operations of the Bank, including (among others) reviewing the financial performance of the Bank; overseeing and ensuring proper execution of the Bank's policies and procedures; setting the Bank's objectives, performance goals and annual business and action plans, and presenting these to the Board of Directors; recommending special business development projects (such as mergers, acquisitions, the opening of overseas subsidiaries or branches, entering into partnership agreements and similar significant transactions); proposing capital increases and bond and long-term debt issuances (after approval of the ALCO); and approving any organizational changes, any changes in strategy, upgrades in IT systems and significant capital expenditures.

### ***Internal Audit Management Committee***

The Internal Audit Management Committee is comprised of the Head of the Group Internal Audit Division (who acts as chairman of the Internal Audit Management Committee), the Head of the Group Risk Management Division (who acts as vice-chairman of the Internal Audit Management Committee), the Vice-Chairman, the Head of the Group Consumer Banking Division and the Head of the Group Finance and Administration Division.

The Internal Audit Management Committee meets at the Bank's Head Office on an as-needed basis or upon the request of the Chairman, provided that the Internal Audit Management Committee must meet at least once each quarter. The Internal Audit Management Committee is responsible for, *inter alia*, overseeing the development of the annual audit year plan and following up on its implementation, reviewing drafts of the annual and semi-annual audit reports prior to their submission to the Board of Directors, discussing the auditors' report and management letter and taking any action in this respect, taking note of necessary measures in light of group internal audit reports, and reviewing Banking Control Commission reports and taking appropriate action in respect of noted items. The Internal Audit Management Committee has also a disciplinary authority to address any clear violations of banking procedures.

### ***Human Resources Committee***

The Human Resources Committee (the "HRC") is comprised of the Vice-Chairman (who acts as chairman of the HRC), the Head of the Group Commercial Banking Division (who acts as vice-chairman of the HRC), the Head of the Group Consumer Banking Division, the Head of the Group Credit Risk Management Division, the Head of the Group Organization, Development, Information Systems & Operational Support Services, the Head of the Group Human Resources Division and the Head of the HR Workforce Administration Department.

The HRC meets at least quarterly at the Head Office of the Bank. The HRC's mission is to ensure that the Human Resources Division's business plans, policies, procedures and activities are aligned with the Bank's overall mission, objectives and strategy. The HRC follows-up on the implementation of the Human Resources Division's annual plan and budget. The HRC also manages and approves the Bank's grading and salary scale and approves the selection of training programs and seminars.

### ***Banking Technology Committee***

The Banking Technology Committee is comprised of the Head of the Group Organization Development, Information Systems & Operational Support Services (who acts as the chairman of the Banking Technology Committee), the Head of Group Banking Technology Division (who acts as vice-chairman of the Committee), the Vice-Chairman, the Head of the Group Commercial Banking Division, the Head of the Group Finance and Administration Division, the Head of the Group Consumer Banking Division, the Head of the Group Risk Management Division, the Head of the International Network Division and the Head of Corporate Banking Department.

The Banking Technology Committee meets monthly at the Bank's Head Office. The Banking Technology Committee establishes and monitors the Banking Technology Division's policies and procedures, covering all aspects of IT management, including the identification and implementation of new systems, user acceptance procedures, IT security and IT-related disaster recovery procedures. The Banking Technology Committee oversees and approves requests for hardware and software, as well as for systems development, and ensures that they are in support of the Bank's business strategy and objectives. The Banking Technology Committee also establishes project priorities, oversees the overall performance of the banking technology, recommends the allocation of major banking technology capital expenditures and assigns sponsors, project managers and steering committees for technology projects. It examines banking technology's major risks and obstacles and oversees implementation of new processes to ensure that the Bank's objectives are met.

### ***International Committee***

The International Committee is comprised of the Head of International Network Division (who acts as chairman of the International Committee), the Vice-Chairman, the Head of Group Organization Development, Information Systems & Operational Support Services, the Head of the Group Commercial Banking Division, the Head of the Group Risk Management Division, the Head of the Group Consumer Banking Division and the Head of Group Banking Technology Division.

The International Committee meets once a month. The International Committee is mainly responsible for guiding and steering the expansion of the Bank in foreign countries, ensuring that efficient support is provided by the Bank itself to its overseas banking affiliates and following-up on the overall performance of the overseas banking affiliates on a quarterly basis.

### ***Credit Committees***

The Bank has a number of credit committees with varying levels of authority for the approval of credit applications, including the Board Risk Committee, the CCC, the MMCC, the Loan Recovery Committee, the Retail Credit Committee, the Small Lending Credit Committee and the Branch Credit Committee.

### ***Risk Management Committees***

The Bank currently has five senior management committees dealing with risk related issues: the Risk Committee, the ALCO, the Operational Risk Management Committee, the CAMLC and the Information Security Committee. See "*Overview of the Bank—Lending Policies—Loan Approval Procedures*".

#### ***Risk Committee***

The Risk Committee is comprised of the Head of the Group Risk Management Division (who acts as chairman of the Risk Committee), the Head of the Group Credit Risk Management Division (who acts as vice-chairman of the Risk Committee), the Vice-Chairman, the Head of the Group Commercial Banking Division and the Head of the Group Internal Audit Division.

The Risk Committee meets monthly at the Bank's Head Office to review and monitor credit risk strategy and insure that it is aligned with the Bank's overall objectives. The Risk Committee also oversees the implementation of approvals of the business plans and portfolio strategies and fixes accordingly the prudential limits. The Risk Committee oversees the delegation of credit approval authorities by the CCC. It reviews the Bank's credit practices and ensures that credit risk policies are efficient and appropriate and are being complied with. It ensures that the

Bank conforms to applicable Basel requirements concerning credit risk measurement and management. It assesses regularly the overall composition of the loans portfolio and the economic environment. It manages and controls risks not covered by the ALCO and the CCC, such as reputation risk.

#### *Assets and Liabilities Management Committee (ALCO)*

The ALCO is comprised of the Head of the Group Financial Markets Division (who acts as chairman of the ALCO), the Head of the Group International Banking Division (who acts as vice-chairman of the ALCO), the Vice-Chairman, the Chairman-General Manager of Byblos Invest Bank, the Head of the Group Commercial Banking Division, the Head of the Group Consumer Banking Division, the Head of the Group Risk Management Division, the Head of the Group Finance and Administration Division, the Head of the Financial Institutions Department and the Head of International Network Division.

The ALCO meets weekly at the Bank's Head Office. Its main responsibilities involve managing the assets and liabilities of the Bank; developing strategies and risk assessment policies on the basis of the Bank's main objectives of controlling and limiting liquidity risk, interest rate risk, foreign currency risk and market risk in trading activity; monitoring compliance with approved regulatory ratios (capital adequacy and liquidity); and managing the Bank's securities portfolio and capital.

#### *Operational Risk Management Committee*

The Operational Risk Management Committee is comprised of the Head of the Group Risk Management Division (who acts as chairman of the Operational Risk Management Committee), the Head of the Group Organization Development, Information Systems & Operational Support Services (who acts as vice-chairman of the Operational Risk Management Committee), the Vice-Chairman, the Head of the Group Consumer Banking Division and the Head of the Group Credit Risk Management Division.

The Operational Risk Management Committee meets on a quarterly basis or more frequently depending on the urgency of the agenda items to be discussed. The Operational Risk Management Committee is mainly responsible for reviewing operational risk calamities; approving new products or any activities proposals involving high operational risks; setting risk tolerance for residual risks; approving the operational risk management framework, policies, standards and methodologies; approving economic capital allocation for operational risk; monitoring the timely implementation of operational risk management initiatives throughout the Bank and supporting the creation of operational risk awareness culture within the Bank.

#### *Compliance and Anti-Money Laundering and Compliance Committee (CAMLC)*

The CAMLC is comprised of the Head of the Group Risk Management Division (who acts as chairman of the CAMLC), the Head of the Group Consumer Banking Division (who acts as vice-chairman of the CAMLC), the Vice-Chairman, the Head of the Group International Network Division, the Head of Internal Audit Division, the Head of the Group Operations Division and the Head of the Compliance Department.

The CAMLC is responsible for ensuring that the Bank is in compliance with anti-money laundering laws (including, in Lebanon, Law 318 and Central Bank Directive No. 1912 dated May 18, 2001) and that the Bank's internal anti-money laundering procedure and KYC policy is comprehensive, complete and clear and followed by all Bank staff. The CAMLC ensures that proper and effective controls are applied to prevent and detect money laundering operations and that periodic training programs and sessions are held on money laundering prevention and detection. The CAMLC reviews all reports made by the Compliance Unit and decides whether to report any suspicious activity to the Special Investigation Commission of the Banking Control Commission. Any unresolved matter is brought to the Management Committee or to the Chairman of the Board of Directors.

The Committee meets at least once every four months at the Bank's Head Office or more frequently when any member calls for a meeting concerning a suspicious transaction or customer or as otherwise deemed necessary.

#### *Information Security Committee*

The Information Security Committee is comprised of the Head of the Group Risk Management Division (who acts as chairman of the Information Security Committee), the Head of the Group Banking Technology Division (who

acts as vice-chairman of the Information Security Committee), the Vice-Chairman and the Head of Branch Distribution Channel Development.

The Information Security Committee meets on a quarterly basis, or whenever deemed necessary. The Information Security Committee is mainly responsible for ensuring strategic alignment of information security with business strategy for supporting organization objectives; executing appropriate measures to manage and mitigate risks and reduce potential impacts on information resources; measuring, monitoring and reporting information security governance metrics; utilizing information security knowledge and infrastructure efficiently and effectively; and optimizing information security investments in support of organizational objectives.

### **Corporate Governance**

As at the date of this Prospectus, the Bank is in compliance with applicable corporate governance rules of Lebanon.

## THE BANKING SECTOR AND BANKING REGULATION IN LEBANON

### Role of the Central Bank

The Central Bank was created by the Law implemented by Decree No. 13513 dated August 1, 1963. The Central Bank is a legal public entity with administrative and financial autonomy. It is considered a commercial institution in its relations with third parties. It is headquartered in Beirut and has branches in Tripoli, Jounieh, Saida, Zahle, Bikfaya, Aley, Tyre, Nabatiye and Baalbek. The Central Bank is managed by a Governor assisted by four Vice-Governors, collectively constituting the Governorship of the Central Bank. The Board of the Central Bank is chaired by the Governor and comprised of the Vice-Governors, the Director-General of the Ministry of Finance and the Director-General of the Ministry of Economy and Trade.

The Governor is appointed for six calendar years by decree from the Council of Ministers, acting on the proposal of the Minister of Finance. The Vice-Governors are appointed for five calendar years by decree from the Council of Ministers on the proposal of the Minister of Finance, after consultation with the Governor.

Central Bank's primary role is to safeguard the currency and promote monetary stability, thereby creating a sound environment for economic and social progress. The Central Bank also advises the Government on various economic and financial matters. In conducting its monetary management function, the Central Bank utilizes a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on U.S. Dollar deposits with commercial banks and treasury bill repurchase and swap agreements with commercial banks, as well as Lebanese Pound and U.S. Dollar-denominated certificates of deposit issued by the Central Bank.

As a result of high inflation prior to 1992, the Lebanese economy became substantially dollarized. Despite the decline in the rate of inflation, the proportion of foreign currency deposits (primarily in U.S. Dollars) remains high as a share of total deposits, at 63.24% as at December 31, 2010.

### Banking Sector

As at December 31, 2010, there were 54 active commercial banks (including eleven branches of foreign banks in Lebanon), with 912 operational branches in Lebanon, 50 financial institutions, 11 brokerage institutions, 13 specialized medium-and long-term credit banks, two leasing companies in the financial sector and ten representative offices licensed by the Central Bank to operate in Lebanon. Foreign banks are well represented in Lebanon and maintain branches in Lebanon or equity stakes in several Lebanese banks.

Unlike the banking sector in some other emerging market countries, the banking sector in Lebanon is generally acknowledged to be stable and financially strong, and plays a critical role in the economy as a whole.

The banking sector currently offers services related to short-term and, increasingly, medium-term financing. As medium-term funds become available to Lebanese banks (by way of loans from international organizations, such as the IFC, EIB, Proparco and *Agence Française de Développement*, or the issuance of debt securities on the international capital markets), commercial banks have begun to offer a variety of medium-term loans, such as residential mortgage loans, other consumer loans and several types of loans to corporate investors.

From March 1995, commercial banks were required to meet a minimum capital adequacy ratio of 8.0% in line with the Basel I Accord. In September 1999, the Central Bank required banks to raise their capital adequacy ratios to 10.0% by December 31, 2000 and 12.0% by December 31, 2001. Law No. 192 dated January 4, 1993 facilitated bank mergers by, among other things, making banks eligible for soft loans from the Central Bank. Such law was renewed until the year 2003. Pursuant to Law No. 675 dated February 14, 2005 published in the *Official Gazette* No. 8 dated February 24, 2005, the law facilitating bank mergers was reinstated for an indefinite period. Law No. 675 provided that the mechanism and criteria for granting soft loans to banks shall be set out by a Council of Ministers' Decree. During the past years, the capital of commercial banks in Lebanon has increased substantially.

In addition, Parliament passed legislation to revitalize specialized banks (for housing, agriculture and industry). The Republic's participation in the shareholding of these banks has been reduced to a minority stake. In addition, Parliament passed laws relating to the listing of bank shares on stock exchanges and several banks currently list their eligible shares on the BSE.

The Bank considers the banks in Lebanon with customer deposits in excess of U.S.\$2.0 billion to be its main competitors. The following tables set forth the rankings for selected criteria of the Alpha Group banks in Lebanon in as at December 31, 2009 and 2010, respectively, according to Bankdata, based on unaudited financial statements of banks operating in Lebanon provided to Bankdata by such banks:

### Ranking by Customer Deposits

	December 31, 2009			December 31, 2010		
	(LBP million)	(%)	(Rank)	(LBP million)	(%)	(Rank)
Bank Audi S.A.L. – Audi						
Saradar Group.....	34,650,176	23.01	1	37,457,518	22.16	1
BLOM Ban k S.A.L.....	27,089,605	17.99	2	29,476,393	17.44	2
<b>Byblos Bank S.A.L. <sup>(1)</sup>.....</b>	<b>15,506,168</b>	<b>10.30</b>	<b>3</b>	<b>17,928,081</b>	<b>10.61</b>	<b>3</b>
Fransabank S.A.L.....	13,587,124	9.02	4	15,210,357	9.00	4
Bankmed S.A.L.....	12,335,520	8.19	5	13,275,242	7.85	5
<i>Banque Libano Française</i>						
S.A.L.....	9,560,753	6.35	6	11,165,819	6.61	6
Bank of Beirut S.A.L.....	7,400,210	4.91	7	8,969,951	5.31	7
<i>Crédit Libanais S.A.L.</i> .....	7,265,169	4.82	8	8,511,969	5.04	8
Lebanese Canadian Bank						
S.A.L.....	6,684,861	4.44	9	7,971,859	4.72	9
<i>Société Générale de Banque au Liban (SGBL)</i>						
S.A.L.....	5,510,297	3.66	10	6,119,907	3.62	10
B.B.A.C. S.A.L.....	4,952,223	3.29	11	5,485,858	3.25	11
IBL Bank S.A.L.....	3,579,638	2.38	12	4,454,984	2.64	12
First National Bank S.A.L.....	2,482,525	1.65	13	3,019,474	1.79	13
<b>Total.....</b>	<b>150,604,268</b>	<b>100.00</b>		<b>169,047,412</b>	<b>100.00</b>	

Source: Bankdata.

Note:

- (1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Prospectus because the figures used by Bankdata are unaudited.

### Ranking by Net Profits

	December 31, 2009			December 31, 2010		
	(LBP million)	(%)	(Rank)	(LBP million)	(%)	(Rank)
Bank Audi S.A.L. – Audi						
Saradar Group.....	435,593	22.29	2	531,013	21.92	1
BLOM Bank S.A.L.....	441,729	22.61	1	498,544	20.58	2
<b>Byblos Bank S.A.L. <sup>(1)</sup>.....</b>	<b>219,422</b>	<b>11.23</b>	<b>3</b>	<b>268,879</b>	<b>11.10</b>	<b>3</b>
Fransabank S.A.L.....	157,115	8.04	4	220,350	9.10	4
Bankmed S.A.L.....	136,700	7.00	5	159,194	6.57	5
<i>Banque Libano Française</i>						
S.A.L.....	101,860	5.21	8	119,610	4.94	8
Bank of Beirut S.A.L.....	112,185	5.74	6	151,756	6.27	6
<i>Crédit Libanais S.A.L.</i> .....	79,377	4.06	9	119,268	4.92	9
Lebanese Canadian Bank						
S.A.L.....	52,775	2.70	11	87,805	3.62	10
<i>Société Générale de Banque au Liban (SGBL)</i>						
S.A.L.....	105,985	5.42	7	129,075	5.33	7
B.B.A.C. S.A.L.....	54,034	2.77	10	57,941	2.39	11
IBL Bank S.A.L.....	42,345	2.17	12	54,360	2.24	12
First National Bank S.A.L.....	14,703	0.75	13	24,418	1.01	13
<b>Total.....</b>	<b>1,953,822</b>	<b>100.00</b>		<b>2,422,212</b>	<b>100.00</b>	

Source: Bankdata.

Note:

- (1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Prospectus because the figures used by Bankdata are unaudited.

## Ranking by Total Assets

	December 31, 2009			December 31, 2010		
	(LBP million)	(%)	(Rank)	(LBP million)	(%)	(Rank)
Bank Audi S.A.L. –						
Audi Saradar Group.....	39,927,674	21.95	1	43,254,688	21.39	1
BLOM Bank S.A.L.....	31,208,844	17.16	2	33,671,720	16.65	2
<b>Byblos Bank S.A.L. <sup>(1)</sup>.....</b>	<b>20,465,186</b>	<b>11.25</b>	<b>3</b>	<b>23,042,367</b>	<b>11.40</b>	<b>3</b>
Fransabank S.A.L. ....	16,300,030	8.96	4	18,473,698	9.14	4
Bankmed S.A.L. ....	15,956,180	8.77	5	16,863,640	8.34	5
<i>Banque Libano</i>						
<i>Française S.A.L. ....</i>	11,386,282	6.26	6	13,055,960	6.46	6
Bank of Beirut S.A.L.....	10,501,535	5.77	7	12,057,395	5.96	7
<i>Crédit Libanais S.A.L. ....</i>	8,263,768	4.54	8	9,790,363	4.84	8
Lebanese Canadian Bank						
S.A.L.....	7,842,417	4.31	9	9,342,756	4.62	9
<i>Société Générale de</i>						
<i>Banque au Liban</i>						
<i>(SGBL) S.A.L. ....</i>	7,179,097	3.95	10	7,726,540	3.82	10
B.B.A.C. S.A.L.....	5,628,749	3.09	11	6,216,359	3.07	11
IBL Bank S.A.L.....	3,955,295	2.17	12	4,898,493	2.42	12
First National Bank						
S.A.L.....	3,259,227	1.79	13	3,818,833	1.89	13
<b>Total .....</b>	<b>181,874,284</b>	<b>100.00</b>		<b>202,212,813</b>	<b>100.00</b>	

Source: Bankdata.

Note:

- (1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Prospectus because the figures used by Bankdata are unaudited.

## Ranking by Shareholders' Equity<sup>(1)</sup>

	December 31, 2009			December 31, 2010		
	(LBP million)	(%)	(Rank)	(LBP million)	(%)	(Rank)
Bank Audi S.A.L. –						
Saradar Group.....	3,305,760	20.77	1	3,656,739	20.17	1
BLOM Bank S.A.L.....	2,575,549	16.18	2	2,869,426	15.83	2
<b>Byblos Bank S.A.L. <sup>(2)</sup>.....</b>	<b>1,962,015</b>	<b>12.33</b>	<b>3</b>	<b>2,456,763</b>	<b>13.55</b>	<b>3</b>
Fransabank S.A.L. ....	1,619,466	10.17	5	1,946,633	10.74	4
Bankmed S.A.L. ....	1,724,188	10.83	4	1,666,183	9.19	5
<i>Banque Libano Française</i>						
<i>S.A.L.....</i>	895,663	5.63	7	1,133,713	6.25	7
Bank of Beirut S.A.L.....	1,181,775	7.42	6	1,372,768	7.57	6
<i>Crédit Libanais S.A.L. ....</i>	638,010	4.01	8	723,348	3.99	8
Lebanese Canadian Bank						
S.A.L.....	538,496	3.38	10	659,781	3.64	9
<i>Société Générale de</i>						
<i>Banque au Liban (SGBL)</i>						
<i>S.A.L. ....</i>	542,934	3.41	9	599,482	3.31	10
B.B.A.C. S.A.L.....	422,561	2.65	11	463,294	2.56	11
IBL Bank S.A.L.....	291,120	1.83	12	329,610	1.82	12
First National Bank S.A.L. ....	219,882	1.38	13	248,759	1.37	13
<b>Total .....</b>	<b>15,917,418</b>	<b>100.00</b>		<b>18,126,498</b>	<b>100.00</b>	

Source: Bankdata.

Notes:

- (1) Based on the calculation of Bankdata, revaluation variance of other fixed assets and subordinated notes are not included in shareholders' equity for purposes of these rankings.
- (2) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Prospectus because the figures used by Bankdata are unaudited.

## Ranking by Loans and Advances

	December 31, 2009			December 31, 2010		
	(LBP million)	(%)	(Rank)	(LBP million)	(%)	(Rank)
Bank Audi S.A.L. – Audi						
Saradar Group.....	10,170,680	23.41	1	12,885,421	23.60	1
BLOM Bank S.A.L.....	6,058,123	13.94	2	7,808,785	14.30	2
<b>Byblos Bank S.A.L. <sup>(1)</sup>.....</b>	<b>4,819,148</b>	<b>11.09</b>	<b>3</b>	<b>5,685,013</b>	<b>10.41</b>	<b>3</b>
Fransabank S.A.L.....	3,480,742	8.01	5	4,733,315	8.67	5
Bankmed S.A.L.....	4,724,085	10.87	4	5,308,779	9.72	4
<i>Banque Libano Française</i>						
S.A.L.....	3,408,020	7.84	6	4,363,922	7.99	6
Bank of Beirut S.A.L.....	2,707,163	6.23	7	3,507,633	6.42	7
<i>Crédit Libanais S.A.L.</i> .....	1,944,298	4.48	9	2,489,014	4.56	9
Lebanese Canadian Bank						
S.A.L.....	1,912,503	4.40	10	2,672,608	4.89	8
<i>Société Générale de</i>						
<i>Banque au Liban (SGBL)</i>						
S.A.L.....	2,097,604	4.83	8	2,126,833	3.89	10
B.B.A.C. S.A.L.....	1,024,751	2.36	11	1,308,390	2.40	11
IBL Bank S.A.L.....	423,349	0.97	13	768,060	1.41	13
First National Bank S.A.L.....	674,185	1.55	12	949,597	1.74	12
<b>Total .....</b>	<b>43,444,652</b>	<b>100.00</b>		<b>54,607,370</b>	<b>100.00</b>	

Source: Bankdata.

Note:

- (1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Prospectus because the figures used by Bankdata are unaudited.

## Banking Regulations

Banking activities in Lebanon are governed by the Lebanese Code of Commerce, the Code of Money and Credit and Central Bank Decisions. Regulations are set out by the Central Bank and the Banking Control Commission, which was established in 1967 and has the responsibility of supervising banking activities and ensuring compliance with regulations and legislation.

The Banking Control Commission undertakes both off-site reviews and on-site examinations of Lebanese banks to assess, *inter alia*, compliance with banking laws and regulations, reliability of bank reporting, levels of liquidity and capital adequacy and loan-to-deposit ratios.

Banks regularly submit reports to the Central Bank, including daily lists of foreign exchange transactions undertaken, weekly reports on the portfolio of treasury bills held, periodic financial information on customers and interbank deposits and audited financial statements. Banks also submit regular reports to the Banking Control Commission mainly on their lending portfolio and on some details of their financial statements. Furthermore, banks, like all joint-stock companies registered in Lebanon, must have their by-laws and minutes of certain shareholders' meetings, as well as minutes of board of directors meetings whose objects relate to, or otherwise affect, third parties, registered with the Register of Commerce.

## Related Party Transactions

Transactions with related parties are governed by the Lebanese Code of Commerce, the Code of Money and Credit and Central Bank Decision No. 7776 dated February 21, 2001, as amended, which collectively provide that a transaction with a related party must be formally authorized by a general meeting of the bank's shareholders and approved by the bank's board of directors. As amended effective November 13, 2003, Decision No. 7776 provides that advances and credit facilities to directors, managers and companies having common directors with a bank may not exceed 5.0% of shareholders equity; however, the Central Bank has provided a phase-in compliance for banks exceeding such limit during which such advances and credit facilities should be reduced to 10.0% as at December 31, 2004 and 5.0% as at December 31, 2005, 2.0% of which may be granted without having to meet the conditions specified in the Code of Money and Credit, including, among other things, the formal prior approval of the general meeting of the bank's shareholders.

Central Bank Decision No. 7156, dated November 10, 1998, provides that inter-bank deposits among banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25.0% of tier I capital.

### ***Reserve Requirements***

Pursuant to Decision No. 7835, dated June 2, 2001, as amended, all banks operating in Lebanon, except investment banks and commercial banks making medium- and long-term loans, must maintain a compulsory reserve in cash with the Central Bank equal to (i) 25.0% of the weekly average of the sum of Lebanese Pound-denominated demand deposits and (ii) 15.0% of the weekly average of the sum of Lebanese Pound-denominated term deposits.

On September 27, 2001, the Central Bank issued Decision No. 7935, as amended, implementing Decision No. 7926, dated September 20, 2001, pursuant to which all banks operating in Lebanon must maintain in cash with the Central Bank an interest-bearing deposit to the extent of 15.0% of all foreign currency-denominated deposits, notes, certificates of deposit, banks' certificates and other debt instruments and loans granted by the financial sector with a remaining time to maturity of one year or less, against payment of interest at the rate applied by the Central Bank on foreign currency-denominated deposits.

On December 16, 2002, the Central Bank amended Decision No. 7926, dated September 20, 2001, pursuant to which all banks operating in Lebanon must subscribe to Lebanese treasury bills or eurobonds issued by Lebanon, which do not bear interest and have a maturity of two years. The aggregate amount of such Lebanese treasury bills or eurobonds subscribed to by each bank must equal 10.0% of the relevant bank's deposits in all currencies as at October 31, 2002. Subscription was effected in five equal instalments on each of January 17, 2003, February 18, 2003, March 18, 2003, April 18, 2003 and May 16, 2003; all such securities subscribed to fulfil these mandatory obligations have now matured without any obligation to reinvest. Under this Decision, subscriptions were permitted to be made in either cash (in Lebanese Pounds or U.S. Dollars) or in Lebanese treasury bills or eurobonds. Thereafter, the Central Bank issued certificates of deposit, which the banks were permitted to purchase in satisfaction of their subscription obligations.

Pursuant to Central Bank Decision No. 6101 dated February 8, 1996, as amended, the Central Council of the Central Bank may grant, on a case-by-case basis, to commercial banks making medium- and long-term loans the same reserve requirement concessions and exemptions as those granted to "specialized banks" governed by Decree Law No. 50 dated July 15, 1983.

Central Bank Decision No. 7693 dated October 18, 2000, as amended, provides that all banks operating in Lebanon must maintain a minimum of 10.0% of all foreign currency-denominated deposits, debt securities, certificates of deposits, banks' certificates and other debt instruments and loans granted by the financial sector with a remaining time-to-maturity of one year or less, in liquid assets consisting of (i) cash in a bank's vaults, (ii) cash deposited with the Central Bank and (iii) cash deposited with other banks with a remaining time-to-maturity less than or equal to one year.

Central Bank Decision No. 7694 dated October 18, 2000, as amended, provides that all banks operating in Lebanon must also maintain at all times a minimum of 40.0% of their tier I capital denominated in Lebanese Pounds, in particular after provisions and distribution of profits, in liquid assets, consisting of (i) cash in the bank's vaults, (ii) cash deposited with the Central Bank, (iii) cash deposited with other banks with a remaining time-to-maturity equal to or less than one year and (iv) Lebanese treasury bills with a remaining time-to-maturity of one year or less.

### ***Capital Adequacy***

Pursuant to Central Bank Decision No. 6939, dated March 25, 1998, all banks operating in Lebanon are required to maintain a minimum capital adequacy ratio of 12.0% as from December 31, 2001. During the past years, the capital of commercial banks in Lebanon has increased substantially.

Central Bank Decision No. 6938, dated March 25, 1998, was amended on September 8, 2005 to provide that the aggregate amount of preferred shares (convertible and non-convertible into ordinary shares) and financial instruments that are deemed part of a bank's tier I capital according to the applicable regulations cannot exceed 49.0% of the bank's tier I capital; that the aggregate amount of preferred shares (non-convertible into ordinary shares) and financial instruments that are deemed part of a bank's tier I capital according to the applicable regulations cannot exceed the sub-limit of 35.0% of the bank's tier I capital; and that the aggregate amount of

financial instruments that are deemed part of a bank's tier I capital according to the applicable regulations cannot exceed the sub-limit of 15.0% of the bank's tier I capital. The excess above these limits of preferred shares (convertible and non-convertible) and financial instruments, which would otherwise form part of the bank's tier I capital, will be included in the bank's tier II capital.

Pursuant to Decision 9302 dated April 1, 2006, as amended, adopted with respect to the application of the Basel II Accord for the calculation of capital adequacy, all banks operating in Lebanon must apply the Basel II Accord for the calculation of capital adequacy on a consolidated and non-consolidated basis, where applicable, in accordance with the standards set forth in Decision 9302 and any subsequent decisions adopted in that regard starting from January 1, 2008. In addition, as of December 31, 2006, Lebanese banks must include reserves for unspecified banking risk in the calculation of their capital adequacy ratio. Pursuant to Article 7 of Decision 9302, banks operating in Lebanon were required to appoint an expert in risk management to be in charge of applying the Basel II Accord and notify the Banking Control Commission of the name of such person and contact details prior to April 30, 2006.

On September 24, 2007, Central Bank Decision No. 6938 dated March 25, 1998 was amended to introduce an additional category of capital, called tier III capital, that consists of subordinated notes issued initially for a minimum of two years. Tier III capital can only be used to support market risk in the trading book of the bank; this means that any capital requirement arising in respect of credit, operational and counterparty risk, including the credit counterparty risk in both trading and banking books, needs to be met by the existing definition of capital base (*i.e.*, tier I and tier II). The use of tier III capital to support market risk is limited to 250.0% of the amount of residual tier I capital. This means a minimum of 28.5% of market risk must be covered by residual tier I capital to maintain this ratio. tier II capital may be substituted for tier III capital up to the limit of 250.0% in so far as the overall limits for tier II with regard to tier I are not breached.

Pursuant to Central Bank Basic Decision No. 9957 ("**Decision 9957**") dated July 21, 2008, relating to the assessment of the capital adequacy of Lebanese banks, the senior executive management of Lebanese banks is required, in addition to meeting the Pillar I (*i.e.*, minimum capital requirements under Basel II Accord) requirements, to establish a documented mechanism for the assessment of the bank's capital adequacy. The assessment of such capital adequacy shall be carried out in accordance with certain guidelines, including, *inter alia*, (i) the risks to which the bank is exposed, such as credit risk, market risk, operational risk, interest rate risk, credit concentration risk, liquidity risk and strategic risk; (ii) the future capital needs of the bank; and (iii) the periodic monitoring of the sufficiency of the bank's capital to cover the minimum requirements to counter any risks or potential negative changes.

The Banking Control Commission must periodically ensure that the assessment of a bank's capital adequacy is carried out in accordance with Decision 9957 by reviewing and evaluating all the qualitative (*i.e.*, corporate governance, risk management and internal control regulations) and quantitative (*i.e.*, the calculation of the capital requirements in accordance with Pillar I and Pillar II) elements adopted by a bank in its capital adequacy assessment process. The Banking Control Commission shall have the right to instruct the bank to increase its shareholders' equity should it deem the foregoing qualitative and quantitative elements to be weak or inadequate, although any such increase of shareholders' equity shall not exempt the bank from rectifying such weaknesses or inadequacies.

### ***Corporate Governance***

Central Bank Decision No. 9382 dated July 26, 2006, adopted in implementation of the Basel II Accord regarding the banks' corporate governance, has outlined the general guidelines for the banks' corporate governance, regarding, *inter alia*, (i) the directors' competence to hold their positions, (ii) the board of directors' role in specifying the strategic goals and corporate values of the bank and to ensure implementation thereof, (iii) the board of directors' duty to clearly provide for responsibilities and accountability and to ensure that such responsibility and accountability are thoroughly applied and (iv) the transparent management of the bank.

Pursuant to Central Bank Basic Decision No. 9956 dated July 21, 2008, the board of directors of each Lebanese bank is required to establish an audit committee comprised of at least three non-executive directors, one of whom must have experience in accounting, financial management or auditing. This audit committee shall, *inter alia*, assist the board of directors in the performance of its duties, in particular with respect to: (i) assessing the qualifications and independence of each of the auditors and the internal audit unit; (ii) monitoring the accuracy of the bank's financial statements and reviewing the disclosure criteria adopted by the bank; (iii) reviewing the

sufficiency and effectiveness of the bank's internal control regulations and procedures; (iv) following up on the implementation of the proposed corrections included in any reports issued by the internal audit unit and the auditors; and (v) monitoring the bank's compliance with applicable Central Bank and Banking Control Commission regulations.

In addition, the audit committee shall, separate from its duty to assist the board of directors, independently supervise the internal audit activities, assess the performance, independence and objectivity of the auditors and review the internal control regulations and procedures, including the anti-money laundering procedures and the prevention of terrorism financing procedures, in order to ensure their sufficiency and effectiveness.

Lebanese banks are required to establish an audit committee before June 30, 2009 and to inform the Banking Control Commission of the names of its members. The Bank established its Audit Committee on July 19, 2004, being the first among the Lebanese banks to do so.

### ***Credit Limits***

Central Bank Decision No. 7055 dated August 13, 1998, as amended by Intermediary Decision No. 9456 dated November 9, 2006, sets the maximum allowable weighted credit limit for loans to a single borrower (or a group of related borrowers) at (i) 20.0% of a bank's shareholders' equity with respect to loans extended to borrowers (or a group of related borrowers) resident in Lebanon the proceeds of which are to be used in Lebanon, (ii) 20.0% of a bank's shareholders' equity with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings of A+ and above and (iii) 10.0% of a bank's shareholders' equity with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings below A+, provided that (x) the aggregate exposure for countries rated from A to BBB- is not to exceed 200.0% of the bank's shareholders' equity and the aggregate exposure to each of these countries is not to exceed 50.0% of the bank's shareholders' equity or (y) the aggregate exposure for countries rated below BBB- is not to exceed 100.0% of the bank's shareholders' equity and the aggregate exposure to each of these countries is not to exceed 25.0% of the bank's shareholders' equity. Intermediary Decision No. 9456 gave non-compliant banks until December 31, 2007 to comply with its provisions

### ***Foreign Exchange Trading***

Central Bank Decision No. 6568, dated April 24, 1997, as amended, prohibits Lebanese banks from maintaining at any time (i) net trading positions against Lebanese Pounds in an amount greater than 1.0% of tier I capital and (ii) global positions greater than 40.0% of tier I capital.

Lebanese banks, however, are allowed, under Decision No. 6568, to hold a structural foreign exchange position up to 60.0% of tier I capital denominated in Lebanese Pounds after making certain adjustments.

### ***Loan Classification***

Central Bank Decision No. 7159, dated November 10, 1998, as amended, introduces specific rules relating to loan classification and provisioning in accordance with the Basel Committee regulations. Specifically, it divides loan facilities into five categories: ordinary/regular loans, loans to be followed-up and regularized, sub-standard loans, doubtful loans and bad or ailing loans. See "*Overview of the Bank—Loan Classifications*".

### ***Provision for Bad Debt and Doubtful Loans***

The Banking Control Commission requires specific provisions to be established for identified credit losses. Full or partial provisions must be made in respect of non-performing loans in accordance with applicable Central Bank regulations. Furthermore, non-performing loans must be put on a non-accrual basis and any interest subsequently received booked on a cash basis, as and when received. Non-performing loans are those as to which the relevant Central Credit Department has determined that the borrower may be unable to meet principal and/or interest repayment obligations, or performance is otherwise unsatisfactory, unless the loans are adequately secured and/or are in the process of liquidation. See "*Overview of the Bank—Provisions for Loan Losses*".

### ***Reserves for General Banking Risk***

Pursuant to Central Bank Basic Decision No. 7129 dated October 15, 1998, banks operating in Lebanon are required to allocate on a yearly basis a general reserve (to be included in tier I capital) for unspecified banking risks out of net profits in an amount equal to a minimum of 0.2% and a maximum of 0.3% of risk-weighted assets. The accumulated reserve for unspecified banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from the Decision's issuance and 2.0% of risk-weighted assets within 20 years from the Decision's issuance, in each case, from 2008, as calculated in accordance with Basel II Accord ratios.

### **Accounting Standards**

Effective in 1997, all Lebanese banks are required to prepare their financial statements in accordance with IFRS. The Banking Control Commission has issued instructions which correspond to International Financial Reporting Standards; for instance, the recognition of interest on classified loans only on a cash basis, guidelines for the effects of hyper-inflation, the recording of exchange gains and losses arising from revaluation of foreign exchange positions and a statement of non-monetary assets acquired in settlement of debts at current price.

There are also certain restrictions on lending to shareholders and directors and on investments in subsidiaries and affiliates.

Central Bank Decision No. 6576 dated April 24, 1997, requires Lebanese banks to prepare consolidated financial statements effective July 1, 1997. Consolidated financial statements must include all companies (financial and non-financial) under a bank's exclusive control (evidenced by ownership of 50% and/or exclusive control over management). Companies in which the bank has joint control (evidenced by direct or indirect ownership ranging from 20.0% up to 50.0%) should be presented using the "equity method".

## TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions of the Notes (the “**Conditions**”), which will be attached to or endorsed upon each Note.

### 1. General

This Note is one of a duly authorized issue of U.S.\$300,000,000 7.0% Notes due June 24, 2021 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 15 (*Further Issues*) and forming a single series therewith) issued by Byblos Bank S.A.L. (the “**Issuer**”) in accordance with (i) Articles 122 to 143, inclusive, and Article 453 et seq. of the Lebanese Code of Commerce; (ii) Law No. 308 of the Lebanese Republic (“**Lebanon**”) dated April 3, 2001; (iii) Central Bank Decision No. 6856 dated December 19, 1997; and (iv) the trust deed to be dated on or around June 21, 2011 (the “**Trust Deed**”) between the Issuer and Deutsche Bank Trust Company, as trustee (the “**Trustee**”). Deutsche Bank AG, London Branch will act as issuing and paying agent (the “**Issuing and Paying Agent**”). Deutsche Bank Luxembourg S.A. will act as registrar and transfer agent (the “**Registrar and Transfer Agent**”). The Issuing and Paying Agent and the Registrar and Transfer Agent are collectively referred to herein as the “**Agents**”, which definition and each of which definitions encompassed therein shall include any successor agents appointed in these capacities from time-to-time in connection with the Notes. All of the Notes issued by the Issuer pursuant to the Trust Deed and, for the time being outstanding, are hereinafter referred to as the “**Notes**” and the term “**Note**” is to be construed accordingly. The holders of the Notes (the “**Noteholders**”) are bound by and deemed to have notice of all the provisions of the Trust Deed. Copies of the Trust Deed are available for inspection during normal business hours at the registered office for the time being of the Trustee, being as at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom, and the office of the Issuing and Paying Agent, being as at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom.

Words and expressions defined in the Trust Deed shall have the same meanings when used herein unless the context otherwise requires or unless otherwise stated.

### 2. Form, Title, Denomination and Delivery

- (a) The Notes are in registered form, without interest coupon attached, and will be serially numbered. The Notes will be issued only in denominations of U.S.\$1,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes will initially be evidenced by a single global note in registered form without interest coupons attached (the “**Global Note**”), which will be deposited with, and registered in the name of a nominee for, a common depository for Euroclear Bank S.A./N.V., as operator of the Euroclear System (“**Euroclear**”) and Clearstream Banking, *société anonyme* (“**Clearstream**”). Notes in definitive registered form without interest coupons attached (“**Definitive Notes**”) may be issued only in limited circumstances in accordance with Condition 2(c).
- (b) So long as the Notes are evidenced by a Global Note, interests in the Notes will be shown only on the book-entry system maintained by Euroclear and Clearstream (each, a “**Clearing System**” and, together, the “**Clearing Systems**”) and their respective participants, including Midclear S.A.L. (“**Midclear**”). Notes held though Midclear will be settled though Midclear’s participant accounts with Euroclear and Clearstream.
- (c) Interests in the Global Note are exchangeable, in whole, but not in part, for Definitive Notes following the delivery of notice to the Issuer by either Euroclear or Clearstream, the holders of 10% or more in aggregate nominal amount of the Notes, the Trustee or the Issuing and Paying Agent that (i) the common depository for the Global Note or either of Euroclear or Clearstream is unwilling or unable to continue as common depository or a Clearing System for the Global Note, or either such Clearing System is closed for business for a continuous period of 14 days (other than by reason of holiday, statute or otherwise) or announces an intention permanently to cease business or does in fact do so and, if any remaining Clearing System is open for business, such remaining Clearing System is unwilling to act as the Clearing System in respect of such Global Note; (ii) an Event of Default has occurred and is continuing; or (iii) a material disadvantage to the Issuer or the owners of beneficial interests in the Global Note will occur if the Notes are not in definitive form. Upon the receipt of any such notice, and subject to the other Conditions stated, the Issuer shall cause the Issuing and Paying Agent, upon presentation and surrender of the relevant Global Note, to distribute Definitive Notes to all owners of beneficial interests in such Global Note, as shown on the account records of Euroclear and Clearstream,

in like tenor and principal amount as the interests in the Global Note being exchanged. Such Global Note shall then be cancelled.

### 3. **Transfer of Notes and Registration**

- (a)
  - (i) Transfers of the Global Note shall (subject to the provisions of the Trust Deed) be limited to transfers of such Global Note, in whole but not in part, to a nominee of Euroclear or Clearstream or a successor of Euroclear or Clearstream.
  - (ii) So long as the Notes are represented by the Global Note, ownership by Noteholders of such Notes, and their corresponding interests in the Global Note, may be acquired, and transfers thereof may be effected, exclusively through the book-entry settlement systems maintained by the Clearing Systems and their respective participants, including Midclear, subject to the usual operating procedures and management regulations established by the Clearing Systems and their respective participants, including Midclear, and otherwise subject to the provisions of these Conditions and the Trust Deed. For all purposes, the securities account records of the Clearing Systems and their respective participants, including Midclear, shall, in the absence of manifest error, be conclusive evidence of the owners of beneficial interests in the Notes and of the principal amount outstanding of the Notes credited to the securities accounts of such Noteholders (but without prejudice to any other means of producing such records in evidence). None of the Issuer, the Trustee or the Agents, each in its capacity as such, will have any responsibility for any aspect of the securities account records of the Clearing Systems and their respective participants, including Midclear, or payments made by the Clearing Systems and their respective participants, including Midclear, on account of the Notes, nor shall the Issuer, the Trustee or the Agents have any responsibility for maintaining, supervising or reviewing any such securities account records relating to the Notes or the interest therein.
  - (iii) In the event that the Notes are evidenced by Definitive Notes, subject to applicable securities laws, a Note may be transferred in whole or in part upon the surrender of that Note, together with the form of transfer (including any certification as to compliance with restrictions on transfer included in such form of transfer) endorsed thereon (the “**Transfer Form**”) duly completed and executed, at the specified office of the Registrar and Transfer Agent, together with such evidence as the Registrar may reasonably require to prove the title of the transferor and the authority of the persons who have executed the Transfer Form. Transfer Forms will be available from the Registrar and Transfer Agent and the Issuer upon request of any Noteholder. In the case of a transfer of only a portion of a Definitive Note, neither the portion transferred nor the balance thereof not transferred may be less than U.S.\$1,000, the minimum principal amount set out in Condition 2 above, a new Definitive Note evidencing the portion transferred will be issued to the transferee and a new Definitive Note in respect of such balance not so transferred will be issued to the transferor.
  - (iv) Each new Note (whether a Global Note or a Definitive Note) to be issued upon a transfer of any Notes will, within five Business Days (as such term is defined below) of the request for transfer being duly made, be delivered at the specified office of the Registrar and Transfer Agent or (at the request and the risk of such transferee) be mailed free of charge to the transferee by uninsured post to such address as the transferee entitled to the Notes represented by such Note may have specified.
  - (v) Registration or transfer of Notes will be effected without charge to the Noteholder or transferees thereof, but upon payment (or against such indemnity from the Noteholder or the transferee thereof as the Registrar and Transfer Agent may require) in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such registration or transfer.
  - (vi) All transfers of Notes and entries on the Register (as defined below) will be made subject to the detailed regulations concerning transfer of Notes set forth in the Trust Deed. The regulations may be changed by the Issuer with the prior written approval of the Registrar and Transfer Agent.
- (b) The Issuer shall cause to be kept at the office of the Registrar and Transfer Agent a register (a “**Register**”) in which, subject to such reasonable regulations as it may prescribe, the Issuer shall provide for the

registration of ownership of the Notes, and of transfers thereof. No transfer of a Note will be valid unless and until entered on the Register.

- (c) No Note shall become valid or obligatory until it shall have been duly authenticated by the Trustee or the Registrar and Transfer Agent, as the case may be, or another authentication agent in accordance with the Trust Deed.
- (d) Noteholders may not require transfers to be registered during the period of 15 days ending on the due date for any payment of principal or interest in respect of the Notes.

#### **4. Status of the Notes**

The obligations of the Issuer in respect of the Notes constitute general, unsubordinated and (subject to Condition 5) unsecured obligations of the Issuer, which rank *pari passu* in priority of payment, without any preference among themselves, with all other unsubordinated and (subject to Condition 5) unsecured obligations of the Issuer, other than such obligations as may be preferred by mandatory provisions of applicable law.

#### **5. Negative Pledge**

The Issuer undertakes that, so long as any Notes remain outstanding, it shall not, and shall not permit any of its Material Subsidiaries (as defined below) to, create, incur, assume or permit to exist any lien, pledge, security interest or other encumbrance (other than customary permitted liens) upon or with respect to any of their respective undertakings, assets or revenues to secure any Relevant Indebtedness (as defined below), unless the Issuer's obligations under the Notes and the Trust Deed are secured equally and rateably with such other indebtedness or are otherwise given the benefit of such other arrangements as shall be approved by the Noteholders in the manner set out in the Trust Deed.

#### **6. Interest**

- (a) Interest will accrue on the principal amount of each Note at the rate of 7.0% per annum in respect of the period beginning on and including June 24, 2011 (the "**Issue Date**") and ending on but excluding the Maturity Date (as such term is defined in Condition 7(a)) (or such earlier date, if any, on which the Notes are previously purchased by the Issuer as provided in Condition 7(b) or earlier redeemed as provided in Condition 10 or accelerated as provided in Condition 11, as the case may be). Accrued interest shall be payable semi-annually, in arrear, on June 24 and December 24 of each year, commencing on December 24, 2011 through and including the Maturity Date (or such earlier date referred to above) (each, an "**Interest Payment Date**").
- (b) Interest will cease to accrue from the Maturity Date (or such earlier date referred to above), unless, after surrender of the Global Note or relevant Definitive Note, payment of principal is improperly withheld or refused. In such event, interest will continue to accrue at the rate specified in Condition 6(a) above (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (ii) the day which is seven Business Days (as such term is defined in Condition 6(d) below) after the Issuing and Paying Agent has notified Noteholders of receipt of all sums due in respect of all the Notes up to that seventh Business Day (except to the extent that there is any subsequent default in payment).
- (c) If interest is required to be calculated for a period other than six months, it will be calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed in such month. In the event that any Interest Payment Date falls on a date which is not a Business Day, the relevant Interest Payment Date shall be the next following Business Day and no further interest or other payment in respect of the delay in payment will accrue.
- (d) In these Conditions, the term "**Business Day**" means a day (other than a Saturday or Sunday) (i) on which commercial banks and foreign exchange markets settle payments in New York City and Lebanon; (ii) in relation to payments due upon presentation or surrender of any Notes, on which commercial banks and foreign exchange markets settle payments in U.S. Dollars in the place of presentation or surrender; and (iii) in relation to the Global Note, on which the Clearing Systems are in operation.

## 7. Maturity; Repayment

- (a) Unless previously purchased by the Issuer as provided in Condition 7(b) or earlier redeemed as provided in Condition 10 or accelerated as provided in Condition 11, the Notes will be paid at their principal amount together with accrued but unpaid interest (if any) on June 24, 2021 (the “**Maturity Date**”).
- (b) The Issuer may, at any time after the first anniversary of the Issue Date, purchase, or procure others to purchase for its account, Notes at any price, subject to compliance with all other applicable Lebanese and other laws and regulations. Notes so purchased may be held or resold, or surrendered for cancellation, at the option of the Issuer. Any Notes so purchased, while held by or on behalf of the Issuer, shall not entitle the Noteholder to vote at any meeting of Noteholders and shall not be deemed to be outstanding for the purpose of calculating quorums at meetings of Noteholders.

## 8. Payments

- (a) For so long as the Notes are represented by the Global Note, payments of principal and interest shall be made only against presentation and (in the case of final payment) surrender of Notes at the specified office of the Issuing and Paying Agent in U.S. Dollars by transfer to an account outside the United States to which U.S. Dollars may be credited or transferred. In the case of Definitive Notes, payments of principal and interest shall be made only against presentation and (in the case of the final payment) surrender of the Definitive Note at the specified office of the Issuing and Paying Agent in U.S. Dollars by cheque drawn on, or by transfer to, an account outside the United States to which U.S. Dollars may be credited or transferred. Upon presentation of a Note for the payment of interest due, the relevant Note shall be endorsed to indicate the date to which interest thereon has been paid.
- (b) All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Noteholders in respect of such payments.

## 9. Taxation

All payments of principal and interest in respect of the Notes by the Bank will be made free and clear of, and without deduction or withholding for, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of, or by or within any political subdivision of or any authority having power to tax in, Lebanon (“**Lebanese Taxes**”), unless such withholding or deduction is required by law. If the Issuer shall be so required to make any deduction or withholding of Lebanese Taxes, it shall, subject to certain customary exceptions as more fully provided in the Trust Deed, make payment of the amount so deducted or withheld to the appropriate governmental authority and shall forthwith pay to the holders of Notes such additional amounts (“**Additional Amounts**”) in respect of Lebanese Taxes as will result in the payment to the Noteholders of the amount that would otherwise have been received by them in respect of payments on the Notes in the absence of such withholding or deduction, except that no Additional Amounts shall be payable with respect to any Note:

- (a) **Other connection:** to, or to a third party on behalf of, a holder who is liable to such Lebanese Taxes in respect of such Note by reason of his having some connection with Lebanon other than the mere holding of the Note or the receipt of payment thereunder; or
- (b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Note representing it is presented) for payment more than 30 days after the Relevant Date (as defined below) except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;
- (c) **Payment to individuals:** where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/ EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26–27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive;

- (d) **Presentation in another jurisdiction:** presented for payment by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Issuing and Paying Agent in a member state of the European Union.

#### **10. Early Redemption for Tax Reasons**

- (a) The Notes are redeemable, in whole but not in part, at the option of the Issuer at any time after the first anniversary of the Issue Date, on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable), at their principal amount, together with interest accrued to the date fixed for redemption, in the event that, as a result of any actual change in any law, regulation or ruling of Lebanon or any political subdivision of or any authority thereof or therein having power to tax or any change in the application or official interpretation of such laws, regulations or rulings, the Issuer has or will become obligated on the next Interest Payment Date to pay Additional Amounts in excess of the Additional Amounts that would be payable if Lebanese Taxes were applied to payments of interest on the Notes at the rate of 10% or more, which change or amendment becomes effective after the Issue Date and cannot be avoided by the Issuer taking reasonable measures available to it. No such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such Additional Amounts. Upon expiry of any such notice as referred to in this Condition 10(a), the Issuer shall be bound to redeem the Notes in accordance with this Condition 10(a).
- (b) Except as otherwise provided in Condition 10(a), the Notes are not subject to early redemption.

#### **11. Events of Default**

- (a) The occurrence of one or more of the following events shall constitute an “**Event of Default**”:
  - (i) default by the Issuer in the payment of any principal amount in respect of the Notes;
  - (ii) default by the Issuer in the payment of any interest, Additional Amounts or other amounts, if any, due on any Note and continuance of such default for a period of five Business Days;
  - (iii) default by the Issuer in the performance or observance of any term, covenant or obligation in respect of any Note other than as set forth in clauses (i) and (ii) above and, if such default is capable of being remedied, continuance of such default for a period of more than 30 Business Days after notice of such default has been given to the Issuer, at its specified office, by any Noteholder;
  - (iv) default by the Issuer or any Material Subsidiary (as defined below) in (A) a payment when due (subject to any applicable grace period), whether by acceleration or otherwise, of any obligation in respect of Indebtedness (other than the Notes) having an amount, individually or in the aggregate, in excess of U.S.\$10,000,000 or the equivalent in any other currency, or (B) the performance or observance of any other terms and conditions relating to any such Indebtedness if the effect of such default is to cause such Indebtedness to become due prior to its stated maturity, or to permit the holders of such an aggregate amount of Indebtedness, or any trustee or agent for such holders, to cause such Indebtedness to become due and payable prior to its stated maturity;
  - (v) failure to obtain or maintain the existence, validity or enforceability of any government authorization necessary for the performance by the Issuer of any obligation under the Notes or any other document delivered by the Issuer in connection therewith or if, for any other reason, the obligations of the Issuer under the Notes or the performance and compliance with such obligations by the Issuer become unlawful;
  - (vi) a decree or order by a court having jurisdiction having been entered adjudging the Issuer as bankrupt or insolvent, or approving as properly filed a petition seeking reorganization or suspension of payments of the Issuer, and such decree or order of a court having jurisdiction for the appointment of a receiver, liquidator, trustee or assignee in bankruptcy or insolvency of the Issuer, or of the property of the Issuer, or for the winding-up or liquidation of the affairs of the Issuer having been entered and such decree or order having continued undischarged and unstayed for a period of at least 60 days;

- (vii) initiation by the Issuer of proceedings to be adjudicated as voluntary bankrupt, or consent to the filing of a bankruptcy, insolvency or similar proceeding against it, or filing of a petition or answer or consent seeking reorganization, suspension of payments or consent to the filing of any such petition, or consent to the appointment of a receiver, liquidator, trustee or assignee in bankruptcy or insolvency of it or its property, or proposing or making any agreement for the deferral, rescheduling or other readjustment of all of or a particular type of its debts (or of any part which it will or might otherwise be unable to pay when due), proposing or making a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any such debts or a moratorium being agreed or declared in respect of or affecting all or any part of (or a particular type of) the debts of the Issuer; or
  - (viii) occurrence of any event that, under the laws of any relevant jurisdiction, has an analogous effect to any of the events referred to in any of the foregoing clauses.
- (b) If an Event of Default in respect of the Notes occurs and is continuing, then the holders of at least 25% in aggregate principal amount of the outstanding Notes may, by written notice to the Issuer declare all of the outstanding Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued but unpaid interest (if any) to the date of repayment, all without presentment, demand, protest or other notice or further action or formality of any kind; provided, however, that, in the case of the occurrence at any time of any of the Events of Default described in Condition 11(a)(vi) or Condition 11(a)(vii) above, all outstanding Notes, without any notice to the Issuer or any other act by any Noteholder, shall become immediately due and payable. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer in accordance with Condition 16.
  - (c) If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above-mentioned declaration of acceleration is or are cured following any such declaration and that such Noteholders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations that may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.
  - (d) For purposes of these Conditions,

“**Indebtedness**” means any obligation (whether present, future, actual or contingent under any guarantee or indemnity) of any person for the payment or repayment of money, which has been borrowed, directly or indirectly, including, without limitation, obligations evidenced by notes, bonds, debentures, deposits, loans or other securities, reimbursement obligations with respect to guarantees, letters of credit, bankers’ acceptances or similar facilities issued for the account of such person, obligations in respect of conditional sales or transfers without recourse or with an obligation to purchase and obligations pursuant to a lease or other instrument with substantially the same economic effect as any such agreement or instrument.

For purposes of calculating the amount of Indebtedness in respect of which a default (if any) has occurred as described in Condition 11(a)(iv), any Indebtedness which is in a currency other than U.S. Dollars shall be translated into U.S. Dollars at the “spot” rate for the sale of U.S. Dollars against the purchase of the relevant currency as quoted by the Issuing and Paying Agent on the business day in New York City corresponding to the calendar day on which such premature repayment becomes due or such default occurs, as the case may be (or, if for any reason such a rate is not available on that day, on the earliest possible date thereafter).

“**Material Subsidiary**” means any other Subsidiary of the Issuer, which, at any relevant time, meets any of the following conditions:

- (i) the Issuer’s direct or indirect investments in and advances to the relevant Subsidiary exceed 25% of the total assets of the Issuer as at the end of the most recently completed fiscal year;
- (ii) the Issuer’s direct or indirect proportionate share of the total assets (after intercompany eliminations) of the relevant Subsidiary exceeds 25% of the total assets of the Issuer as at the end of the most recently completed fiscal year; or

- (iii) the Issuer's direct or indirect equity in the earnings before income tax of the relevant Subsidiary exceeds 25% of the pre-tax earnings of the Issuer as at the end of the most recent fiscal year;

all as calculated by reference to the then latest audited financial statements of the relevant Subsidiary and the then latest audited consolidated financial statements of the Issuer.

**"Relevant Date"** in respect of any Note means the date on which payment in respect of it first becomes due or (if any amount of the money payable is improperly withheld or refused) the date on which payment in full of the amount outstanding is made or (if earlier) the date seven days after that on which notice is duly given to the Noteholders that, upon further presentation of the Note being made in accordance with the Conditions, such payment will be made, provided that payment is in fact made upon such presentation.

**"Relevant Indebtedness"** means any Indebtedness represented by notes, bonds, certificates of deposit or other securities, which are, or capable of being, quoted, listed or ordinarily dealt in on any stock exchange, over-the-counter or other organised securities market.

**"Subsidiary"** means any corporation or other entity of which at least a majority of the outstanding capital stock or other ownership interests having, by the terms thereof, ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation or other entity (irrespective of whether or not at the time any capital stock or other ownership interests of any other class or classes of such corporation or entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by the Issuer and/or one or more of its other Subsidiaries.

## **12. Warranties**

The Issuer hereby certifies and warrants that all acts, conditions and things required to be done and performed and to have happened precedent to the creation and issuance of the Notes, and to constitute the same legal, valid and binding obligations of the Issuer enforceable in accordance with their terms, have been done and performed and have happened in due compliance with all applicable laws.

## **13. Prescription**

Claims against the Issuer for the payment of principal and interest with respect to the Notes shall be prescribed unless made within a period of ten years (in the case of principal) or five years (in the case of interest) from the date on which such payment first becomes due.

## **14. Replacement of Notes**

If the Global Note or any Definitive Note is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar and Transfer Agent subject to applicable laws, upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence, security and indemnity or otherwise as the Issuer and the Registrar and Transfer Agent may reasonably require. Mutilated or defaced Notes must be surrendered before replacements will be issued.

## **15. Further Issues**

To the extent permitted by applicable Lebanese and other laws and regulations, the Issuer may, from time to time, without the consent of the Noteholders, create and issue further Notes having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest) so as to form a single series with the Notes.

## **16. Notices**

- (a) Notices to be given by the Issuer to Noteholders will be mailed to them at their respective address on the Register and will be valid if published in a leading newspaper having general circulation in London (which is expected to be the *Financial Times*), provided that, so long as the Notes are admitted to the Official List of the Financial Services Authority in its capacity as competent authority under the Financial Services and Markets Act 2000 and admitted to trading on the London Stock Exchange plc's Regulated Market, such notice may instead be published on the Regulatory News Service of the

London Stock Exchange and in accordance with any rules from time to time of such exchange. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once, on the first date on which publication is made.

- (b) In addition, notices to be given by the Issuer to Noteholders will be published in the manner and at the times required pursuant to the applicable provisions of Lebanese law.
- (c) So long as the Global Note is held by, or on behalf of, a Clearing System, and to the extent permitted by applicable Lebanese and other laws and regulations, there may be substituted for mailing and publication in newspapers in London and Lebanon the delivery of the relevant notice to such Clearing System for communication by it to the owners of beneficial interests in the Notes held in accounts with the relevant Clearing System.
- (d) Neither the failure to give notice nor any defect in any notice given to any particular Noteholder shall affect the sufficiency of any notice with respect to other Noteholders.
- (e) Notices to the Trustee or the Registrar and Transfer Agent will be deemed to have been validly given if delivered to the specified office, for the time being, of the Trustee or the Registrar and Transfer Agent, as the case may be, and will be validly given on the next day on which such office is open for business.
- (f) Notice to be given by any Noteholder to the Issuer shall be in writing at the following address: Byblos Bank S.A.L., Byblos Tower Building, Elias Sarkis Avenue, Achrafieh, Beirut, Lebanon. Attention: Legal Department.

#### **17. Currency Indemnity**

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from U.S. Dollar into another currency (the “**second currency**”) for the purpose of (i) making or filing a claim or proof against the Issuer, (ii) obtaining an order or judgment in any court or other tribunal or (iii) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer, against any loss suffered as a result of any discrepancy between (x) the rate of exchange used for such purpose to convert the sum in question from U.S. Dollars into the second currency and (y) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase U.S. Dollars with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof. This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

#### **18. Meetings of Noteholders and Modification and Waiver**

- (a) These Conditions may be amended by the Issuer, without the consent of the Noteholders, for the purposes of curing any ambiguity, or for curing, correcting or supplementing any provisions contained herein or therein, which may be defective or inconsistent with any other provision contained herein or therein, or in any other manner that the Issuer may deem necessary or desirable and that will not affect the material rights of the Noteholders appertaining hereto or thereto. Any such amendments to these Conditions will be conclusive and binding on all Noteholders.
- (b) Under Lebanese law, Noteholders are required to create an Association of Noteholders and to elect one or more representatives to act on behalf of all Noteholders in connection with matters affecting the Notes (the “**Representative**”). By subscribing for Notes, each Noteholder will be deemed to have granted a power of attorney to Byblos Invest S.A.L., a Subsidiary of the Issuer, in its capacity as placement agent for the offering of the Notes, to represent such Noteholder at the first meeting of the Association of Noteholders following the Issue Date and to vote at such meeting to elect such Representative or Representatives, to approve the by-laws of such Association of Noteholders and to vote, as it may deem appropriate in its sole discretion, on all other resolutions that may be presented at such meeting of the Association of Noteholders.
- (c) Each of the Issuer, the Trustee and the Representative may, and upon a request in writing of Noteholders holding not less than 5% of the aggregate principal amount of the Notes for the time being outstanding shall, convene a meeting of the Noteholders. Subject as provided below, the quorum for any meeting will be two or more persons holding or representing not less than two-thirds of the aggregate principal amount of the Notes then outstanding or, at the first adjourned meeting (if any), two

or more persons holding or representing a majority of the aggregate principal amount of the Notes then outstanding, or at any subsequent adjourned meeting, two or more persons holding or representing not less than one-third of the aggregate principal amount of the Notes then outstanding. Notwithstanding the foregoing, the consideration of any of the following matters shall require a quorum of two or more persons holding or representing not less than two-thirds of the aggregate principal amount of the Notes then outstanding: (i) changing the Maturity Date or any Interest Payment Date; (ii) reducing any amounts payable in respect of the Notes (whether principal interest or any other amount), except as expressly contemplated by these Conditions; (iii) changing the currency of payment of any amount payable in respect of the Notes; (iv) reducing the above-stated percentage of the principal amount of the Notes, the consent of the Noteholders of which is necessary to modify or amend the Notes or these Conditions or to waive any future compliance therewith or past default thereunder; (v) reducing the percentage of the principal amount of Notes, the consent of the Noteholders of which is required for the adoption of a resolution or the quorum required at any such meeting; (vi) amending the terms of Condition 5 or approving the granting or the release of any security in favor of the Noteholders or under the Notes under Condition 5; or (vii) any other matter which materially and adversely affects the rights of the Noteholders, which it is agreed shall not include (A) the issuance of notes, bonds or other similar instruments evidencing Indebtedness for borrowed money, whether subordinated or unsubordinated, by the Issuer, within the meaning of Article 453 of the Lebanese Code of Commerce or (B) the incorporation or acquisition by the Issuer of new Subsidiaries. Resolutions of Noteholders are adopted by an affirmative vote of persons holding or representing at least two-thirds of the aggregate principal amount of Notes represented at the meeting (so long as the required quorum is met but irrespective of that quorum). Any such modifications of or amendments to, or waivers with respect to, the Notes or these Conditions will be conclusive and binding on all Noteholders, whether or not they have given such consent or were present at such meeting, and on all future Noteholders, whether or not notation of such modifications, amendments or waivers is made upon any Notes. Any instrument given by or on behalf of any Noteholder in connection with any consent to any such modification, amendment or waiver will be irrevocable once given and will be conclusive and binding on all subsequent Noteholders.

**19. Trustee and Agents; Indemnification of the Trustee**

- (a) The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility in certain circumstances, including provisions relieving it from taking any action, step or proceedings to enforce payment unless indemnified, secured or prefunded to its satisfaction, and to be paid its costs and expenses in priority to the claims of Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.
- (b) The Trustee shall be entitled to rely on reports and certificates of Auditors (as defined in the Trust Deed) and other Persons (as defined in the Trust Deed) notwithstanding any limit on liability therein by reference to monetary cap or otherwise. The Trust Deed provides that the Issuer shall, at the same time as sending audited and consolidated financial statements to the Trustee, certify to the Trustee those Subsidiaries that were Material Subsidiaries as shown by such financial statements and the Trustee shall be entitled to rely thereon without further investigation or liability to Noteholders.
- (c) The Trustee's responsibilities are solely those of trustee for the Noteholders on the terms of the Trust Deed. Accordingly, the Trustee makes no representations and assumes no responsibility for the validity or enforceability of the Notes or for the performance by the Issuer of its obligations under or in respect of the Notes and the Trust Deed, as applicable.
- (d) In acting under the Trust Deed and in connection with the Notes, each of the Agents acts solely as agent of the Issuer and does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders, other than that any funds held by the Issuing and Paying Agent for payment of principal of or interest on or any other amounts (including, but not limited to, Additional Amounts) in respect of the Notes shall be held by it in trust for the benefit of the Noteholders and applied as set forth herein and in the Trust Deed but need not be segregated from other funds held by it, except as required by law. For a description of the duties and the immunities and rights of each of the Agents under the Trust Deed, reference is made to the Trust Deed, and the obligations of each of the Agents to the Holders are subject to such immunities and rights.

## **20. Governing Law and Jurisdiction**

- (a) The Notes, and any non-contractual obligations arising out of or in connection with them, shall be governed by, and construed in accordance with, the laws of England, subject to compliance with mandatory provisions of Lebanese law relating to the Notes and the rights of Noteholders, as set out in Articles 122 to 143 of the Lebanese Code of Commerce.
- (b) The courts of England shall have jurisdiction to settle any disputes which may arise out of or in connection with the Notes and, accordingly, any suit, action or proceedings arising out of or in connection therewith (together referred to as “**Proceedings**”) may be brought in the courts of England.
- (c) The process by which any Proceedings in England are begun may be served by being delivered to the London branch of Byblos Bank Europe S.A., the Issuer’s 99.95% owned Subsidiary, at Berkeley Square House, Suite 5, Berkeley Square, London W1J 6BS, or any other place of business of the Issuer (including through any of its Subsidiaries) in England for the time being. If for any reason the Issuer has neither a place of business (including through any of its Subsidiaries) nor a process agent in England, it will promptly appoint a process agent and notify the Trustee in writing of such appointment. Nothing herein shall affect the right to serve process in any other manner permitted by law.
- (d) To the extent that the Issuer may in any jurisdiction claim for itself or its assets immunity (to the extent that such immunity may now or hereafter exist, whether on the grounds of sovereign immunity or otherwise) from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process (whether through service or notice or otherwise), and to the extent that in any such jurisdiction there may be attributed to itself or its assets such immunity (whether or not claimed), the Issuer irrevocably agrees for the benefit of the Noteholders not to claim, and irrevocably waives, such immunity to the full extent permitted by the laws of such jurisdiction.

## **21. Descriptive Headings**

The descriptive headings appearing in these Conditions are for convenience of reference only and shall not alter, limit or define the provisions hereof.

## **22. Taxes and Stamp Duties**

The Issuer shall pay any and all stamp and other taxes, expenses or duties which may be payable in connection with the issuance, delivery and enforcement of the Notes.

## SHARE CAPITAL AND PRINCIPAL SHAREHOLDERS

### Share Capital

As at December 31, 2010, the Bank's share capital was LBP 689,113 million, consisting of (i) a single class of 359,491,317 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up; (ii) 2,000,000 Series 2008 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on August 29, 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, U.S.\$100.00 per share, all of which are fully paid-up; (iii) 2,000,000 Series 2009 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on September 4, 2009 at a price of U.S.\$96.00 per share, and may, subject to certain conditions, be redeemed by the Bank at a price of U.S.\$100.00 per share, all of which are fully paid-up; and (iv) 206,023,723 Priority Shares, with a par value of, and which were issued at a price of, LBP 1,210 per share, all of which are fully paid up.

On May 5, 2011, upon the expiration of the priority rights' period on the date of the Ordinary General Meeting of Shareholders of the Bank at which the final accounts of the Bank for the year 2010 were approved, the Priority Shares were automatically converted into Common Shares in accordance with their terms and applicable laws and regulations. As a result, all Priority Shares were cancelled and the number of Common Shares increased by 206,023,723. Accordingly, as at the date of this Prospectus, no Priority Shares remain outstanding and the Bank's share capital is LBP 689,113 million, consisting of (i) a single class of 565,515,040 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up; (ii) 2,000,000 Series 2008 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on August 29, 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, U.S.\$100.00 per share, all of which are fully paid-up; and (iii) 2,000,000 Series 2009 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on September 4, 2009 at a price of U.S.\$96.00 per share, and may, subject to certain conditions, be redeemed by the Bank at a price of U.S.\$100.00 per share, all of which are fully paid-up.

All the Bank's Common Shares and Preferred Shares are listed on the BSE. GDSs, representing 18% of the Common Shares, have been issued under the GDR Program and are admitted to trading on the London Stock Exchange's Regulated Market.

### Principal Shareholders

Byblos Invest Holding S.A. (Luxembourg) is the largest shareholder of the Bank, with an ownership interest, as at the date of this Prospectus, constituting 28.77% of the outstanding paid-up capital of the Bank. Byblos Invest Holding is majority owned and controlled by Dr. François Bassil, the Chairman of the Board of Directors and General Manager of the Bank, and his family. Mr. Bassam Nassar, a Director of the Bank, owns an additional 25.81% of the share capital of Byblos Invest Holding.

The Bank of New York Mellon, acting as depositary under the GDR Program, holds 11.36% of the outstanding paid-up capital of the Bank.

The table below sets forth the principal shareholders of the Bank as at the date of this Prospectus, the number of shares held by each and the percentage ownership interests represented thereby. All other shareholders of the Bank, which numbered approximately 5,000 as at the date of this Prospectus, each owns less than 1.00% of the Bank's total outstanding share capital (including the Common Shares, the Series 2008 Preferred Shares and the Series 2009 Preferred Shares).

Name	Total Shares <sup>(1)</sup>	Percentage Ownership <sup>(1)</sup>
Byblos Invest Holding S.A. (Luxembourg) <sup>(2)</sup> .....	165,840,059	29.12
The Bank of New York Mellon <sup>(3)</sup> .....	64,710,050	11.36
International Finance Corporation (IFC) <sup>(4)</sup> .....	47,619,047	8.36
Anasco Holding Company S.A. <sup>(5)</sup> .....	26,151,706	4.59
Dr. François Semaan Bassil .....	20,350,411	3.57
Frabas Corporation <sup>(6)</sup> .....	16,632,108	2.92
<i>Société De Promotion Et De Participation Pour La Coopération Economique</i> (Proparco) <sup>(7)</sup> .....	13,636,363	2.39
Mr. Rami Rifaat El Nimr .....	12,939,711	2.27
Vectra Holding S.A.L. <sup>(8)</sup> .....	9,118,832	1.60
BLOM Invest S.A.L. ....	8,687,188	1.53
Mr. Ali Hassan Dayekh .....	8,134,807	1.43

Notes:

- (1) Percentage of total share capital consisting of 565,515,040 Common Shares, 2,000,000 Series 2009 Preferred Shares and 2,000,000 Series 2008 Preferred Shares as at the date of this Prospectus.
- (2) A Luxembourg holding company, the principal shareholders of which are Dr. François S. Bassil, FRABAS Corporation and Anasco Holding Company. Dr. Bassil holds a majority of the outstanding shares.
- (3) The Bank of New York Mellon is the depositary bank for the GDR Program.
- (4) The International Finance Corporation (IFC) became a shareholder of the Bank in January 2010.
- (5) A Luxembourg holding company, the principal shareholders of which are Bassam A. Nassar, Nouhad H. Nassar, Sana A. Nassar and Roula A. Nassar.
- (6) A Panama holding company of which Dr. François S. Bassil is a principal shareholder.
- (7) *Société De Promotion Et De Participation Pour La Coopération Economique* (Proparco) became a shareholder of the Bank in April 2010.
- (8) A Lebanese holding company, previously named *Société Electricité de Jbeil S.A.L.*, of which Dr. François S. Bassil is a principal shareholder.

To the Bank's knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control of the Bank. None of the Bank's shareholders has voting rights different from any other holders of its shares.

## TRANSACTIONS WITH RELATED PARTIES

Transactions between the Bank and related parties are subject to the limitations set forth in Article 152 of the Lebanese Code of Money and Credit and Article 158 of the Lebanese Code of Commerce (see “*Risk Management, Internal Controls and Compliance—Lending Policies—Lending Limits*”) and must be authorized by a General Meeting of Shareholders in accordance with Articles 158 and 159 of the Lebanese Code of Commerce, Article 152 of the Code of Money and Credit and Central Bank Decision No. 7776 dated February 21, 2001, as amended. Related parties are defined to include the Bank’s shareholders, directors and managers and companies with common directors with the Bank. Advances and credit facilities to related parties may not exceed 5.0% of shareholders’ equity and must be secured and must be approved by the Bank’s shareholders at a General Meeting. See “*The Banking Sector and Banking Regulation in Lebanon—Banking Regulations—Related Party Transactions*”. Any amount of loans in excess of these limits is deducted from the Bank equity for purposes of computing the capital adequacy ratio and other equity-related ratios. In addition, Central Bank’s Decision No. 7156 dated November 10, 1998 provides that inter-bank deposits among banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25% of tier I capital.

The principal transactions set forth in the below table between the Bank and related parties were entered into or were in effect during 2010, as applicable. All transactions between the Bank and related parties have been duly approved by the Bank’s shareholders and otherwise comply with applicable laws and regulations.

The following table sets forth certain information with respect to debt and credit balances of related parties as at December 31, 2009 and 2010:

	<b>As at December 31,</b>	
	<b>2009</b>	<b>2010</b>
	<i>(LBP million)</i>	
Loans and advances (net of provisions) ...	11,515	10,957
Deposits .....	139,814	112,396
Shareholders’ credit balances.....	749	764
Interest received .....	653	488
Interest paid .....	8,376	8,386

As at December 31, 2010, 1,579 employees of the Bank had been granted loans from the Bank, which remained outstanding. All such loans were extended on standard market terms.

## **LEBANESE LAWS AND REGULATIONS GOVERNING ISSUANCE OF NOTES BY COMMERCIAL BANKS**

The issuance by Lebanese commercial banks of notes, bonds or similar debt instruments, such as the Notes, is governed by (i) the Lebanese Code of Commerce, including, in particular, Articles 122 to 143, inclusive, and Articles 453 et seq. thereof; (ii) Law No. 308 of Lebanon, dated April 3, 2001; and (iii) Central Bank Decision No. 6856.

The principal provisions of Decision No. 6856, which govern the issuance by Lebanese banks of notes, bonds or similar debt instruments, such as the Notes, are as follows:

***Prior Approval of the Central Bank:*** Prior to the date of issue of any notes, bonds or similar debt instruments, such as the Notes, the issuing bank must obtain the authorization of the Central Bank, which requires, but will not be granted necessarily upon, satisfaction of the following conditions:

1. that the capital of the issuing bank be not less than LBP 5 billion (not less than the amount to be allocated for the bank's headquarters and branches in accordance with applicable Central Bank regulations);
2. that the term of the notes, bonds or similar debt instruments be not less than one year;
3. that annual principal amortizations not exceed twice the tier I capital of the bank;
4. that the issuing bank not redeem, discount or purchase any bond prior to its maturity unless such bond shall have been issued and outstanding for a period of one year or more;
5. that the notes, bonds or similar debt instruments be issued pursuant to applicable laws (Articles 122 to 143 and Article 453 et seq. of the Lebanese Code of Commerce and Article 9 of Law No. 308 dated April 3, 2001);
6. that the notes, bonds or similar debt instruments be freely negotiable;
7. that the denomination of each bond be not less than LBP 150,000 or its equivalent in the foreign currency in which it is issued;
8. that the maturity date, the interest rate and the methods of calculation and payment of interest and the dates for such payment be stated in the text of the bond itself;
9. that the nominal amount of the notes, bonds or similar debt instruments be equal to its issue price; and
10. that the notes, bonds or similar debt instruments be issued at once on a single business day in Lebanon and hereafter mature at once on a single business day in Lebanon.

The terms and conditions of the Notes, and of their issuance, and the Bank's bylaws meet, or will, on or before the Issue Date, meet, the above conditions.

***Maximum Amount:*** The aggregate principal amount of notes, bonds or similar debt instruments, which may be outstanding at any one time may not exceed six times the issuing bank's tier I capital. The aggregate principal amount of notes, bonds or similar debt instruments outstanding at any one time is limited to six times the Bank's tier I capital, which, as at the date of this Prospectus, represents

LBP 11,080,530 million.

***Auditors' Obligations:*** The issuing bank's external auditors are obligated to verify on an ongoing basis the compliance by the issuing bank with the provisions of Decision No. 6856 and with all other applicable regulations and to advise the Central Bank and the Banking Control Commission of any violation of such regulations. The Bank has engaged Ernst & Young p.c.c. and Semaan, Gholam & Co. to do so.

***Shareholders' Approval:*** The issuance of notes, bonds or similar debt instruments requires the adoption of a resolution by the issuing bank's shareholders approving such issuance. On May 5, 2011, the Bank's shareholders adopted resolutions approving the issuance of the Notes.

***Publication Requirements:*** The issuing bank is obligated to publish an offering memorandum or other similar document containing specified information regarding the issuing bank and the terms of the notes, bonds or similar debt instruments to be issued. The Bank's obligation to publish such memorandum is discharged through the publication of this Prospectus.

***Noteholders Association:*** The Lebanese Code of Commerce provides that (i) an association of holders is automatically formed upon each issuance of notes, bonds or similar debt instruments, (ii) such association must elect one or more representatives and (iii) such association must adopt by-laws. Provisions relating to the notice, quorum and voting requirements with respect to matters submitted to the Noteholders for approval or other action are reflected in the terms and conditions of the Notes and in the by-laws of the association.

The Noteholders have appointed, pursuant to a special power of attorney in the form set forth in Annex B to Exhibit A, Byblos Invest as their attorney-in-fact (i) to attend the first meeting of the Association of Noteholders for the purposes of (x) approving the by-laws of the Association of the Noteholders and (y) electing one or more representatives to act on behalf of all Noteholders in connection with matters affecting the Notes, subject as provided in the terms and conditions of the Notes; and (ii) to vote, as it may deem appropriate, in its sole discretion, on all resolutions to be passed at such first meeting of the Association of Noteholders.

The Central Bank granted its approval to issue the Notes on June 8, 2011.

**SCHEDULE OF INFORMATION REQUIRED TO BE DISCLOSED PURSUANT TO  
ARTICLE 126 OF THE LEBANESE CODE OF COMMERCE**

<b>Name of Issuer .....</b>	Byblos Bank S.A.L.
<b>Commercial Registry.....</b>	Beirut 14150.
<b>List of Banks No.....</b>	39.
<b>Main Office .....</b>	Byblos Tower Building Elias Sarkis Avenue Achrafieh Beirut Lebanon.
<b>Capital.....</b>	LBP 689,113,198,400 as at December 31, 2010, fully paid.
<b>In-Kind Contribution.....</b>	None.
<b>Net Profit for Year-ended December 31, 2010.....</b>	LBP 267,819,119,301.
<b>Date of Ordinary General Meeting of Shareholders Authorizing the Issuance of the Notes .....</b>	May 5, 2011.
<b>Issue Date .....</b>	June 24, 2011.
<b>Principal Amount of Notes.....</b>	U.S.\$300,000,000.
<b>Number of Notes on Issue Date .....</b>	300,000.
<b>Form of Notes .....</b>	Registered.
<b>Denomination .....</b>	U.S.\$1,000.
<b>Issue Price .....</b>	100%.
<b>Interest Rate .....</b>	7.0% per annum.
<b>Interest Payment Dates.....</b>	June 24 and December 24 in each year until the Maturity Date, commencing on December 24, 2011.
<b>Maturity Date .....</b>	June 24, 2021, unless previously accelerated, redeemed for tax reasons or purchased and surrendered for cancellation (as provided in the terms and conditions).
<b>Status and Ranking .....</b>	The Notes will constitute general, unsubordinated and, subject to the Bank's negative pledge (as set forth in Condition 5), unsecured obligations of the Bank and will rank <i>pari passu</i> , without any preference among themselves, with all other unsubordinated and, subject to the Bank's negative pledge (as set forth in Condition 5), unsecured obligations of the Bank, other than such obligations as may be preferred by mandatory provisions of applicable law.
<b>Security .....</b>	Unsecured.
<b>Fixed Interest Payment in favor of the Bank's Shareholders .....</b>	None.
<b>Previous Notes Issues .....</b>	Standalone issuance. The U.S.\$100 million 9% Subordinated Participating Notes due 2012 issued by the Bank in July 2002 of which U.S.\$ 31.3 million are outstanding.

Names and Addresses of Members of the Board of Directors:

Dr. François S. Bassil, Mr. Semaan F. Bassil, Mr. Samir A. K. Makdessi, Mr. Ahmad T. Tabbarah, Dr. Hassan N. Mounla, Mr. Bassam A. Nassar, Mr. Faysal M.A. Tabsh, Mr. Nasser H. Saidi, Mr. Abdelhadi A. Shayif, Mr. Arthur G. Nazarian, Mr. Sami F. Haddad and Mr. Alain C. Tohmé.

All c/o the Bank at  
Byblos Tower Building  
Elias Sarkis Avenue  
Achrafieh  
Beirut  
Lebanon

As required by Lebanese law, legal notices containing the information set forth above have been published in the publications listed below:

**Name of Publication**

*Official Gazette*  
Al Nahar  
Al Safir

**Date of Publication**

June 16, 2011  
June 16, 2011  
June 16, 2011

## SELLING RESTRICTIONS

The Notes have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Bank or the Placement Agent, or any other person, that would permit a public offering of the Notes or the possession, circulation or distribution of this Prospectus, or any amendment or supplement hereto, or any other offering material relating to the Bank or the Notes, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of Notes, and the delivery of this Prospectus, are restricted by law in certain jurisdictions and Notes may not be offered or sold, and this Prospectus may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

The Placement Agent has, in a Placement Agency Agreement to be dated on or around June 16, 2011 (the “**Placement Agency Agreement**”), represented and agreed that it will comply with all selling restrictions with respect to the offer and sale of the Notes and the delivery of this Prospectus.

Without limiting the foregoing, prospective purchasers of Notes should be aware of the following restrictions:

### **European Economic Area**

In relation to each Member State of the European Economic Area that has implemented the Prospectus Directive (each such Member State, a “**Relevant Member State**”), the Placement Agent has represented and agreed that with effect from (and including) the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of the Notes to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Notes which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive, except that it may, with effect from (and including) the Relevant Implementation Date, make an offer of Notes to the public in that Relevant Member State at any time:

- (i) to legal entities that are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;
- (ii) to any legal entity that has two or more of: (a) an average of at least 250 employees during the last financial year, (b) a total balance sheet of more than €43,000,000 and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (iii) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or
- (iv) in any other circumstances that do not require the publication by the Bank of a prospectus or obtaining any approvals pursuant to Article 3(2) of the Prospectus Directive.

For the purposes of this provision, the expression an “*offer of Notes to the public*” in relation to any of the Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe the Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “*Prospectus Directive*” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **United Kingdom**

The Placement Agent has represented and agreed in the Placement Agency Agreement that: (i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue of any Notes in circumstances in which section 21(1) of the FSMA

does not apply to the Bank, and (ii) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

**United States of America**

The Notes have not been and will not be registered under the Securities Act or any applicable state securities laws and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, any U.S. person, except in accordance with Regulation S under the Securities Act or pursuant to another exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Terms used in this paragraph have the meanings given to them by Regulation S under the Securities Act.

**Lebanon**

The marketing, offering, distribution and sale of the Notes in Lebanon shall comply with all applicable laws and regulations in Lebanon, in particular, Law No. 234 dated June 10, 2000 and Central Bank Basic Decision No. 7493 dated December 24, 1999, as amended.

## TAXATION

### Lebanese Taxation Considerations

The following is a summary of the principal Lebanese tax consequences with respect to the issuance and delivery, ownership and sale of the Notes. This summary does not purport to be a comprehensive description of all relevant tax considerations, and each potential purchaser should consult its own tax advisor before making an investment decision regarding the Notes. The following is based on the tax laws of Lebanon as in effect on the date of this Prospectus. For advice relating to the tax consequences to holders of Notes in countries outside Lebanon, including countries in which they may be resident or domiciled and any tax treaty between Lebanon and such countries of residence or domicile, potential purchasers are urged to consult their own tax advisors.

### *Withholding Tax*

Under Law No. 497 of Lebanon dated January 30, 2003 (the 2003 Budget Law), published in the *Official Gazette* on January 31, 2003, interest paid in respect of notes, bonds or similar debt instruments issued by Lebanese joint-stock companies after January 31, 2003 is subject to withholding tax at the rate of 5%

In principle, this tax is due irrespective of the nationality or domicile of the beneficiary of the dividends; however, the application of tax treaties aimed at avoiding double taxation between Lebanon and other countries, when applicable, may reduce this tax.

### *Taxation of Capital Gains*

Gains made in connection with the sale of Notes between two non-resident investors in a transaction outside Lebanon are not subject to capital gains tax in Lebanon.

### *Stamp Duties*

The law promulgated by Decree No. 5439 dated September 20, 1982 granted an exemption to all contracts for the transfer of shares, notes, bonds or similar debt instruments or treasury bills from the stamp duty imposed by the law promulgated by Decree No. 67 dated August 5, 1967. However, such exemption may not apply to the transfer of Notes when such transfer is made between Lebanese residents.

### European Union Directive on Taxation of Savings Income

The EU has adopted Council Directive 2003/48/EC on the taxation of savings income (the “**Directive**”). The Directive requires Member States to provide to the tax authorities of other Member States details of payments of interest and other similar income paid by a person within its jurisdiction to or for an individual resident or certain limited types of entity established in that other Member State. However, for a transitional period Austria and Luxembourg may instead (unless during that period they elect otherwise) apply a withholding tax system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). A number of non-EU countries and territories (including Switzerland) have adopted similar measures (a withholding system in the case of Switzerland) with effect from the same date.

The European Commission has proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

If a payment were to be made or collected through a Member State which has opted for a withholding system and an amount of, or in respect of, tax were to be withheld from that payment pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive, neither the Bank nor any issuing and paying agent nor any other person would be obliged to pay additional amounts with respect to any Note as a result of the imposition of such withholding tax. The Bank is required to maintain an issuing and paying agent in a Member State that is not obliged to withhold or deduct tax pursuant to the Directive or any law implementing or complying with, or introduced in order to conform to the Directive.

## CLEARING AND SETTLEMENT

The Notes will initially be represented by a single Global Note in registered form without interest coupons attached. Notes in definitive registered form without interest coupons attached will be issued only in limited circumstances.

Beneficial interests in the Global Note will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their respective participants, including Midclear.

### **Interests held through Euroclear or Clearstream**

Ownership of interests in Notes through Euroclear or Clearstream will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear or Clearstream and the records of Euroclear or Clearstream participants (including Midclear), as the case may be (with respect to interests of persons other than Euroclear or Clearstream participants). Transfers of Notes will settle in same day funds.

So long as the Notes clear through Euroclear or Clearstream, the Notes will be evidenced by a Global Note registered in the name of a common depository for Euroclear or Clearstream and no owner or beneficial owner of an interest in the Notes evidenced by a Global Note will be entitled to receive a Note or be able to transfer that interest except in accordance with applicable procedures of Euroclear or Clearstream.

So long as the Notes are evidenced by a Global Note registered in the name of Euroclear and Clearstream or their nominee, secondary market trading activity in the Notes will be required by Euroclear and Clearstream to settle in immediately available funds. Transfers between accountholders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Euroclear and Clearstream hold securities for participating organizations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book-entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants among other things, various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream also deal with domestic securities markets in several countries through established depository and custodial relationships. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective customers may settle trades with each other. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks' trust companies and certain other organizations including the Bank. Indirect access to Euroclear or Clearstream is also available to other institutions such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate the transfer of interests in a Global Note among participants of Euroclear and Clearstream, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of the Bank, the Placement Agent, the Trustee or any of their agents will have any responsibility for the performance by Euroclear or Clearstream or their respective participants of their respective obligations under the rules and procedures governing their operations.

### **Interests held through Midclear**

Notes settling through Midclear will be in registered form, registered in the respective names of the beneficial owners thereof in the registry maintained by Midclear. Such interests will be shown on, and transfers thereof may be effected, subject as provided herein, through, the book-entry system maintained by Midclear and its participants. Notes held through Midclear will be settled through Midclear's participant accounts with Euroclear and Clearstream. The Bank shall not have any responsibility or liability for any aspect of the records relating to or payments made on account of interests in Notes settling through Midclear or for maintaining, supervising or reviewing any records relating to ownership of Notes settling through Midclear.

## ADDITIONAL INFORMATION

1. The Bank is incorporated under the name “Byblos Bank S.A.L.” as a joint-stock company incorporated with limited liability in and under the laws of Lebanon under commercial registration number 14150. The business address of its headquarters is Byblos Tower Building, Elias Sarkis Avenue, Achrafieh, Beirut, Lebanon and its telephone number is +961 1 335200.
2. The issuance of the Notes was authorized by a resolution of the shareholders of the Bank adopted at an ordinary meeting thereof held on May 5, 2011. The Central Bank approved the issuance of the Notes on June 8, 2011. Accordingly, all consents, approvals, registrations, authorizations, notifications and other orders of regulatory authorities required under the laws and regulations of Lebanon in connection with the issue and listing of the Notes have been obtained.
3. The Bank has undertaken to record the issuance of the Notes in the Register of Commerce of the Republic promptly following the Issue Date, as required by Article 129 of the Lebanese Code of Commerce.
4. The information required to be disclosed pursuant to Article 126 of the Lebanese Code of Commerce is set out on page 104 of this Prospectus and made a part hereof. Such information was also published in the *Official Gazette*, as well as in two Lebanese newspapers.
5. The Notes are in registered, book-entry form. The Notes have been accepted for settlement and clearance Euroclear and Clearstream and have been assigned ISIN XS0637805374 and Common Code 063780537. The Notes have also been accepted for settlement and clearance by Midclear with a Local Security Code of 11858.
6. Ernst & Young p.c.c. and Semaan, Gholam & Co. have audited the consolidated financial statements of the Bank as at and for the years ended December 31, 2009 and 2010.
7. There has been no significant change in the financial or trading position of the Bank and its consolidated subsidiaries taken as a whole since March 31, 2011 and no material adverse change in the prospects of the Bank and its consolidated subsidiaries taken as a whole since December 31, 2010.
8. Copies (together with English translations where appropriate) of the following documents may be inspected at the offices of the Bank during customary business hours on any weekday (public holidays excepted) following the date of this Prospectus:
  - (a) the Bank’s by-laws,
  - (b) the audited consolidated financial statements of the Bank as at and for the years ended December 31, 2009 and 2010, together with the audit report of Ernst & Young p.c.c. and Semaan, Gholam & Co. in respect of such consolidated financial statements, and the unaudited consolidated financial statements as at and for the three-month periods ended March 31, 2010 and 2011;
  - (c) the Trust Deed; and
  - (d) this Prospectus.
9. There has not been an official conviction for fraudulent offences for the last five years, or any bankruptcy, receivership or liquidation, and there is no official public incrimination of and/or sanctions on any of (a) the members of the Board of Directors; or (b) any Senior Manager who is relevant to establishing that the Bank has the appropriate expertise and experience for the management of the Bank’s business by statutory or regulatory authorities (including designated professional bodies) and no such person has ever been disqualified by a court from acting as a member of the Board of Directors or a Senior Manager of the Bank or from acting in the management or conduct of the affairs of the Bank for at least the previous five years.

10. The following table sets forth the Bank's direct and indirect holdings in, and the registered offices of, all of its subsidiaries as at December 31, 2010:

<u>Subsidiary</u>	<u>Beneficial Ownership</u>	<u>Registered Office</u>
Byblos Invest Bank S.A.L. (Lebanon)	99.99%	Byblos Bank Tower - Elias Sarkis Avenue - Achrafieh - Beirut. P.O. BOX: 11-5605 Riad El Solh Beirut, 1107 2811
Byblos Bank Africa Ltd. (Sudan)	56.86%	El Amarat - Street 21 P.O. BOX: 8121-El Amarat, Khartoum - Sudan
Byblos Bank Syria S.A. (Syria)	41.50%	Al Chaalan - Amine Loutfi Hafez Street, Abhu Remmaneh, P.O. BOX: 5424, Damascus, Syria.
Byblos Bank Europe S.A. (Belgium)	99.95%	Brussels Head Office: 10 Rue Montoyer BTE.3, B-1000 Brussels, Belgium.
Adonis Insurance and Reinsurance Co. (ADIR) S.A.L.	63.95%	Dora Highway, Aya Commercial Centre, P.O. BOX: 90-1446 Jdeitet El Metn, 1202 2110, Lebanon.
Byblos Bank Armenia CJSC	65.00%	18/3 Amiryan str., Yerevan Area, 0002, Republic of Armenia
Byblos Bank RDC S.A.R.L.	66.67%	Avenue du Marché No. 4, Kinshasa, Gombe, Democratic Republic of the Congo
Adonis Brokerage House S.A.L.	100.00%	Byblos Bank Tower - Elias Sarkis Avenue - Achrafieh - Beirut. P.O. BOX: 11-5605 Riad El Solh Beirut, 1107 2811
Adonis Insurance and Reinsurance (ADIR) Syria	76.00%	Mahdi Ben Baraka St., Abhu Remmaneh, Damascus. P.O. Box: 33509, Syria

**EXHIBIT A: FORM OF PURCHASE APPLICATION**

**Purchased Application for Byblos Bank S.A.L.  
U.S.\$300,000,000 7.0% Notes due 2021**

1. Applicant Information.

Applicant Name: \_\_\_\_\_ (the "Applicant")

Address: \_\_\_\_\_  
(Street)

\_\_\_\_\_  
(City) (Country)

Telephone Number: \_\_\_\_\_ Facsimile Number: \_\_\_\_\_

Jurisdiction of Organization/Country of Residence: \_\_\_\_\_

Byblos Bank S.A.L. Client Number: \_\_\_\_\_ (if applicable)

Byblos Bank S.A.L. Branch: \_\_\_\_\_ (if applicable)

Authorized Signatory:

\_\_\_\_\_  
(If signing on behalf of a corporation or other legal entity): (Name) (Title)

2. Application to Purchase Notes.

A. Acknowledgment. The Applicant acknowledges that Byblos Bank S.A.L., a Lebanese banking institution (the "Issuer"), intends to issue, on June 24, 2011 (the "Issue Date"), U.S.\$300,000,000 of its 7.0% Notes due 2021 (the "Notes"), the terms of which are set forth in the summary of indicative terms dated February 21, 2011, a copy of which is attached hereto (the "Summary of Terms"). The Notes will be constituted by, be subject to, and have the benefit of, a trust deed to be dated on or around June 21, 2011 (the "Trust Deed") between the Issuer and a leading international bank authorized to provide fiduciary trust services, as trustee (the "Trustee") for the holders of the Notes (the "Noteholders"). The Applicant hereby acknowledges having carefully read the attached Summary of Terms and declares and represents that it fully understands the contents thereof. The Applicant further acknowledges that, upon issuance, the Notes will have such terms and conditions as will be described in a prospectus relating to the issue, offer and sale of the Notes (the "Prospectus"), which will supersede the Summary of Terms in its entirety. **The Applicant understands that the issue of the Notes is subject to the approval of the ordinary general meeting of the Issuer's shareholders and of the Central Council of Banque du Liban.**

The Applicant acknowledges that Byblos Invest Bank S.A.L. has acted as arranger and placement agent (the "Placement Agent") in connection with the issue, offer and sale of the Notes. The Applicant acknowledges that neither the Issuer nor the Placement Agent, nor any other person, is acting as an adviser to the Applicant in connection with its application to purchase Notes or has made any recommendation, representation or warranty, express or implied, regarding the Notes or the advisability of an investment therein.

B. Application to Purchase Notes. [To be completed by the Applicant]. Subject to paragraph D.(ii) below, and on and subject to all other terms and conditions set forth herein, the Applicant hereby offers to purchase that principal amount of Notes as is indicated below at the purchase price for the Notes specified below [complete as appropriate]:

U.S.\$ \_\_\_\_\_ of Notes.  
[insert principal amount]

Purchase Price: 100% of principal amount of the Notes being subscribed hereby

C. Denominations. The Applicant acknowledges and agrees that the Notes will be issued in denominations of U.S.\$1,000.

D. Acceptance and Termination. The Applicant acknowledges and agrees that:

(i) This Purchase Application shall be deemed accepted only upon execution by the Applicant, payment of the full subscription monies payable by it (in an amount equal to the principal amount of Notes being subscribed hereby times the purchase price, in each case, as specified in Paragraph B. above) and acceptance by, or on behalf of, the Issuer, such acceptance to be evidenced by delivery of a signed receipt to the Applicant. The Applicant acknowledges that the acceptance by, or on behalf of, the Issuer of this Purchase Application shall not entitle the Applicant to an allocation of all or part of the Notes for which it has applied and the Applicant hereby accepts that it might be allocated only part or none of the Notes for which it has applied and that, even if this Purchase Application has been accepted, the Issuer retains the right to reduce, in its sole discretion, the principal amount of Notes (if any) allocated to the Applicant. Without limiting the generality of the foregoing, if the aggregate principal amount of Notes subscribed hereby by the Applicant and other applicants to purchase Notes exceeds the maximum aggregate principal amount of Notes being offered, the Notes will be allocated among the Applicant and such other applicants in the sole discretion of the Issuer prior to the Issue Date. The Applicant waives any right of discussion or challenge or contest in respect of any decision by the Issuer with respect to the allocation of all or any portion of the Notes.

(ii) Whether or not this Purchase Application has been accepted by, or on behalf of, the Issuer, the Applicant may rescind its agreement to purchase Notes, by giving written notice to the Issuer within three days following the date of publication by the Issuer in two Lebanese newspapers that the Prospectus has been made available at the Issuer's Head Office and its branches, in preliminary or final form, if (but only if) the final terms of the Notes as described in the Prospectus are substantially and adversely different from the terms described in the Summary of Terms. Neither the Issuer nor the Placement Agent shall bear any responsibility as a result of the Applicant's failure to retrieve or review the Prospectus.

(iii) The Issuer or the Placement Agent may, in its sole discretion, reject this Purchase Application in whole or in part and, whether or not this Purchase Application has been accepted, terminate the offering of the Notes at any time and for any reason whatsoever. Moreover, the Issuer or the Placement Agent shall terminate the offering in the event that the Central Council of the *Banque du Liban* or the ordinary general meeting of the Issuer's shareholders fails to approve the issue of the Notes. In any such event, the Applicant shall have no right to purchase Notes from the Issuer at any time.

E. Payment. The Applicant represents that it has transferred funds to Byblos Bank S.A.L. for credit to the "2021 Notes Subscription Account", in an amount equal to the full subscription monies for the Notes being subscribed hereby as specified in Paragraphs B. and D. above. In the event that the offering of the Notes is terminated or if this Purchase Application is rejected (in whole or in part), the funds deposited by the Applicant into the 2021 Notes Subscription Account in respect of the subscription monies paid by it for the Notes being subscribed hereby (or a corresponding portion thereof) will be promptly refunded to the Applicant, together with interest, if any, earned thereon as specified below. It is expected that Byblos Bank S.A.L. will invest all funds received by it hereunder in respect of the subscription monies for the Notes being subscribed hereby, together with all other subscription monies received by it in respect of Notes, in overnight U.S. dollar deposits at standard call rates paid by it for such deposits for the benefit of the Applicant and the other applicants to purchase Notes. The Applicant shall be entitled to receive, promptly following the Issue Date or such earlier date (if any) on which the offering of the Notes is terminated or this Purchase Application is rejected (in whole or in part), its *pro rata* share of the interest, if any, earned on such funds from and including the value date as of which such amount was deposited by the Applicant into the 2021 Notes Subscription Account to but excluding the Issue Date (or such earlier date, as the case may be).

Applicant's Account to which the subscription monies paid by it for the Notes being subscribed hereby (or corresponding portion thereof) shall be transferred in the event the offering of the Notes is terminated or this Purchase Application is rejected (in whole or in part) and to which interest shall be paid: *[To be completed by the Applicant]*

Bank: \_\_\_\_\_

Account No.: \_\_\_\_\_

In favor of: \_\_\_\_\_

F. Application of Funds. Subject to paragraph D.(ii) above, and the other terms and conditions set forth herein, the Applicant hereby irrevocably instructs the Issuer to apply the subscription monies received by it hereunder, on behalf of the Applicant, in respect of the purchase price for the Notes being subscribed by this Purchase Application on the Issue Date for the account of the Applicant.

G. Delivery of Notes.

(i) The Applicant acknowledges that the Notes will be evidenced by a single Global Note, in registered form, without interest coupons attached, which will be registered in the name of a nominee for, and will be deposited on or about the Issue Date with, a common depository for Euroclear and Clearstream. Notes in definitive registered form, with interest coupons attached, will be issued only in limited circumstances, whereupon the principal amount of the Global Note will be reduced by the principal amount of Notes issued in definitive form. Application has also been made to have the Notes accepted for clearing and settlement directly through Midclear, Lebanon's central clearing and settlement agency.

(ii) Unless alternative instructions are specified in paragraph G.(iii) below, interests in the Notes will be delivered, upon issuance, by deposit to the account of the Issuer currently maintained with Euroclear and the Applicant hereby instructs the Issuer to hold the Notes purchased by it hereunder in custody for the benefit of the Applicant in accordance with its standard custody arrangements, the terms of which are available to the Applicant upon request. At any time after the Issue Date, the Applicant may request that the Issuer arrange for the transfer of the custody of the Notes allocated to the Applicant to another participant in Midclear, Euroclear or Clearstream. So long as the Notes are evidenced by a Global Note, beneficial interests in the Notes will be shown only on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream and their participants, including Midclear.

(iii) Notwithstanding paragraph G.(ii) above, the Applicant requests that the Notes subscribed hereby, to the extent this Purchase Application is accepted by the Issuer and Notes are allocated to the Applicant, be delivered by deposit to the account of another participant in Midclear, Euroclear or Clearstream, as follows: *[To be completed by the Applicant, if applicable]*

Name of Participant: \_\_\_\_\_

Midclear Account No.: \_\_\_\_\_

or

Euroclear Account No.: \_\_\_\_\_

or

Clearstream Account No.: \_\_\_\_\_

H. Representations and Undertakings.

(i) The Applicant hereby makes the representations and warranties set forth in Annex A hereto to, and for the benefit of, the Issuer and the Placement Agent, on the date hereof and on and as of the Issue Date. The Applicant understands that, if this Purchase Application is accepted (in whole or in part), the Notes allocated to it will be sold to the Applicant in reliance on those representations and warranties.

(ii) The Applicant hereby agrees and undertakes, as promptly as possible after request by, or on behalf of, the Issuer or the Placement Agent, to complete and furnish to the Issuer all information requested in connection with the transactions contemplated by this Purchase Application and the Applicant represents, for the benefit of the Issuer and the Placement Agent, and its respective agents and advisors, that all such information will be true, accurate and complete. The Applicant further acknowledges that its purchase and ownership of Notes shall constitute its authorization and direction to the Issuer and the Placement Agent to disclose the Applicant's ownership of Notes, together with the principal amount and number of Notes held by it and such other relevant information concerning the Applicant and its interest in the Notes, to Euroclear and Clearstream, as well as, if applicable, Midclear.

(iii) The Applicant acknowledges that, under Lebanese law, the Noteholders are required to create an Association of Noteholders and to elect one or more representatives to act on behalf of all Noteholders (including the Applicant) in connection with matters affecting the Notes, subject as provided in the terms and conditions of the Notes. The Applicant agrees to execute and grant to, and hereby does submit in favor of, the Placement Agent a Special Power of Attorney, substantially in the form attached hereto as Annex B, to represent the Applicant (assuming it is allocated some or all of the Notes subscribed by this Purchase Application) at the first meeting of the Association of Noteholders following the Issue Date and to vote at such meeting to elect such representative or representatives. In addition, the resolutions to be adopted by the Noteholders at the first meeting of the Association of Noteholders following the Issue Date are expected to approve (among other things) the by-laws of the Association and the Applicant hereby agrees that, pursuant to such Special Power of Attorney granted by it, the Placement Agent is hereby and thereby authorized so to approve such by-laws and to vote, as it may deem appropriate in its sole discretion, on all other resolutions that may be presented at such meeting of the Association of Noteholders.

3. General.

A. Modification. This Purchase Application may not be modified, discharged or terminated orally, but only by an instrument in writing, signed by the party against which enforcement is sought.

B. Defined Terms. Capitalized terms used herein without otherwise being defined shall have the meanings set forth in the Summary of Terms.

C. Counterparts. This Purchase Application may be executed in multiple counterpart copies, each of which shall be considered an original and all of which shall constitute one and the same instrument, binding on all parties hereto, notwithstanding that all the parties are not signatories to the same counterpart.

D. Successors and Assigns. Except as otherwise provided herein, this Purchase Application shall be enforceable by and against the successors and assigns of the parties hereto, and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns. This Purchase Application is not transferable or assignable by the Applicant.

E. Applicable Law. This Purchase Application shall be governed by and construed in accordance with the laws of England, subject to compliance with mandatory provisions of Lebanese Law. By submitting this Purchase Application for the subscription of Notes, the Applicant will be deemed to submit to the jurisdiction of the English courts for purposes of any proceedings for the settlement of all disputes, claims or legal actions arising out of or in connection with this Purchase Application.

The undersigned has executed this Purchase Application on this \_\_\_\_\_ day of \_\_\_\_\_, 2011.

Signed by the Applicant: \_\_\_\_\_  
Print Name and  
(if applicable) Title of  
Person Signing on  
behalf of Applicant: \_\_\_\_\_

The foregoing Purchase Application is hereby accepted by, or on behalf of, Byblos Bank S.A.L., this \_\_ day of \_\_\_\_\_, 2011.

BYBLOS BANK S.A.L.

By: \_\_\_\_\_  
Name:  
Title:

**REPRESENTATIONS AND WARRANTIES OF THE APPLICANT**

1. The Applicant is a sophisticated investor with sufficient knowledge and experience in business and financial matters in general, and regarding the political and economic conditions prevailing in Lebanon in particular, and is capable of independently investigating and evaluating the risks involved in purchasing and owning investments such as the Notes.
2. The Applicant hereby acknowledges that neither the Issuer, nor the Placement Agent, nor the Trustee, nor any other person, has made or is making any representation or warranty, express or implied, concerning, and that the Applicant is purchasing Notes as contemplated by this Purchase Application solely on the basis of its own independent appraisal of, the economic, political and social conditions prevailing in Lebanon and in the Middle East region, the financial condition and results of operation of the Issuer and the terms and conditions of the Notes, as well as all such other information and matters as the Applicant deems appropriate in determining whether to purchase Notes; and the Applicant shall continue to be solely responsible for making its own independent appraisal of all such matters in the future and will not hereafter rely on the Issuer, the Placement Agent, the Trustee or any other person to confirm or inquire on its behalf as to the adequacy or completeness of any information or to assess or keep under review on its behalf any such information or the status of the Notes.
3. The Applicant understands that the Issuer operates principally in Lebanon and, accordingly, its financial condition and results of operations are affected by the economic, political and social conditions prevailing in Lebanon and in the Middle East region. The Applicant further understands that conditions in Lebanon and the Middle East may be subject to increased volatility as a result of recent developments in a number of countries in the region, including Egypt and Tunisia. As a result of these circumstances, the Notes are instruments reflecting general Middle East and Lebanese sovereign risk, as well as the particular risk of the Issuer. Lebanon's debt obligations have been assigned non-investment grade ratings by the principal international rating agencies. Lebanon's below-investment grade credit ratings, large budget deficit and other weaknesses characteristic of certain emerging market economies make it susceptible to adverse effects similar to those suffered by other emerging market countries, and such factors, either alone or in combination, are likely to continue to affect Lebanon and the Issuer's financial condition, including its ability to generate profits.
4. The Applicant understands that the prevailing and widely-reported global credit crisis and international financial and securities market turmoil are continuing and that, accordingly, there is a general lack of liquidity and significant price volatility in the global securities markets. Such lack of liquidity and price volatility, as well as the recent developments in a number of countries in the Middle East, including Egypt and Tunisia, may result in investors suffering losses on the Notes in secondary resales (if any), even if there is no decline in the financial condition or performance of the Issuer. Moreover, systemic risk within the financial system and the related general deterioration in global economic conditions could result in a significant decline in the recoverability and value of the Issuer's assets and in its financial performance and, accordingly, could have an adverse impact on the market price of the Notes.
5. The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "*Securities Act*"), and may not be offered, sold, transferred or delivered within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act), unless the Notes are registered under the Securities Act or an exemption from the registration requirements thereof is available. The offer and sale of the Notes are also subject to restrictions in certain other jurisdictions; and the Applicant is responsible for informing itself about and observing all such restrictions that are applicable to it.
6. The Applicant is not a U.S. person, as defined in Regulation S under the Securities Act; was outside the United States when it made this Purchase Application; and will be outside the United States when it purchases the Notes.
7. The Applicant understands that there currently is no secondary market for the Notes, that one is not likely to develop or, if a secondary market does develop, that it may not be sustained; that, in particular, the Placement Agent does not intend to make a market in the Notes; and that, accordingly, the purchase of Notes is suitable only for, and should be made only by, investors who can bear the risks of no liquidity and the financial and other risks associated with such an investment.

**FORM OF  
SPECIAL POWER OF ATTORNEY**

I/We, \_\_\_\_\_ [INSERT FULL LEGAL NAME OF APPLICANT], residing at \_\_\_\_\_  
[INSERT FULL ADDRESS OF APPLICANT], being a holder of U.S.\$ \_\_\_\_\_  
[INSERT PRINCIPAL AMOUNT OF NOTES HELD] in aggregate principal amount of the U.S.\$300,000,000  
7.0% Notes due 2021 issued by Byblos Bank S.A.L. (the "Issuer"), hereby appoint, in respect of all my/our  
Notes, Byblos Invest Bank S.A.L., acting with full power of substitution and delegation, as my/our attorney-in-  
fact to accomplish on my/our behalf the following:

1. To attend the first meeting of the Association of Noteholders (or any adjournment thereof) to be convened, at the place, date and time as will be decided by the Issuer, after the date on which the Notes are issued, for the purposes of:
  - (i) approving the by-laws of the Association of the Noteholders; and
  - (ii) electing one or more representatives to act on behalf of all Noteholders (including me/us) in connection with matters affecting the Notes, subject as provided in the terms and conditions of the Notes; and
2. To vote, as such attorney-in-fact may deem appropriate, in its sole discretion, on all resolutions to be passed at the such first meeting of the Association of Noteholders.

The attorney-in-fact shall not bear any responsibility as a result of the exercise of the powers granted to it under this Special Power of Attorney.

Dated this \_\_\_\_\_ day of \_\_\_\_\_ 2011

Signature\*: \_\_\_\_\_

*\* A proxy by an institution or corporation must be executed by an authorized representative under the corporate seal or by power of attorney.*

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**BYBLOS BANK SAL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2010**



## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL**

We have audited the accompanying consolidated financial statements of Byblos Bank SAL (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 consolidated financial statements.

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

  
Ernst & Young

16 April 2011  
Beirut, Lebanon

  
Semaan, Gholam & Co.

# Byblos Bank SAL

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Interest and similar income	5	<b>1,224,014</b>	1,141,893
Interest and similar expense	6	<b>(796,751)</b>	(753,113)
<b>NET INTEREST INCOME</b>		<b>427,263</b>	388,780
Fee and commissions income	7	<b>140,221</b>	129,573
Fee and commissions expense	7	<b>(14,563)</b>	(14,624)
<b>NET FEE AND COMMISSIONS INCOME</b>		<b>125,658</b>	114,949
Net trading income	8	<b>22,158</b>	38,141
Net gain on financial assets	9	<b>100,965</b>	14,011
Other operating income	10	<b>8,118</b>	16,251
<b>TOTAL OPERATING INCOME</b>		<b>684,162</b>	572,132
Credit loss expense	11	<b>(29,272)</b>	(26,245)
Impairment losses on other financial assets	12	<b>(8,863)</b>	(15,278)
<b>NET OPERATING INCOME</b>		<b>646,027</b>	530,609
Personnel expenses	13	<b>(145,552)</b>	(129,339)
Depreciation and impairment of property and equipment	27	<b>(31,014)</b>	(25,585)
Amortisation of intangibles assets	28	<b>(112)</b>	(340)
Other operating expenses	14	<b>(142,144)</b>	(109,513)
<b>TOTAL OPERATING EXPENSES</b>		<b>(318,822)</b>	(264,777)
<b>PROFIT BEFORE TAX</b>		<b>327,205</b>	265,832
Income tax expense	15	<b>(59,386)</b>	(46,410)
<b>PROFIT FOR THE YEAR</b>		<b>267,819</b>	219,422
Attributable to:			
Equity holders of the parent		<b>255,770</b>	206,628
Non controlling interest		<b>12,049</b>	12,794
		<b>267,819</b>	219,422
<b>Earnings per share</b>		<b>LL</b>	<b>LL</b>
Equity shareholders of the parent for the year:			
Basic earnings per share – common shares	16	<b>399.61</b>	384.65
Basic earnings per share – priority shares	16	<b>448.01</b>	433.05
Diluted earnings per share – common shares	16	<b>374.78</b>	362.97
Diluted earnings per share – priority shares	16	<b>423.18</b>	411.37

The attached notes 1 to 55 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
<b>Profit for the year</b>	<b>267,819</b>	219,422
<b>Other comprehensive income (loss)</b>		
Net (loss) gain on available-for-sale financial assets	<b>(15,968)</b>	112,073
Exchanges differences on translation of foreign operations	<b>(36,090)</b>	(5,210)
Income tax effect on components of other comprehensive income	<b>4,225</b>	(15,485)
<b>Other comprehensive (loss) income for the year, net of tax</b>	<b>(47,833)</b>	91,378
<b>Total comprehensive income for the year, net of tax</b>	<b>219,986</b>	310,800
Attributable to:		
Equity holders of the parent	<b>220,770</b>	297,943
Non controlling interest	<b>(784)</b>	12,857
	<b>219,986</b>	310,800

The attached notes 1 to 55 form part of these consolidated financial statements.

# Byblos Bank SAL


## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	Notes	2010 LL million	2009 LL million
<b>ASSETS</b>			
Cash and balances with central banks	17	2,761,110	2,533,372
Due from banks and financial institutions	18	3,899,011	3,142,483
Financial assets given as collateral and reverse repurchase agreements	19	8,918	1,193
Derivative financial instruments	20	1,462	12,224
Financial assets held for trading	21	205,940	204,128
Net loans and advances to customers	22	5,674,283	4,807,633
Net loans and advances to related parties	49	10,957	11,515
Debtors by acceptances	23	291,834	335,904
Available-for-sale financial instruments	24	1,875,811	1,794,657
Other financial assets classified as loans and receivables	25	7,490,856	6,681,889
Held to maturity financial instruments	26	428,698	563,604
Property and equipment	27	281,303	266,738
Intangible assets	28	1,039	734
Non-current assets held-for-sale	29	39,092	38,567
Other assets	30	77,078	70,545
<b>TOTAL ASSETS</b>		<b>23,047,392</b>	<b>20,465,186</b>
<b>LIABILITIES AND EQUITY</b>			
Due to central banks	31	19,492	11,704
Due to banks and financial institutions	32	1,441,346	1,675,807
Financial assets against securities lent and repurchase agreements	19	-	1,193
Derivative financial instruments	20	4,350	1,790
Customers' deposits	33	17,815,282	15,366,354
Deposits from related parties	49	112,396	139,814
Debt issued and other borrowed funds	34	213,501	290,963
Engagements by acceptances	23	291,834	335,904
Current tax liability	35	44,526	40,212
Other liabilities	36	212,261	236,169
Liabilities linked to held-for-sale assets	29	1,312	1,995
Provision for risks and charges	37	88,983	66,954
End of service benefits	38	30,922	28,276
Deferred tax liabilities	15	11,445	15,485
Subordinated notes	39	303,324	299,634
<b>TOTAL LIABILITIES</b>		<b>20,590,974</b>	<b>18,512,254</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
Share capital – common shares	40	434,984	262,706
Share capital – priority shares	40	249,289	249,289
Share capital – preferred shares	40	4,840	4,840
Share premium – common shares	40	229,014	26,425
Share premium – preferred shares	40	581,456	579,035
Capital reserves	43	475,653	391,073
Other equity instruments	46	14,979	-
Treasury shares	44	(16,189)	(176)
Retained earnings		16,484	24,954
Revaluation reserve of real estate	41	5,689	5,689
Available-for-sale reserve	42	53,993	66,026
Net results of the financial period - profit		255,770	206,628
Foreign currency translation reserve		(9,573)	13,394
<b>NON CONTROLLING INTEREST</b>	45	<b>160,029</b>	<b>123,049</b>
<b>TOTAL EQUITY</b>		<b>2,456,418</b>	<b>1,952,932</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>23,047,392</b>	<b>20,465,186</b>

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 16 April 2011.

  
 Dr Francois Bassil  
 Chairman/ General Manager

  
 Mr Ziad El-Zoghbi  
 Financial and Administrative Manager

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

	<i>Notes</i>	<i>2010 LL million</i>	<i>2009 LL million</i>
<b>Off statement of financial position items</b>			
<b>Financing Commitments</b>			
Financing commitments given to banks and financial institutions	52	<b>933,859</b>	803,564
Financing commitments received from banks and financial institutions		<b>81,765</b>	244,917
Engagements to customers		<b>341,871</b>	403,731
Undrawn commitments to lend		<b>1,514,547</b>	812,871
<b>Bank Guarantees</b>			
Guarantees given to banks and financial institutions	52	<b>401,244</b>	360,485
Guarantees given to customers	52	<b>1,001,997</b>	885,543
<b>Foreign Currencies Contracts</b>			
Foreign currencies to receive	20	<b>282,530</b>	297,126
Foreign currencies to deliver		<b>285,418</b>	296,046
<b>Claims from legal cases</b>		<b>5,937</b>	5,937
<b>Assets under management</b>		<b>3,385,897</b>	3,952,357
<b>Bad debts fully provided for</b>	22	<b>98,700</b>	113,117

The attached notes 1 to 55 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

Notes	Attributable to equity holders of the parent													Non controlling interest	Total equity	
	Share capital			Share premium - Common shares	Share premium - Preferred shares	Capital reserves	Other equity instruments	Treasury shares	Retained earnings	Revaluation reserve of real estate	Available- for-sale reserve	Net results of the financial period - profit	Foreign currency translation reserve			Total
	Common shares LL million	Priority shares LL million	Preferred shares LL million													
Balance at 1 January 2009	260,535	247,228	3,600	26,425	444,704	339,886	-	(1,554)	15,317	5,689	(30,517)	172,285	18,604	1,502,202	116,207	1,618,409
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	206,628	-	206,628	12,794	219,422
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	96,525	-	(5,210)	91,315	63	91,378
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	96,525	206,628	(5,210)	297,943	12,857	310,800
Transfer to retained earnings	-	-	-	-	-	-	-	-	172,285	-	-	(172,285)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	-	53,165	-	-	(53,165)	-	-	-	-	-	-	-
Redemption of series 2003 preferred shares	43	-	(1,200)	-	(149,550)	-	-	-	-	-	-	-	-	(150,750)	-	(150,750)
Increase in par value of outstanding shares	40	2,171	2,061	20	-	(3,052)	-	-	(1,200)	-	-	-	-	-	-	-
Issuance of series 2009 preferred shares	40	-	2,420	-	283,881	-	-	-	-	-	-	-	-	286,301	-	286,301
Net sale of treasury shares	44	-	-	-	-	-	-	1,378	-	-	-	-	-	1,378	-	1,378
Non controlling interest's share of dividends paid by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,558)	(3,558)
Other	-	-	-	-	-	1,074	-	-	(3,270)	-	18	-	-	(2,178)	(2,457)	(4,635)
Dividends paid	54	-	-	-	-	-	-	-	(105,013)	-	-	-	-	(105,013)	-	(105,013)
Balance at 31 December 2009	262,706	249,289	4,840	26,425	579,035	391,073	-	(176)	24,954	5,689	66,026	206,628	13,394	1,829,883	123,049	1,952,932
<b>Balance at 1 January 2010</b>	<b>262,706</b>	<b>249,289</b>	<b>4,840</b>	<b>26,425</b>	<b>579,035</b>	<b>391,073</b>	<b>-</b>	<b>(176)</b>	<b>24,954</b>	<b>5,689</b>	<b>66,026</b>	<b>206,628</b>	<b>13,394</b>	<b>1,829,883</b>	<b>123,049</b>	<b>1,952,932</b>
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	255,770	-	255,770	12,049	267,819
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	(12,033)	-	(22,967)	(35,000)	(12,833)	(47,833)
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	(12,033)	255,770	(22,967)	220,770	(784)	219,986
Transfer to retained earnings	-	-	-	-	-	-	-	-	206,628	-	-	(206,628)	-	-	-	-
Transfer to reserves and premiums	40 & 43	-	-	-	2,421	84,124	-	-	(86,545)	-	-	-	-	-	-	-
Capital increase	40	172,278	-	202,589	-	-	-	-	-	-	-	-	-	374,867	-	374,867
Net purchase of treasury shares	44	-	-	-	-	456	-	(16,013)	-	-	-	-	-	(15,557)	-	(15,557)
Non controlling interest share in capital increase of a subsidiary	45	-	-	-	-	-	-	-	-	-	-	-	-	-	38,037	38,037
Non controlling interest's share of dividends paid by subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(5,966)	(5,966)
Dividends paid to treasury shares	44	-	-	-	-	-	-	-	141	-	-	-	-	141	-	141
Dividends paid	54	-	-	-	-	-	-	-	(128,694)	-	-	-	-	(128,694)	-	(128,694)
Non-controlling interest in subsidiary acquired	3	-	-	-	-	-	-	-	-	-	-	-	-	-	7,505	7,505
Non-controlling interest in subsidiary liquidated	45	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,812)	(1,812)
Other equity instruments issued	46	-	-	-	-	-	14,979	-	-	-	-	-	-	14,979	-	14,979
<b>Balance at 31 December 2010</b>	<b>434,984</b>	<b>249,289</b>	<b>4,840</b>	<b>229,014</b>	<b>581,456</b>	<b>475,653</b>	<b>14,979</b>	<b>(16,189)</b>	<b>16,484</b>	<b>5,689</b>	<b>53,993</b>	<b>255,770</b>	<b>(9,573)</b>	<b>2,296,389</b>	<b>160,029</b>	<b>2,456,418</b>

The attached notes 1 to 55 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	<i>Notes</i>	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
<b>OPERATING ACTIVITIES</b>			
Profit before tax		327,205	265,832
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation	27 & 28	30,115	25,344
Provision for loans and advances and other doubtful accounts, net	11	29,272	26,245
Gain on disposal of property, plant and equipment	10	(900)	(860)
Gain on disposal of non-current assets held for sale	10	(3,914)	(11,275)
Provisions for risks and charges, net		22,029	36,363
Provision for impairment of financial instruments		8,863	15,278
Provision for end of services benefits	38	4,456	3,686
Impairment provision on non-current assets held for sale		-	581
Impairment provision on property and equipment	27	1,011	-
<b>Operating profit before working capital changes</b>		<b>418,137</b>	<b>361,194</b>
<b>Changes in operating assets and liabilities</b>			
Due from central banks		(8,284)	126,370
Due from banks and financial institutions		(7,189)	(189,970)
Financial assets given as collateral		(7,725)	95,654
Due to banks and financial institutions		52,040	8,993
Cash collateral on securities lent and repurchase agreements		(1,193)	1,193
Derivative financial instruments		13,322	171
Financial assets held for trading		(1,812)	6,697
Net loans and advances		(887,365)	(638,729)
Other assets		(6,382)	(9,671)
Customers' and related party deposits		2,412,583	2,899,288
Other liabilities		(39,652)	38,911
Cash from operations		<b>1,936,480</b>	<b>2,700,101</b>
End of service benefits paid	38	(1,810)	(2,888)
Taxation paid		(40,212)	(29,996)
<b>Net cash from operating activities</b>		<b>1,894,458</b>	<b>2,667,217</b>
<b>INVESTING ACTIVITIES</b>			
Available for sale financial instruments		(98,167)	(416,507)
Financial assets classified as loans and receivables		(818,076)	(2,062,865)
Held to maturity financial instruments		136,092	735,006
Purchase of property and equipment		(59,992)	(52,887)
Proceeds from sale of property and equipment		2,552	7,277
Purchase of non current assets held for sale		(5,389)	(772)
Proceeds from sale of non-current assets held for sale		8,778	19,587
Liabilities linked to held for sale assets		(683)	275
Acquisition of subsidiary, net of cash acquired	3	(12,557)	-
<b>Net cash used in investing activities</b>		<b>(847,442)</b>	<b>(1,770,886)</b>
<b>FINANCING ACTIVITIES</b>			
Issuance of ordinary common shares		374,867	-
Issuance of preferred shares		-	286,301
Issuance of other equity instrument		14,979	-
Redemption of preferred shares		-	(150,750)
Due to Central Bank		9,865	(82,516)
Debts issued and other borrowed funds		(77,462)	14,054
Subordinated notes		3,690	3,431
Treasury shares		(15,415)	1,378
Dividends paid		(128,694)	(105,013)
Change in minority interest		17,366	(5,951)
<b>Net cash from financing activities</b>		<b>199,196</b>	<b>(39,066)</b>
<b>Effect of exchange rates:</b>			
Effect of exchange rates on property and equipment		13,591	(2,530)
Foreign currency translation differences		(22,967)	(5,210)
Effect of exchange rates on reserves and premiums		-	(2,197)
<b>Net effect of foreign exchange rates</b>		<b>(9,376)</b>	<b>(9,937)</b>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>1,236,836</b>	<b>847,328</b>
Cash and cash equivalents at 1 January		3,498,532	2,651,204
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	48	<b>4,735,368</b>	<b>3,498,532</b>

The attached notes 1 to 55 form part of these consolidated financial statements.

### 1 CORPORATE INFORMATION

Byblos Bank SAL (the “Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks’ list published by the Bank of Lebanon. The Bank’s head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon.

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia).

### 2 ACCOUNTING POLICIES

#### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets held for trading and financial instruments available for sale. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest LL million except when otherwise indicated.

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board (IASB), and the regulations of the Bank of Lebanon and the Banking Control Commission (“BCC”).

#### Presentation of financial statements

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in note 47.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

#### Basis of consolidation from 1 January 2010

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 2 ACCOUNTING POLICIES (continued)

#### Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.
- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.
- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

<u>Subsidiary</u>	<u>Percentage of ownership</u>		<u>Principal activity</u>	<u>Country of incorporation</u>
	<b>2010</b> %	<b>2009</b> %		
Byblos Bank Europe SA	<b>99.95</b>	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) SAL	<b>63.95</b>	63.95	Insurance	Lebanon
Adonis Brokerage House SAL	<b>100.00</b>	100.00	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	<b>99.99</b>	99.99	Investment banking	Lebanon
Byblos Bank Africa	<b>56.86</b>	56.86	Commercial Banking	Sudan
Byblos Bank Syria S.A. *	<b>41.50</b>	41.50	Commercial Banking	Syria
Byblos Bank Armenia CJSC	<b>65.00</b>	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	<b>76.00</b>	76.00	Insurance	Syria
Byblos Bank RDC s.a.r.l. ** (formerly Solidaire Banque International S.B.I. SARL)	<b>66.67</b>	-	Banking activities	Democratic Republic of Congo
Byblos Management SAL (Holding) ***	-	99.98	Investment	Lebanon
Byblos Ventures SAL (Holding)**** (under liquidation)	-	50.00	Investment	Lebanon

\* The Group has control by virtue of agreement with other investors over Byblos Bank Syria S.A. and consequently, the financial statements of Byblos Bank Syria S.A. have been consolidated with those of the Group.

\*\* The above subsidiary was acquired on 31 March 2010 (please refer to note 3).

\*\*\* The general assembly of the above subsidiary held on 30 September 2010 decided to dissolve the company and liquidate its assets and liabilities.

\*\*\*\* The general assembly of the above subsidiary held on 15 February 2010 decided to dissolve the company and liquidate its assets and liabilities.

**2 ACCOUNTING POLICIES (continued)**

**2.2 Changes in accounting policy and disclosures**

**New and amended standards and interpretations**

The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based payment*: Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and IAS 27 *Consolidated and Separate Financial Statements (Amended)* effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items* effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets to Owners* effective 1 July 2009

The adoption of the above standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group.

**Improvements to IFRSs**

*Issued in May 2008*

- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* effective 1 January 2010

*Issued in April 2009*

- IFRS 2 *Share-based Payment*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*

**Standards issued but not yet effective**

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

*IAS 24 Related Party Disclosures (Amendment)*

The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

*IAS 32 Financial Instruments: Presentation – Classification of Rights Issues*

The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

*IFRIC 14 Prepayments of a minimum funding requirement (Amendment)*

The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Group.

**2 ACCOUNTING POLICIES (continued)**

**2.2 Changes in accounting policy and disclosures (continued)**

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*

IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

*Improvements to IFRSs (issued in May 2010)*

The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

**2.3 Impact of the early adoption of phase I of IFRS 9 effective 1 January 2011 on the amounts reported**

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. However, it will be early adopted by the Group beginning 1 January 2011, in accordance with the regulatory directives of the Banking Control Commission Circular No. 265 issued on 23 September 2010.

Management's preliminary assessment of the impact of the early adoption of phase I of IFRS 9 is summarized as follows:

- In accordance with the provisions of IFRS 9, adoption by the Group in 2011 will be applied retrospectively and comparative amounts will not be restated as permitted by IFRS 9.
- Effective 1 January 2011 the Group's available-for-sale financial assets under IAS 39 will be classified as financial assets at amortized cost, financial assets designated at fair value through other comprehensive income or financial assets designated at fair value through profit or loss.

As a result, the cumulative change in fair value of available-for-sale reserve is expected to decrease by an amount of LL 61,819 million against a decrease in the opening balance of retained earnings in the amount of LL 5,239 million, an increase in financial assets at amortized cost in the amount of LL 1,750,287 million, an increase in financial assets designated at fair value through profit or loss in the amount of LL 3,636 million.

- Effective 1 January 2011, part of the Group's financial assets measured at amortized cost under IAS 39 will be measured at fair value through profit or loss. As a result, the financial assets designated at fair value through profit and loss are expected to increase by an amount of LL 69,998 million against an increase in the opening balance of retained earnings by an amount of LL 1,534 million as at 1 January 2011.
- Effective 1 January 2011, part of the Group's financial assets held for trading under IAS 39 will be measured at amortized cost which will result in a decrease in retained earnings by an amount of LL 584 million as of 1 January 2011.
- Effective 1 January 2011, unrealized losses resulting from the reclassification of available for sale securities in 2008 to loans and receivables as per IAS 39 and IFRS 7 will be eliminated, as a result, cumulative change in fair value of available for sale reserve is expected to increase by an amount of LL 18,918 million against an increase in financial assets measured at amortized cost.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of significant accounting policies**

**Foreign currency translation**

The consolidated financial statements are presented in Lebanese Lira which is the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

**(i) Transactions and balances**

Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. Differences on trading activities are taken to the "Net trading income". All differences arising on non-trading activities are taken to the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

**(ii) Group companies**

As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement in 'Other operating expenses' or 'Other operating income'.

**Financial instruments – initial recognition and subsequent measurement**

**(i) Date of recognition**

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**(ii) Initial measurement of financial instruments**

The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs except, in the case of financial assets and financial liabilities classified at fair value through profit or loss.

**(iii) Derivatives recorded at fair value through profit or loss**

The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in the consolidated income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

*(iv) Financial assets held for trading*

Financial assets held for trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividends are recognised in “Net trading income”. Interest income is recorded in “Interest and similar income” according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities and equities which have been acquired principally for the purpose of selling or repurchasing in the near term.

*(v) Financial assets and financial liabilities designated at fair value through profit or loss*

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contract.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in the consolidated income statement in “Net gain or loss on financial assets and liabilities designated at fair value through profit or loss”. Interest earned or incurred is accrued in “Interest and similar income” or “Interest and similar expenses”, respectively, using the effective interest rate, while dividend income is recorded in “Other operating income” when the right to the payment has been established.

*(vi) Day 1 profit or loss*

When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a “Day 1” profit or loss) in the consolidated income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

*(vii) Other financial assets classified as loans and receivables*

These include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment.

After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in “Interest and similar income” in the income statement. The losses arising from impairment are recognised in the income statement in “Impairment losses on other financial assets”. Gains or losses are recognised in the income statement when the investments are derecognised or impaired.

*(viii) Available-for-sale financial instruments*

Available-for-sale instruments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

*(viii) Available-for-sale financial instruments (continued)*

After initial measurement, available-for-sale financial instruments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in shareholders' equity (other comprehensive income) in the "Available-for-sale reserve". When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first-in first-out basis. Interest earned whilst holding available-for-sale financial instruments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial instruments are recognised in the consolidated income statement as when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated income statement in "Impairment loss on financial instruments" and removed from the "Available-for-sale reserve".

*(ix) Held to maturity financial instruments*

Held to maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment of such investments are recognized in the consolidated income statement as "Impairment loss on financial instruments".

*(x) Due from banks and financial institutions and loans and advances to customers*

"Due from banks and financial institutions" and "Loans and advances to customers", include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available for sale.
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts "Due from banks and financial institutions" and "Loans and advances to customers" are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Net credit losses"

*(xi) Debt issued and other borrowed funds*

Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under "Debt issued and other borrowed funds", where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

*(xii) Customers' deposits*

All customers' deposits are carried at amortized cost less amounts repaid.

*(xiii) Reclassification of financial assets*

Effective from 1 July 2008, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category and into the "Available for sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available for sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the "Available for sale" category, any previous gain or loss on that asset that has been recognized in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the consolidated income statement.

The Group may reclassify a non-derivative trading asset out of the "Held-for-trading" category and into the "Loans and receivables" category if it meets the definition of loans and receivables and it has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

**Derecognition of financial assets and financial liabilities**

*(i) Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  - ▶ The Group has transferred substantially all the risks and rewards of the asset, or
  - ▶ The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Derecognition of financial assets and financial liabilities (continued)**

*(ii) Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated income statement.

**Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Cash collateral on securities lent and repurchase agreements", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to "Financial assets held for trading "pledged as collateral" or to "financial investments available-for-sale" pledged as collateral", as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Cash collateral on securities borrowed and reverse purchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities held-for-trading" and measured at fair value with any gains or losses included in "Net trading income".

**Determination of fair value**

The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction cost.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions.

**Impairment of financial assets**

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

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Impairment of financial assets (continued)**

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*(i) Financial assets carried at amortised cost*

For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers, other financial assets classified as loans and receivables as well as held to maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense" in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See note 12 for details of impairment losses on financial assets carried at amortised cost and note 22 for an analysis of the impairment allowance on loans and advances by class.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Impairment of financial assets (continued)**

*(ii) Available for sale financial investments*

For available for sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

*(iii) Renegotiated loans*

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

**Hedge accounting**

The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

***Hedge accounting (continued)***

*(i) Fair value hedges*

For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the consolidated income statement. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in “Net trading income”.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

*(ii) Cash flow hedges*

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the “Cash flow hedge” reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated income statement.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

*(iii) Hedge of a net investment*

Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity statement is transferred to the consolidated income statement.

**Leasing**

The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Group as a lessee*

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

*Group as a lessor*

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Recognition of income and expenses**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

**(i) Interest and similar income and expense**

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Once the recorded value of a financial asset on a group of similar financial assets has been reduced due to an impairment loss, interest income continue to be recognized using the rate of interest used to discount the future cash flows of the purpose of measuring the impairment loss.

**(ii) Fee and commission income**

The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

*Fee income earned from services that are provided over a certain period of time*

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

*Fee income from providing transaction services*

Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*Dividend income*

Dividend income is recognised when the right to receive the payment is established.

*Net trading income*

Results arising from trading activities include all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading. This includes any ineffectiveness recorded in hedging transactions.

*Net gain on financial assets*

Net gain on financial assets includes gains and losses from sale of financial instruments classified other than fair value through profit or loss, and dividend income on these financial instruments.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**(ii) Fee and commission income (continued)**

*Insurance revenue*

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorata temporis method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

**Cash and cash equivalents**

Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and non restricted balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

**Property and equipment**

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

Buildings	50 years
Office equipment and furniture	6.66 – 12.5 years
Computer equipment and software	3.33 – 5 years
General installations	5 years
Vehicles	4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists where the carrying values exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

**Non current assets held for sale**

Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Gains and losses on disposal are recognized in the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Business combinations and goodwill**

*Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Business combinations prior to 1 January 2010*

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill. When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Intangible assets**

An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Key money 10-15 years

**Impairment of non-financial assets**

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated income statement.

**Provisions for risks and charges**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

**Employees' end-of-service benefits**

For the Group and its subsidiaries operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Group is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Group provides for end-of-service benefits on that basis.

End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Taxes**

Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

*(i) Current tax*

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

*(ii) Deferred tax*

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current tax and deferred tax relating to items recognized directly in equity are also recognised in equity and not in the consolidated income statement.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Treasury shares**

Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

**Assets under management**

The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or in a fiduciary capacity, are not treated as assets of the Group and accordingly are recorded as off balance sheet items.

**Financial guarantees**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

**Customers' acceptances**

Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

**Equity reserves**

The reserves recorded in equity (other comprehensive income) on the Group statement of financial position include:

'Available-for-sale' reserve which comprises changes in fair value of available-for-sale investments.

'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

'Capital reserves' which include transfers from retained earnings in accordance with regulatory requirements and the portions of compound financial liabilities that qualify for treatment as equity (Note 34).

**Segment reporting**

The Group's segmental reporting is based on the following operating segments: Consumer banking, Corporate banking, treasury and capital markets, insurance and Group functions.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**2.5 Significant accounting judgements and estimates**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

*Going concern*

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

*Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

*Impairment losses on loans and advances*

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

*Impairment of available-for-sale investments*

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

*Deferred tax assets*

Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

**3 BUSINESS COMBINATION**

On 31 March 2010, the Group completed the acquisition of 66.67% of the share capital of Solidaire Banque International S.B.I. SARL, unlisted entity specializing in banking activities in Democratic Republic of Congo, for a total consideration of LL 15,075 million (equivalent to US\$ (000) 10,000).

**Assets acquired and liabilities assumed**

The fair value of the identifiable assets and liabilities of Solidaire Banque International S.B.I. SARL, an unlisted entity engaged in banking activities in the Democratic Republic of Congo as of 31 March 2010 were as follows:

	<i>Fair value recognized on acquisition LL million</i>	<i>Carrying value LL million</i>
<b>Assets</b>		
Cash and balances with central bank	2,518	2,518
Amounts due from Head office	18,553	18,553
Loans and advances to customers	7,998	7,998
Deposits with banks and financial institutions	1,982	1,982
Tangible fixed assets	1,250	1,250
Other assets	153	153
<b>Total assets</b>	<b>32,454</b>	<b>32,454</b>
<b>Liabilities</b>		
Customers' deposits	8,927	8,927
Other liabilities	916	916
<b>Total liabilities</b>	<b>9,843</b>	<b>9,843</b>
<b>Total identifiable net assets at fair value</b>	<b>22,611</b>	<b>22,611</b>
Non-controlling interest measured at fair value	(7,505)	
Excess of Group's interest in the net fair value of identifiable assets and liabilities over cost	(31)	
<b>Purchase consideration transferred</b>	<b>15,075</b>	

Cash outflow on acquisition was as follows:

	<i>LL million</i>
Cash paid	15,075
Net cash acquired with subsidiary	(2,518)
<b>Net cash outflow arising on acquisition of the subsidiary</b>	<b>12,557</b>

From the date of acquisition, the subsidiary contributed to a loss of LL 5,001 million to the results of the Group.

If the combination had taken place at the beginning of the year, the total net operating income for the year would have been less by LL 83 million.

The excess of the Group's interest in the fair value of net assets over cost was recognized in the consolidated income statement.

31 December 2010

**4 SEGMENTAL INFORMATION**

The business segments are distinctive components of the Group that have different risks and rates of returns and which offer different products and services. The Group segments its business into Consumer Banking, Corporate Banking, Treasury and Capital Markets, and Insurance. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment. There is no inter-segment transactions.

**Retail Banking**

Retail Banking provides a diversified range of products and services to individuals. The range includes housing loans, consumer loans, credit cards, deposits, foreign exchange and other branch related services.

**Corporate Banking**

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance and foreign exchange operations.

**Treasury and capital markets**

Treasury and capital markets include treasury, investments and other defined Group activities. It also includes investment products and services to institutional investors and intermediaries. Treasury is also responsible for the bank's liquidity management and market risk.

**Insurance**

The Group provides insurance services through subsidiaries operating in Lebanon and Syria.

**Unallocated**

This includes long term investments and other operating income and expenses not allocated to any of the above segments in addition to other miscellaneous activities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts.

The following table presents net operating income, profit and total assets information in respect of the Group's operating segments:

	<i>31 December 2010</i>					
	<i>Retail Banking LL million</i>	<i>Corporate Banking LL million</i>	<i>Treasury and capital markets LL million</i>	<i>Insurance LL million</i>	<i>Unallocated LL million</i>	<i>Total LL million</i>
Net interest income	219,668	106,218	100,691	686	-	427,263
Net fees and commissions income	41,204	61,637	(2,454)	12,288	12,983	125,658
Net trading income	-	-	19,474	(16)	2,700	22,158
Net gain or loss on financial assets	-	-	98,320	-	2,645	100,965
Other operating income	-	-	-	87	8,031	8,118
Credit loss expense	(10,801)	(7,506)	-	-	(10,965)	(29,272)
Impairment losses on other financial assets	-	-	(8,863)	-	-	(8,863)
<b>Net operating income</b>	<b>250,071</b>	<b>160,349</b>	<b>207,168</b>	<b>13,045</b>	<b>15,394</b>	<b>646,027</b>
Personnel and other operating expenses	(83,586)	(12,578)	(7,043)	(9,487)	(175,002)	(287,696)
Depreciation and amortization	(10,134)	(1,098)	(165)	(1,435)	(18,294)	(31,126)
Income tax expense	-	-	-	(1,798)	(57,588)	(59,386)
Total operating expenses	(93,720)	(13,676)	(7,208)	(12,720)	(250,884)	(378,208)
<b>Operating profit</b>	<b>156,351</b>	<b>146,673</b>	<b>199,960</b>	<b>325</b>	<b>(235,490)</b>	<b>267,819</b>
<b>Total assets</b>	<b>1,409,368</b>	<b>4,567,705</b>	<b>16,671,807</b>	<b>89,784</b>	<b>308,728</b>	<b>23,047,392</b>
<b>Total liabilities</b>	<b>16,752,227</b>	<b>1,175,452</b>	<b>1,982,013</b>	<b>167,429</b>	<b>513,853</b>	<b>20,590,974</b>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 4 SEGMENTAL INFORMATION (continued)

	31 December 2009					
	Retail Banking LL million	Corporate Banking LL million	Treasury and capital markets LL million	Insurance LL million	Unallocated LL million	Total LL million
Net interest income	153,653	109,451	124,155	1,521	-	388,780
Net fee and commission income	33,649	69,297	8,199	6,024	(2,220)	114,949
Net trading income	-	-	38,328	(187)	-	38,141
Net gain or loss on financial assets	-	-	14,011	-	-	14,011
Other operating income	-	-	-	175	16,076	16,251
Credit loss expense	(4,248)	(18,155)	(3,842)	-	-	(26,245)
Impairment losses on other financial assets	-	-	(15,179)	(99)	-	(15,278)
<b>Net operating income</b>	<b>183,054</b>	<b>160,593</b>	<b>165,672</b>	<b>7,434</b>	<b>13,856</b>	<b>530,609</b>
Personnel and other operating expenses	(76,775)	(8,601)	(3,555)	(8,409)	(141,512)	(238,852)
Depreciation and amortization	(10,912)	(170)	(67)	(1,170)	(13,606)	(25,925)
Income tax expense	-	-	-	-	(46,410)	(46,410)
<b>Total operating expenses</b>	<b>(87,687)</b>	<b>(8,771)</b>	<b>(3,622)</b>	<b>(9,579)</b>	<b>(201,528)</b>	<b>(311,187)</b>
<b>Operating profit</b>	<b>95,367</b>	<b>151,822</b>	<b>162,050</b>	<b>(2,145)</b>	<b>(187,672)</b>	<b>219,422</b>
Total assets	1,280,772	3,874,280	14,933,550	77,039	299,545	20,465,186
Total liabilities	14,516,466	989,702	2,281,091	135,973	589,022	18,512,254

### Geographic information

The Group operates in two geographic markets; local and international. The local market represents the Lebanese market and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income, total assets and capital expenditure by geographical segment.

	Domestic		International		Total	
	2010 LL million	2009 LL million	2010 LL million	2009 LL million	2010 LL million	2009 LL million
Net interest income	349,536	329,432	77,727	59,348	427,263	388,780
Net fees and commission income	58,118	48,444	67,540	66,505	125,658	114,949
Net trading income	13,623	30,657	8,535	7,484	22,158	38,141
Net gain on financial assets	95,897	8,740	5,068	5,271	100,965	14,011
Other operating income	7,794	14,728	324	1,523	8,118	16,251
Credit loss expense	(16,727)	(19,644)	(12,545)	(6,601)	(29,272)	(26,245)
Impairment losses on other financial assets	(3,800)	(8,658)	(5,063)	(6,620)	(8,863)	(15,278)
<b>Net operating income</b>	<b>504,441</b>	<b>403,699</b>	<b>141,586</b>	<b>126,910</b>	<b>646,027</b>	<b>530,609</b>
Personnel expenses	(114,378)	(102,512)	(31,174)	(26,827)	(145,552)	(129,339)
Depreciation of property, plants and equipments	(20,143)	(16,924)	(10,871)	(8,661)	(31,014)	(25,585)
Amortization of intangibles	(112)	(340)	-	-	(112)	(340)
Other operating expenses	(114,108)	(87,476)	(28,036)	(22,037)	(142,144)	(109,513)
Income tax expense	(46,615)	(35,420)	(12,771)	(10,990)	(59,386)	(46,410)
<b>Total operating expenses</b>	<b>(295,356)</b>	<b>(242,672)</b>	<b>(82,852)</b>	<b>(68,515)</b>	<b>(378,208)</b>	<b>(311,187)</b>
<b>Operating profit</b>	<b>209,085</b>	<b>161,027</b>	<b>58,734</b>	<b>58,395</b>	<b>267,819</b>	<b>219,422</b>
Total assets	14,987,694	14,289,186	8,059,698	6,176,000	23,047,392	20,465,186

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### 5 INTEREST AND SIMILAR INCOME

	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Cash and balances with central banks	15,116	19,158
Due from banks and financial institutions	32,573	32,958
Financial assets given as collateral	403	2,606
Financial assets – held for trading	10,809	16,245
Financial assets – available-for-sale	137,341	124,862
Financial assets – held-to-maturity	47,166	89,549
Financial assets - loans & receivables	576,494	498,312
Loans and advances to customers	403,624	357,550
Loans and advances to related parties	488	653
	<u>1,224,014</u>	<u>1,141,893</u>

### 6 INTEREST AND SIMILAR EXPENSE

	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Due to central banks	253	3,088
Due to banks and financial institutions	33,515	41,445
Customer deposits	709,785	650,725
Related party deposits	8,386	8,376
Debt issued and other borrowed funds	17,150	22,108
Subordinated notes	27,662	27,371
	<u>796,751</u>	<u>753,113</u>

### 7 NET FEES AND COMMISSIONS INCOME

	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
<b>Fees and commissions income</b>		
Loans and advances commission	19,535	14,932
Letters of guarantee commission	14,535	13,736
Acceptances commission	6,037	6,877
Letters of credit commission	42,791	40,420
Credit cards commission	5,414	4,839
Domiciliation commission	1,738	1,526
Checks for collection commission	2,451	2,206
Maintenance of accounts commission	6,613	7,504
Closing of accounts commission	5	59
Transfers commission	7,462	4,885
Safe rental commission	472	472
Portfolio commission	2,334	2,456
Insurance premiums' commission and commission on reinsurance ceded	16,250	11,524
Other commissions	14,584	18,137
	<u>140,221</u>	<u>129,573</u>

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### 7 NET FEES AND COMMISSIONS INCOME (continued)

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
<b>Fees and commissions expense</b>		
Commissions paid on financial instruments	(1,714)	(2,119)
Other fees	(12,849)	(12,505)
	<u>(14,563)</u>	<u>(14,624)</u>
<b>Net fees and commissions income</b>	<u><u>125,658</u></u>	<u><u>114,949</u></u>

Fee income relating to fiduciary activities is not significant.

### 8 NET TRADING INCOME

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Treasury bills and other governmental bills	(551)	13,392
Bonds and financial assets with fixed income	1,110	753
Shares, securities and financial assets with variable income	(185)	7,043
Dividends income	957	1,287
Foreign exchange	20,827	15,666
	<u>22,158</u>	<u>38,141</u>

“Treasury bills, other governmental bills, bonds and financial assets with fixed income” net income (loss) includes the results of buying and selling and change in the fair value of debt securities as well as related interest income and expenses.

“Shares, securities and financial assets with variable income” net income (loss) includes the results of buying and selling and changes in the fair value of equity securities.

“Foreign exchange” net income (loss) includes gains and losses from spot and forward contracts, foreign exchange operations, and other currency derivatives.

### 9 NET GAIN ON FINANCIAL ASSETS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Gain on sale of certificates of deposits classified as loans and receivables	2,183	1,704
Gain on sale of treasury bills and other governmental bonds classified as available-for-sale	25,076	651
Gain on sale of bonds and investments with fixed income classified as available-for-sale	-	706
Gain on sale of treasury bills and other governmental bonds classified as loans and receivables	67,892	6,391
Gain on sale of bonds and investments with fixed income classified as loans and receivables	427	-
Dividends income	4,030	5,012
Gain (loss) on foreign exchange	1,357	(453)
	<u>100,965</u>	<u>14,011</u>

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**10 OTHER OPERATING INCOME**

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Net gain on sale of assets acquired in settlement of debt	3,914	11,275
Rental income	882	850
Net gain on sale or disposal of property and equipment	900	860
Others	2,422	3,266
	<u>8,118</u>	<u>16,251</u>

**11 CREDIT LOSS EXPENSE**

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Provisions for commercial loans (note 22)	(26,192)	(27,456)
Provisions for consumer loans (note 22)	(14,083)	(3,073)
Provision for doubtful banks and registered exchange companies (note 18)	(5,682)	(3,870)
Bad debts written off	(269)	(217)
	<u>(46,226)</u>	<u>(34,616)</u>
Write back of provisions:		
Commercial loans (note 22)	14,368	7,635
Consumer loans (note 22)	1,633	736
Doubtful banks and registered exchange companies (note 18)	953	-
	<u>16,954</u>	<u>8,371</u>
Net credit loss expense	<u>(29,272)</u>	<u>(26,245)</u>

**12 IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS**

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Financial investments – available-for-sale:		
-Shares, securities and financial assets with variable income	-	6,520
-Treasury bills and other governmental bills	940	-
Financial investments – held-to-maturity (note 26):		
-Treasury bills and other governmental bills	-	100
-Bonds and investments with fixed income	-	4,809
Financial investments – Loans and receivables (note 25):		
- Bonds and investments with fixed income	9,110	3,849
Write back of impairment losses on bonds and investments classified as held to maturity (note 26)	(1,187)	-
	<u>8,863</u>	<u>15,278</u>

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### 13 PERSONNEL EXPENSES

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Salaries and related charges	125,622	111,156
Social security contributions	15,474	14,497
Provision for end of service benefits (note 38)	4,456	3,686
	<u>145,552</u>	<u>129,339</u>

### 14 OTHER OPERATING EXPENSES

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Taxes on interest	9,689	8,070
Taxes and duties	10,848	7,825
Contribution to deposits guarantee fund	7,520	6,205
Rent and related charges	7,662	6,390
Consulting fees	8,008	6,235
Telecommunications and postage expenses	9,585	8,640
Board of Directors' attendance fees	1,182	1,046
Maintenance and repairs	12,498	9,939
Electricity and fuel	5,148	4,787
Travel and entertainment	5,451	4,630
Publicity and advertising	9,727	9,150
Subscriptions	3,526	2,877
Bonuses	23,731	16,719
Legal expenses	3,658	3,195
Insurance	3,137	1,558
Other operating expenses	20,774	12,247
	<u>142,144</u>	<u>109,513</u>

### 15 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2010 and 2009 are:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Current income tax expense reported in the consolidated statement of comprehensive income	<u>59,386</u>	<u>46,410</u>

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### 15 INCOME TAX EXPENSE (continued)

The reconciliation of the Group's income tax for the year ended 31 December 2010 and 2009 is as follows:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Net profit before income tax	327,205	265,831
Non-deductible expenses	69,178	13,268
Non-taxable revenue	(24,490)	(2,164)
Taxable income	<u>371,893</u>	<u>276,935</u>
Effective income tax rate	16%	17.5%
Income tax reported in the consolidated income statement	<u>59,386</u>	<u>46,410</u>
Less: taxes on interest	(21,502)	(18,337)
Less: tax advances	(4,068)	(4,068)
Net taxes due	<u>33,816</u>	<u>24,005</u>
Current tax liability (note 35)	<u><u>32,516</u></u>	<u><u>27,018</u></u>

#### Deferred tax liability

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
At 1 January	15,485	-
Deferred tax on available for sale instruments reflected in other comprehensive income	(4,225)	15,485
Translation differences	185	-
At 31 December	<u><u>11,445</u></u>	<u><u>15,485</u></u>

### 16 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of shares (common and priority) outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to common and priority equity holders of the Group (after adjusting for interest on the convertible instruments) by the weighted average number of shares (common and priority) outstanding during the year plus the weighted average number of shares (common and priority) that would be issued on the conversion of all the dilutive potential shares into ordinary shares (common and priority).

The following table shows the calculations of the basic earnings per share:

	<i>2010</i>	<i>2009</i>
Weighted average number of shares outstanding during the period:		
- Common shares	288,838,287	216,721,108
- Priority shares	205,982,021	205,915,830

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 16 EARNINGS PER SHARE (continued)

	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Net profit for the year attributable to equity holders of the parent	<b>255,770</b>	206,628
(Less): Proposed dividends to preferred shares	<b>(48,064)</b>	(34,095)
Net profit attributable to common and priority shareholders	<b>207,706</b>	172,533
(Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year 205,982,021 shares (2009: 205,915,830 shares)	<b>(9,970)</b>	(9,966)
Net profits attributable to common and priority shareholders	<b>197,736</b>	162,567
	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Of which:		
Net profits attributable to priority shares (205,982,021 shares) (2009: 205,915,830 shares)	<b>82,313</b>	79,206
Net profits attributable to common shares (288,838,287 shares) (2009: 216,721,108 shares)	<b>115,423</b>	83,361
	<b>197,736</b>	162,567
Basic earnings per share in LL:		
- Common shares	<b>399.61</b>	384.65
- Priority shares	<b>448.01</b>	433.05

### Diluted earnings per share

The following table shows the calculations of the diluted earnings per share for the year ended 31 December 2010 and 2009 for common and priority shares:

	<i>2010</i>	<i>2009</i>
Weighted average number of common shares for basic earnings per share	<b>288,838,287</b>	216,721,108
Effect of dilution:		
Convertible subordinated notes	<b>80,652,681</b>	76,888,889
Other equity instruments (note 46)	<b>2,601,205</b>	-
Weighted average number of common shares adjusted for the effect of dilution	<b>372,092,173</b>	293,609,997
	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Net profit attributable to ordinary shares (common and priority) of the parent	<b>207,706</b>	172,533
Interest on convertible subordinated notes	<b>22,038</b>	22,057
Interest on other equity instruments (note 46)	<b>213</b>	-
Less: income tax	<b>(3,338)</b>	(3,309)
Net profit attributable to ordinary shares (common and priority) of the parent adjusted for the effect of convertible instruments	<b>226,619</b>	191,281

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### 16 EARNINGS PER SHARE (continued)

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
(Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year 205,982,021 shares (2009: 205,915,830 shares)	<b>(9,970)</b>	(9,966)
Net profits attributable to shares (common and priority) after the interest paid to priority shares	<b>216,649</b>	181,315
Of which:		
Net profits attributable to priority shares (205,982,021 shares) (2009: 205,915,830 shares)	<b>77,198</b>	74,743
Net profits attributable to common shares (372,092,173 shares) (2009: 293,609,997 shares)	<b>139,451</b>	106,572
Diluted earnings per common share in LL:		
- Common shares	<b>374.78</b>	362.97
- Priority shares	<b>423.18</b>	411.37

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these financial statements.

### 17 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Cash on hand	<b>151,145</b>	115,337
Balances with the Bank of Lebanon:		
- Current accounts	<b>739,580</b>	763,485
- Time deposits	<b>1,389,915</b>	1,341,675
	<b>2,129,495</b>	2,105,160
Balances with central Banks in other countries:		
- Current accounts	<b>428,203</b>	301,290
- Time deposits	<b>38,164</b>	2,716
- Statutory blocked fund	<b>12,468</b>	6,056
	<b>478,835</b>	310,062
Accrued interest receivable	<b>1,635</b>	2,813
	<b>2,761,110</b>	2,533,372

In accordance with the Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Bank of Lebanon interest - bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve amounted to LL 1,903,716 million as at 31 December 2010 (2009: LL 1,802,430 million).

*Balances with the central banks in other countries (Cyprus, Iraq, Sudan and Syria)*

Current accounts with Central Banks in other countries include obligatory reserve deposits with the Central Bank of Cyprus amounting to LL 2,422 million (2009: LL 2,659 million).

In accordance with the requirements of the Syrian Law statutory blocked fund of LL 12,468 million (2009: LL 6,056 million) represents non-interest bearing legal blocked deposit at the Central Bank of Syria.

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### 18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Commercial banks:		
- Current accounts	273,324	248,618
- Time deposits	3,583,500	2,878,609
- Interest receivable	6,343	6,009
- Doubtful bank accounts	10,727	6,183
- Provision for doubtful bank accounts	(10,727)	(6,183)
	<u>3,863,167</u>	<u>3,133,236</u>
Financial institutions:		
- Current accounts	32,363	5,847
Registered exchange companies:		
- Current accounts	3,481	3,400
- Doubtful exchange companies accounts	2,259	2,259
- Provision for doubtful exchange companies accounts	(2,259)	(2,259)
	<u>3,481</u>	<u>3,400</u>
	<u>3,899,011</u>	<u>3,142,483</u>

#### *Doubtful banks and registered exchange companies*

Following is the movement in the balances of doubtful banks and registered exchange companies and related provisions during the year:

	<i>2010</i> <i>Provision</i> <i>LL million</i>	<i>2009</i> <i>Provision</i> <i>LL million</i>
Balance at 1 January	8,442	4,766
Charge for the year	5,682	3,870
Write-off	-	(185)
Write-back	(953)	-
Exchange difference	(185)	(9)
Balance at 31 December	<u>12,986</u>	<u>8,442</u>
Out of which		
- banks	10,727	6,183
- registered exchange companies	2,259	2,259
	<u>12,986</u>	<u>8,442</u>

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**19 FINANCIAL ASSETS GIVEN AS COLLATERAL AND REVERSE REPURCHASE AGREEMENTS**

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Treasury bills mortgaged in favor of the Central Bank as a guarantee for loans (note 31) classified as held to maturity	<b>8,814</b>	-
Government securities pledged under repurchase agreements classified as loans and receivables	-	1,193
Interest receivable	<b>104</b>	-
	<u><b>8,918</b></u>	<u>1,193</u>

The carrying amount of securities sold under agreements to repurchase at 31 December 2010 was nil (2009: LL 1,193 million).

**20 DERIVATIVE FINANCIAL INSTRUMENTS**

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

	<i>2010</i>			<i>2009</i>		
	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Notional</i> <i>amount</i> <i>LL million</i>	<i>Assets</i> <i>LL million</i>	<i>Liabilities</i> <i>LL million</i>	<i>Notional</i> <i>amount</i> <i>LL million</i>
<b>Derivatives held for trading:</b>						
Currency swaps	129	2,441	117,520	976	354	68,991
Forward foreign exchange contracts	1,333	1,909	165,010	1,894	1,436	228,135
	<u>1,462</u>	<u>4,350</u>	<u>282,530</u>	<u>2,870</u>	<u>1,790</u>	<u>297,126</u>
<b>Derivatives held for hedging:</b>						
Equity options	-	-	-	9,354	-	75,375
	<u>1,462</u>	<u>4,350</u>	<u>282,530</u>	<u>12,224</u>	<u>1,790</u>	<u>372,501</u>

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over-the-counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

**20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)****Forwards**

Forward are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over-the-counter market.

The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Forward result in market risk exposure.

**Swaps**

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross-settled.

**Options**

Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases options through regulated exchanges and in the over-the-counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) the underlying asset at an agreed-upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Equity options outstanding as of 31 December 2009 relate to the 50% of the positive performance of portfolio of stocks related to equity linked notes (note 34).

**21 FINANCIAL ASSETS HELD FOR TRADING**

	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Treasury bills and other governmental bills	<b>142,007</b>	152,988
Bonds and financial assets with fixed income	<b>33,929</b>	22,565
Shares, securities and financial assets with variable income	<b>26,447</b>	24,918
Accrued interest receivable on Treasury bills and other governmental bills	<b>3,278</b>	3,252
Accrued interest receivable on bonds and financial assets with fixed income	<b>279</b>	405
	<b>205,940</b>	204,128

**22 NET LOANS AND ADVANCES TO CUSTOMERS**

Following is a comparison of loans and advances at 31 December 2010 and 2009:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Commercial loans	<b>4,433,698</b>	3,801,240
Consumer loans	<b>1,446,786</b>	1,192,350
	<b>5,880,484</b>	4,993,590
Less:		
- Allowance for impairment	<b>(146,534)</b>	(122,117)
- Unrealized interest	<b>(59,667)</b>	(63,840)
	<b>5,674,283</b>	4,807,633

*Breakdown of loans and advances to customers by economic sector (gross loans before deduction of interest received in advance and addition of accrued interest receivable)*

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Commercial	<b>1,672,626</b>	1,390,838
Industrial	<b>1,143,544</b>	971,652
Agriculture	<b>70,828</b>	73,012
Services	<b>800,062</b>	600,990
Construction	<b>618,214</b>	631,983
Retail	<b>1,533,561</b>	1,280,309
Other	<b>126,577</b>	143,060
	<b>5,965,412</b>	5,091,844

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### 22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

The loans and advances to customers are classified in accordance with the Bank of Lebanon main circular No. 58 as follows:

	2010			2009				
	<i>Gross balance LL million</i>	<i>Unrealized interest LL million</i>	<i>Provisions LL million</i>	<i>Net balance LL million</i>	<i>Gross balance LL million</i>	<i>Unrealized interest LL million</i>	<i>Provisions LL million</i>	<i>Net balance LL million</i>
- Good loans	5,630,447	-	-	5,630,447	4,718,506	-	-	4,718,506
- Watch loans	190,380	-	-	190,380	227,746	-	-	227,746
	<u>5,820,827</u>	<u>-</u>	<u>-</u>	<u>5,820,827</u>	<u>4,946,252</u>	<u>-</u>	<u>-</u>	<u>4,946,252</u>
- Substandard loans	2,317	(677)	-	1,640	11,204	(5,749)	-	5,455
- Doubtful loans	35,856	(8,296)	(11,300)	16,260	61,066	(21,087)	(20,482)	19,497
- Bad loans	106,412	(50,694)	(55,718)	-	73,322	(37,004)	(36,318)	-
	<u>5,965,412</u>	<u>(59,667)</u>	<u>(67,018)</u>	<u>5,838,727</u>	<u>5,091,844</u>	<u>(63,840)</u>	<u>(56,800)</u>	<u>4,971,204</u>
Less:								
- Collective provisions	-	-	(79,516)	(79,516)	-	-	(65,317)	(65,317)
Accrued interest receivable	21,938	-	-	21,938	11,661	-	-	11,661
Less: Interest received in advance	(106,866)	-	-	(106,866)	(109,915)	-	-	(109,915)
	<u>5,880,484</u>	<u>(59,667)</u>	<u>(146,534)</u>	<u>5,674,283</u>	<u>4,993,590</u>	<u>(63,840)</u>	<u>(122,117)</u>	<u>4,807,633</u>

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off balance sheet accounts. The gross balance of these loans amounted to LL 98,700 million as of 31 December 2010 (2009: LL 113,117 million).

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of unrealized interest on doubtful substandard and bad loans during the years ended 31 December was as follows:

	<i>2010</i> <i>Commercial</i> <i>loans</i> <i>LL million</i>
Balance at 1 January	63,840
Add (less):	
- Charge for the year	10,578
- Recoveries	(7,049)
- Amounts written off	(7,657)
- Difference of exchange	(45)
Balance at 31 December	<u>59,667</u>
	<i>2009</i> <i>Commercial</i> <i>loans</i> <i>LL million</i>
Balance at 1 January	80,777
Add (less):	
- Charge for the year	11,579
- Recoveries	(18,369)
- Amounts written off	(10,381)
- Difference of exchange	234
Balance at 31 December	<u>63,840</u>

Movement of the allowance for impairment losses during the years ended 31 December was as follows:

	<i>2010</i>		
	<i>Commercial</i> <i>loans</i> <i>LL million</i>	<i>Consumer</i> <i>loans</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January	94,278	27,839	122,117
Add (less):			
- Charge for the year	26,192	14,083	40,275
- Amounts written off	(447)	(728)	(1,175)
- Recoveries	(14,368)	(1,633)	(16,001)
- Transfer from off balance sheet	6,607	-	6,607
- Difference of exchange	(5,733)	444	(5,289)
Balance at 31 December	<u>106,529</u>	<u>40,005</u>	<u>146,534</u>
Individual impairment	49,749	17,269	67,018
Collective impairment	56,780	22,736	79,516
	<u>106,529</u>	<u>40,005</u>	<u>146,534</u>
Gross amount of loans individually determined to be impaired	<u>124,255</u>	<u>20,330</u>	<u>144,585</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

	<i>2009</i>		
	<i>Commercial loans LL million</i>	<i>Consumer loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	80,548	26,290	106,838
Add (less):			
- Charge for the year	27,456	3,073	30,529
- Amounts written off	(5,928)	(849)	(6,777)
- Recoveries	(7,635)	(736)	(8,371)
- Transfer to provision for risk and charges	(1,065)	-	(1,065)
- Transfer from off balance sheet	2,289	-	2,289
- Difference of exchange	(1,387)	61	(1,326)
Balance at 31 December	<u>94,278</u>	<u>27,839</u>	<u>122,117</u>
Individual impairment	49,793	7,007	56,800
Collective impairment	44,485	20,832	65,317
	<u>94,278</u>	<u>27,839</u>	<u>122,117</u>
Gross amount of loans individually determined to be impaired	<u>131,839</u>	<u>13,753</u>	<u>145,592</u>

#### Collateral repossessed

During the year 2010, the Group took possession of collateral amounting to LL 5,389 million (note 29).

#### Bad loans transferred to off statement of financial position accounts

As per Banking Control Commission Circular no 24, banks are required to transfer to the off-statement of financial position doubtful loans fully provided for and which meet some additional criteria outlined in the circular.

The movement in the allowance for impairment losses for doubtful loans fully provided for and transferred to off-statement of financial position accounts was as follows:

	<i>2010 LL million</i>	<i>2009 LL million</i>
Balance at 1 January	113,117	121,244
Transferred to balance sheet	(10,309)	(5,541)
Interest on off balance sheet loans	(12,099)	(7,730)
Interest charged on off balance sheet loans	9,074	4,741
Difference of exchange	(1,083)	403
Balance at 31 December	<u>98,700</u>	<u>113,117</u>

### 23 BANK ACCEPTANCES

	<i>2010 LL million</i>	<i>2009 LL million</i>
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances confirmed by the Group without recourse to the beneficiary	7,959	13,877
- Other acceptances	283,875	322,027
	<u>291,834</u>	<u>335,904</u>

Customers' acceptances represent documentary credits, which the Group has committed to settle on behalf of its clients, against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 24 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Lebanese treasury bills and other governmental bills	1,433,865	1,516,505
Bonds and financial assets with fixed income	316,422	162,152
Shares, securities and financial assets with variable income	84,324	74,785
Accrued interest receivable	41,200	41,215
	<u>1,875,811</u>	<u>1,794,657</u>

### 25 OTHER FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Certificates of deposits	4,389,114	3,267,756
Lebanese treasury bills and other governmental bills	2,203,391	2,820,948
Bonds and financial assets with fixed income	155,342	179,829
Loans to banks and financial institutions	369,694	104,998
Discounted acceptances	262,466	196,780
Interest received in advance	(3,614)	(2,655)
Accrued interest receivable	127,422	118,082
	<u>7,503,815</u>	<u>6,685,738</u>
Less: allowance for impairment losses	(12,959)	(3,849)
	<u>7,490,856</u>	<u>6,681,889</u>

The movement of the allowance for impairment losses is as follows:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Balance at 1 January	3,849	-
Charge for the year	9,110	3,849
Balance at 31 December	<u>12,959</u>	<u>3,849</u>

### 26 HELD TO MATURITY FINANCIAL INSTRUMENTS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Lebanese treasury bills and other governmental bills	376,975	493,582
Bonds and financial assets with fixed income	42,790	58,097
Accrued interest receivable	12,655	16,834
	<u>432,420</u>	<u>568,513</u>
Less: allowance for impairment losses	(3,722)	(4,909)
	<u>428,698</u>	<u>563,604</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 26 HELD TO MATURITY FINANCIAL INSTRUMENTS (continued)

The movement of the allowance for impairment losses is as follows:

	2010 <i>LL million</i>	2009 <i>LL million</i>
Balance at 1 January	4,909	-
Charge for the year	-	4,909
Written back during the year	(1,187)	-
Balance at 31 December	<u>3,722</u>	<u>4,909</u>

### 27 PROPERTY AND EQUIPMENT

	<i>Buildings LL million</i>	<i>Motor vehicles LL million</i>	<i>Furniture and equipment LL million</i>	<i>Deposits LL million</i>	<i>Advance payments LL million</i>	<i>Total LL million</i>
Cost:						
At 1 January 2010	232,009	3,465	150,338	1,453	12,781	400,046
Additions during the year	20,250	535	22,857	106	17,494	61,242
Addition through acquisition of a bank	-	73	1,177	-	-	1,250
Transfers	1,720	-	1,916	-	(3,636)	-
Disposal of fixed assets	(3,272)	(83)	(1,719)	-	(43)	(5,117)
Foreign exchange difference	(11,511)	(181)	(1,342)	(14)	(2,015)	(15,063)
At 31 December 2010	<u>239,196</u>	<u>3,809</u>	<u>173,227</u>	<u>1,545</u>	<u>24,581</u>	<u>442,358</u>
Depreciation:						
At 1 January 2010	34,425	1,905	96,978	-	-	133,308
Depreciation during the year	6,460	694	22,849	-	-	30,003
Impairment of fixed assets	1,011	-	-	-	-	1,011
Related to disposals of fixed assets	(166)	(51)	(1,578)	-	-	(1,795)
Foreign exchange difference	(1,213)	(79)	(180)	-	-	(1,472)
At 31 December 2010	<u>40,517</u>	<u>2,469</u>	<u>118,069</u>	<u>-</u>	<u>-</u>	<u>161,055</u>
Net carrying value:						
At 31 December 2010	<u>198,679</u>	<u>1,340</u>	<u>55,158</u>	<u>1,545</u>	<u>24,581</u>	<u>281,303</u>
Cost:						
At 1 January 2009	205,045	3,672	119,724	1,348	23,530	353,319
Additions during the year	20,623	886	21,667	106	9,617	52,899
Transfers	9,050	-	10,740	-	(19,790)	-
Disposal of fixed assets	(1,043)	(1,009)	(1,558)	-	(50)	(3,660)
Foreign exchange difference	(1,666)	(84)	(235)	(1)	(526)	(2,512)
At 31 December 2009	<u>232,009</u>	<u>3,465</u>	<u>150,338</u>	<u>1,453</u>	<u>12,781</u>	<u>400,046</u>
Depreciation:						
At 1 January 2009	28,721	1,870	79,489	-	-	110,080
Depreciation during the year	5,675	779	18,549	-	-	25,003
Impairment of fixed assets	582	-	-	-	-	582
Related to transfers	(3)	-	3	-	-	-
Related to disposals of fixed assets	(36)	(716)	(1,150)	-	-	(1,902)
Foreign exchange difference	(514)	(28)	87	-	-	(455)
At 31 December 2009	<u>34,425</u>	<u>1,905</u>	<u>96,978</u>	<u>-</u>	<u>-</u>	<u>133,308</u>
Net carrying value:						
At 31 December 2009	<u>197,584</u>	<u>1,560</u>	<u>53,360</u>	<u>1,453</u>	<u>12,781</u>	<u>266,738</u>

The cost of buildings at 31 December 2010 and 2009 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LL 5,689 million as at 31 December 2010 (2009: the same) (note 41).

31 December 2010

**28 INTANGIBLE ASSETS**

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Key money		
Cost:		
At 1 January	1,637	1,637
Additions for the year	417	-
At 31 December	<u>2,054</u>	<u>1,637</u>
Accumulated amortization:		
At 1 January	903	563
Amortization expense for the year	112	340
At 31 December	<u>1,015</u>	<u>903</u>
Net book value:		
At 31 December	<u>1,039</u>	<u>734</u>

**29 NON-CURRENT ASSETS HELD FOR SALE**

Other non-current assets held-for-sale represent assets acquired in settlement of bad loans and advances to customers. Movement of other non-current assets held for sale and related impairment is as follows:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Cost		
At 1 January	43,726	51,267
Additions during the year	5,389	826
Disposal	(4,864)	(8,367)
At 31 December	<u>44,251</u>	<u>43,726</u>
Impairment		
At 1 January	(5,159)	(5,159)
At 31 December	<u>(5,159)</u>	<u>(5,159)</u>
Net carrying value		
At 31 December	<u>39,092</u>	<u>38,567</u>

Liabilities linked to held-for-sale assets in the amount of LL 1,312 million represent advance payments received in connection with future sale transactions for the above assets (2009: LL 1,995 million).

Rental income from foreclosed properties for the year amounted to LL 1,046 million (2009: LL 850 million).

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 30 OTHER ASSETS

		<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Obligatory financial assets	a	<b>2,250</b>	2,250
Blocked deposit	b	-	2,500
Other assets	c	<b>74,793</b>	65,760
Doubtful debtor accounts		<b>72</b>	72
		<u>77,115</u>	<u>70,582</u>
Less: Allowance for credit losses	d	<b>(37)</b>	(37)
		<u><b>77,078</b></u>	<u>70,545</u>

- a) Obligatory financial assets consist of a deposit amounting to 15% of the share capital of subsidiary bank that was blocked at incorporation as a guarantee with the Lebanese Treasury Department. This deposit shall be returned to the subsidiary bank without any interest upon liquidation of its activities.
- b) Blocked deposit is maintained with the Bank of Lebanon in favor of the Ministry of Finance and was transferred to the Bank upon the acquisition of the net assets of Unicredit Banca Di Roma SpA – Beirut Branch. This deposit, which is denominated in Lebanese Lira and does not earn any interest, was released in 2010.
- c) Other assets comprise of the following:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Prepaid rent	<b>5,664</b>	2,928
Printings and stationery	<b>2,990</b>	3,263
Credit card balances due from customers	<b>9,501</b>	7,637
Insurance premiums receivable	<b>5,248</b>	4,207
Reinsurers' share of technical reserve of subsidiary insurance company	<b>16,624</b>	14,325
Other debit balances	<b>34,766</b>	33,400
	<u>74,793</u>	<u>65,760</u>

- d) Movement of the allowance for credit losses is as follows:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Balance at 1 January	<b>37</b>	186
Write off	-	(149)
Balance at 31 December	<u><b>37</b></u>	<u>37</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 31 DUE TO CENTRAL BANKS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Current accounts	9,570	10,558
Loan due to the Central Bank of Lebanon	8,814	-
Loan due to the Central Bank of Armenia	1,061	1,142
Accrued interest payable	47	4
	<u>9,922</u>	<u>1,146</u>
	<u>19,492</u>	<u>11,704</u>

During the year ended 31 December 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war as follows :

	<i>Amount</i> <i>LL million</i>	<i>Interest</i> <i>rate</i>	<i>Maturity</i>
First loan	1,899	2,425%	2 May 2019
Second loan	5,528	2,9%	23 April 2015
Third loan	1,387	2,9%	21 April 2016
	<u>8,814</u>		

The above loans are secured by the pledge of Lebanese treasury bills amounting to LL 8,814 million and included under financial assets given as collateral and reverse purchase agreements (note 19).

### 32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Commercial banks:		
- Current accounts	212,149	369,179
- Time deposits	738,055	755,553
- Medium term loans	266,930	287,390
- Accrued interest payable	8,415	7,456
	<u>1,225,549</u>	<u>1,419,578</u>
Financial institutions:		
- Current account	2,640	13
- Term loans	201,238	194,470
- Time deposits	6,560	52,272
- Accrued interest payable	2,122	5,558
- Less: Cost to be amortized over the loan period	-	(1,122)
	<u>212,560</u>	<u>251,191</u>
Registered exchange companies:		
- Current accounts	813	1,632
- Time deposits	2,424	3,354
- Accrued interest Payable	-	52
	<u>3,237</u>	<u>5,038</u>
Total	<u>1,441,346</u>	<u>1,675,807</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 33 CUSTOMERS' DEPOSITS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Current accounts	2,514,441	1,916,710
Demand deposits	568,339	494,088
Term deposits	13,856,849	12,246,746
Blocked deposits	793,115	639,064
Accrued interest payable	82,538	69,746
	<u>17,815,282</u>	<u>15,366,354</u>

Customers' deposits include coded deposit accounts amounting to LL 42,496 million as of 31 December 2010 (2009: LL 42,816 million).

### 34 DEBT ISSUED AND OTHER BORROWED FUNDS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
<b>Certificates of deposit</b>		
2009 – First Series (US\$ (000) 101,150)	152,484	152,484
2009 – Second Series (US\$ (000) 40,450)	60,978	60,978
Accrued interest payable: US\$ (000) 26 (2009: US\$ (000) 26)	39	39
	<u>213,501</u>	<u>213,501</u>
<b>Equity linked notes</b>		
Issuance value: US\$ (000) 49,414	-	74,491
Discount to be amortized over the period of the notes: US\$ (000) 4,234	-	(6,383)
	-	68,108
Accrued 50% of the positive performance of a portfolio of stocks (note 20)	-	9,354
	-	77,462
	<u>213,501</u>	<u>290,963</u>
<i>Interest and similar expense:</i>		
- Certificates of deposit:		
Interest: US\$ (000) 9,729 (2009: US\$ (000) 9,754)	14,667	14,630
Add: Amortization of issuing cost: US\$ (000) nil (2009: US\$ (000) 49)	-	74
	<u>14,667</u>	<u>14,704</u>
- Equity linked notes:		
Interest: nil (2009: US\$ (000) 2,194)	-	3,307
Add: amortization of discount	2,483	980
	<u>2,483</u>	<u>4,287</u>
- Interest on index linked notes (matured on 9 October 2009)	-	2,759
- Interest on commodity linked notes (matured on 12 September 2009)	-	358
	<u>17,150</u>	<u>22,108</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 34 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

#### *Certificates of deposit – series 2009*

On 31 March 2009, Byblos Bank SAL issued two series of Certificates of deposit with a total nominal value of US\$ (000) 141,600 detailed as follows:

#### First series:

Amount: US\$ (000) 101,150  
Interest: Fixed at an annual rate of 6.5% payable every three months with the first interest due on 1 July 2010, not subject to withholding taxes.  
Maturity: 31 March 2012

#### Second series:

Amount: US \$ (000) 40,450  
Interest: Fixed at an annual rate of 7.25% payable every three months with the first interest due on 1 July 2010, not subject to withholding taxes.  
Maturity: 31 March 2014.

#### *Certificate of deposit – series 2004*

On 1 July 2004, Byblos Bank SAL issued certificates of deposit in the amount of US\$ (000) 78,054. The certificates of deposit are subject to the following conditions:

Interest: Fixed at an annual rate of 6.5% payable every six months with the first interest due on 1 January 2005, not subject to withholding taxes.

The cost of issuing the certificates amounted to US\$ (000) 490, to be amortized until maturity, of which US\$ (000) 49 was amortized during 2009.

The certificates of deposit matured on 1 July 2009.

#### *Equity Linked Notes*

The Equity Linked Notes issued on 1 August 2005 by a subsidiary amounted to US\$ 50 million are subject to the following conditions:

- The notes mature on 4 August 2010,
- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable every six months during the first four years,
- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of stocks.

The subsidiary bought an option from a third party to receive the 50% positive performance of a portfolio of stocks (note 20). The cost of the option amounted to US\$ (000) 1,764 and the cost of issuing the Equity Linked Notes amounted to US\$ (000) 169.

At maturity on 4 August 2010, the subsidiary settled US\$ 47.5 million to the holders of the notes. The effective interest rate on the notes was 6.67% per annum.

### 35 CURRENT TAX LIABILITY

	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Income tax due (note 15)	32,516	27,018
Withholding tax on salaries	2,632	1,226
Withholding tax on interest earned by customers	5,274	4,815
Value added tax	145	350
Withholding tax on dividends	6	2,207
Other taxes	3,953	4,596
	<u>44,526</u>	<u>40,212</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 36 OTHER LIABILITIES

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Margins on letters of credit and acceptances	123,787	160,860
Accrued expenses	44,603	27,418
Fixed assets suppliers	10,032	3,393
Unearned commission and interest	2,847	3,177
Cash margin related to companies under establishment	2,709	1,834
Insurance premium received in advance	2,170	1,209
Partial payments received from customers	7,209	6,715
Payables to National Social Security Fund	1,636	1,338
Other creditors	17,268	30,225
	<u>212,261</u>	<u>236,169</u>

### 37 PROVISIONS FOR RISKS AND CHARGES

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Technical reserves of insurance company	75,253	60,571
Other provisions (a)	13,730	6,383
	<u>88,983</u>	<u>66,954</u>

(a) Movement for other provisions during the year:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
At 1 January	6,383	3,638
Charge for the year	7,864	2,860
Foreign exchange	(517)	(115)
At 31 December	<u>13,730</u>	<u>6,383</u>

### 38 END OF SERVICE BENEFITS

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Balance at 1 January	28,276	27,478
Provision constituted during the year (note 13)	4,456	3,686
End of service benefits paid during the year	(1,810)	(2,888)
Balance at 31 December	<u>30,922</u>	<u>28,276</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 39 SUBORDINATED NOTES

		<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Convertible subordinated notes	a	<b>254,976</b>	251,379
Subordinated notes	b	<b>48,348</b>	48,255
		<u><b>303,324</b></u>	<u>299,634</u>

#### *a) Convertible subordinated notes*

On 20 November 2007, the Bank signed a US\$ 200 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US\$ 200 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	200
Note's issue price:	US\$ 1,000,000
Note's nominal value:	US\$ 1,000,000
Date of issue:	20 November 2007
Maturity:	30 November 2012, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US\$ 2.25 per share.
Interest rate:	Contractual interest rate of 6.5% payable semi-annually, but excluding the equity conversion option.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's on any quarterly conversion date falling on 31 March, 30 June, 30 September or 31 December in any year during the term of the subordinated loan or on the loan maturity date at a conversion price of US\$ 2.25 per share. The conversion price was reduced to US\$ 2.145 in accordance with the terms of the subordinated loan agreement and following the capital increase of the Bank in 2009 and 2010.

The convertible subordinated notes have been recorded at initial recognition on 20 November 2007 as follows:

	<i>LL million</i>	<i>US\$ (000)</i>
Nominal value of convertible bonds	301,500	200,000
Equity component	(20,809)	(13,804)
Liability component	<u>280,691</u>	<u>186,196</u>

At 31 December, convertible subordinated notes were recorded as follows:

	<i>2010</i>		<i>2009</i>	
	<i>LL million</i>	<i>US\$ (000)</i>	<i>LL million</i>	<i>US\$ (000)</i>
Nominal value of the convertible notes	<b>260,798</b>	<b>173,000</b>	260,798	173,000
Equity component	<b>(18,040)</b>	<b>(11,967)</b>	(18,040)	(11,967)
Liability component	<u><b>242,758</b></u>	<u><b>161,033</b></u>	<u>242,758</u>	<u>161,033</u>
Add:				
- Accrued interest payable	<b>1,931</b>	<b>1,281</b>	1,931	1,281
- Amortization of discount	<b>10,287</b>	<b>6,824</b>	6,690	4,438
Amortized cost at 31 December	<u><b>254,976</b></u>	<u><b>169,138</b></u>	<u>251,379</u>	<u>166,752</u>

The equity component of the convertible subordinated notes is recorded in equity under "capital reserves" (note 43).

# Byblos Bank SAL

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### 39 SUBORDINATED NOTES (continued)

During 2008, convertible notes with a nominal value of US\$ (000) 27,000 were converted to Byblos Bank SAL ordinary shares at a price of USD 2.25 per share and as such the nominal value of outstanding convertible notes was in the amount of US\$ (000) 173,000 as of 31 December 2010 and 2009.

#### b) Subordinates notes

	2010		2009	
	LL million	US\$ (000)	LL million	US\$ (000)
31,169 notes at US\$ 1,000 each maturing on 30 June 2012	46,988	31,169	46,988	31,169
Less: Issuing cost of US\$ (000) 836 to be amortized till maturity	(60)	(40)	(102)	(67)
Amortized cost	46,928	31,129	46,886	31,102
Add: Yield payable	1,420	942	1,369	908
	48,348	32,071	48,255	32,010

The notes pay an annual yield, not to exceed 15% of the annual amount, detailed as follows:

- an annual yield of 9% compounded and paid quarterly.
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and after deducting taxes.

The subordinated notes' original issue on 1 July 2002 was 100,000 notes at US\$ 1,000 each. In accordance with the decision of the ordinary general assembly held on 20 April 2006, the Bank redeemed 68,831 subordinated notes on 7 June 2006 for a consideration of US Dollars 1,060 per note, i.e. with a premium of US Dollars 60 per note constituting 6% of the nominal value.

### 40 SHARE CAPITAL

	2010		2009	
	No of Shares	LL million	No of Shares	LL million
<i>Ordinary shares</i>				
- Common shares	359,491,317	434,984	217,112,557	262,706
- Priority shares	206,023,723	249,289	206,023,723	249,289
<i>Preferred shares</i>				
- Series 2009	2,000,000	2,420	2,000,000	2,420
- Series 2008	2,000,000	2,420	2,000,000	2,420
	569,515,040	689,113	427,136,280	516,835

The capital of the Bank is divided into 596,515,040 shares of LL 1,210 each fully paid (2009: 427,136,280 shares of LL 1,210 each).

#### Capital increase in 2009

On 1 August 2009, an extraordinary general assembly resolved to increase the capital of Byblos Bank SAL in two phases.

In phase 1, capital was increased by the amount of LL 3,052 million from LL 511,363 million to LL 514,415 million through an increase of the par value of the outstanding shares from LL (000) 1,200 to LL (000) 1,210 by a transfer from the reserve appropriated for capital increase (note 43). Accordingly, by the end of phase 1, the Bank's capital was divided as follows:

	No of Shares	LL million
<i>Ordinary shares</i>		
- Common shares	217,112,557	262,706
- Priority shares	206,023,723	249,289
<i>Preferred shares</i>		
- Series 2008	2,000,000	2,420
	425,136,280	514,415

**40 SHARE CAPITAL (continued)**

***Capital increase in 2009 (continued)***

In phase 2, the capital of the Bank was increased by LL 2,420 million from LL 514,415 million to LL 516,835 million through the issuance of 2,000,000 Tier I Series 2009 preferred shares of LL 1,210 par value.

As such, the capital of the Bank was divided into 427,135,280 shares with a par value of LL 1,210 each as of 31 December 2009.

***Capital increase in 2010***

The extraordinary general assembly convened on 19 February 2010 approved the increase in capital of LL 172,278 million from LL 516,835 million to LL 689,113 million by issuing 142,378,760 common shares with a par value of LL 1,210 each. The issue price was US\$ 1.75 per share (LL 2,638.125) and accordingly total share premium amounted to US\$ (000) 134,387 (equivalent to LL million 202,589).

***Priority shares***

On 10 December 2005, the Bank issued 206,023,723 priority shares which have the same rights and obligations as common shares, and benefit from an additional yearly distribution of 4% of the priority share's nominal value representing non-cumulative distribution of the non-consolidated net profits. Such right is established after dividends distribution to the preferred shares. The right of payment from profits is established over a period of 5 years starting from the year 2005, inclusive of the period from 10 December 2005 till 31 December 2005. At the end of the 5<sup>th</sup> year, priority shares are converted into common shares without any further resolution by the general assembly.

The Board of Directors' meeting held on 16 April 2011 resolved that the conversion of the priority shares into common shares shall become effective on the same date of the Annual General Assembly meeting of Shareholders held to approve 2010 accounts which falls on 5 May 2011.

***Preferred shares***

*i) Series 2009 Preferred Shares*

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 Preferred Shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 96
Share's nominal value:	LL 1,210
Issue premium :	US\$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US\$ as the difference between the total issue of US\$(000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US\$ (000) 2,082
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits. Series 2009 preferred shares are entitled to dividends in the amount of US\$ 3.35 per share relating to the remaining period of 2009.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US\$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

During 2010, the Bank transferred LL 2,421 million from retained earnings to the share premium on Series-2009 preferred shares.

**40 SHARE CAPITAL (continued)**

***Preferred shares (continued)***

*ii) Series 2008 Preferred Shares*

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium :	US\$ (000) 195,790 (equivalent to LL 295,154 million) calculated in US\$ as the difference between the total issue of US\$ (000) 200,000 and the total par value of the issue amounting to LL 2,400 million and after deducting issuance commission for the issue amounting to US\$ (000) 2,618.
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210.

*iii) Series 2003 preferred share*

Number of shares:	1,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium :	US\$ (000) 99,204 calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share (LL 1,200).
Benefits:	Non-cumulative annual dividends of USD 12.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2008 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the Bank redeemed and cancelled Series 2003 preferred shares that were outstanding as at 31 December 2008 in accordance with the extraordinary general assembly resolution dated 1 August 2009.

***Listing of shares***

As of 31 December 2010 and 2009, all of the Bank's common and preferred shares were listed on Beirut Stock Exchange.

On 6 February 2009, the Bank signed an agreement with a foreign bank enabling holders of the Bank's common shares to deposit their common shares for the issuance of Global Depository Shares (GDS's) at a ratio of 50 Common Shares per one GDS. The GDS's were listed on the London Stock Exchange.

# Byblos Bank SAL

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### 41 REVALUATION RESERVE OF REAL ESTATE

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Revaluation reserve accepted in Tier II capital	<b>1,978</b>	1,978
Revaluation reserve not accepted in Tier II capital	<b>3,711</b>	3,711
	<u><b>5,689</b></u>	<u>5,689</u>

### 42 AVAILABLE-FOR-SALE RESERVE

Movement of available-for-sale reserve during the year was as follows:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Balance at 1 January	<b>66,026</b>	(30,517)
Realized during the year	<b>(25,077)</b>	1,386
Impairment loss recognized during the year	-	6,521
Net unrealized gain on available for sale financial assets	<b>2,998</b>	98,780
Amortization of unrealized losses related to securities transferred to the loans and receivables portfolio	<b>6,006</b>	5,176
Net changes in deferred taxes	<b>4,225</b>	(15,306)
Difference on exchange	<b>(185)</b>	(14)
Balance at 31 December	<u><b>53,993</b></u>	<u>66,026</u>

### 43 CAPITAL RESERVES

	<i>Legal reserve</i> <i>LL million</i>	<i>Reserves for capital increase</i> <i>LL million</i>	<i>General reserve</i> <i>LL million</i>	<i>Equity component of convertible subordinated notes</i> <i>LL million</i>	<i>Reserve for general banking risks</i> <i>LL million</i>	<i>Other capital reserves</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Balance at 1 January 2009	104,646	26,345	117,941	18,040	66,886	6,028	339,886
Appropriation from retained earnings	15,770	7,239	16,613	-	13,543	-	53,165
Transfer to general reserve	-	(898)	898	-	-	-	-
Transfer to share capital (note 40)	-	(3,052)	-	-	-	-	(3,052)
Other	(58)	-	1,738	-	-	(606)	1,074
Balance at 31 December 2009	<u>120,358</u>	<u>29,634</u>	<u>137,190</u>	<u>18,040</u>	<u>80,429</u>	<u>5,422</u>	<u>391,073</u>
<b>Balance at 1 January 2010</b>	<b>120,358</b>	<b>29,634</b>	<b>137,190</b>	<b>18,040</b>	<b>80,429</b>	<b>5,422</b>	<b>391,073</b>
Appropriation from retained earnings	<b>23,383</b>	<b>10,045</b>	<b>17,916</b>	-	<b>32,780</b>	-	<b>84,124</b>
Net gain on sale of treasury shares (note 44)	-	456	-	-	-	-	456
<b>Balance at 31 December 2010</b>	<u><b>143,741</b></u>	<u><b>40,135</b></u>	<u><b>155,106</b></u>	<u><b>18,040</b></u>	<u><b>113,209</b></u>	<u><b>5,422</b></u>	<u><b>475,653</b></u>

#### *Legal reserve*

According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. This reserve cannot be distributed as dividends.

During 2010, the Group appropriated LL 23,383 million from 2009 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolutions.

31 December 2010

**43 CAPITAL RESERVES (continued)***Reserves for capital increase*

This represents regulatory reserves constituted in accordance with circulars issued by the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Reserve equivalent to realized profit on sale of assets acquired in settlement of debt, in accordance with BCC circular No 173	<b>13,595</b>	3,550
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	<b>9,737</b>	9,737
Reserve against assets acquired in settlement of debt in accordance with BCC circular (a)	<b>6,958</b>	6,958
Others	<b>9,845</b>	9,389
	<b>40,135</b>	29,634

*General reserve*

The Group appropriates general reserves from its retained earnings to strengthen its equity.

During 2010, the Group appropriated LL 17,916 million from 2009 profits to the general reserve in accordance with the General Assembly of Shareholders' resolutions. This reserve is available for dividends distribution.

*Reserve for general banking risks*

According to the Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk weighted assets and off statement of financial position items based on rates specified by the Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of year ten (2007) and 2% at the end of year twenty (2017).

The appropriation in 2010 from the profits of the year 2009 amounted to LL 32,780 million (2009: LL 13,543 million).

*Other capital reserves*

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Premium on capital increase of Byblos Bank Armenia CJSC	<b>1,263</b>	1,263
Premium on capital increase of Byblos Bank Africa	<b>4,765</b>	4,765
	<b>6,028</b>	6,028
Less: translation difference	<b>(606)</b>	(606)
	<b>5,422</b>	5,422

# Byblos Bank SAL

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### 44 TREASURY SHARES

Movement of treasury shares recognized in the balance sheet for the years 2010 and 2009 is as follows:

	<i>Common shares</i>		<i>Priority shares</i>	
	<i>No. of shares</i>	<i>Amount LL million</i>	<i>No. of shares</i>	<i>Amount LL million</i>
At 1 January 2010	141,846	271	60,072	(95)
Acquisition of treasury shares	10,890,935	29,804	164,942	445
Sale of treasury shares	(5,224,996)	(14,330)	(111,613)	(309)
Adjustments	-	142	-	261
At 31 December 2010	<u>5,807,785</u>	<u>15,887</u>	<u>113,401</u>	<u>302</u>
Total treasury shares (common and priority) in LL million				<u>16,189</u>

	<i>Common shares</i>		<i>Priority shares</i>	
	<i>No. of shares</i>	<i>Amount LL million</i>	<i>No. of shares</i>	<i>Amount LL million</i>
At 1 January 2009	444,748	1,192	221,287	362
Acquisition of treasury shares	1,402,186	3,918	817,156	2,409
Sale of treasury shares	(1,705,088)	(4,839)	(978,371)	(2,866)
At 31 December 2009	<u>141,846</u>	<u>271</u>	<u>60,072</u>	<u>(95)</u>
Total treasury shares (common and priority) in LL million				<u>176</u>

During 2010, the Group transferred dividends paid on treasury shares amounting to LL 141 million to retained earnings.

During 2010, the Group realised a net gain on disposal of treasury shares amounting to LL 456 million. This amount was transferred to reserves for capital increase (note 43).

### 45 NON-CONTROLLING INTEREST

Byblos Bank Syria increased its capital from SYP 2,000 million to SYP 4,000 million. Accordingly, non controlling interest share of the capital increase amounted to SYP 1,170 million (equivalent to LL 38,037 million).

In 2010, two of the Group's subsidiaries, Byblos Management SAL (Holding) and Byblos Ventures SAL (Holding), were liquidated. Non-controlling interest in the subsidiaries liquidated was in the amount of LL 1,812 million.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 46 OTHER EQUITY INSTRUMENTS

On 12 July 2010, Byblos Bank SAL issued 3- year notes (“3 Years Byblos Bank Note”) for a total amount of US\$ 9,936,000 (equivalent to LL 14,979 million) according to the following terms:

Number of notes:	46
Principal of one note:	US\$ 216,000
Issuing price:	100%
Total issue:	US\$ 9,936,000 (equivalent to LL 14,979 million).
Annual return :	3% per year payable on a monthly basis plus any dividend paid on Byblos Bank shares during the period preceding the payments of the notes on the basis of 120,000 shares per note.
Maturity:	12 July 2013
Prepayment:	The Bank has the right to redeem the notes before maturity on an annual basis, but only within 30 days following the Annual Ordinary General Meeting of shareholders. In such case, the bank shall pay in addition to the principal amount of the Note and the return, a bonus of 6% on the principal of the note.
Settlement:	At maturity, and at its discretion, Byblos bank shall either settle 120,000 Byblos Bank common shares per note (calculated on the basis of a strike price of US\$ 1.8 per share) or the principal amount of the note in addition to a bonus of 6%.

In 2010, the Group accounted for LL 213 million relating to the 3% annual return payable on the notes. In addition, the Group accounted for a liability relating to 6% bonus on the principal of the notes, and which covers for the period from 12 July 2010 till 31 December 2010, in the amount of LL 125 million.

### 47 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

(Amounts in LL million)	2010							
	Less than 12 months				Over 12 months			
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	Total
<b>ASSETS</b>								
Cash and balances with central banks	2,032,058	-	-	2,032,058	716,063	12,989	729,052	2,761,110
Due from banks and financial institutions	3,214,450	364,649	271,072	3,850,171	48,674	166	48,840	3,899,011
Financial assets given as collateral and reverse repurchase agreements	-	-	104	104	8,814	-	8,814	8,918
Derivative financial instruments	938	363	161	1,462	-	-	-	1,462
Financial assets held for trading	12,220	6,946	5,371	24,537	108,964	72,439	181,403	205,940
Net loans and advances to customers and related parties	2,150,023	494,096	1,036,829	3,680,948	1,552,408	451,884	2,004,292	5,685,240
Debtors by acceptances	96,867	104,320	80,656	281,843	9,991	-	9,991	291,834
Available-for-sale financial instruments	13,201	275,338	686,560	975,099	576,363	324,349	900,712	1,875,811
Other financial assets classified as loans and receivables	118,274	332,526	874,554	1,325,354	4,218,479	1,947,023	6,165,502	7,490,856
Held to maturity financial instruments	7,962	185,748	57,942	-	44,729	132,317	177,046	428,698
Property and equipment	-	-	-	-	-	281,303	281,303	281,303
Intangible assets	-	-	-	-	-	1,039	1,039	1,039
Non-current assets held for sale	-	-	-	26,403	-	39,092	39,092	39,092
Other assets	23,147	1,672	1,584	-	911	49,764	50,675	77,078
<b>Total assets</b>	<b>7,669,140</b>	<b>1,765,658</b>	<b>3,014,833</b>	<b>12,449,631</b>	<b>7,285,396</b>	<b>3,312,365</b>	<b>10,597,761</b>	<b>23,047,392</b>
<b>LIABILITIES</b>								
Due to central banks	8,486	1	1,138	9,625	8,480	1,387	9,867	19,492
Due to banks and financial institutions	746,736	120,566	151,587	1,018,889	250,591	171,866	422,457	1,441,346
Derivative financial instruments	3,717	448	185	4,350	-	-	-	4,350
Deposits from customers and related parties	12,495,113	2,205,037	2,642,483	17,342,633	581,580	3,465	585,045	17,927,678
Debt issued and other borrowed funds	-	39	-	39	213,462	-	213,462	213,501
Engagements by acceptances	96,867	104,320	80,656	281,843	9,991	-	9,991	291,834
Current tax liability	11,877	907	31,742	44,526	-	-	-	44,526
Deferred tax liability	1,950	1,482	3,720	7,152	2,451	1,842	4,293	11,445
Other liabilities	139,357	6,620	50,905	196,882	7,090	8,289	15,379	212,261
Liabilities linked to held for sale assets	-	-	1,312	1,312	-	-	-	1,312
Provision for risks and charges	-	-	-	-	-	88,983	88,983	88,983
End of Service benefits	-	-	-	-	-	30,922	30,922	30,922
Subordinated notes	-	12	3,340	3,352	299,972	-	299,972	303,324
<b>Total liabilities</b>	<b>13,504,103</b>	<b>2,439,432</b>	<b>2,967,068</b>	<b>18,910,603</b>	<b>1,373,617</b>	<b>306,754</b>	<b>1,680,371</b>	<b>20,590,974</b>
<b>Net liquidity gap</b>	<b>(5,834,963)</b>	<b>(673,774)</b>	<b>47,765</b>	<b>(6,460,972)</b>	<b>5,911,779</b>	<b>3,005,611</b>	<b>8,917,390</b>	<b>2,456,418</b>

# Byblos Bank SAL

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### 47 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

(Amounts in LL million)	2009							Total
	Less than 12 months			Over 12 months				
	Up to 1 month	1 to 3 months	3 months to 1 year	Total	1 to 5 years	Over 5 years	Total	Total
<b>ASSETS</b>								
Cash and balances with central banks	1,419,469	393,135	2,531	1,815,135	717,665	572	718,237	2,533,372
Due from banks and financial institutions	1,870,210	980,085	117,800	2,968,095	174,200	188	174,388	3,142,483
Financial assets given as collateral and reverse repurchase agreements	1,193	-	-	1,193	-	-	-	1,193
Derivative financial instruments	1,453	1,281	9,490	12,224	-	-	-	12,224
Financial assets held for trading	614	2,552	25,367	28,533	101,947	73,648	175,595	204,128
Net loans and advances to customers and related parties	1,807,747	383,323	740,354	2,931,424	1,231,931	655,793	1,887,724	4,819,148
Debtors by acceptances	89,747	155,700	69,629	315,076	20,828	-	20,828	335,904
Available-for-sale financial instruments	9,484	25,238	36,562	71,284	1,323,634	399,739	1,723,373	1,794,657
Other financial assets classified as loans and receivables	156,226	546,375	623,797	1,326,398	3,903,242	1,452,249	5,355,491	6,681,889
Held to maturity financial instruments	230	41,534	188,528	230,292	207,131	126,181	333,312	563,604
Property and equipment	-	-	-	-	-	266,738	266,738	266,738
Intangible assets	-	-	-	-	-	734	734	734
Non-current assets held for sale	-	-	-	-	-	38,567	38,567	38,567
Other assets	4,495	4,887	633	10,015	5,491	55,039	60,530	70,545
<b>Total assets</b>	<b>5,360,868</b>	<b>2,534,110</b>	<b>1,814,691</b>	<b>9,709,669</b>	<b>7,686,069</b>	<b>3,069,448</b>	<b>10,755,517</b>	<b>20,465,186</b>
<b>LIABILITIES</b>								
Due to central banks	10,563	1	7	10,571	1,133	-	1,133	11,704
Due to banks and financial institutions	755,313	398,491	73,882	1,227,686	213,340	234,781	448,121	1,675,807
Cash collateral on securities lent and repurchase agreements	1,193	-	-	1,193	-	-	-	1,193
Derivative financial instruments	1,262	404	124	1,790	-	-	-	1,790
Deposits from customers and related parties	11,221,679	1,760,379	1,932,889	14,914,947	587,753	3,468	591,221	15,506,168
Debt issued and other borrowed funds	39	-	77,462	77,501	213,462	-	213,462	290,963
Engagements by acceptances	89,747	155,700	69,629	315,076	20,828	-	20,828	335,904
Current tax liability	10,777	803	28,632	40,212	-	-	-	40,212
Deferred tax liability	63	204	324	591	11,259	3,635	14,894	15,485
Other liabilities	197,681	6,094	20,518	224,293	43	11,833	11,876	236,169
Liabilities linked to held for sale assets	-	-	1,995	1,995	-	-	-	1,995
Provision for risks and charges	-	-	2,193	2,193	-	64,761	64,761	66,954
End of Service benefits	-	-	-	-	-	28,276	28,276	28,276
Subordinated notes	-	-	-	-	299,634	-	299,634	299,634
<b>Total liabilities</b>	<b>12,288,317</b>	<b>2,322,076</b>	<b>2,207,655</b>	<b>16,818,048</b>	<b>1,347,452</b>	<b>346,754</b>	<b>1,694,206</b>	<b>18,512,254</b>
Net liquidity gap	(6,927,449)	212,034	(392,964)	(7,108,379)	6,338,617	2,722,694	9,061,311	1,952,932

### 48 CASH AND CASH EQUIVALENTS

	2010 LL million	2009 LL million
Cash and balances with central banks	2,032,058	1,812,604
Due from banks and financial institutions	3,579,099	2,850,295
	<b>5,611,157</b>	<b>4,662,899</b>
Less: Due to banks and financial institutions	(867,302)	(1,153,803)
Less: Due to Central Bank	(8,487)	(10,564)
Cash and cash equivalents at 31 December	<b>4,735,368</b>	<b>3,498,532</b>

### 49 RELATED PARTY TRANSACTIONS

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

	2010 Major shareholders LL million	2009 Major shareholders LL million
Net loans and advances	10,957	11,515
Deposits	112,396	139,814
Other credit balances	764	749
Interest income on loans and advances	488	653
Interest expense on deposits	8,386	8,376

**49 RELATED PARTY TRANSACTIONS (continued)****Compensation of the key management personnel of the Group**

	2010			2009		
	<i>Chairman &amp; Board members LL million</i>	<i>Senior Management LL million</i>	<i>Total LL million</i>	<i>Chairman &amp; Board members LL million</i>	<i>Senior Management LL million</i>	<i>Total LL million</i>
Salaries and allowances	3,365	6,768	10,133	4,178	6,185	10,363
Bonuses	6,391	3,286	9,677	5,490	2,389	7,879
Attendance fees	703	84	787	831	84	915

**50 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS**

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

**Legal claims**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Management believes that legal claims will not result in any financial loss to the Group based on information presently available.

**Lease arrangements***Operating leases – Group as lessee*

The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years.

There are no restrictions placed upon the lessee by entering into these leases.

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2010 <i>LL million</i>	2009 <i>LL million</i>
Within one year	3,009	2,466
After one year but not more than five years	11,922	5,177
More than five years	16,091	10,435
	<b>31,022</b>	<b>18,078</b>

*Operating leases – Group as lessor*

As of 31 December 2010 and 2009, the Group rented some of the assets acquired in settlement of bad loans. Rental income for the year amounted to LL 1,046 million (2009: LL 850 million) (note 29).

**Other contingencies**

The Group's books and records are being reviewed by Department of Income Tax for the years 2006 and 2007. The ultimate outcome of this review cannot be presently determined.

The Group's contributions to the National Social Security Fund (NSSF) have not been reviewed since May 2004. The ultimate outcome of any review that may take place cannot be presently determined.

The Group's books and records have not yet been reviewed by the department of Value Added Tax since inception. The ultimate outcome of any tax review that might take place cannot be presently determined. Management believes that other contingencies will not result in any financial loss to the Group based on information presently available.

31 December 2010

**51 FAIR VALUE OF FINANCIAL INSTRUMENTS****A. Determination of fair value and fair value hierarchy**

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	<i>2010</i>			<i>Total LL million</i>
	<i>Level 1 LL million</i>	<i>Level 2 LL million</i>	<i>Level 3 LL million</i>	
<b>FINANCIAL ASSETS</b>				
Derivative financial instruments:				
Currency swaps	-	129	-	129
Forward foreign exchange contracts	-	1,333	-	1,333
	<u>-</u>	<u>1,462</u>	<u>-</u>	<u>1,462</u>
Financial assets held for trading				
Treasury bills	137,274	8,011	-	145,285
Bonds and financial assets with fixed income	26,313	-	7,895	34,208
Shares, securities and financial assets with variable income	26,447	-	-	26,447
	<u>190,034</u>	<u>8,011</u>	<u>7,895</u>	<u>205,940</u>
Financial assets available for sale				
Treasury bills	484,008	986,955	-	1,470,963
Bonds and financial assets with fixed income	250,721	69,804	-	320,525
Shares, securities and financial assets with variable income	50,371	33,952	-	84,323
	<u>785,100</u>	<u>1,090,711</u>	<u>-</u>	<u>1,875,811</u>
	<u>975,134</u>	<u>1,100,184</u>	<u>7,895</u>	<u>2,083,213</u>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments:				
Currency swaps	-	2,441	-	2,441
Forward foreign exchange contracts	-	1,909	-	1,909
	<u>-</u>	<u>4,350</u>	<u>-</u>	<u>4,350</u>

**51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****A. Determination of fair value and fair value hierarchy (continued)**

	2009			
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
<b>FINANCIAL ASSETS</b>				
Derivative financial instruments:				
Currency swaps	-	976	-	976
Forward foreign exchange contracts	-	1,894	-	1,894
	-	2,870	-	2,870
Derivatives held for hedging				
Equity options	-	9,354	-	9,354
Financial assets held for trading				
Treasury bills	139,836	16,404	-	156,240
Bonds and financial assets with fixed income	15,782	-	7,188	22,970
Shares, securities and financial assets with variable income	24,918	-	-	24,918
	180,536	16,404	7,188	204,128
Financial assets available for sale				
Treasury bills	531,978	1,023,199	-	1,555,177
Bonds and financial assets with fixed income	99,778	64,284	-	164,062
Shares, securities and financial assets with variable income	42,519	32,899	-	75,418
	674,275	1,120,382	-	1,794,657
	854,811	1,149,010	7,188	2,011,009
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments:				
Currency swaps	-	354	-	354
Forward foreign exchange contracts	-	1,436	-	1,436
	-	1,790	-	1,790

***Financial instruments recorded at fair value***

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

***Derivatives***

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps, forward foreign exchange contracts, and options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

***Financial investments – available-for-sale and held for trading***

Available-for-sale and held for trading financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and un-observable data. The non-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Total gains relating to level 3 financial instruments included in the income statement were in the amount of LL 707 million during 2010 (2009: gain of LL 170 million). Except for the above gains, there was no other movement in level 3 financial instruments in 2010 and 2009.

**51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****A. Determination of fair value and fair value hierarchy (continued)**

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non-financial assets and non-financial liabilities.

	2010		2009	
	Fair value LL million	Carrying value LL million	Fair value LL million	Carrying value LL million
<b>FINANCIAL ASSETS</b>				
Cash and balances with the Central Banks	2,761,110	2,761,110	2,533,372	2,533,372
Due from banks and financial institutions	3,902,884	3,899,011	3,147,616	3,142,483
Financial assets given as collateral on securities borrowed and reverse repurchase agreements	9,075	8,918	1,193	1,193
Net loans and advances to customers and related parties	5,720,953	5,685,240	4,826,100	4,819,148
Other financial assets classified as loans and receivables	7,951,106	7,490,856	6,946,263	6,681,889
Held to maturity financial instruments	447,820	428,698	587,588	563,604
<b>FINANCIAL LIABILITIES</b>				
Due to central banks	19,492	19,492	11,704	11,704
Due to banks and financial institutions	1,442,542	1,441,346	1,698,377	1,675,807
Cash collateral on securities lent and repurchase agreements	-	-	1,193	1,193
Deposits from customers and related parties	17,969,300	17,927,678	15,516,881	15,506,168
Debt issued and other borrowed funds	213,501	213,501	290,963	290,963
Liabilities linked to unquoted available for sale assets	1,312	1,312	1,995	1,995
Subordinated notes	320,436	303,324	321,036	299,634

**Fair value of financial assets and liabilities not carried at fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

*Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

*Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

**B. Reclassification of financial assets**

During 2008, the Group reclassified certain trading assets and available for sale financial assets to loans and receivables. The Group identified assets, eligible under the amendments, for which it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. Under IAS 39 as amended, the reclassifications were made at fair value at the date of reclassification. The disclosures below detail the impact of the reclassifications to the Group.

**51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****B. Reclassification of financial assets (continued)**

The following table shows the carrying amount and fair value of financial assets reclassified from “Available-for-sale” to the “Loans and receivables” category, as at the date of reclassification and as at the reporting date. All transfers occurred on 1 July 2008 and thereafter. There were no reclassifications prior to 1 July 2008.

	<i>Available-for-sale</i>			
	<i>2010</i>		<i>2009</i>	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Financial assets reclassified during the year as at the date of reclassification	-	-	-	-
Financial assets reclassified during 2008 as at year end	<b>704,435</b>	<b>789,318</b>	1,264,019	1,393,431

The following table shows the carrying amount and fair value of financial assets reclassified from “Held-for-trading” to the “Loans and receivables” category, as at the date of reclassification and as at the reporting date. All transfers occurred on 15 October 2008 and thereafter. There were no reclassifications prior to 15 October 2008.

	<i>Held-for-trading</i>			
	<i>2010</i>		<i>2009</i>	
	<i>Carrying amount</i>	<i>Fair value</i>	<i>Carrying amount</i>	<i>Fair value</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Financial assets reclassified during the year as at the date of reclassification	-	-	-	-
Financial assets reclassified during 2008 as at year end	<b>33,924</b>	<b>40,372</b>	55,098	59,004
Expected undiscounted cash recoveries, as assessed at the date of reclassification			<b>2,848,483</b>	2,848,483
Anticipated average effective interest rate over the remaining life of the assets			<b>8.03%</b>	8.03%

The following table shows the total fair value gains or losses and the difference in net interest income that would have been recognized during the period subsequent to reclassification if the Group had not reclassified financial assets from the “Held-for-trading” and “Available-for-sale” to the “Loans and receivables” category. This disclosure is provided for information purposes only; it does not reflect what has actually been recorded in the consolidated financial statements of the Group.

	<i>Debt securities</i>			
	<i>2010</i>		<i>2009</i>	
	<i>Income statement</i>	<i>Equity</i>	<i>Income statement</i>	<i>Equity</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Fair value gains and losses which would otherwise have been recorded after reclassification, during the current period	<b>6,448</b>	<b>84,883</b>	2,759	117,995
Net interest income which would otherwise have been recorded after reclassification, during the current period	<b>6,083</b>	-	5,239	-
Total income or expense which would otherwise have been recorded during the year since reclassification	<b>12,531</b>	<b>84,883</b>	7,998	117,995

**51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)****B. Reclassification of financial assets (continued)**

The following table shows the net profit or loss actually recorded on assets reclassified to loans and receivables subsequent to reclassification:

	<u>2010</u>		<u>2009</u>	
	<i>Debt securities held-for-trading</i> <i>LL million</i>	<i>Debt securities-available for sale</i> <i>LL million</i>	<i>Debt securities held-for-trading</i> <i>LL million</i>	<i>Debt securities-available for sale</i> <i>LL million</i>
Net interest income	4,451	78,765	5,825	113,564

**52 RISK MANAGEMENT**

The Group risk management was established as a function handling the measurement and management of the risks.

The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- The individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors;
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

*Risk Management- Basel Perspective*

The Group risk management is broadly following the guidelines of the Basel 2 text to measure and assess the risks identified under the pillars 1 and 2, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel II recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take a more sophisticated approach to credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate its capital requirement for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for. Through addressing these three risks - credit, market, and operational risks – the Group addresses 'Pillar I' risks.

As for addressing the capital management issue in the context of Basel II, the Group is in the process of developing a comprehensive Internal Capital Adequacy Assessment Process (ICAAP), proportionate to the Group's scope and complexity of activities so as to cover all risks to which the Group is or may be exposed, as well as risk factors from the environment in which it operates. The considered key aspects of the ICAAP are qualitative (Board oversight, policies, identification of material risk, etc.) and quantitative (Capital Adequacy Ratio, Stress Testing, Economic Capital, etc.).

**52 RISK MANAGEMENT (continued)**

*Group risk management structure*

Risk management lies at the core of the Group's organization structure. It interfaces with all the different businesses within the Group, as well as all supporting functions. The Risk Management Organization is structured in three layers:

**Strategic or Supervisory level**, which consists of an oversight by the Board of Directors through a Board Risk and Compliance Committee, and committees of the senior management. It includes defining the institution's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that aggregate risk remain within acceptable level and the rewards compensate for the risk taken

**Analytical level**, which consists of the Group Risk Management (GRM) Division, with the over-arching responsibility to translate the directions of the various risk committees into policies and procedures of the Group and to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

**Tactical level**, which consists of the management of the risk at the source of origination of the risks, in the businesses, in treasury and banking operations divisions. It is the responsibility of these units to decide on which risks to take and which risks to mitigate within the policies and procedures set by the GRM Division.

The GRM Division has a direct reporting line to the Chairman/ Board of Directors and is independent from the business units that generate risks. The Board of Directors carries the ultimate responsibility for being aware of and understanding the risks run by the Group's business activities, ensuring that they are properly managed, approving the risk principles and determining the risk appetite. The Board plays a pivotal role in ensuring a culture and an environment of sound risk management.

After having been part of the audit committee, a distinct "Board Risk, Anti-Money Laundering and Compliance" Committee has been established, composed of knowledgeable and independent members from the Board. This reflects the growing importance for the implementation of best risk management practices under the guidance and supervision of the Board. The committee is responsible for implementing the risk principles, including approval of core risk policies and for managing the risk profile of the Group.

*Risk Governance*

The Group currently has five senior management committees dealing with risk related issues - Risk Management Committee (RMC), Assets & Liabilities Management Committee (ALCO), Operational Risk Management Committee (ORMC), Anti-Money Laundering Committee (AML) and the Information Security Committee (ISC). These committees are comprised of the heads of different divisions and one executive member of the Board of Directors.

The RMC is entrusted with the responsibility of managing the credit and reputational risks. It has to frame policies and procedures relating to management of such risks and ensure that these are being complied with. The ALCO has the responsibility of managing the balance sheet (assets and liabilities) in terms of the liquidity and interest rates, ensure compliance with regulatory ratios, manage market risk and manage capital efficiently. The ORMC is entrusted with the responsibility of managing the operational risks of the Group. The AML ensures that the Group is in compliance with anti-money laundering laws, internal and regulatory requirements. The ISC is responsible for alignment of the security program with organizational objectives.

**52 RISK MANAGEMENT (continued)**

**CREDIT RISK**

Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings “1” and “2” and special mention – watch list: risk rating “3”), one grade relates to substandard loans (risk rating “4”) and two grades relate to non-performing loans (risk ratings “5” and “6”).

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains the necessary securities when appropriate.

The Group uses Moody’s Risk Advisor (MRA) to classify its commercial loan portfolio according to credit risks. MRA is used to classify borrowers whether corporate or small and medium enterprises in Lebanon and abroad. Corporate portfolio includes companies with a yearly turnover exceeding US\$ 5 million operating in different industries. The Group risk management also established a comprehensive database which allows the monitoring of different retail products.

In measuring credit risk at a counterparty level the Group reflects three components – the “probability of default” (PD) by the client or counterparty on its contractual obligations; the Group’s current exposure to the counterparty and its likely future development, from which the Group derives the “exposure at default” (EAD); and the likely recovery ratio on the defaulted obligations to give the “loss given default” (LGD). These components are also important parameters in determining portfolio risk, not only for internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which the Group intend to adopt.

The Group uses the above internal grading system for the classification of all financial assets portfolio.

**Derivative financial instruments**

Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

With gross-settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter-value.

**Credit-related commitments risks**

The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

**Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements**

The Group concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2010 was LL 197,975 million (2009: LL140,530 million) before taking account of collateral or other credit enhancements and nil (2009: LL 8,926 million) net of such protection.

**52 RISK MANAGEMENT (continued)****CREDIT RISK (continued)**

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

*Geographic analysis*

	<i>2010</i>		
	<i>Domestic LL million</i>	<i>International LL million</i>	<i>Total LL million</i>
Balances with Central Banks	2,130,818	479,147	2,609,965
Due from banks and financial institutions	60,507	3,838,504	3,899,011
Financial assets given as collateral and reverse repurchase agreements	8,918	-	8,918
Derivative financial instruments	1,056	406	1,462
Financial assets held for trading	130,475	49,018	179,493
Net loans and advances to customers and related parties	3,848,263	1,836,977	5,685,240
Available-for-sale financial instruments	1,359,876	431,611	1,791,487
Other financial assets classified as loans and receivables	6,837,785	653,071	7,490,856
Held to maturity financial instruments	310,714	117,984	428,698
	<u>14,688,412</u>	<u>7,406,718</u>	<u>22,095,130</u>
	<i>2009</i>		
	<i>Domestic LL million</i>	<i>International LL million</i>	<i>Total LL million</i>
Balances with Central Banks	2,107,935	310,100	2,418,035
Due from banks and financial institutions	81,193	3,061,290	3,142,483
Financial assets given as collateral and reverse repurchase agreements	-	1,193	1,193
Derivative financial instruments	2,744	9,480	12,224
Financial assets held for trading	164,199	15,011	179,210
Net loans and advances to customers and related parties	3,320,194	1,498,954	4,819,148
Available-for-sale financial instruments	1,506,729	213,143	1,719,872
Other financial assets classified as loans and receivables	6,320,836	361,053	6,681,889
Held to maturity financial instruments	418,740	144,864	563,604
	<u>13,922,570</u>	<u>5,615,088</u>	<u>19,537,658</u>

An industry sector analysis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

<i>Industry Sector:</i>	<i>2010 LL million</i>	<i>2009 LL million</i>
	Commercial	1,627,730
Industrial	565,960	947,759
Agriculture	70,282	73,553
Services	780,780	594,056
Banks and other financial institutions	5,654,460	3,891,581
Construction	577,584	592,590
Retail	1,409,368	1,162,054
Government	11,286,462	10,826,928
Other	122,504	122,776
	<u>22,095,130</u>	<u>19,537,658</u>



**52 RISK MANAGEMENT (continued)****CREDIT RISK (continued)**

Aging analysis of past due but not impaired loans per class of financial assets

	2010					
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>181 to 365 days</i>	<i>366 to 720 days</i>	<i>More than 720 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Loans and advances to customers and related parties						
- Commercial loans	28,714	18,172	6,414	4,934	-	58,234
- Consumer loans	89,374	9,638	6,944	3,775	4,462	114,193
	<u>118,088</u>	<u>27,810</u>	<u>13,358</u>	<u>8,709</u>	<u>4,462</u>	<u>172,427</u>
						=
	2009					
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>181 to 365 days</i>	<i>366 to 720 days</i>	<i>More than 720 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Loans and advances to customers and related parties						
- Commercial loans	24,849	7,153	5,044	457	-	37,503
- Consumer loans	65,202	8,385	5,371	5,897	6,185	91,040
	<u>90,051</u>	<u>15,538</u>	<u>10,415</u>	<u>6,354</u>	<u>6,185</u>	<u>128,543</u>

The fair value of the collateral held against past due but not impaired facilities as at 31 December 2010 amounted to LL 62,931 million (2009: LL 100,790 million).

See Note 22 for more detailed information on the allowance for impairment losses on loans and advances to customers.

At 31 December 2010 the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounts to LL 77,860 million (2009: LL 54,287 million). The collateral consists of cash, securities, letters of guarantee and properties.

**Collateral repossessed**

During the year, the Group took possession of real-estate properties with a carrying value of LL 5,389 million at the statement of financial position date, which the Group is in the process of selling.

The outstanding balance of financial assets that were renegotiated is as follows:

	<b>2010</b>	2009
	<b>LL million</b>	LL million
Loans and advances to customers – corporate lending	<b>4,893</b>	61,475

**Impairment assessment**

For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the Group grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

**52 RISK MANAGEMENT (continued)****CREDIT RISK (continued)****Individually assessed allowances**

The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

**Collectively assessed allowances**

Allowances are assessed collectively for losses on loans and advances and for held-to-maturity debt investments that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Group generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Group would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

**Commitments and guarantees**

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

The table below shows the Group maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

	<i>2010</i>	<i>2009</i>
	<i>LL million</i>	<i>LL million</i>
Financing commitments given to banks and financial institutions	<b>933,859</b>	803,564
Guarantees given to banks and financial institutions	<b>401,244</b>	360,485
Guarantees given to customers	<b>1,001,997</b>	885,543
Undrawn commitments to lend	<b>1,514,547</b>	812,871
	<b>3,851,647</b>	2,862,463

**52 RISK MANAGEMENT (continued)****LIQUIDITY RISK AND FUNDING MANAGEMENT**

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain reserves with the Central Bank of Lebanon equivalent to 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds. As for foreign currencies, the Bank must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all deposits regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. In accordance, with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Pounds should not be less than 10% and 40%, respectively. The highly liquid net assets consist of cash and balances with central banks, deposits with banks and financial institutions less deposits from banks and financial institutions and deposits that mature within one year. Deposits and commitments are composed of total customer deposits in addition to acceptances and loans that mature within one year.

*Analysis of financial assets and liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Group's financial assets and liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

	2010					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>Over 5 years LL million</i>	<i>Total LL million</i>
<b>Financial assets</b>						
Cash and balances with central banks	2,032,669	-	6,410	726,221	12,989	2,778,289
Due from banks and financial institutions	3,214,661	364,934	273,997	49,905	165	3,903,662
Financial assets given as collateral and reverse repurchase agreements	-	-	702	10,362	-	11,064
Derivative financial instruments	938	363	161	-	-	1,462
Financial assets held for trading	12,889	9,108	13,494	136,396	83,614	255,501
Net loans and advances to customers and related parties	2,159,496	521,794	1,122,429	1,706,860	471,991	5,982,570
Debtors by acceptances	96,867	104,320	80,656	9,991	-	291,834
Available-for-sale financial instruments	23,075	311,960	733,627	693,050	332,459	2,094,171
Held to maturity financial instruments	8,004	192,780	70,718	90,407	174,133	536,042
Other financial assets classified as loans and receivables	162,976	400,406	1,318,267	5,425,185	2,243,749	9,550,583
<b>Total undiscounted financial assets</b>	<b>7,711,575</b>	<b>1,905,665</b>	<b>3,620,461</b>	<b>8,848,377</b>	<b>3,319,100</b>	<b>25,405,178</b>
<b>Financial liabilities</b>						
Cue to central banks	8,486	99	1,152	9,279	1,601	20,617
Due to banks and financial institutions	751,445	120,623	152,270	277,587	228,585	1,530,510
Derivative financial instruments	3,717	448	185	-	-	4,350
Deposits from customers and related parties	12,517,985	2,228,393	2,704,442	657,333	19,126	18,127,279
Debt issued and other borrowed funds	-	3,622	10,749	225,887	-	240,258
Engagements by acceptances	96,867	104,320	80,656	9,991	-	291,834
Liabilities linked to held-for-sale assets	-	-	1,312	-	-	1,312
Subordinated notes	-	12	11,428	306,269	-	317,709
<b>Total undiscounted financial liabilities</b>	<b>13,378,500</b>	<b>2,457,517</b>	<b>2,962,194</b>	<b>1,486,346</b>	<b>249,312</b>	<b>20,533,869</b>
<b>Net undiscounted financial assets / (liabilities)</b>	<b>(5,666,925)</b>	<b>(551,852)</b>	<b>658,267</b>	<b>7,362,031</b>	<b>3,069,788</b>	<b>4,871,309</b>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 52 RISK MANAGEMENT (continued)

#### LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

	2009					Total LL million
	Up to 1 month LL million	1 to 3 months LL million	3 months to 1 year LL million	1 to 5 years LL million	Over 5 years LL million	
<b>Financial assets</b>						
Cash and balances with central banks	1,419,469	393,135	2,531	743,342	572	2,559,049
Due from banks and financial institutions	1,870,525	980,786	119,224	180,558	188	3,151,281
Financial assets given as collateral and reverse repurchase agreements	1,193	-	-	-	-	1,193
Derivative financial instruments	1,453	1,281	9,490	-	-	12,224
Financial assets held for trading	1,313	5,612	33,392	128,875	82,979	252,171
Net loans and advances to customers and related parties	1,814,301	404,773	806,169	1,345,981	663,666	5,034,890
Debtors by acceptances	89,747	155,700	69,629	20,828	-	335,904
Available-for-sale financial instruments	18,485	59,244	127,638	1,490,410	449,804	2,145,581
Held to maturity financial instruments	289	48,543	213,110	243,846	175,530	681,318
Other financial assets classified as loans and receivables	200,481	599,014	1,008,117	5,217,102	1,879,047	8,903,761
<b>Total undiscounted financial assets</b>	<b>5,417,256</b>	<b>2,648,088</b>	<b>2,389,300</b>	<b>9,370,942</b>	<b>3,251,786</b>	<b>23,077,372</b>
<b>Financial liabilities</b>						
Due to central banks	10,564	1	8	1,404	-	11,977
Due to banks and financial institutions	764,172	392,672	81,289	246,127	310,877	1,795,137
Cash collateral on securities lent and repurchase agreements	1,193	-	-	-	-	1,193
Derivative financial instruments	1,262	404	124	-	-	1,790
Deposits from customers and related parties	11,188,490	1,779,117	2,007,028	675,340	5,844	15,655,819
Debt issued and other borrowed funds	-	3,534	88,261	240,210	-	332,005
Engagements by acceptances	89,747	155,700	69,629	20,828	-	335,904
Liabilities linked to held-for-sale assets	-	-	1,995	-	-	1,995
Subordinated notes	-	-	21,181	346,572	-	367,753
Total undiscounted financial liabilities	12,055,428	2,331,428	2,269,515	1,530,481	316,721	18,503,573
Net undiscounted financial assets / (liabilities)	(6,638,172)	316,660	119,785	7,840,461	2,935,065	4,573,799

The table below summarizes the maturity profile of the Group's commitments and contingencies:

	2010					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financing commitments and guarantees	80,374	324,207	1,432,742	499,569	208	2,337,100
Undrawn commitments to lend	839,403	52,310	556,912	65,660	262	1,514,547
	<b>919,777</b>	<b>376,517</b>	<b>1,989,654</b>	<b>565,229</b>	<b>470</b>	<b>3,851,647</b>
	2009					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Financing commitments and guarantees	36,442	749,383	729,845	508,709	25,213	2,049,592
Undrawn commitments to lend	609,370	6	123,298	80,031	166	812,871
	<b>645,812</b>	<b>749,389</b>	<b>853,143</b>	<b>588,740</b>	<b>25,379</b>	<b>2,862,463</b>

The Group expects that not all of the contingent liability or commitments will be demanded before maturity.

**52 RISK MANAGEMENT (continued)****INTEREST RATE RISK AND MARKET RISK**

Market risk is the risk of loss arising from movements in market variables, including interest rates, exchange rates and equity market indices. Market risk is incurred primarily through the Group's trading and foreign exchange activities.

The market risk unit is responsible for the independent control of market risk. It ensures that all market risks are identified, establishes the necessary controls and limits, monitors positions and exposures, and ensures compliance with regulatory and internal limits as set in the market risk policy and securities portfolio investment policy.

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-balance sheet items that mature or are repriced in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies.

*Interest rate sensitivity*

The table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel changes in interest rates, all other variables being held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at year end, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at year end for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase in interest rate	2010		2009	
		Net effect on interest income LL million	Net effect on shareholders equity LL million	Net effect on interest income LL million	Net effect on shareholders equity LL million
LBP	+0.5%	(19,920)	77,567	(19,048)	66,853
Other currencies	+0.5%	(5,987)	43,757	(5,061)	68,874
		<u>(25,907)</u>	<u>121,324</u>	<u>(24,109)</u>	<u>135,727</u>

Currency	Decrease in interest rate	2010		2009	
		Net effect on interest income LL million	Net effect on shareholders equity LL million	Net effect on interest income LL million	Net effect on shareholders equity LL million
LBP	-0.5%	19,920	77,567	19,048	(66,853)
Other currencies	-0.5%	5,987	43,757	5,061	(68,874)
		<u>25,907</u>	<u>121,324</u>	<u>24,109</u>	<u>(135,727)</u>

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2010 was as follows:

(Amounts in LL million)	2010						Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non interest bearing items	
ASSETS							
Cash and balances with the central banks	1,002,813	-	-	716,063	-	1,042,234	2,761,110
Due from banks and financial institutions	3,361,014	362,423	165,995	3,241	2,761	3,577	3,899,011
Financial assets given as collateral and reverse repurchase agreements	-	-	-	8,814	-	104	8,918
Derivative financial instruments	-	-	-	-	-	1,462	1,462
Financial assets held for trading	11,538	4,733	4,666	108,964	55,861	20,178	205,940
Net loans and advances to customers and related parties	2,402,081	533,039	1,515,105	1,086,303	196,557	(47,845)	5,685,240
Debtors by acceptances	-	-	-	-	-	-	291,834
Available for sale financial instruments	11,171	268,206	703,724	489,909	275,870	126,931	1,875,811
Other financial assets classified as loans and receivables	177,706	348,904	777,143	4,214,930	1,860,489	111,684	7,490,856
Held to maturity financial instruments	22,872	192,087	59,138	41,444	110,598	2,559	428,698
Property and equipment	-	-	-	-	2,569	278,734	281,303
Intangible assets	-	-	-	-	-	1,039	1,039
Non-current assets held for sale	-	-	-	-	-	39,092	39,092
Other assets	30	274	79	41	-	76,654	77,078
Total assets	<u>6,989,225</u>	<u>1,709,666</u>	<u>3,225,850</u>	<u>6,669,709</u>	<u>2,504,705</u>	<u>1,948,237</u>	<u>23,047,392</u>

31 December 2010

**52 RISK MANAGEMENT (continued)****INTEREST RATE RISK AND MARKET RISK (continued)**

<i>(Amounts in LL million)</i>	2010						<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Non interest bearing items</i>	
<b>LIABILITIES</b>							
Due to central banks	4,184	4,303	9,909	1,053	-	43	19,492
Due to banks and financial institutions	968,075	215,509	221,039	26,750	378	9,595	1,441,346
Cash collateral on securities lent and repurchase agreements	-	-	-	-	-	-	-
Derivative financial instruments	-	-	-	-	-	4,350	4,350
Deposits from customers and related parties	12,421,873	2,207,698	2,635,408	575,968	3,465	83,266	17,927,678
Debt issued and other borrowed funds	-	-	-	213,462	-	39	213,501
Engagement by acceptances	-	-	-	-	-	291,834	291,834
Current tax liability	-	-	2,598	-	-	41,928	44,526
Deferred tax liability	-	-	-	-	-	11,445	11,445
Other liabilities	274	77	46	9	33	211,822	212,261
Liabilities linked to held for sale assets	-	-	-	-	-	1,312	1,312
Provision for risks and charges	-	-	-	-	-	88,983	88,983
End of Service benefits	-	-	-	-	-	30,922	30,922
Subordinated notes	-	-	1,410	299,972	-	1,942	303,324
<b>Total liabilities</b>	<b>13,394,406</b>	<b>2,427,587</b>	<b>2,870,410</b>	<b>1,117,214</b>	<b>3,876</b>	<b>777,481</b>	<b>20,590,974</b>
Total interest rate sensitivity gap	(6,405,181)	(717,921)	355,440	5,552,495	2,500,829	1,170,756	2,456,418

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2009 was as follows:

<i>(Amounts in LL million)</i>	2009						<i>Total</i>
	<i>Up to 1 month</i>	<i>1 to 3 months</i>	<i>3 months to 1 year</i>	<i>1 to 5 years</i>	<i>Over 5 years</i>	<i>Non interest bearing items</i>	
<b>ASSETS</b>							
Cash and balances with the central banks	1,220,938	391,978	2,531	716,063	-	201,862	2,533,372
Due from banks and financial institutions	1,868,524	978,231	115,762	173,363	-	6,603	3,142,483
Financial assets given as collateral and reverse repurchase agreements	1,193	-	-	-	-	-	1,193
Derivative financial instruments	-	-	-	-	-	12,224	12,224
Financial assets held for trading	-	647	24,224	101,947	48,141	29,169	204,128
Net loans and advances to customers and related parties	2,161,557	746,281	1,132,774	710,263	64,868	3,405	4,819,148
Debtors by acceptances	-	-	-	-	-	335,904	335,904
Available for sale financial instruments	1,715	4,324	24,036	1,323,344	324,820	116,418	1,794,657
Other financial assets classified as loans and receivables	117,740	511,018	582,276	3,903,362	1,451,525	115,968	6,681,889
Held to maturity financial instruments	182	37,726	185,049	207,131	127,219	6,297	563,604
Property and equipment	-	-	-	-	44,899	221,839	266,738
Intangible assets	-	-	-	-	-	734	734
Non-current assets held for sale	-	-	-	-	-	38,567	38,567
Other assets	1,117	85	90	105	-	69,148	70,545
<b>Total assets</b>	<b>5,372,966</b>	<b>2,670,290</b>	<b>2,066,742</b>	<b>7,135,578</b>	<b>2,061,472</b>	<b>1,158,138</b>	<b>20,465,186</b>

**52 RISK MANAGEMENT (continued)****INTEREST RATE RISK AND MARKET RISK (continued)**

(Amounts in LL million)	2009						Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non interest bearing items	
<b>LIABILITIES</b>							
Due to central banks	1,814	1	7	1,133	-	8,749	11,704
Due to banks and financial institutions	1,016,433	396,561	90,913	73,531	88,309	10,060	1,675,807
Cash collateral on securities lent and repurchase agreements	1,193	-	-	-	-	-	1,193
Derivative financial instruments	-	-	-	-	-	1,790	1,790
Deposits from customers and related parties	11,139,094	1,746,735	1,916,324	581,758	3,465	118,792	15,506,168
Debt issued and other borrowed funds	-	-	68,108	213,462	-	9,393	290,963
Engagement by acceptances	-	-	-	-	-	335,904	335,904
Current tax liability	982	-	2,957	-	-	36,273	40,212
Deferred tax liability	-	-	-	-	-	15,485	15,485
Other liabilities	136,649	-	22,497	-	-	77,023	236,169
Liabilities linked to held for sale assets	-	-	-	-	-	1,995	1,995
Provision for risks and charges	-	-	2,193	-	-	64,761	66,954
End of Service benefits	-	-	-	-	583	27,693	28,276
Subordinated notes	-	-	-	296,335	-	3,299	299,634
<b>Total liabilities</b>	<b>12,296,165</b>	<b>2,143,297</b>	<b>2,102,999</b>	<b>1,166,219</b>	<b>92,357</b>	<b>711,217</b>	<b>18,512,254</b>
<b>Total interest rate sensitivity gap</b>	<b>(6,923,199)</b>	<b>526,993</b>	<b>(36,257)</b>	<b>5,969,359</b>	<b>1,969,115</b>	<b>446,921</b>	<b>1,952,932</b>

**Currency risk**

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group protects its capital and reserves by holding a foreign currency position in US Dollars representing 60% of its equity after adjustment according to specific requirements set by the Bank of Lebanon. The Group is also allowed to hold a net trading position, debit or credit, not to exceed 1% of its net equity, as long as the global foreign position does not exceed, at the same time, 40% of its equity (Bank of Lebanon circular number 32).

*Group's sensitivity to currency exchange rates*

The table below shows the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, first on the income statement (due to the potential change in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A negative amount reflects a potential net reduction in income or equity, while a positive amount reflects a net potential increase.

Currency	Change in currency rate %	2010		2009	
		Effect on profit before tax LL million	Effect on equity LL million	Effect on profit before tax LL million	Effect on equity LL million
US Dollar	+5	107	551	2,664	320
Euro	+5	461	5,009	26	5,259
GBP	+5	-	-	(8)	1
Other currencies	+5	594	8,223	(2,130)	7,232

**52 RISK MANAGEMENT (continued)**

**INTEREST RATE RISK AND MARKET RISK (continued)**

**Equity price risk**

Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non-trading equity price risk exposure arises from equity securities classified as available-for-sale. A 5 per cent increase in the value of the Group's available-for-sale equities at 31 December 2010 would have increased equity by LL 2,493 million (2009: LL 3,824 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

**Prepayment risk**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group's assets with fixed interest rates are not considered material with respect to the total assets. Moreover, other market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

**OPERATIONAL RISK**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group's approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the Group has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The Head of the GRM division is responsible for ensuring the independence, objectivity and effectiveness of the operational risk framework as prepared by the Operational Risk Management (ORM) unit for identification, assessment and measurement of operational risk across the Group. The roles and responsibilities of the ORM unit encompasses the development of ORM policies, the assistance and facilitation of the ORM programs and tools, the analysis of new products, activities and systems from an operational risk perspective. It is also responsible for promoting of the ORM culture across the Group through awareness sessions and coaching.

The business line managers are directly responsible for managing and mitigating operational risks in their areas of responsibility. Each business line /support function is assigned a "Risk Champion" who will have a dotted line reporting to the ORM unit. This structure is set to confirm the effective implementation of the operational risk framework in the business lines and to ensure transparent assessment and reporting of operational risks. Aside from the Risk Champion, all staff in the Group should play a role in the identification and management of Operational Risk.

**53 CAPITAL**

The Group maintains an actively managed capital base to cover risks, inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Bank of Lebanon and the Banking Control Commission.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Groups should maintain a required capital adequacy ratio (not less than 8%) based on their capital funds over the total risk weighted assets. The Group complies in full with all its externally imposed capital requirements (2009: the same).

31 December 2010

**53 CAPITAL (continued)**

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years, however, it is under constant scrutiny of the Board.

**Regulatory capital**

At 31 December 2010 and 2009, the capital consists of the following:

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
Tier 1 capital	<b>2,203,688</b>	1,740,128
Tier 2 capital	<b>359,295</b>	367,638
<b>Total capital</b>	<b>2,562,983</b>	2,107,766
<b>Risk weighted assets</b>	<b>14,743,346</b>	13,764,908

The capital adequacy ratio as of 31 December (including profit for the year less proposed dividends) is as follows:

Tier 1 capital ratio	<b>14.94%</b>	12.64%
Total capital ratio	<b>17.38%</b>	15.31%

Tier 1 Capital consists of capital, reserves and brought forward results. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordinated loans and cumulative changes in fair values.

**54 DIVIDENDS PAID AND PROPOSED**

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
<i>Declared and paid during the year</i>		
Equity dividends on ordinary shares:		
Dividends for 2010: LL 200 (2009: LL 157.9)	<b>43,422</b>	34,282
Equity dividends on priority shares:		
Dividends for 2010: LL 200 (2009: LL 157.9)	<b>41,205</b>	32,531
Distributions to preferred shares – 2003 series:		
Distributions for 2010: US\$ nil (2009: US\$ 12.00)	-	18,168
Distributions to preferred shares – 2008 series:		
Distributions for 2010: US\$ 8.00 (2009: US\$ 3.35)	<b>24,032</b>	10,143
Distributions to preferred shares – 2009 series:		
Distributions for 2010: US\$ 3.53 (2009: US\$ nil)	<b>10,063</b>	-
Distributions to priority shares		
Interest paid at 4% of share's nominal value: LL 48 for 2010 (2009: LL 48)	<b>9,972</b>	9,889
	<b>128,694</b>	105,013

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

### 54 DIVIDENDS PAID AND PROPOSED (continued)

	<i>2010</i> <i>LL million</i>	<i>2009</i> <i>LL million</i>
<i>Proposed for approval at annual general meeting (not recognized as a liability as at 31 December)</i>		
Equity dividends on ordinary shares:		
Dividends for 2010: LL 200 (2009: LL 200)	<b>71,898</b>	43,422
Equity dividends on priority shares:		
Dividends for 2010: LL 200 (2009: LL 200)	<b>41,205</b>	41,205
Distributions to preferred shares – 2008 series:		
Distributions for 2010: USD 8.00 (2009: USD 8.00)	<b>24,120</b>	24,032
Distributions to preferred shares – 2009 series:		
Distributions for 2010: USD 8.00 (2009: 3.35)	<b>24,120</b>	10,063
Distributions to priority shares:		
Interest paid at 4% of share’s nominal value: LL 48.40 for 2010 (2009: LL 48.40)	<b>9,972</b>	9,972
	<b>171,315</b>	128,694

Dividends paid by the subsidiaries during the year were as follows:

	<i>2010</i>		<i>2009</i>	
	<i>Dividends paid LL million</i>	<i>Non controlling interest share LL million</i>	<i>Dividends paid LL million</i>	<i>Non controlling interest share LL million</i>
Byblos Bank Africa	4,543	1,960	5,945	2,564
Byblos Invest Bank SAL	23,000	2	22,000	2
Adonis Insurance and Reinsurance Co. (ADIR) SAL	2,750	992	2,750	992
Byblos Bank Syria S.A.	5,149	3,012	-	-
	<b>35,442</b>	<b>5,966</b>	<b>30,695</b>	<b>3,558</b>

### 55 COMPARATIVE INFORMATION

Commissions were reclassified from “interest and similar expense” to “Fee and commissions expense”. Comparative figures amounting to LL 1,719 million were reclassified accordingly.

Loss on foreign exchange was reclassified from “Net trading income” to “Net gain on financial assets”. Comparative figures amounting to LL 453 million were reclassified accordingly.

Accrual for liability related to equity linked notes was reclassified from “Derivative financial instruments” to “Debt issued and other borrowed funds”. Comparative figures amounting to LL 9,354 million were reclassified accordingly.

Other reserves were reclassified from “Other reserves” to “Capital reserves”. Comparative figures amounting to LL 6,958 million were reclassified accordingly.

These changes did not affect the previously reported results and have been made to improve the quality of information presented.

**BYBLOS BANK SAL**

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2009**

**BYBLOS BANK SAL**  
**CONSOLIDATED FINANCIAL STATEMENTS**

- 1) Auditors' report;
- 2) Consolidated income statement for the year ended 31 December 2009;
- 3) Consolidated statement of comprehensive income for the year ended 31 December 2009;
- 4) Consolidated statement of financial position as of 31 December 2009;
- 5) Consolidated statement of cash flows for the year ended 31 December 2009;
- 6) Consolidated statement of changes in equity for the year ended 31 December 2009;
- 7) Notes to the consolidated financial statements.

## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL**

We have audited the accompanying consolidated financial statements of Byblos Bank SAL (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### **Directors' Responsibility for the Financial Statements**

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, 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 for 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 financial position of the Group as of 31 December 2009 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.



Ernst & Young

26 March 2010  
Beirut, Lebanon



Semaan, Gholam & Co.

# Byblos Bank SAL

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	<i>Notes</i>	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Interest and similar income	4	<b>1,141,893</b>	1,037,795
Interest and similar expense	5	<b>(754,832)</b>	(681,953)
<b>NET INTEREST INCOME</b>		<b>387,061</b>	355,842
Fees and Commissions income	6	<b>129,573</b>	116,719
Fees and Commissions expense	6	<b>(12,905)</b>	(9,796)
<b>NET FEES AND COMMISSIONS INCOME</b>		<b>116,668</b>	106,923
Net trading income	7	<b>37,688</b>	9,383
Net gain on financial assets	8	<b>14,464</b>	14,471
Other operating income	9	<b>16,251</b>	17,519
<b>TOTAL OPERATING INCOME</b>		<b>572,132</b>	504,138
Credit loss expense	10	<b>(26,245)</b>	(5,434)
Impairment losses on financial investments	11	<b>(15,278)</b>	(37,700)
<b>NET OPERATING INCOME</b>		<b>530,609</b>	461,004
Personnel expenses	12	<b>(129,339)</b>	(123,143)
Depreciation of property and equipment	26	<b>(25,585)</b>	(16,997)
Amortisation of intangibles assets	27	<b>(340)</b>	(125)
Other operating expenses	13	<b>(109,513)</b>	(98,208)
<b>TOTAL OPERATING EXPENSES</b>		<b>(264,777)</b>	(238,473)
<b>OPERATING PROFIT</b>		<b>265,832</b>	222,531
Impairment loss on assets held for sale	28	-	(408)
<b>PROFIT BEFORE TAX</b>		<b>265,832</b>	222,123
Income tax expense	14	<b>(46,410)</b>	(38,208)
<b>PROFIT FOR THE YEAR</b>		<b>219,422</b>	183,915
Attributable to:			
Equity holders of the parent		<b>206,628</b>	172,285
Minority interests		<b>12,794</b>	11,630
		<b>219,422</b>	183,915
<b>Earnings per share</b>			
Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares	15	<b>LL 384.65</b>	LL 317.19
Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares	15	<b>LL 433.05</b>	LL 365.19
Diluted for profit for the period attributable to ordinary equity holders of the parent – common shares	15	<b>LL 362.97</b>	-
Diluted for profit for the period attributable to ordinary equity holders of the parent – priority shares	15	<b>LL 411.37</b>	-

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
<b>Profit for the year</b>	<b>219,422</b>	183,915
Net gain on available-for-sale financial assets	<b>112,073</b>	15,987
Income tax effect	<b>(15,485)</b>	-
	<hr/> <b>96,588</b>	<hr/> 15,987
Exchanges differences on translation of foreign operations	<b>(5,210)</b>	(3,065)
<b>Other comprehensive income for the year</b>	<hr/> <b>91,378</b>	<hr/> 12,922
<b>Total comprehensive income for the year</b>	<hr/> <b>310,800</b>	<hr/> 196,837
Attributable to:		
Equity holders of the parent	<b>297,943</b>	184,967
Minority interests	<b>12,857</b>	11,870
	<hr/> <b>310,800</b>	<hr/> 196,837
	<hr/> <hr/>	<hr/> <hr/>

The attached notes 1 to 62 form part of these consolidated financial statements.


# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION


At 31 December 2009

	Notes	2009 LL million	2008 LL million
<b>ASSETS</b>			
Cash and balances with central banks	16	2,533,372	2,023,979
Due from banks and financial institutions	17	3,142,483	2,525,830
Financial assets given as collateral and reverse repurchase agreements	18	1,193	96,847
Derivative financial instruments	19	12,224	30,117
Financial assets held for trading	20	204,128	210,825
Net loans and advances to customers	21	4,807,633	4,194,647
Net loans and advances to related parties	46	11,515	12,017
Debtors by acceptances	22	335,904	284,468
Available-for-sale financial instruments	23	1,793,540	1,280,283
Financial assets classified as loans and receivables	24	6,681,970	4,619,105
Held to maturity financial instruments	25	564,640	1,299,646
Property and equipment	26	266,738	243,322
Intangible assets	27	734	1,074
Non-current assets held-for-sale	28	38,567	46,108
Other assets	29	70,545	60,874
<b>TOTAL ASSETS</b>		<b>20,465,186</b>	<b>16,929,142</b>
<b>LIABILITIES AND EQUITY</b>			
Due to central banks	30	11,704	83,656
Due to banks and financial institutions	31	1,675,807	1,462,261
Financial assets against securities lent and repurchase agreements		1,193	-
Derivative financial instruments	19	11,144	28,866
Customers' deposits	32	15,366,354	12,500,408
Deposits from related parties	46	139,814	106,472
Debt issued and other borrowed funds	33	281,609	267,555
Engagements by acceptances	22	335,904	284,468
Current tax liability	34	40,212	29,996
Deferred tax liabilities		15,485	-
Other liabilities	35	236,169	191,059
Liabilities linked to held-for-sale assets	28	1,995	1,720
Provision for risks and charges	36	66,954	30,591
End of service benefits	37	28,276	27,478
Subordinated notes	38	299,634	296,203
<b>TOTAL LIABILITIES</b>		<b>18,512,254</b>	<b>15,310,733</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>			
Share capital – Common ordinary shares	39	262,706	260,535
Share capital – Common priority shares	39	249,289	247,228
Share capital – Preferred shares	39	4,840	3,600
Issue premium – Common ordinary shares	39	26,425	26,425
Issue premium – Preferred shares		579,035	444,704
Capital reserves	42	384,115	334,348
Treasury shares	39	(176)	(1,554)
Retained earnings		24,954	15,317
Revaluation reserve of real estate	40	5,689	5,689
Available-for-sale reserve	41	66,026	(30,517)
Net results of the financial period - profit		206,628	172,285
Foreign currency translation reserve		13,394	18,604
Other reserve	43	6,958	5,538
<b>MINORITY INTEREST</b>	44	<b>123,049</b>	<b>116,207</b>
<b>TOTAL EQUITY</b>		<b>1,952,932</b>	<b>1,618,409</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>20,465,186</b>	<b>16,929,142</b>

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 26 March 2010.

  
Dr. François Bassil  
Chairman/ General Manager

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Mr. Alain Wanna  
Financial and Administrative Manager

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2009

	<i>Notes</i>	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
<b>Off-financial position</b>			
<b>Financing Commitments</b>			
Financing commitments given to banks and financial institutions	47	<b>803,564</b>	862,122
Financing commitments received from banks and financial institutions		<b>244,917</b>	184,563
Engagements to customers		<b>403,731</b>	276,964
<b>Bank Guarantees</b>			
Guarantees given to banks and financial institutions	47	<b>360,485</b>	267,414
Guarantees given to customers	47	<b>885,543</b>	793,830
<b>Foreign Currencies Contracts</b>			
Foreign currencies to receive		<b>297,126</b>	339,685
Foreign currencies to deliver		<b>296,046</b>	338,434
<b>Claims from legal cases</b>		<b>290,679</b>	265,458
<b>Fiduciary assets</b>		<b>116,590</b>	174,558
<b>Assets under management</b>		<b>3,835,767</b>	2,604,921
<b>Bad debts fully provided for</b>	21	<b>113,117</b>	121,244

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Attributable to equity holders of the parent																	Minority interests	Total equity		
	Share capital						Capital reserves						Net results of the financial period - profit			Foreign currency translation reserve					
	Ordinary Shares LL million	Preferred shares LL million	Priority shares LL million	Issue premium - Common shares LL million	Issue premium - Preferred shares LL million	Treasury shares LL million	Legal reserve LL million	Reserves appropriated for capital increase LL million	General reserve LL million	Equity component of convertible subordinated notes LL million	Reserve for general Banking risks LL million	Other capital reserves LL million	Other reserve LL million	Retained earnings LL million	Revaluation reserve LL million	Available-for-sale reserve LL million	Net results of the financial period - profit LL million			Total	Total
Balance at 1 January 2008	246,028	1,200	247,228	-	149,550	(947)	90,124	20,284	108,354	20,809	56,916	-	-	11,127	5,689	(46,244)	142,550	21,669	1,074,337	77,622	1,151,959
Profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	172,285	-	172,285	11,630	183,915
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,747	-	(3,065)	12,682	240	12,922
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	15,747	172,285	(3,065)	184,967	11,870	196,837
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	142,550	-	-	(142,550)	-	-	-	-
Transfer to capital reserves and other reserves	-	-	-	-	-	-	15,313	523	13,558	9,970	-	5,538	(44,902)	-	-	-	-	-	-	-	-
Increase in capital (note 39)	14,507	2,400	-	26,425	295,154	-	-	-	(2,769)	-	-	-	-	-	-	-	-	-	335,717	-	335,717
Capital increase of subsidiaries (notes 42 & 44)	-	-	-	-	-	-	-	-	(2,453)	-	6,028	-	-	-	-	-	-	-	3,575	31,203	34,778
Translation difference	-	-	-	-	-	(791)	-	-	(1,518)	-	-	-	(497)	-	(20)	-	-	-	(2,826)	(2,158)	(4,984)
Equity dividends paid (note 61)	-	-	-	-	-	-	-	-	-	-	-	-	(92,961)	-	-	-	-	-	(92,961)	-	(92,961)
Dividend paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(2,330)	(2,330)
Treasury shares (note 39)	-	-	-	-	-	(607)	-	-	-	-	-	-	-	-	-	-	-	-	(607)	-	(607)
Balance at 31 December 2008	260,535	3,600	247,228	26,425	444,704	(1,554)	104,646	20,807	117,941	18,040	66,886	6,028	5,538	15,317	5,689	(30,517)	172,285	18,604	1,502,202	116,207	1,618,409
<b>Balance at 1 January 2009</b>	<b>260,535</b>	<b>3,600</b>	<b>247,228</b>	<b>26,425</b>	<b>444,704</b>	<b>(1,554)</b>	<b>104,646</b>	<b>20,807</b>	<b>117,941</b>	<b>18,040</b>	<b>66,886</b>	<b>6,028</b>	<b>5,538</b>	<b>15,317</b>	<b>5,689</b>	<b>(30,517)</b>	<b>172,285</b>	<b>18,604</b>	<b>1,502,202</b>	<b>116,207</b>	<b>1,618,409</b>
Profit for the period	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	206,628	-	206,628	12,794	219,422
Other comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	96,525	-	(5,210)	91,315	63	91,378
Total comprehensive income	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	96,525	206,628	(5,210)	297,943	12,857	310,800
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	172,285	-	-	-	(172,285)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	-	-	15,770	4,921	16,613	13,543	-	2,318	(53,165)	-	-	-	-	-	-	-	-
Transfer from other reserve to general reserve (note 43)	-	-	-	-	-	-	-	-	898	-	-	(898)	-	-	-	-	-	-	-	-	-
Capital increase in 2009:	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-Redemption of series 2003 preferred shares (note 39)	-	(1,200)	-	-	(149,550)	-	-	-	-	-	-	-	-	-	-	-	-	-	(150,750)	-	(150,750)
-Increase in par value of outstanding shares (note 39)	2,171	20	2,061	-	-	-	-	(3,052)	-	-	-	-	(1,200)	-	-	-	-	-	-	-	-
-Issuance of series 2009 preferred shares (note 39)	-	2,420	-	-	283,881	-	-	-	-	-	-	-	-	-	-	-	-	-	286,301	-	286,301
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(3,558)	(3,558)
Translation difference	-	-	-	-	-	-	(58)	-	1,738	-	(606)	-	(3,270)	-	18	-	-	-	(2,178)	(2,457)	(4,635)
Equity dividends paid (note 61)	-	-	-	-	-	-	-	-	-	-	-	-	(105,013)	-	-	-	-	-	(105,013)	-	(105,013)
Treasury shares (note 39)	-	-	-	-	-	1,378	-	-	-	-	-	-	-	-	-	-	-	-	1,378	-	1,378
Balance at 31 December 2009	262,706	4,840	249,289	26,425	579,035	(176)	120,358	22,676	137,190	18,040	80,429	5,422	6,958	24,954	5,689	66,026	206,628	13,394	1,829,883	123,049	1,952,932

The attached notes 1 to 62 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 LL million	2008 LL million
<b>OPERATING ACTIVITIES</b>			
Profit before tax		265,832	222,123
Adjustments to reconcile profit before tax to net cash flows:			
Depreciation and amortisation		25,344	17,122
Provision for loans and advances, net		26,245	5,434
Gain on disposal of property, plant and equipment		(860)	(72)
Gain on disposal of non-current assets held for sale		(11,275)	(12,505)
Provisions for risks and charges, net		36,363	12,558
Provision for impairment of financial instruments		15,278	37,700
Provision for end of services benefits		3,686	7,252
Impairment provision on non-current assets held for sale		581	408
Excess of fair value of net assets acquired of Unicredit Banca di Roma SpA- Beirut Branch over cost		-	(1,353)
		<u>361,194</u>	<u>288,667</u>
<b>Changes in operating assets and liabilities</b>			
Due from central banks		126,370	(221,380)
Due from banks and financial institutions		(189,970)	108,814
Financial assets given as collateral		95,654	(5,918)
Due to banks and financial institutions		8,993	270,760
Cash collateral on securities lent and repurchase agreements		1,193	-
Derivative financial instruments		171	(1,093)
Financial assets held for trading		6,697	521,875
Net loans and advances		(638,729)	(826,190)
Other assets		(9,671)	(9,072)
Customers' and related party deposits		2,899,288	1,615,843
Other liabilities		38,911	3,550
		<u>2,700,101</u>	<u>1,745,856</u>
Cash from operations		(2,888)	(349)
End of service benefits paid		(29,996)	(25,400)
Taxation paid		<u>2,667,217</u>	<u>1,720,107</u>
<b>Net cash from operating activities</b>		<u>2,667,217</u>	<u>1,720,107</u>
<b>INVESTING ACTIVITIES</b>			
Available for sale financial instruments		(416,507)	(987,470)
Financial assets classified as loans and receivables		(2,062,865)	(1,616,818)
Held to maturity financial instruments		735,006	352,921
Purchase of property and equipment		(52,887)	(58,757)
Proceeds from sale of property and equipment		7,277	317
Purchase of non current assets held for sale		(772)	(5,179)
Proceeds from sale of non-current assets held for sale		19,587	22,557
Liabilities linked to held for sale assets		275	(419)
Acquisition of net assets of Unicredit Banca Di Roma SpA- Beirut Branch		-	(12,415)
		<u>(1,770,886)</u>	<u>(2,305,263)</u>
<b>Net cash used in investing activities</b>		<u>(1,770,886)</u>	<u>(2,305,263)</u>
<b>FINANCING ACTIVITIES</b>			
Issuance of ordinary common shares		-	38,479
Issuance of preferred shares		286,301	297,554
Redemption of preferred shares		(150,750)	-
Due to Central Bank		(82,516)	22,706
Debts issued and other borrowed funds		14,054	(2,317)
Subordinated notes		3,431	(37,711)
Treasury shares		1,378	(607)
Dividends paid		(105,013)	(92,961)
Gain on sale of subsidiary shares to minority interest	42	-	6,028
Change in minority interest		(5,951)	26,955
		<u>(39,066)</u>	<u>258,126</u>
<b>Net cash from financing activities</b>		<u>(39,066)</u>	<u>258,126</u>
<b>Effect of exchange rates:</b>			
Effect of exchange rates on property and equipment		(2,530)	(866)
Foreign currency translation differences		(5,210)	(3,065)
Effect of exchange rates on reserves and premiums		(2,197)	(2,806)
		<u>(9,937)</u>	<u>(6,737)</u>
<b>Net effect of foreign exchange rates</b>		<u>(9,937)</u>	<u>(6,737)</u>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		<u>847,328</u>	<u>(333,767)</u>
Cash and cash equivalents at 1 January		2,651,204	2,984,971
<b>CASH AND CASH EQUIVALENTS AT 31 DECEMBER</b>	45	<u>3,498,532</u>	<u>2,651,204</u>

In 2008, operating and investing activities include a non-cash item representing the increase in financial assets classified as loans and receivables in the amount of LL 1,820,022 against decrease in trading and available-for-sale financial assets in the amount of LL 104,071 million and LL 1,715,951 million, respectively. No such transaction occurred in 2009.

The attached notes 1 to 62 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

Byblos Bank SAL (the “Bank”), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks’ list published by the Bank of Lebanon. The Bank’s head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon.

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 8 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, and Armenia) (Collectively the “Group”).

## 2 ACCOUNTING POLICIES

### 2.1 Basis of Preparation

The consolidated financial statements have been prepared under the historical cost convention as modified for the restatement of: a) certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, b) and for the measurement at fair value of derivatives and financial assets held for trading, financial investments available for sale, and financial assets designated at fair value through profit and loss.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest LL million except when otherwise indicated.

### Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board (IASB), and the regulations of the Bank of Lebanon and the Banking Control Commission (“BCC”)

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Bank.

### Basis of consolidation

The consolidated financial statements comprise the financial statements of the Bank and its subsidiaries for the year ended 31 December. The financial statements of the Bank’s subsidiaries are prepared for the same reporting year as Byblos Bank SAL using consistent accounting policies.

All intra-group balances, transactions, income and expenses are eliminated in full.

Subsidiaries are fully consolidated from the date of which control is transferred to the Bank. Control is achieved where the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Bank and are presented separately in the consolidated income statement and within equity in the consolidated statement of financial position, separately from parent shareholder’s equity. Any losses applicable to the minority interest in excess of the minority interest are allocated against the interests of the parent. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as goodwill. If the cost of acquisition is below the fair values of the identifiable net assets acquired, the difference is recognized directly in the consolidated income statement in the year of acquisition.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 2 ACCOUNTING POLICIES (continued)

#### Basis of consolidation (continued)

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

<u>Subsidiary</u>	<u>Percentage of ownership</u>		<u>Principal activity</u>	<u>Country of incorporation</u>
	<u>2009</u>	<u>2008</u>		
	%	%		
Byblos Bank Europe SA	99.95	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) SAL	63.95	63.95	Insurance	Lebanon
Adonis Brokerage House SAL	99.40	99.40	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	99.99	99.99	Investment banking	Lebanon
Byblos Bank Africa	56.86	56.86	Commercial Banking	Sudan
Byblos Bank Syria S.A.	41.50	41.50	Commercial Banking	Syria
Byblos Bank Armenia CJSC	65.00	65.00	Commercial Banking	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	76.00	76.00	Insurance	Syria
Byblos Management SAL (Holding)	99.98	99.98	Investment	Lebanon
Byblos Ventures SAL (Holding)* (under liquidation)	50.00	-	Investment	Lebanon

\* A Company established on 12 February 2009. The general assembly of Byblos Ventures SAL (Holding) held on 15 February 2010 decided to dissolve the company and liquidate it.

#### 2.2 Changes in accounting policies

The accounting policies adopted are consistent with those used in the previous financial year except for the following:

##### *IAS 1 Presentation of financial statements*

This standard requires an entity to present all owner changes in equity and all non-owner changes to be presented in either in one statement of comprehensive income or in two separate statements of income and comprehensive income. The revised standard also requires that the income tax effect of each component of comprehensive income be disclosed.

The Group has elected to present comprehensive income in two separate statements of income and comprehensive income. Information about the individual components of comprehensive income as well as the tax effects have been disclosed in the notes to the financial statements.

##### *IAS 23 Borrowing Costs*

The revised standard requires that all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset must be capitalized.

##### *Amendments to IFRS 7 Financial Instruments: Disclosures - Improving Disclosures about Financial Instruments*

The amendments to IFRS 7 were issued in March 2009 to enhance fair value and liquidity disclosures.

With respect to fair value, the amendments require disclosure of a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value and specific disclosures related to the transfers between levels in the hierarchy and detailed disclosures related to level 3 of the fair value hierarchy. In addition, the amendments modify the required liquidity disclosures with respect to derivative transactions and assets used for liquidity management.

## 2 ACCOUNTING POLICIES (continued)

### Changes in accounting policies (continued)

#### *IFRS 8 Operating Segments*

The new standard which replaced IAS 14 “Segment reporting” requires a management approach for segment reporting under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision maker.

#### *IAS 32 Financial instruments: Presentation and IAS 1 Presentation of Financial Statements, Puttable Financial Instruments and Obligations Arising on Liquidation*

*Amendments to IFRS 16, 19, 20, 23, 29, 39, 40 and 41* resulting from the annual improvements of the International Financial Reporting Standards issued in 2009.

In addition, the following standards and interpretations are effective for the financial year 2009. The adoption of these standards and interpretations did not have any effect on the financial performance or position of the Bank:

- Amendments to IFRIC 9 Reassessment of Embedded Derivatives and IAS 39 Financial Instruments: Recognition and Measurement – Embedded Derivatives
- IFRIC 13 Customer Loyalty Programmes
- IFRIC 15 Agreements for the Construction of Real Estate
- IFRIC 16 Hedge of a Net Investment in a foreign operation

### Future changes in accounting policies

Below is the list of standards issued but not yet effective for the year ended 31 December 2009:

- IFRS 2 Share – based Payment: Group Cash-settled Share - based Payment Transactions
- IFRS 3 Business Combinations (Revised), IAS 27 Consolidated and Separate Financial Statements (Amended), IAS 28 Investments in associates and IAS 31 Interest in Joint Ventures
- Amendment to IAS 39 Financial Instruments: Recognition and Measurement – Eligible Hedged items
- IFRIC 17 Distributions on Non-cash Assets to Owners

*Amendments to IFRS 1, 7, 17, 18, 36, 38 and 39* resulting from the annual improvements of the International Financial Reporting Standards issued in 2009.

Management does not expect the above standards to have a significant impact on the Bank’s financial statements when implemented in future years.

### 2.3 Summary of significant accounting policies

#### ***Business combinations and goodwill***

Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the consolidated income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

**2 ACCOUNTING POLICIES (continued)**

**2.3 Summary of significant Accounting Policies (continued)**

***Business combinations and goodwill (continued)***

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated income statement.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

***Financial instruments – initial recognition and subsequent measurement***

**Date of recognition**

All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**Initial recognition of financial instruments**

The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

**Held for trading financial investments**

Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other than derivatives, are recorded at fair value. Changes in fair value and dividend income are recognised in the consolidated income statement in "Net trading income". Interest income is recorded in "interest and similar income" according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

**Non-trading financial instruments**

Financial assets within the scope of IAS 39 are classified as follows:

- Held to maturity financial investments
- Investments carried at fair value through profit and loss
- Investments carried at amortized cost
- Available for sale financial assets

**2 ACCOUNTING POLICIES (continued)**

**Non-trading investments and financial assets (continued)**

***Held-to-maturity financial investments***

Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Group has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" or "interest and similar expense" in the consolidated income statement. The losses arising from impairment of such investments are recognized in the consolidated income statement as "Impairment losses on financial investments".

***Fair value through profit or loss financial investments***

Financial assets and financial liabilities classified in this category are designated on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded at fair value. Changes in fair value are recorded in the consolidated income statement as "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract.

***Investments carried at amortized cost***

Due from banks, loans and advances and financial assets classified as loans and receivables are financial assets with fixed or determined payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as "Financial assets held for trading", designated as "Financial investment – available-for-sale" or "Financial assets designated at fair value through profit or loss". After initial measurement, amounts due from banks, loans and advances and financial assets classified as loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment of due from banks and loans and advances are recognized in the consolidated income statement in "Credit loss expense" while losses arising from impairment of financial assets classified as loans and receivable of are recognized in the consolidated income statement in "Impairment losses on financial investments".

***Available-for-sale financial assets***

Available-for-sale financial assets are those non-derivative financial assets that are not classified to any of the three preceding categories. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the "Available-for-sale reserve". When the security is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the consolidated income statement in "Net gain or loss on financial assets". Interest earned whilst holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the consolidated income statement as "Net gain on financial assets" when the right of payment has been established. The losses arising from impairment of such investments are recognised in the consolidated income statement in "Impairment losses on financial investments" and removed from the available-for-sale reserve.

**2 ACCOUNTING POLICIES (continued)**

**Non-trading investments and financial assets (continued)**

***Reclassification of financial assets***

Effective from 1 July 2008, the Group may reclassify, in certain circumstances, non-derivatives financial assets out of the “Held-for-trading” category and into the “Available-for-sale”, “Loans and receivables”, or “Held-to-maturity” categories. From this date it may also reclassify, in certain circumstances, financial instruments out of the “Available-for-sale” category into the “Loans and receivables” category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

The Group may reclassify a non-derivative trading asset out of the “Held-for-trading” category and into the “Loans and receivables” category if it meets the definition of loans and receivables and the Group has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effects of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

For a financial asset reclassified out of the “Available-for-sale” category, any previous gain or loss on that asset that has been recognized in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in equity is recycled to the income statement.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

**Derecognition of financial assets and financial liabilities**

***Financial assets***

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- The rights to receive cash flows from the asset have expired; or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a “pass-through” arrangement; and
- Either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its right to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset. In the case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement the financial asset that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

***Financial liabilities***

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)**

**Repurchase and reverse repurchase agreements**

Securities sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received, including accrued interest, is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest, as a liability within “cash collateral on securities lent and repurchase agreement”, reflecting the transaction’s economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated in the consolidated income statement as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised in the consolidated statement of financial position. The corresponding cash paid, including accrued interest, is recognised in the consolidated statement of financial position within “financial assets given as collateral and reverse purchase agreements”, reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is treated in the consolidated income statement as interest income and is accrued over the life of the agreement using the effective interest method.

**Impairment of financial assets**

The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognised in the consolidated income statement.

**(i) Due from banks, loans and advances and financial assets classified as loans and receivables**

For amounts due from banks, loans and advances and financial assets classified as loans and receivables carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the ‘Credit loss expense’.

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

**2 ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (continued)**

**(i) Due from banks, loans and advances and financial assets classified as loans and receivables (continued)**

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

**(ii) Held-to-maturity financial investments**

For held-to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Impairment losses on financial investments' in the consolidated income statement.

**(iii) Available-for-sale financial investments**

For available-for-sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available-for-sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement - is removed from equity and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognized directly in equity.

**(iv) Renegotiated loans**

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the arrangements of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

**2 ACCOUNTING POLICIES (continued)****Determination of fair value**

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction cost.

For all other financial instruments not listed in an active market, fair value is determined by using appropriate valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

**Property and equipment**

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation and amortisation are provided on a straight line basis on all property and equipment. The rates of depreciation and amortisation are based upon the assets' estimated useful lives as follows:

Buildings	50 years
Office equipment and furniture	6.66 – 12.5 years
Computer equipment and software	3.33 – 5 years
General installations	5 years
Vehicles	4 years

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists where the carrying values exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives:

Key-money	10 - 15 years
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**Impairment of non-financial assets**

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired and whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, an estimate of the asset's recoverable amount is made. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

**2 ACCOUNTING POLICIES (continued)**

**Impairment of non-financial assets (continued)**

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

***Assets held for sale***

The Group occasionally acquires real estate in settlement of certain loans and advances in accordance with the regulatory authorities' directives. Such asset is stated at the lower of the net realizable value of the related loans and advances and the current fair value of such assets based on the instructions of the Banking Control Commission. Gains or losses on disposal and revaluation losses are recognized in the consolidated income statement for the period.

**Debt issued and other borrowed funds**

Debt issued and other borrowed funds represent certificates of deposit, index linked notes, commodity linked notes, and equity linked notes which are recorded at nominal value after the deduction of issuance costs and the addition of accrued interest and unamortized premiums up to the statement of financial position date. Issuance costs and premiums are amortized on straight line basis to their maturities in the case of the certificates of deposit and using effective interest rate in the case of the index linked notes, equity linked notes, and commodity linked notes and are taken to the consolidated income statement.

**Subordinated notes**

Subordinated notes issued by the Bank are recorded at the principal amount in foreign currencies after deduction of issuance costs and the addition of accrued interest up to the statement of financial position date. Premiums and discounts are amortized on straight-line basis to their maturities and are taken to interest and similar income or expense in the consolidated income statement.

Convertible subordinated notes is a compound financial instrument, that contains both liability and equity elements which are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, subordinated notes are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue that are an integral part of the effective interest rate.

**Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

**Employees' end-of-service benefits**

For the Bank and its subsidiaries operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Bank is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Bank provides for end-of-service benefits on that basis.

End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

**2 ACCOUNTING POLICIES (continued)**

**Treasury shares**

Own equity instruments which are acquired (treasury shares) are deducted from equity and are accounted for at weighted average cost. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

**Financial guarantees**

In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements at fair value, in "Other liabilities", being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amortized premium and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

*Interest and similar income and expense*

For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts thought the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Interest income generated from sub-standard, doubtful and bad debts is recorded as a contra – asset account in the consolidated statement of financial position.

*Fee and commission income*

Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

*Dividend income*

Revenue is recognised when the Group's right to receive the payment is established.

*Net gain on financial assets*

Net gain on financial assets includes gains and losses from re-evaluation and sale of financial instruments classified other than fair value through profit or loss, and dividend income on these financial instruments.

*Net trading income*

Results arising from trading activities include all gains and losses from changes in fair value and dividends for financial assets held for trading. This includes any ineffectiveness recorded in hedging transactions.

*Insurance revenue*

For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorata temporis method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Cash and cash equivalents**

Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, current account with central banks and amounts due from banks on demand or with an original maturity of three months or less.

**Fiduciary assets**

Assets held in a fiduciary capacity are not treated as assets of the Group and accordingly are recorded as off-balance sheet items.

**Hedge accounting**

For the purposes of hedge accounting, hedges are classified into two categories:

- (a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
- (b) cash flow hedges which hedge the exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and is transferred to the consolidated statement of income for the period in which the hedged transaction impacts the statement of income, or included as part of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gain or loss arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

**Off balance sheet items**

Off balance sheet balances include commitments which may take place in the Group's normal operations such as letters of guarantees, and letters of credit, without deducting the margins collected and related to these commitments.

**Foreign currency translation**

The consolidated financial statements are presented in Lebanese Lira which is the Bank's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

**Transactions and balances**

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Lebanese Lira or other functional currencies at rates of exchange prevailing at the balance sheet date. Any gains or losses are taken to the consolidated income statement.

**2 ACCOUNTING POLICIES (continued)****Foreign currency translation (continued)**

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

**Group companies**

As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency (Lebanese Lira) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity as foreign currency translation differences. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Following are the exchange rates used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2009		2008	
	<i>Year end rate</i> <i>LL</i>	<i>Average rate</i> <i>LL</i>	<i>Year end rate</i> <i>LL</i>	<i>Average rate</i> <i>LL</i>
US Dollar	1,507.5	1,507.5	1,507.5	1,507.5
Euro	2,159.95	2,104.14	2,136.88	2,225.69
Sudanese Dinar	636.68	644.00	690.25	721.11
Syrian Lira	33.06	32.27	32.52	32.48
Armenian Dram	3.99	4.17	4.91	4.94

**Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

**Taxes**

Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the Bank and its branches and subsidiaries operate.

*(i) Current tax*

Current tax assets and liabilities for the current year are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

*(ii) Deferred tax*

Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

**2 ACCOUNTING POLICIES (continued)**

**Taxes (continued)**

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the consolidated income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

**2.4 Significant accounting judgements and estimates**

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

**Going concern**

The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continued in business for the foreseeable future. Furthermore, the management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

**Classification of investments**

Management decides on acquisition of an investment whether it should be classified as held to maturity, loans and receivables, held for trading, carried at fair value through profit and loss account, or available for sale.

For those deemed to be held to maturity management ensures that the requirements of IAS 39 (revised) are met and in particular the Group has the intention and ability to hold these to maturity.

The Group's classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

**2 ACCOUNTING POLICIES (continued)**

**Classification of investments (continued)**

Classification of investments as fair value through profit and loss account depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit and loss.

All other investments are classified as available for sale.

**Impairment losses on loans and advances**

The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

**Impairment of available-for-sale investments**

The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

**Fair value of financial instruments**

Where the fair values of financial assets and financial liabilities recorded on the balance sheet cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

**Deferred tax assets**

Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits, together with future tax planning strategies.

### 3 SEGMENTAL INFORMATION

The business segments are distinctive components of the Group that have different risks and rates of returns and which offer different products and services. The Group segments its business into Consumer Banking, Corporate Banking, Treasury and Capital Markets, and Insurance. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment.

#### Consumer Banking

Consumer Banking provides a diversified range of products and services to individuals. The range includes housing loans, consumer loans, credit cards, deposits, foreign exchange and other branch related services.

#### Corporate Banking

Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance and foreign exchange operations.

#### Treasury and Capital Markets

Treasury and capital markets includes treasury, investments and other defined Group activities. Treasury provides a comprehensive range of treasury services and products to its clients, and is also responsible for the bank's liquidity management and market risk.

#### Insurance

The Group provides insurance services through 2 subsidiaries operating in Lebanon and Syria.

#### Unallocated

This includes long term investments and other operating income and expenses not allocated to any of the above segments in addition to other miscellaneous activities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts.

The following table presents net operating income, profit and total assets information in respect of the Group's business segments:

	<i>31 December 2009</i>					
	<i>Consumer Banking LL million</i>	<i>Corporate Banking LL million</i>	<i>Treasury and capital markets LL million</i>	<i>Insurance LL million</i>	<i>Unallocated LL million</i>	<i>Total LL million</i>
Net interest income	153,653	109,451	122,436	1,521	-	387,061
Net fees and commissions income	33,649	69,297	9,918	6,024	(2,220)	116,668
Net trading income	-	-	37,875	(187)	-	37,688
Net gain or loss on financial assets	-	-	14,464	-	-	14,464
Other operating income	-	-	-	175	16,076	16,251
Credit loss expense	(4,248)	(18,155)	(3,842)	-	-	(26,245)
Impairment losses on financial investments	-	-	(15,179)	(99)	-	(15,278)
<b>Net operating income</b>	<b>183,054</b>	<b>160,593</b>	<b>165,672</b>	<b>7,434</b>	<b>13,856</b>	<b>530,609</b>
Personnel and other operating expenses	(76,775)	(8,601)	(3,555)	(8,409)	(141,512)	(238,852)
Depreciation and amortization	(10,912)	(170)	(67)	(1,170)	(13,606)	(25,925)
Total operating expenses	(87,687)	(8,771)	(3,622)	(9,579)	(155,118)	(264,777)
<b>Operating profit</b>	<b>95,367</b>	<b>151,822</b>	<b>162,050</b>	<b>(2,145)</b>	<b>(141,262)</b>	<b>265,832</b>
<b>Total assets</b>	<b>1,280,772</b>	<b>3,874,280</b>	<b>14,933,550</b>	<b>77,039</b>	<b>299,545</b>	<b>20,465,186</b>
<b>Total liabilities</b>	<b>14,516,466</b>	<b>989,702</b>	<b>2,281,091</b>	<b>135,973</b>	<b>589,022</b>	<b>18,512,254</b>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 3 SEGMENTAL INFORMATION (continued)

	<i>31 December 2008</i>					
	<i>Consumer Banking LL million</i>	<i>Corporate Banking LL million</i>	<i>Treasury and capital markets LL million</i>	<i>Insurance LL million</i>	<i>Unallocated LL million</i>	<i>Total LL million</i>
Net interest income	124,040	90,499	139,465	1,838	-	355,842
Net fees and commissions income	32,408	61,664	8,184	5,923	(1,256)	106,923
Net trading income	-	-	9,495	(112)	-	9,383
Net gain or loss on financial assets	-	-	14,471	-	-	14,471
Other operating income	-	-	-	35	17,484	17,519
Credit loss expense	(1,189)	(4,245)	-	-	-	(5,434)
Impairment loss on financial investments	-	-	(37,391)	(309)	-	(37,700)
Net operating income	<u>155,259</u>	<u>147,918</u>	<u>134,224</u>	<u>7,375</u>	<u>16,228</u>	<u>461,004</u>
Personnel and other operating expenses	(66,749)	(7,571)	(6,272)	(7,400)	(133,359)	(221,351)
Depreciation and amortization	(6,474)	(151)	(63)	(667)	(10,175)	(17,530)
Total operating expenses	<u>(73,223)</u>	<u>(7,722)</u>	<u>(6,335)</u>	<u>(8,067)</u>	<u>(143,534)</u>	<u>(238,881)</u>
Operating profit	<u>82,036</u>	<u>140,196</u>	<u>127,889</u>	<u>(692)</u>	<u>(127,306)</u>	<u>222,123</u>
Total assets	<u>1,031,627</u>	<u>3,459,505</u>	<u>12,086,633</u>	<u>72,200</u>	<u>279,177</u>	<u>16,929,142</u>
Total liabilities	<u>11,680,817</u>	<u>926,063</u>	<u>2,138,541</u>	<u>95,101</u>	<u>470,211</u>	<u>15,310,733</u>

### 4 INTEREST AND SIMILAR INCOME

	<i>2009 LL million</i>	<i>2008 LL million</i>
Cash and balances with central banks	<b>19,158</b>	47,987
Due from banks and financial institutions	<b>32,958</b>	90,864
Financial assets given as collateral	<b>2,606</b>	3,105
Financial assets – held for trading	<b>16,245</b>	39,841
Financial assets – available-for-sale	<b>124,862</b>	187,858
Financial assets – held-to-maturity	<b>89,549</b>	148,527
Financial assets - loans & receivables	<b>498,312</b>	204,637
Loans and advances to customers	<b>357,550</b>	314,135
Loans and advances to related parties	<b>653</b>	841
	<u><b>1,141,893</b></u>	<u>1,037,795</u>

### 5 INTEREST AND SIMILAR EXPENSE

	<i>2009 LL million</i>	<i>2008 LL million</i>
Due to central banks	<b>3,088</b>	3,859
Due to banks and financial institutions	<b>41,445</b>	56,082
Customers' deposits	<b>650,725</b>	571,423
Related parties' deposits	<b>8,376</b>	5,783
Debt issued and other borrowed funds	<b>22,108</b>	17,151
Subordinated notes	<b>29,090</b>	27,655
	<u><b>754,832</b></u>	<u>681,953</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 6 NET FEES AND COMMISSIONS INCOME

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
<b>Fees and commissions income:</b>		
Loans and advances commission	14,932	12,530
Letters of guarantee commission	13,736	12,261
Acceptances commission	6,877	6,133
Letters of credit commission	40,420	39,883
Credit cards commission	4,839	3,509
Domiciliation commission	1,526	1,353
Checks collection commission	2,206	2,061
Maintenance of accounts commission	7,504	7,282
Closing of accounts commission	59	554
Transfers commission	4,885	5,246
Safe rental commission	472	694
Portfolio commission	2,456	2,606
Insurance premiums' commission	11,524	8,889
Other commissions	9,058	5,716
Refund of banking services	9,079	8,002
	<u>129,573</u>	<u>116,719</u>
<b>Fees and commissions expense:</b>		
Brokerage fees	(8,556)	(5,108)
Other fees	(4,349)	(4,688)
	<u>(12,905)</u>	<u>(9,796)</u>
<b>Net fees and commissions income</b>	<u><u>116,668</u></u>	<u><u>106,923</u></u>

### 7 NET TRADING INCOME

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
Treasury bills and other governmental bills	13,392	(1,541)
Bonds and financial assets with fixed income	753	(2,880)
Shares, securities and financial assets with variable income	7,043	(6,409)
Dividends income	1,287	2,016
Gain on foreign exchange	15,213	18,197
	<u>37,688</u>	<u>9,383</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 8 NET GAIN ON FINANCIAL ASSETS

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
:		
Gain on sale of certificates of deposits classified as loans and receivables	1,704	1,331
Gain on sale of treasury bills and other governmental bonds classified as available-for-sale	651	10,626
(Loss) gain on sale of bonds and investments with fixed income classified as available-for-sale	706	140
Gain on sale of treasury bills and other governmental bonds classified as loans and receivables	6,391	-
Dividends income	5,012	2,374
	<u>14,464</u>	<u>14,471</u>

### 9 OTHER OPERATING INCOME

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Net gain on sale of assets acquired in settlement of debt	11,275	12,181
Rent income	850	842
Net gain on sale or disposal of property and equipment	860	72
Others	3,266	4,424
	<u>16,251</u>	<u>17,519</u>

### 10 CREDIT LOSS EXPENSE

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Provision constituted during the year:		
- Loans and advances (note 21)	9,555	6,135
- Doubtful bank accounts (note 17)	3,870	-
- Country risk (note 21)	470	696
- Collective provision (note 21)	20,504	4,851
Bad debts written off	217	230
	<u>34,616</u>	<u>11,912</u>
Provision recovered during the year against loans and advances recovered or upgraded (note 21)	<u>(8,371)</u>	<u>(6,478)</u>
	<u>26,245</u>	<u>5,434</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 11 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Financial investments – available-for-sale:		
-Bonds and investments with fixed income	1,117	5,503
-Shares, securities and financial assets with variable income	6,520	31,888
Financial investments – held-to-maturity:		
-Treasury bills and other governmental bills	100	309
-Bonds and investments with fixed income	3,773	-
Financial investments – Loans and receivables		
- Bonds and investments with fixed income	3,768	-
	<u>15,278</u>	<u>37,700</u>

### 12 PERSONNEL EXPENSES

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Salaries and related charges	111,156	101,286
Social security contributions	14,497	14,605
Provision for end of service benefits (Note 37)	3,686	7,252
	<u>129,339</u>	<u>123,143</u>

### 13 OTHER OPERATING EXPENSES

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Taxes on interest	8,070	4,171
Taxes and duties	7,825	4,792
Contribution to deposits guarantee fund	6,205	5,422
Rent and related charges	6,390	6,073
Consulting fees	6,235	7,440
Telecommunications and postage expenses	8,640	7,915
Board of Directors' attendance fees	1,046	1,150
Maintenance and repairs	9,939	9,697
Electricity and fuel	4,787	4,955
Travel and entertainment	4,630	4,766
Publicity and advertising	9,150	7,458
Subscriptions	2,877	2,614
Bonuses	16,719	13,585
Legal expenses	3,195	2,294
Insurance	1,558	1,051
Other operating expenses	12,247	14,825
	<u>109,513</u>	<u>98,208</u>

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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### 14 INCOME TAX EXPENSE

The reconciliation of the Group's income tax for the year ended 31 December 2009 and 2008 is as follows:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Net profit before income tax	265,831	222,123
Non-deductible expenses	13,268	24,261
Non-taxable revenue	(2,164)	(24,164)
Others	-	(216)
	<hr/>	<hr/>
Taxable income	276,935	222,004
Effective income tax rate	17.5%	17.2%
	<hr/>	<hr/>
Income tax reported in the consolidated income statement	46,410	38,208
Less: taxes on interest	(18,337)	(16,150)
Less: tax advances	(4,068)	-
	<hr/>	<hr/>
Net taxes due	24,005	22,058
	<hr/> <hr/>	<hr/> <hr/>
Current tax liability (note 34)	27,018	22,176

### 15 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Bank by the weighted average number of common shares (ordinary and priority) outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to common equity holders of the Bank (after adjusting for interest on the convertible subordinated notes) by the weighted average number of common shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table shows the calculations of the basic earnings per share:

	<i>2009</i>	<i>2008</i>
Weighted average number of shares outstanding during the period:		
- Common shares	216,721,108	216,862,160
- Priority shares	205,915,830	205,875,672
	<hr/>	<hr/>
	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Net profit for the year	206,628	172,285
(Less): Proposed dividends to preferred shares	(34,095)	(28,312)
	<hr/>	<hr/>
Net profit attributable to common shares (ordinary and priority)	172,533	143,973
(Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year 205,915,830 shares (2008: 205,875,672 shares)	(9,966)	(9,882)
	<hr/>	<hr/>
Net profits attributable to common shares (ordinary and priority shares)	162,567	134,091

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 15 EARNINGS PER SHARE (continued)

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Of which:		
Net profits attributable to priority shares (205,915,830 shares) (2008: 205,875,672 shares)	<b>79,205</b>	65,303
Net profits attributable to ordinary shares (216,721,108 shares) (2008: 216,862,160 shares)	<b>83,361</b>	68,788
Basic earnings per share in LL:		
- Common shares	<b>384.65</b>	317.19
- Priority shares	<b>433.05</b>	365.19

The following table shows the calculations of the diluted earnings per share for the year ended 31 December 2009 for common and priority shares:

	<i>2009</i> <i>LL million</i>
Net profit attributable to common shares (ordinary and priority) of the parent	<b>162,567</b>
Interest on convertible subordinated notes (note 38)	<b>22,057</b>
Less: income tax	<b>(3,309)</b>
Net profit attributable to common shares (ordinary and priority) of the parent adjusted for the effect of convertible subordinated notes	<b>181,315</b>
(Less): Net profit attributable to priority shares: 205,915,830 shares	<b>(74,742)</b>
Net profit attributable to ordinary shares of the parent adjusted for the effect of convertible subordinated notes	<b>106,573</b>
	<i>Number of shares 2009</i>
Weighted average number of ordinary shares for basic earnings per share	<b>216,721,108</b>
Effect of dilution:	
Convertible subordinated notes (Note 38)	<b>76,888,889</b>
Weighted average number of ordinary shares adjusted for the effect of dilution	<b>293,609,997</b>
Diluted earnings per common share in LL:	
- Ordinary shares	<b>362.97</b>
- Priority shares	<b>411.37</b>

For the year ended 31 December 2008, no figure for diluted earning per shares has been presented as the Bank's issued convertible financial instruments would have an anti-dilutive impact on earnings per share when exercised.

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these financial statements.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 16 CASH AND BALANCES WITH CENTRAL BANKS

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Cash on hand	<b>115,337</b>	109,623
Balances with the Bank of Lebanon:		
- Current Accounts	<b>763,485</b>	440,122
- Time Deposits	<b>1,341,675</b>	1,228,036
	<b>2,105,160</b>	1,668,158
Balances with Central Banks in other countries:		
- Current Accounts	<b>301,290</b>	232,320
- Time Deposits	<b>2,716</b>	3,002
- Statutory blocked fund	<b>6,056</b>	6,008
	<b>310,062</b>	241,330
Accrued interest receivable	<b>2,813</b>	4,868
	<b>2,533,372</b>	2,023,979

In accordance with the Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Bank of Lebanon an obligatory reserve and calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira.

In addition to the above, all banks operating in Lebanon are required to deposit with the Bank of Lebanon interest-bearing placements representing 15% of total deposits in foreign currencies regardless of nature.

Deposits with the Bank of Lebanon in coverage of obligatory reserve are as follows:

	<i>2009</i>			<i>2008</i>
	<i>LL million</i>	<i>Foreign currencies C/V LL million</i>	<i>Total LL million</i>	<i>Total LL million</i>
Current accounts	<b>661,217</b>	<b>102,268</b>	<b>763,485</b>	440,122
Time deposits	-	<b>1,341,675</b>	<b>1,341,675</b>	1,228,036
	<b>661,217</b>	<b>1,443,943</b>	<b>2,105,160</b>	1,668,158

Foreign subsidiaries are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they operate.

#### *Balances with the central banks in other countries*

Current accounts with Central Banks in other countries include obligatory reserve deposits with the Central Bank of Cyprus amounting to LL 2,659 million (2008: LL 3,764 million).

In accordance with the requirements of the Syrian Law statutory blocked fund of LL 6,056 million (2008: LL 6,008 million) represents non-interest bearing legal blocked deposit at the Central Bank of Syria.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 17 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	<b>2009</b> <i>LL million</i>	2008 <i>LL million</i>
Commercial banks:		
- Current accounts	<b>248,618</b>	210,212
- Time deposits	<b>2,878,609</b>	2,304,192
- Interest receivable	<b>6,009</b>	5,591
- Doubtful bank accounts	<b>6,183</b>	2,507
- Provision for doubtful bank accounts	<b>(6,183)</b>	(2,507)
	<b>3,133,236</b>	2,519,995
Financial institutions:		
- Current accounts	<b>5,847</b>	237
- Time deposits	-	2,200
- Interest receivable	-	2
	<b>5,847</b>	2,439
Registered exchange companies:		
- Current accounts	<b>3,400</b>	941
- Doubtful exchange companies accounts	<b>2,259</b>	2,259
- Provision for doubtful exchange companies accounts	<b>(2,259)</b>	(2,259)
	<b>3,400</b>	941
Brokerage companies:		
- Current accounts	-	2,455
	<b>3,142,483</b>	2,525,830

#### *Doubtful banks and registered exchange companies*

Following is the movement in the balances of doubtful banks and registered exchange companies and related provisions during the year:

	<b>2009</b>		2008	
	<i>Doubtful balances LL million</i>	<i>Provision LL million</i>	<i>Doubtful balances LL million</i>	<i>Provision LL million</i>
Balance at 1 January	4,766	4,766	12,916	12,916
Provision constituted	3,870	3,870	-	-
Write-off	(185)	(185)	(8,071)	(8,071)
Exchange difference	(9)	(9)	(79)	(79)
Balance at 31 December	<b>8,442</b>	<b>8,442</b>	4,766	4,766
Out of which				
- banks	6,183	6,183	2,507	2,507
- registered exchange companies	2,259	2,259	2,259	2,259
	<b>8,442</b>	<b>8,442</b>	4,766	4,766

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**18 FINANCIAL ASSETS GIVEN AS COLLATERAL AND REVERSE REPURCHASE AGREEMENTS**

	<b>2009</b>	2008
	<b>LL million</b>	LL million
Pledged time deposits	-	49,823
Treasury bills mortgaged in favor of the Central Bank as a guarantee for loans (note 30)	-	40,474
Governmental securities pledged under repurchase agreements	<b>1,193</b>	6,550
	<b>1,193</b>	96,847

**19 DERIVATIVE FINANCIAL INSTRUMENTS**

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

	<b>2009</b>			<b>2008</b>		
	<i>Assets</i> <b>LL million</b>	<i>Liabilities</i> <b>LL million</b>	<i>Notional amount</i> <b>LL million</b>	<i>Assets</i> <b>LL million</b>	<i>Liabilities</i> <b>LL million</b>	<i>Notional amount</i> <b>LL million</b>
Derivatives held for trading:						
Currency swaps	976	354	68,991	123	152	56,552
Forward foreign exchange contracts	1,811	1,217	180,300	14,478	13,761	247,781
Spot foreign exchange contracts	83	219	47,835	634	71	35,352
	<b>2,870</b>	<b>1,790</b>	<b>297,126</b>	<b>15,235</b>	<b>13,984</b>	<b>339,685</b>
Fair value of hedging instruments related to:						
Index linked notes (Note 33)	-	-	-	5,683	5,683	-
Commodity linked notes (Note 33)	-	-	-	41	41	-
Equity linked notes (Note 33)	9,354	9,354	-	9,158	9,158	-
	<b>9,354</b>	<b>9,354</b>	<b>-</b>	<b>14,882</b>	<b>14,882</b>	<b>-</b>
	<b>12,224</b>	<b>11,144</b>	<b>297,126</b>	<b>30,117</b>	<b>28,866</b>	<b>339,685</b>

*Forwards*

Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

*Swaps*

Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates as well as the contracted upon amounts for currency swaps.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

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**20 FINANCIAL ASSETS HELD FOR TRADING**

	<b>2009</b> <i>LL million</i>	<b>2008</b> <i>LL million</i>
Treasury bills and other governmental bills	<b>152,988</b>	169,115
Bonds and financial assets with fixed income	<b>22,565</b>	7,866
Shares, securities and financial assets with variable income	<b>24,918</b>	29,954
Accrued interest receivable on Treasury bills and other governmental bills	<b>3,252</b>	3,846
Accrued interest receivable on bonds and financial assets with fixed income	<b>405</b>	44
	<b>204,128</b>	210,825

The portfolio of Treasury bills and other governmental bills had the following maturities as of 31 December 2009 and 31 December 2008:

<b>2009</b>		<b>2008</b>	
<i>Maturity</i>	<i>Nominal Value</i> <i>LL million</i>	<i>Maturity</i>	<i>Nominal Value</i> <i>LL million</i>
Between one and three months	<b>647</b>	Between one and three months	-
Between three months and one year	<b>15,799</b>	Between three months and one year	76,716
Between one and five years	<b>82,422</b>	Between one and five years	57,611
More than five years	<b>41,542</b>	More than five years	36,016
Total	<b>140,410</b>	Total	170,343

The portfolio of bonds and financial assets with fixed income had the following maturities as of 31 December 2009 and 31 December 2008:

<b>2009</b>		<b>2008</b>	
<i>Maturity</i>	<i>Nominal Value</i> <i>LL million</i>	<i>Maturity</i>	<i>Nominal Value</i> <i>LL million</i>
Between three months and one year	<b>7,990</b>	Between three months and one year	-
Between one and five years	<b>12,753</b>	Between one and five years	8,442
More than five years	<b>2,060</b>	More than five years	126
	<b>22,803</b>		8,568

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31 December 2009

### 21 NET LOANS AND ADVANCES TO CUSTOMERS

Following is a comparison of loans and advances at 31 December 2009 and 2008:

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
Gross loans and advances	<b>5,091,844</b>	4,464,445
Accrued interest receivable	<b>11,661</b>	7,403
Interest received in advance	<b>(109,915)</b>	(89,558)
	<b>4,993,590</b>	4,382,290
Unrealized interest on substandard loans	<b>(5,749)</b>	(13,454)
Unrealized interest on doubtful and bad loans	<b>(58,091)</b>	(67,351)
Specific provision on doubtful and bad loans	<b>(56,800)</b>	(59,668)
Collective provisions	<b>(59,572)</b>	(41,964)
Provision for country risk	<b>(5,745)</b>	(5,206)
	<b>4,807,633</b>	4,194,647
Commercial loans	<b>3,697,970</b>	3,263,975
Other loans to customers	<b>1,248,282</b>	1,022,817
Substandard loans	<b>11,204</b>	27,027
Bad and doubtful loans (net)	<b>19,497</b>	23,607
Unrealized interest on substandard loans	<b>(5,749)</b>	(13,454)
Accrued interest receivable	<b>11,661</b>	7,403
Less: Interest received in advance	<b>(109,915)</b>	(89,558)
	<b>4,872,950</b>	4,241,817
Less:		
- Provision for country risk	<b>(5,745)</b>	(5,206)
- Collective provision	<b>(59,572)</b>	(41,964)
	<b>4,807,633</b>	4,194,647
Bad loans transferred to off balance sheet accounts:		
- Gross balance	<b>113,117</b>	121,244

#### *Breakdown of loans and advances to customers by economic sector*

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
Commercial	<b>1,390,838</b>	1,166,082
Industrial	<b>971,652</b>	876,259
Agriculture	<b>73,012</b>	91,242
Services	<b>600,990</b>	635,772
Construction	<b>631,983</b>	524,607
Retail	<b>1,280,309</b>	1,029,389
Other	<b>143,060</b>	141,094
	<b>5,091,844</b>	4,464,445

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

The loans and advances to customers are classified in accordance with the Bank of Lebanon main circular No. 58 as follows:

	2009					2008				
	<i>Gross balance LL million</i>	<i>Unrealized interest LL million</i>	<i>Specific provision LL million</i>	<i>Collective provision LL million</i>	<i>Net balance LL million</i>	<i>Gross balance LL million</i>	<i>Unrealized interest LL million</i>	<i>Specific provision LL million</i>	<i>Collective provision LL million</i>	<i>Net balance LL million</i>
- Good loans	4,718,506	-	-	-	4,718,506	4,037,805	-	-	-	4,037,805
- Watch loans	227,746	-	-	-	227,746	248,987	-	-	-	248,987
	<b>4,946,252</b>	-	-	-	<b>4,946,252</b>	4,286,792	-	-	-	4,286,792
- Substandard loans	11,204	(5,749)	-	-	5,455	27,027	(13,454)	-	-	13,573
- Doubtful loans	61,066	(21,087)	(20,482)	-	19,497	88,049	(38,671)	(25,771)	-	23,607
- Bad loans	73,322	(37,004)	(36,318)	-	-	62,577	(28,680)	(33,897)	-	-
	<b>5,091,844</b>	<b>(63,840)</b>	<b>(56,800)</b>	-	<b>4,971,204</b>	4,464,445	(80,805)	(59,668)	-	4,323,972
Less:										
- Provision for country risk	-	-	-	(5,745)	(5,745)	-	-	-	(5,206)	(5,206)
- Collective provision	-	-	-	(59,572)	(59,572)	-	-	-	(41,964)	(41,964)
Accrued interest receivable	11,661	-	-	-	11,661	7,403	-	-	-	7,403
Less: Interest received in advance	(109,915)	-	-	-	(109,915)	(89,558)	-	-	-	(89,558)
	<b>4,993,590</b>	<b>(63,840)</b>	<b>(56,800)</b>	<b>(65,317)</b>	<b>4,807,633</b>	4,382,290	(80,805)	(59,668)	(47,170)	4,194,647

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off balance sheet accounts. The gross balance of these loans amounted to LL 113,117 million as of 31 December 2009 (2008: LL 121,244 million).

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## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

*Bad and doubtful loans (net)*

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Financial position accounts:		
Gross amount of bad and doubtful loans	<b>134,388</b>	150,626
Unrealized interest	<b>(58,091)</b>	(67,351)
Specific provision	<b>(56,800)</b>	(59,668)
Net amount of bad and doubtful loans	<b>19,497</b>	23,607

Movement of unrealized interest on doubtful and bad loans during the years ended 31 December was as follows:

	<i>2009</i>		
	<i>Commercial loans LL million</i>	<i>Retail loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	67,249	102	67,351
Add (less):			
- Unrealized interest on doubtful and bad loans	7,405	140	7,545
- Recovery of unrealized interest	(12,383)	-	(12,383)
- Unrealized interest used to write off doubtful and bad loans	(7,899)	-	(7,899)
- Recovery of unrealized interest on bad loans previously transferred to off balance sheet	3,252	-	3,252
- Difference of exchange	225	-	225
Balance at 31 December	<b>57,849</b>	<b>242</b>	<b>58,091</b>
	<i>2008</i>		
	<i>Commercial loans LL million</i>	<i>Retail loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	73,008	-	73,008
Add (less):			
- Unrealized interest on doubtful and bad loans	12,433	97	12,530
- Recovery of unrealized interest	(5,363)	-	(5,363)
- Unrealized interest used to write off doubtful and bad loans	(10,063)	-	(10,063)
- Transfer from substandard loans	(45)	-	(45)
- Transfer to substandard loans	4,895	-	4,895
- Recovery of unrealized interest on bad loans previously transferred to off balance sheet	1,927	-	1,927
- Unrealized interest relating to bad loans transferred to off balance sheet accounts	(9,309)	-	(9,309)
- Difference of exchange	(234)	5	(229)
Balance at 31 December	<b>67,249</b>	<b>102</b>	<b>67,351</b>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of provision for doubtful and bad loans during the years ended 31 December was as follows:

	<i>2009</i>		
	<i>Commercial loans LL million</i>	<i>Retail loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	54,952	4,716	59,668
Add (less):			
- Transfer from general provisions	815	-	815
- Provisions recorded during the year (Note 10)	6,502	3,053	9,555
- Transfer to legal fees	(192)	-	(192)
- Provision relating to bad loans transferred to off balance sheet accounts	2,289	-	2,289
- Provisions used to write off doubtful and bad loans	(6,743)	(34)	(6,777)
- Recovery of provisions (Note 10)	(7,635)	(736)	(8,371)
- Difference of exchange	(195)	8	(187)
Balance at 31 December	<u>49,793</u>	<u>7,007</u>	<u>56,800</u>
	<i>2008</i>		
	<i>Commercial loans LL million</i>	<i>Other customers loans LL million</i>	<i>Total LL million</i>
Balance at 1 January	60,767	4,923	65,690
Add (less):			
- Transfer to general provisions	(914)	-	(914)
- Provisions recorded during the year (Note 10)	5,427	708	6,135
- Provision transferred upon acquisition of the net assets of Unicredit Banca Di Roma SpA – Beirut Branch	7,439	-	7,439
- Provision relating to bad loans transferred to off balance sheet accounts	(9,821)	-	(9,821)
- Provisions used to write off doubtful and bad loans	(4,584)	(70)	(4,654)
- Recovery of provisions (Note 10)	(3,238)	(3,240)	(6,478)
- Recovery of provisions on bad loans previously transferred to off balance sheet accounts	-	2,435	2,435
- Difference of exchange	(124)	(40)	(164)
Balance at 31 December	<u>54,952</u>	<u>4,716</u>	<u>59,668</u>

The fair value of the collateral held against individually impaired loans as at 31 December 2009 amounted to LL 54,287 million (2008: LL 47,932 million):

#### *Collective provision for credit losses*

	<i>2009 LL million</i>	<i>2008 LL million</i>
Provisions accounted by Byblos Bank SAL	35,306	21,574
Provisions constituted by Byblos Bank Syria	1,073	-
Provisions constituted by Byblos Bank Africa	15,711	12,891
Provisions constituted by Byblos Bank Europe SA	5,946	6,937
Provisions constituted by Byblos Bank Armenia	1,536	562
	<u>59,572</u>	<u>41,964</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of collective provision during the years ended 31 December

	<b>2009</b> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Balance at 1 January	41,964	37,203
Add (less):		
Provisions constituted during the year (note 10)	20,504	4,851
Provisions transferred (to) from specific clients during the year	(815)	914
Transfer to provision for risks and charges	(1,065)	-
Difference of exchange	(1,016)	(1,004)
Balance at 31 December	<u>59,572</u>	<u>41,964</u>

*Provision for country risk*

	<b>2009</b> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Balance at 1 January	5,206	4,698
Provision constituted during the year (Note 10)	470	696
Difference of exchange	69	(188)
Balance at 31 December	<u>5,745</u>	<u>5,206</u>

*Bad loans transferred to off balance sheet accounts in accordance with Banking Control Commission Circular No. 240*

	<i>Loan amount</i> <i>LL million</i>	<i>Specific provision</i> <i>LL million</i>	<i>Unrealized interest</i> <i>LL million</i>	<i>Net balance</i> <i>LL million</i>
<b>31 December 2009</b>				
Balance at 1 January 2009	121,244	64,967	56,277	-
Loans settled during the year	(5,541)	(2,289)	(3,252)	-
Interest on off balance sheet loans	(7,730)	(3,926)	(3,804)	-
Interest charged on off balance sheet loans	4,741	-	4,741	-
Difference of exchange	403	184	219	-
Balance at 31 December 2009	<u>113,117</u>	<u>58,936</u>	<u>54,181</u>	<u>-</u>

31 December 2009

**21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)**

<i>31 December 2008</i>	<i>Loan amount LL million</i>	<i>Specific provision LL million</i>	<i>Unrealized interest LL million</i>	<i>Net balance LL million</i>
Balance at 1 January 2008	113,690	61,361	52,329	-
Loans settled during the year	(4,362)	(2,435)	(1,927)	-
Loans written off during the year	(9,743)	(4,706)	(5,037)	-
Bad loans transferred to off balance sheet during the year	19,130	9,821	9,309	-
Bad loans transferred upon acquisition of the net assets Unicredit Banca Di Roma SpA - Beirut Branch	2,947	1,319	1,628	-
Difference of exchange	(418)	(393)	(25)	-
Balance at 31 December 2008	<u>121,244</u>	<u>64,967</u>	<u>56,277</u>	<u>-</u>

**22 BANK ACCEPTANCES**

	<i>2009 LL million</i>	<i>2008 LL million</i>
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances discounted by the Group without recourse to the beneficiary	<b>13,877</b>	13,877
- Other acceptances	<b>322,027</b>	270,591
	<u><b>335,904</b></u>	<u>284,468</u>

Customers' acceptances represent documentary credits, which the Group has committed to settle on behalf of its clients, against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the balance sheet for the same amount.

**23 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS**

	<i>2009 LL million</i>	<i>2008 LL million</i>
Lebanese treasury bills and other governmental bills	<b>1,516,505</b>	1,072,398
Bonds and financial assets with fixed income	<b>161,668</b>	116,782
Shares, securities and financial assets with variable income	<b>74,152</b>	59,346
Accrued interest receivable	<b>41,215</b>	31,757
	<u><b>1,793,540</b></u>	<u>1,280,283</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 23 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS (continued)

The portfolio of Lebanese treasury bills and other governmental bills had the following maturities as of 31 December 2009 and 2008:

<i>2009</i>		<i>2008</i>	
<i>Maturity</i>	<i>Nominal Value LL million</i>	<i>Maturity</i>	<i>Nominal Value LL million</i>
Within one month	1,708	Within one month	-
Between one and three months	4,344	Between one and three months	7,366
Between three months and one year	6,170	Between three months and one year	22,225
Between one and five years	1,138,930	Between one and five years	1,002,123
More than five years	275,556	More than five years	44,003
Total	<u>1,426,708</u>	Total	<u>1,075,717</u>

The portfolio of bonds and financial assets with fixed income had the following maturities as of 31 December 2009 and 2008:

<i>2009</i>		<i>2008</i>	
<i>Maturity</i>	<i>Nominal Value LL million</i>	<i>Maturity</i>	<i>Nominal Value LL million</i>
Between three months and one year	17,882	Between three months and one year	31,685
Between one and five years	132,893	Between one and five years	95,940
More than five years	9,301	More than five years	6,659
Total	<u>160,076</u>	Total	<u>134,284</u>

### 24 FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

	<i>2009 LL million</i>	<i>2008 LL million</i>
Certificates of deposits	3,267,756	2,181,923
Lebanese treasury bills and other governmental bills	2,820,948	1,907,264
Bonds and financial assets with fixed income	176,061	178,775
Loans to banks and financial institutions	104,998	222,178
Discounted acceptances	196,780	26,595
Interest received in advance	(2,655)	(1,630)
Accrued interest receivable	118,082	104,000
	<u>6,681,970</u>	<u>4,619,105</u>

The portfolio of certificates of deposit had the following maturities as of 31 December 2009 and 2008:

<i>2009</i>		<i>2008</i>	
<i>Maturity</i>	<i>Nominal Value LL million</i>	<i>Maturity</i>	<i>Nominal Value LL million</i>
Between one and three months	22,621	Between one and three months	-
Between three months and one year	11,877	Between three months and one year	157,017
Between one and five years	2,716,733	Between one and five years	1,888,554
More than five years	501,474	More than five years	128,526
Total	<u>3,252,705</u>	Total	<u>2,174,097</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 24 FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES (continued)

The portfolio of Lebanese Treasury bills and other governmental bills, classified as loans and receivables, had the following maturities as of 31 December 2009 and 31 December 2008:

<i>2009</i>		<i>2008</i>	
<i>Maturity</i>	<i>Nominal Value LL million</i>	<i>Maturity</i>	<i>Nominal Value LL million</i>
Less than one month	<b>50,000</b>	Less than one month	-
Between one and three months	<b>430,600</b>	Between one and three months	25,000
Between three months and one year	<b>424,641</b>	Between three months and one year	476,775
Between one and five years	<b>1,153,101</b>	Between one and five years	557,133
More than five years	<b>820,450</b>	More than five years	901,955
Total	<b>2,878,792</b>	Total	1,960,863

The portfolio of bonds and financial assets with fixed income, classified as loans and receivables, had the following maturities as of 31 December 2009 and 2008:

<i>2009</i>		<i>2008</i>	
<i>Maturity</i>	<i>Nominal Value LL million</i>	<i>Maturity</i>	<i>Nominal Value LL million</i>
Between one and five years	<b>21,859</b>	Between one and five years	5,276
More than five years	<b>163,112</b>	More than five years	179,693
Total	<b>184,971</b>	Total	184,969

### 25 HELD TO MATURITY FINANCIAL INSTRUMENTS

	<i>2009 LL million</i>	<i>2008 LL million</i>
Lebanese treasury bills and other governmental bills	<b>493,582</b>	1,191,968
Bonds and financial assets with fixed income	<b>54,224</b>	71,322
Accrued interest receivable	<b>16,834</b>	36,356
	<b>564,640</b>	1,299,646

The portfolio of Lebanese treasury bills and other governmental bills had the following maturities as of 31 December 2009 and 31 December 2008:

<i>2009</i>		<i>2008</i>	
<i>Maturity</i>	<i>Nominal Value LL million</i>	<i>Maturity</i>	<i>Nominal Value LL million</i>
Within one month	-	Within one month	71,000
Between one and three months	<b>33,094</b>	Between one and three months	153,244
Between three months and one year	<b>167,790</b>	Between three months and one year	567,349
Between one and five years	<b>192,364</b>	Between one and five years	287,185
More than five years	<b>103,565</b>	More than five years	118,490
Total	<b>496,813</b>	Total	1,197,268

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 25 HELD TO MATURITY FINANCIAL INSTRUMENTS (continued)

The portfolio of bonds and financial assets with fixed income had the following maturities as of 31 December 2009 and 31 December 2008:

2009		2008	
<i>Maturity</i>	<i>Nominal Value LL million</i>	<i>Maturity</i>	<i>Nominal Value LL million</i>
Between three months and one year	-	Between three months and one year	14,216
Between one and five years	29,146	Between one and five years	28,733
More than five years	31,356	More than five years	31,356
Total	60,502	Total	74,305

### 26 PROPERTY AND EQUIPMENT

	<i>Buildings LL million</i>	<i>Motor vehicles LL million</i>	<i>Furniture and equipment LL million</i>	<i>Deposits LL million</i>	<i>Advance payments LL million</i>	<i>Total LL million</i>
Cost and Revaluation:						
At 1 January 2009	204,063	3,672	114,956	1,348	23,843	347,882
Additions during the year	20,654	886	21,938	106	9,303	52,887
Transfers	9,442	-	10,346	-	(19,788)	-
Disposal of fixed assets	(1,052)	(1,009)	(1,549)	-	(49)	(3,659)
Foreign exchange difference	(1,669)	(84)	(234)	(1)	(528)	(2,516)
At 31 December 2009	231,438	3,465	145,457	1,453	12,781	394,594
Depreciation:						
At 1 January 2009	27,973	1,870	74,718	-	-	104,561
Depreciation during the year	5,760	779	18,465	-	-	25,004
Impairment of fixed assets	581	-	-	-	-	581
Related to transfers	(3)	-	3	-	-	-
Related to disposals of other fixed assets	(378)	(716)	(1,177)	-	-	(2,271)
Foreign exchange difference	(78)	(27)	86	-	-	(19)
At 31 December 2009	33,855	1,906	92,095	-	-	127,856
Net carrying value:						
At 31 December 2009	197,583	1,559	53,362	1,453	12,781	266,738
Cost and Revaluation:						
At 1 January 2008	172,465	3,032	96,284	422	9,841	282,044
Additions during the year	19,209	895	19,491	13	19,149	58,757
Transfers upon acquisition of net assets of Unicredit Banca Di Roma SpA – Beirut Branch	8,151	-	428	14	-	8,593
Transfers	3,850	-	615	912	(5,377)	-
Disposal of fixed assets	-	(236)	(1,204)	(5)	-	(1,445)
Foreign exchange difference	388	(19)	(658)	(8)	230	(67)
At 31 December 2008	204,063	3,672	114,956	1,348	23,843	347,882
Depreciation:						
At 1 January 2008	23,875	1,540	64,282	-	-	89,697
Depreciation during the year	4,172	493	12,332	-	-	16,997
Related to disposals of other fixed assets	-	(150)	(1,051)	-	-	(1,201)
Foreign exchange difference	(75)	(13)	(845)	-	-	(933)
At 31 December 2008	27,972	1,870	74,718	-	-	104,560
Net carrying value:						
At 31 December 2008	176,091	1,802	40,238	1,348	23,843	243,322

The cost of buildings at 31 December 2009 and 2008 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 26 PROPERTY AND EQUIPMENT (continued)

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity are as follows:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
- Revaluation difference recognized in the complementary shareholders' equity (Tier II) (note 40)	1,978	1,978
- Revaluation difference of other fixed assets (note 40)	3,711	3,711
	<u>5,689</u>	<u>5,689</u>

### 27 INTANGIBLE ASSETS

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Key money		
Cost:		
At 1 January and 31 December	1,637	1,637
Accumulated amortization:		
At 1 January	563	438
Amortization expense for the year	340	125
At 31 December	<u>903</u>	<u>563</u>
Net book value:		
At 31 December	<u>734</u>	<u>1,074</u>

### 28 NON-CURRENT ASSETS HELD-FOR-SALE

Other non-current assets held-for-sale represent assets acquired in settlement of bad loans and advances to customers. Movement of other non-current assets held for sale and related impairment during the years 2009 and 2008 is as follows:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Cost:		
At 1 January	51,267	56,140
Additions during the year	826	5,719
Disposal	(8,367)	(10,592)
At 31 December	<u>43,726</u>	<u>51,267</u>
Impairment :		
At 1 January	(5,159)	(4,751)
Addition during the year	-	(408)
At 31 December	<u>(5,159)</u>	<u>(5,159)</u>
Net carrying value:		
At 31 December	<u>38,567</u>	<u>46,108</u>

Liabilities linked to held-for-sale assets in the amount of LL 1,995 million represent advance payments received in connection with future sale transactions for the above assets (2008: LL 1,720 million).

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 29 OTHER ASSETS

		<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Miscellaneous assets		-	126
Obligatory financial assets	a	2,250	2,250
Blocked deposit	b	2,500	2,500
Regularization accounts	c	65,760	55,943
Doubtful debtor accounts	d	72	241
Provision on doubtful debtor accounts		(37)	(186)
		<u>70,545</u>	<u>60,874</u>

- a) Obligatory financial assets consist of a deposit amounting to 15% of the share capital of subsidiary bank that was blocked at incorporation as a guarantee with the Lebanese Treasury Department. This deposit shall be returned to the subsidiary bank without any interest upon liquidation of its activities.
- b) Blocked deposit is maintained with the Bank of Lebanon in favor of the Ministry of Finance and was transferred to the Bank upon the acquisition of the net assets of Unicredit Banca Di Roma SpA – Beirut Branch. This deposit, which is denominated in Lebanese Lira and does not earn any interest, was released in 2010.
- c) Regularization accounts as of 31 December comprise of the following:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Prepaid rent	2,928	2,719
Printings and stationery	3,263	3,307
Cash in the automated teller machines (ATM)	22,450	24,736
Credit card balances due from customers	7,637	5,018
Revaluation variance of structural position	-	15
Insurance premiums receivable	4,207	2,947
Reinsurers' share of technical reserve of subsidiary insurance company	14,325	9,541
Other debit balances	10,950	7,660
	<u>65,760</u>	<u>55,943</u>

- d) Movement of the doubtful debtors accounts and related provisions during the year is as follows:

	<i>2009</i>		<i>2008</i>	
	<i>Balance</i> <i>LL million</i>	<i>Provision</i> <i>LL million</i>	<i>Balance</i> <i>LL million</i>	<i>Provision</i> <i>LL million</i>
Balance at 1 January	241	186	8,796	8,774
Debts recovered	(20)	-	-	-
Write off	(149)	(149)	(8,555)	(8,588)
Balance at 31 December	<u>72</u>	<u>37</u>	<u>241</u>	<u>186</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 30 DUE TO CENTRAL BANKS

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Soft loan from the Bank of Lebanon	-	40,000
Less: Difference from valuation at net present value of the soft loan and the treasury bills financed by the soft loan amortised on a straight line basis over the loan period (81 months) in monthly installments of LL 165 million each	-	(1,485)
	<u>-</u>	<u>38,515</u>
Current account due to Central Bank of Syria	<b>4,308</b>	30,256
Current account due to Central Bank of Sudan	<b>6,250</b>	6,700
	<u><b>10,558</b></u>	<u>36,956</u>
Loan due to the Central Bank of Armenia	<b>1,142</b>	8,185
Accrued interest payable	<b>4</b>	-
	<u><b>1,146</b></u>	<u>8,185</u>
	<u><b>11,704</b></u>	<u>83,656</u>

#### *LL 40 Billion Loan*

This loan represents facilities granted on 15 November 2001 by the Central Committee of the Bank of Lebanon following the Bank's acquisition of Wedge Bank Middle East SAL.

This loan was originally secured by the pledge of two-year Lebanese treasury bills renewed on each maturity with an interest rate equivalent to 60% of the notional interest on one-year treasury bills acquired in the primary market. As of 31 December 2008, the loan was secured by pledged one-year Lebanese treasury bills with a nominal value of LL million 43,080 and an amortized cost of LL 40,474 million (note 18). Interest was fixed in the first two years after utilization of the loan. Starting from the third year, interest was determined according to the effective yield of one-year treasury bills traded in the primary market less 6.326%, provided that the interest rate did not fall below 60% of the notional interest on one-year Lebanese treasury bills traded in the international markets. Interest was capitalized and paid quarterly till maturity.

The 8-year loan matured and was fully settled on 15 November 2009.

### 31 DUE TO BANKS AND FINANCIAL INSTITUTIONS

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Commercial banks:		
- Current accounts	<b>369,179</b>	373,456
- Time deposits	<b>755,553</b>	567,013
- Medium term loans	<b>287,390</b>	295,924
- Accrued interest payable	<b>7,456</b>	8,820
	<u><b>1,419,578</b></u>	<u>1,245,213</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 31 DUE TO BANKS AND FINANCIAL INSTITUTIONS (continued)

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
Financial institutions:		
- Current account	13	13
- Term loans	194,470	172,485
- Time deposits	52,272	35,489
- Accrued interest payable	5,558	4,003
- Less: Cost to be amortized over the loan period	(1,122)	(1,317)
	<u>251,191</u>	<u>210,673</u>
Registered exchange companies:		
- Current accounts	1,632	2,955
- Time deposits	3,354	3,290
- Accrued interest Payable	52	23
	<u>5,038</u>	<u>6,268</u>
Brokerage Institutions:		
- Current accounts	-	107
	<u>1,675,807</u>	<u>1,462,261</u>

### 32 CUSTOMERS' DEPOSITS

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
Current accounts	1,916,710	1,915,683
Term deposits	12,740,834	9,933,340
Blocked deposits	639,064	594,445
Accrued interest payable	69,746	56,940
	<u>15,366,354</u>	<u>12,500,408</u>

### 33 DEBT ISSUED AND OTHER BORROWED FUNDS

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
<b>Certificates of deposit</b>		
Nominal value: US\$ (000) 141,600 (2008: US\$ (000) 77,920)	213,462	117,464
Accrued interest payable: US\$ (000) 26 (2008: US\$ (000) 2,558)	39	3,856
Issuing cost to be amortized: US\$ (000) nil (2008: US\$ (000) 49)	-	(74)
	<u>213,501</u>	<u>121,246</u>
<b>Index linked notes</b>		
Issuance value: US\$ (000) nil (2008: US\$ (000) 49,430)	-	74,516
Discount to be amortized over the period of the notes: US\$ (000) nil (2008: US\$ (000) 4,338)	-	(6,540)
	<u>-</u>	<u>67,976</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 33 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
<b>Equity linked notes</b>		
Issuance value: US\$ (000) 49,414 (2008: US\$ (000) 49,414)	<b>74,491</b>	74,491
Discount to be amortized over the period of the notes: US\$ (000) 4,234 (2008: US\$ (000) 4,932)	<b>(6,383)</b>	(7,435)
Accrued interest payable: US\$ (000) nil (2008: US\$ (000) 1,676)	-	2,527
	<b>68,108</b>	69,583
<b>Commodity linked notes</b>		
Issuance value: US\$ (000) nil (2008: US\$ (000) 6,371)	-	9,604
Discount to be amortized over the period of the notes: US\$ (000) nil (2008: US\$ (000) 567)	-	(854)
	-	8,750
	<b>281,609</b>	267,555
<i>Interest and similar expense:</i>		
- Certificates of deposit:		
- Interest: US\$ (000) 9,754 (2008: US\$ (000) 5,079)	<b>14,630</b>	7,656
- Add: Amortization of issuing cost: US\$ (000) 49 (2008: US\$ (000) 90)	<b>74</b>	136
	<b>14,704</b>	7,792
- Index linked notes:		
- Interest: US\$ (000) nil (2008: US\$ (000) 2,895)	-	4,364
- Add (less): Amortization of Bank's gain resulting from the perfect hedge of the index linked notes: US\$ (000) 1,830 (2008: US\$ (000) 56)	<b>2,759</b>	(84)
	<b>2,759</b>	4,280
- Equity linked notes:		
- Interest: US\$ (000) 2,194 (2008: US\$ (000) 3,979)	<b>3,307</b>	5,999
- Add (less): amortization of the Bank's gain resulting from perfect hedge of the equity linked notes: US\$ (000) 650 (2008: US\$ (000) 949)	<b>980</b>	(1,430)
	<b>4,287</b>	4,569
- Commodity linked notes:		
- Interest US\$ (000) nil (2008: US\$ (000) 365)	-	550
- Add (less): amortization of the Bank's gain resulting from perfect hedge of the commodity linked notes: US\$ (000) 237 (2008: US\$ (000) 27)	<b>358</b>	(40)
	<b>358</b>	510
	<b>22,108</b>	17,151

## Byblos Bank SAL

### NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

#### 33 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

##### *Certificates of deposit – series 2009*

On 31 March 2009, Byblos Bank SAL issued two series of Certificates of deposit with a total nominal value of US\$ (000) 141,600 detailed as follows:

##### First series:

Amount: US\$ (000) 101,150

Interest: Fixed at an annual rate of 6.5% payable every three months with the first interest due on 1 July 2010, not subject to withholding taxes.

Maturity: 31 March 2012

##### Second series:

Amount: US \$ (000) 40,450

Interest: Fixed at an annual rate of 7.25% payable every three months with the first interest due on 1 July 2010, not subject to withholding taxes.

Maturity: 31 March 2014.

##### *Certificate of deposit – series 2004*

On 1 July 2004, Byblos Bank SAL issued certificates of deposit in the amount of US\$ (000) 78,054. The certificates of deposit are subject to the following conditions:

Interest: Fixed at an annual rate of 6.5% payable every six months with the first interest due on 1 January 2005, not subject to withholding taxes.

The cost of issuing the certificates amounted to US\$ (000) 490, to be amortized until maturity, of which US\$ (000) 49 was amortized during 2009 (2008: US\$ (000) 90).

The certificates of deposit matured on 1 July 2009.

##### *Index Linked Notes*

The Index Linked Notes issued on 8 October 2004 amounted to US\$ 50 million. The Index Linked Notes are subject to the following conditions:

- The notes mature on 9 October 2009;
- The notes benefit during the period of the investment from interest at an annual rate of 7% exempted from taxes and payable every six months during the first four years,
- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of 6 international markets indices.

The Bank perfectly hedged the Index Linked Notes. The cost of the hedge amounted to US\$ (000) 1,873 and the cost of issuing the Index Linked Notes amounted to US\$ (000) 250. The fair value of the hedging instrument receivable from the issuer and payable to the owners of the Index Linked Notes was LL 5,683 million as of 31 December 2008. In 2009, the Bank settled to the note holders the fair value of the hedging instrument in the amount of LL 6,491 million (US\$ (000) 4,306).

The gain from the perfect hedge transaction amounted to US\$ (000) 467 to be amortized with the interest over the period of the notes (5 years). Accordingly, the effective annual interest rate of the Index Linked Notes is 5.83%.

The notes matured and were settled on 9 October 2009.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 33 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

#### *Equity Linked Notes*

The Equity Linked Notes issued on 1 August 2005 by Byblos Invest Bank SAL amounted to US\$ 50 million are subject to the following conditions:

- The notes mature on 4 August 2010,
- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable every six months during the first four years,
- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of stocks.

The Bank perfectly hedged the Equity Linked Notes. The cost of the hedge amounted to US\$ (000) 1,764 and the cost of issuing the Equity Linked Notes amounted to US\$ (000) 169. The fair value of the hedging instrument receivable from the issuer and payable to the owners of the Equity Linked Notes amounted to LL 9,354 million as at 31 December 2009 (2008: LL 9,158 million) (note 19).

The gain from the perfect hedge transaction amounted to US\$ (000) 567 to be amortized with the interest over the period of the notes (5 years). Accordingly, the effective annual interest rate of the Equity Linked Notes is 6.67%.

#### *Commodity Linked Notes*

The Commodity Linked Notes issued on 12 September 2006 by the Bank amounted to US\$ (000) 6,563. The Commodity Linked Notes are subject to the following conditions:

- The notes mature on 12 September 2009;
- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable quarterly during the first two years starting 12 December 2006,
- 95% of the initial investment is guaranteed at maturity, with an interest rate of 16% for the third year if the performance of the index of five commodities is positive.

The Bank perfectly hedged the Commodity Linked Notes. The cost of the hedge amounted to US\$ (000) 299 and the cost of issuing the Commodity Linked Notes amounted to US\$ (000) 14. The fair value of the hedging instrument receivable from the issuer and payable to the owners of the Commodity Linked Notes was LL 41 million as of 31 December 2008. In 2009, the fair value of the hedging instrument was negative and accordingly the notes didn't generate any additional return to their holders.

The gain of the Bank from the perfect hedge transaction amounted to US\$ (000) 15 to be amortized with the interest over the period of the notes (3 years). Accordingly, the effective annual interest rate of the Commodity Linked Notes is 5.68%.

The notes matured and were settled on 12 September 2009.

### 34 CURRENT TAX LIABILITY

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
Taxes payable:		
- Income tax on profit (note 14)	<b>27,018</b>	22,176
- Tax on services	<b>669</b>	385
- Tax on dividends	<b>2,207</b>	7
- Tax on salaries and wages	<b>1,226</b>	1,382
- Tax on Board of Directors' attendance fees	<b>137</b>	58
- Tax on interest	<b>4,815</b>	4,126
- Value added tax	<b>350</b>	70
- Other taxes	<b>3,790</b>	1,792
	<b>40,212</b>	29,996

31 December 2009

**35 OTHER LIABILITIES**

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Payables to National Social Security Fund	1,338	1,355
Other creditors <span style="float: right;">a</span>	73,222	92,897
Due to shareholders	749	847
Margins against documentary letters of credit and acceptances	160,860	95,960
	<u>236,169</u>	<u>191,059</u>

*a) Other Creditors*

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Unearned commission and interest	3,177	2,386
Other accrued charges	27,418	26,946
Foreign currencies regularization accounts (financial instruments)	235	220
Cash margin related to companies under establishment	1,834	3,817
Insurance premium received in advance	1,209	18,269
Pending balances with banks	4,310	2,821
Partial payments received on due bills	6,715	10,561
Withdrawals due to Automated Teller Machines (Maestro Cards)	7,598	7,194
Other credit balances transferred upon the acquisition of Unicredit Banca		
Di Roma Spa – Beirut Branch	-	4,762
Fixed assets suppliers	3,393	2,457
Due to holders of Certificates of Deposit issued by the bank and matured during 2009	4,123	-
Certified checks issued	4,457	2,346
Due to reinsurance companies	2,837	1,246
Other creditors	5,916	9,872
	<u>73,222</u>	<u>92,897</u>

**36 PROVISIONS FOR RISKS AND CHARGES**

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Provision for foreign currency fluctuation	782	517
Technical reserves of insurance company	60,571	26,953
Other provisions	5,601	3,121
	<u>66,954</u>	<u>30,591</u>

*Provision for foreign currency fluctuation*

According to the Bank of Lebanon's main circular No 32, the net trading foreign exchange position should not exceed 1% of the Bank's Tier I capital. In addition, the Bank should set up a provision to cover the potential loss on the net trading position calculated at 5% of the net trading foreign exchange position. The provision set up in 2009 amounted to LL 265 million (2008: LL 63 million).

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 37 END OF SERVICE BENEFITS

	<b>2009</b>	<b>2008</b>
	<b>LL million</b>	<b>LL million</b>
Balance at 1 January	27,478	20,575
Add (less):		
Provision constituted during the year (note 12)	3,686	7,252
End of service benefits paid during the year	(2,888)	(349)
Balance at 31 December	<u>28,276</u>	<u>27,478</u>

### 38 SUBORDINATED NOTES

		<b>2009</b>	<b>2008</b>
		<b>LL million</b>	<b>LL million</b>
Convertible subordinated notes	a	251,379	248,061
Subordinated notes	b	48,255	48,142
Total		<u>299,634</u>	<u>296,203</u>

#### a) Convertible subordinated notes

On 20 November 2007, the Bank signed a US\$ 200 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US\$ 200 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

Number of notes:	200
Note's issue price:	US\$ 1,000,000
Note's nominal value:	US\$ 1,000,000
Date of issue:	20 November 2007
Maturity:	30 November 2012, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US\$ 2.25 per share.
Interest rate:	Contractual interest rate of 6.5% payable semi-annually, but excluding the equity conversion option.
Rights of holders:	The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's on any quarterly conversion date falling on 31 March, 30 June, 30 September or 31 December in any year during the term of the subordinated loan or on the loan maturity date at a conversion price of US\$ 2.25 per share.

The convertible subordinated notes have been recorded at initial recognition on 20 November 2007 as follows:

	<i>LL million</i>	<i>USD (000)</i>
Nominal value of convertible bonds	301,500	200,000
Equity component	(20,809)	(13,804)
Liability component	<u>280,691</u>	<u>186,196</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 38 SUBORDINATED NOTES (continued)

At 31 December, convertible subordinated notes were recorded as follows:

	2009		2008	
	LL million	USD (000)	LL million	USD (000)
Nominal value of the convertible notes	260,798	173,000	260,798	173,000
Equity component	(18,040)	(11,967)	(18,040)	(11,967)
Liability component	242,758	161,033	242,758	161,033
Add:				
- Accrued interest payable	1,931	1,281	1,931	1,281
- Amortization of discount	6,690	4,438	3,372	2,237
Amortized cost at 31 December	251,379	166,752	248,061	164,551

The equity component of the convertible subordinated notes is recorded in equity under "capital reserves" (note 42).

#### Conversion of subordinated notes into shares

During 2008, convertible notes with a nominal value of USD (000) 27,000 were converted to Byblos Bank SAL ordinary shares at a price of USD 2.25 per share (refer to note 39).

#### b) Subordinates notes

	2009		2008	
	LL million	US\$ (000)	LL million	US\$ (000)
31,169 notes at US\$ 1,000 each maturing on 30 June 2012 with an annual yield not to exceed 15% of the principal amount, detailed as follows:				
- Annual yield of 9% compounded and paid quarterly				
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and deducting taxes	46,988	31,169	46,988	31,169
Less: Issuing cost of US\$ (000) 836 to be amortized till maturity	(102)	(67)	(141)	(94)
Amortized cost	46,886	31,102	46,847	31,075
Add: Yield payable	1,369	908	1,295	859
	48,255	32,010	48,142	31,934

The subordinated notes' original issue on 1 July 2002 was 100,000 notes at US\$ 1,000 each. In accordance with the decision of the ordinary general assembly held on 20 April 2006, the Bank redeemed 68,831 subordinated notes on 7 June 2006 for a consideration of US Dollars 1,060 per note, i.e. with a premium of US Dollars 60 per note constituting 6% of the nominal value.

	2009	2008
	LL million	LL million
Interest and similar expense:		
- Interest on subordinated notes	7,033	6,686
- Interest on convertible subordinated notes and amortization of its related discount	22,057	20,969
	29,090	27,655

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 39 SHARE CAPITAL

	<u>2009</u>		<u>2008</u>	
	<i>No of Shares</i>	<i>LL million</i>	<i>No of Shares</i>	<i>LL million</i>
<i>Issued shares</i>				
<i>Common shares:</i>				
Ordinary shares	217,112,557	262,706	217,112,557	260,535
Priority shares	206,023,723	249,289	206,023,723	247,228
<i>Preferred shares:</i>				
Series 2009	2,000,000	2,420	-	-
Series 2008	2,000,000	2,420	2,000,000	2,400
Series 2003	-	-	1,000,000	1,200
	<u>427,136,280</u>	<u>516,835</u>	<u>426,136,280</u>	<u>511,363</u>

The capital of the Bank is divided into 427,136,280 shares of LL 1,210 each fully paid (2008: 426,136,280 shares of LL 1,200 each).

#### **Capital increase in 2009**

On 1 August 2009, an extraordinary general assembly resolved to increase the capital of Byblos Bank SAL in two phases.

In phase 1, capital was increased by the amount of LL 3,052 million from LL 511,363 million to LL 514,415 million through transfers from the reserve appropriated for capital increase. In addition, the Bank redeemed and cancelled 1,000,000 series 2003 preferred shares and allocated the par value of these shares amounting to LL1,200 million to increase the par value of the Bank's remaining outstanding shares from LL 1,200 to LL 1,210. Accordingly, by the end of phase 1, the Bank's capital was divided as follows:

	<i>No of Shares</i>	<i>LL million</i>
<i>Issued shares</i>		
<i>Common shares:</i>		
Ordinary shares	217,112,557	262,706
Priority shares	206,023,723	249,289
<i>Preferred shares:</i>		
Series 2008	2,000,000	2,420
	<u>425,136,280</u>	<u>514,415</u>

In phase 2, the capital of the Bank was increased by the amount of LL 2,420 million from LL 514,415 million to LL 516,835 million through the issuance of 2,000,000 Tier I Series 2009 preferred shares of LL 1,210 par value.

As such, the capital of the Bank was divided into 427,136,280 shares with a par value of LL 1,210 each as of 31 December 2009.

#### **Priority shares**

On 10 December 2005, the Bank issued 206,023,723 Priority shares which have the same rights and obligations as ordinary shares, and benefit from an additional yearly distribution of 4% of the priority share's nominal value representing non-cumulative distribution of the non-consolidated net profits. Such right is established after dividends distribution to the preferred shares. The right of payment from profits is established over a period of 5 years starting from the year 2005, inclusive of the period from 10 December 2005 till 31 December 2005. At the end of the 5<sup>th</sup> year, priority shares are converted into ordinary shares without any further resolution by the general assembly.

**39 SHARE CAPITAL (continued)*****Conversion of subordinated notes into common shares in 2008***

During 2008, a subordinated notes holder exercised his option and converted notes amounting to US\$ 27 million to 12,088,834 Byblos Bank SAL common shares at a price of US\$ 2.25 per share (note 38).

Accordingly, an extraordinary general assembly was held on 24 January 2008 and decided to increase the Bank's capital from LL 494,456 million to LL 508,963 million or an increase of LL 14,507 million through the issuance of 12,088,834 common shares with a nominal value of LL 1,200 per share. The resulting premium on the above conversion of subordinated notes into shares was in the amount of LL 26,425 million, of which LL 23,656 was transferred from the subordinated notes balance, while LL 2,769 million was transferred from the equity component of convertible subordinated notes. On 13 February 2008, the Central Committee of the Bank of Lebanon approved the capital increase.

***Preferred Shares****i) Series 2009 Preferred Shares*

On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 Preferred Shares according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 96
Share's nominal value:	LL 1,210
Issue premium :	US\$ (000) 188,313 calculated in US\$ as the difference between the total issue of US\$(000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US\$ (000) 2,082
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US\$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

Series 2009 preferred shares are entitled to dividends in the amount of US\$ 3.35 per share relating to the remaining period of 2009.

*ii) Series 2008 Preferred Shares*

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 Preferred Shares, according to the following terms:

Number of shares:	2,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium :	US\$ (000) 195,790 calculated in US\$ as the difference between USD 100 and the counter value of the par value per share (LL 1,200).
Benefits:	Non-cumulative annual dividends of US\$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

In 2009, the par value of series 2008 preferred shares was increased from LL 1,200 to LL 1,210.

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 39 SHARE CAPITAL (continued)

#### Preferred Shares (continued)

##### iii) Series 2003 Preferred Shares

Number of shares:	1,000,000
Share's issue price:	US\$ 100
Share's nominal value:	LL 1,200
Issue premium :	US\$ (000) 99,204 calculated in US\$ as the difference between US\$ 100 and the counter value of the par value per share (LL 1,200).
Benefits:	Non-cumulative annual dividends of USD 12.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2008 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

Series 2003 preferred shares were redeemed and cancelled during 2009 in accordance with the extraordinary general assembly resolution dated 1 August 2009.

#### Listing of shares

As of 31 December 2009 and 2008, all of the Bank's common and preferred shares were listed on Beirut Stock Exchange.

On 6 February 2009, the Bank signed an agreement with a foreign bank enabling holders of the Bank's common shares to deposit their common shares for the issuance of Global Depository Shares (GDS's) at a ratio of 50 Common Shares per one GDS. The GDS's were listed on the London Stock Exchange.

#### Treasury shares

Movement of treasury shares recognized in the balance sheet for the years 2009 and 2008 is as follows:

<u>31 December 2009</u>	<u>Ordinary shares</u>			<u>Priority shares</u>		
	<i>No. of shares</i>	<i>Average price US\$</i>	<i>Amount US\$ (000)</i>	<i>No. of shares</i>	<i>Average price US\$</i>	<i>Amount US\$ (000)</i>
At 1 January 2009	444,748	1.77	790	221,287	1.08	240
Acquisition of treasury shares	1,702,186	1.53	2,600	817,156	1.96	1,598
Sale of treasury shares	(1,705,088)	1.88	(3,210)	(978,371)	1.94	(1,901)
At 31 December 2009	<u>441,846</u>		<u>180</u>	<u>60,072</u>		<u>(63)</u>
In LL million			271			(95)
Total treasury shares (ordinary and priority) in LL million						<u>176</u>
<u>31 December 2008</u>	<u>Ordinary shares</u>			<u>Priority shares</u>		
	<i>No. of shares</i>	<i>Average price US\$</i>	<i>Amount US\$ (000)</i>	<i>No. of shares</i>	<i>Average price US\$</i>	<i>Amount US\$ (000)</i>
At 1 January 2008	139,406	1.67	233	276,328	1.43	395
Acquisition of treasury shares	1,181,725	2.34	2,760	657,255	2.48	1,628
Sale of treasury shares	(876,383)	2.48	(2,203)	(712,293)	2.50	(1,783)
At 31 December 2008	<u>444,748</u>	1.77	<u>790</u>	<u>221,290</u>	1.08	<u>240</u>
In LL million			1,192			362
Total treasury shares (ordinary and priority) in LL million						<u>1,554</u>

31 December 2009

**40 REVALUATION RESERVE OF REAL ESTATE**

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
<i>Revaluation reserve recognized in the complementary equity</i>		
Reserve resulting from the revaluation in 1996 of the Bank's owned real estate according to law 282 dated 30 December 1993	2,577	2,577
Less: Decrease in the value of the assets revalued in prior years	(599)	(599)
	<u>1,978</u>	<u>1,978</u>
<i>Revaluation reserve of other assets</i>	<u>3,711</u>	<u>3,711</u>
	<u><u>5,689</u></u>	<u><u>5,689</u></u>

**41 AVAILABLE-FOR-SALE RESERVE**

Available-for-sale reserve as at 31 December relates to the following available-for-sale financial instruments:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Certificates of deposits held with the Central Bank of Lebanon	-	1,999
Treasury bills and other governmental bills	90,914	815
Bonds and financial assets with fixed income	3,649	(14,514)
Shares, securities and financial assets with variable income	11,788	6,159
Unrealized losses on available-for-sale securities reclassified to the loans and receivables portfolio	(25,001)	(24,736)
Deferred tax liabilities	(15,306)	-
Less: minority share of cumulative changes in fair values	(18)	(240)
	<u>66,026</u>	<u>(30,517)</u>

Movement of available-for-sale reserve during the year was as follows:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Balance at 1 January	(30,517)	(46,244)
Realized during the year	1,386	10,626
Impairment loss recognized during the year	6,521	-
Net changes in fair values during the year	98,780	3,719
Amortization of unrealized losses related to securities transferred to the loans and receivables portfolio	5,176	1,402
Net changes in deferred taxes	(15,306)	-
Difference on exchange	(14)	(20)
Balance at 31 December	<u><u>66,026</u></u>	<u><u>(30,517)</u></u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 42 CAPITAL RESERVES

	<b>2009</b>	2008
	<b>Group</b>	Group
	<b>share</b>	share
	<b>LL million</b>	LL million
Legal reserve	<b>120,358</b>	104,646
Reserves appropriated for capital increase	<b>22,676</b>	20,807
General reserve	<b>137,190</b>	117,941
Equity component of convertible subordinated bonds (note 38)	<b>18,040</b>	18,040
Reserve for general banking risks	<b>80,429</b>	66,886
Other capital reserves	<b>5,422</b>	6,028
	<b>384,115</b>	334,348

#### *Legal reserve*

During 2009, the Group appropriated LL 15,770 million from 2008 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolutions.

#### *Reserves appropriated for capital increase*

	<b>2009</b>	2008
	<b>LL million</b>	LL million
Reserve equivalent to realized profit on sale of assets acquired in settlement of bad debt, in accordance with BCC circular No 173	<b>3,550</b>	2,947
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	<b>9,737</b>	8,471
Reserve equivalent to profits realized on sale of Solidere Company shares acquired in compensation of leased property in Beirut Central District	<b>220</b>	220
Reserve equivalent to profits realized on liquidation of structural foreign exchange positions, in accordance with BCC circular No 197.	<b>8,870</b>	8,870
Others	<b>299</b>	299
	<b>22,676</b>	20,807

#### *General reserve*

During 2009, the Group appropriated LL 16,613 million from 2008 profits to the general reserve in accordance with the General Assembly of Shareholders' resolutions.

#### *Reserve for general banking risks*

According to the Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk weighted assets and off balance sheet items based on rates specified by the Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of year ten (2007) and 2% at the end of year twenty (2017).

The appropriation in 2009 from the profits of the year 2008 amounted to LL 13,543 million (2008: LL 9,970 million).

# Byblos Bank SAL

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### 42 CAPITAL RESERVES (continued)

*Other capital reserve*

		<i>2009</i>	<i>2008</i>
		<i>LL million</i>	<i>LL million</i>
Premium on capital increase of Byblos Bank Armenia CJSC	(a)	<b>1,263</b>	1,263
Premium on capital increase of Byblos Bank Africa	(b)	<b>4,765</b>	4,765
		<b>6,028</b>	6,028
Translation difference		<b>(606)</b>	-
		<b>5,422</b>	6,028

- a) During 2008, the capital of Byblos Bank Armenia CJSC, 100% owned subsidiary as of 31 December 2007, was increased through additional subscription by minority shareholders, who obtained 35% stake in Byblos Bank Armenia CJSC. Accordingly, Byblos Bank SAL's share of Byblos Bank Armenia CJSC decreased from 100% as of 31 December 2007 to 65% as of 31 December 2008. The Group share of the premium paid by the minority shareholders in the amount of LL 1,263 million was credited to other capital reserve.
- b) During 2008, the capital of Byblos Bank Africa, 65% owned subsidiary as of 31 December 2007, was increased through additional subscription by minority and existing shareholders, and transfer of LL 2,453 million from the general reserve. Byblos Bank SAL's share in the above subsidiary decreased to 56.86% as of 31 December 2008. The Group share of the premium paid by the minority shareholders in the amount of LL 4,765 million was credited to other capital reserve.

### 43 OTHER RESERVE

Other reserve represents appropriation against assets acquired in settlement of debt in accordance with the Banking Control Commission's directives. The Group transferred LL 2,318 million to the other reserve in 2009 from 2008 profits. Appropriations against assets acquired in settlement of debt shall be transferred to the free reserves upon the liquidation of the related asset. In 2009, the Group released LL 898 million to the general reserve relating to assets disposed of in 2009 and 2008. This amount represents release of reserves relating to assets disposed of in 2009 and 2008 for LL 3,133 million against appropriation relating to 2009 for LL 2,235 million.

### 44 MINORITY INTERESTS

	<i>2009</i>	<i>2008</i>
	<i>LL million</i>	<i>LL million</i>
- Capital of subsidiary banks and companies	<b>92,701</b>	81,752
- Other reserves and premiums	<b>13,374</b>	13,374
- Net results of the financial period - profit	<b>12,794</b>	11,630
- Retained earnings (accumulated losses)	<b>1,482</b>	(2,882)
- Cumulative changes in fair values	<b>63</b>	240
- Sale of subsidiary shares to minority interests	-	10,949
- Foreign currency translation reserve	<b>2,635</b>	1,144
	<b>123,049</b>	116,207

During 2008 and as a result of the capital increase in Byblos Bank Armenia CJSC and Byblos Bank Africa (disclosed in note 42), minority interests share in Byblos Bank Armenia CJSC and Byblos Bank Africa increased by the amount of LL 31,023 million. Meanwhile, the group realized in 2008 a premium resulting from the above capital increase in the amount of LL 6,028 million which was credited to the other capital reserves account.

# Byblos Bank SAL

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### 45 CASH AND CASH EQUIVALENTS

	<b>2009</b> <i>LL million</i>	<b>2008</b> <i>LL million</i>
Cash and balances with central banks	<b>1,812,604</b>	1,176,842
Deposits from banks and financial institutions	<b>2,850,295</b>	2,423,612
	<b>4,662,899</b>	3,600,454
Less: Due to banks and financial institutions	<b>(1,153,803)</b>	(949,250)
Less: Due to Central Bank	<b>(10,564)</b>	-
Cash and cash equivalents at 31 December	<b>3,498,532</b>	2,651,204

### 46 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, senior management, and their related concerns, and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and are free of any provision for possible credit losses.

The balances with related parties included in the consolidated statement of financial position and the consolidated income statement are as follows:

	<b>2009</b> <i>Major shareholders</i> <i>LL million</i>	<b>2008</b> <i>Major shareholders</i> <i>LL million</i>
Net loans and advances to related parties	<b>11,515</b>	12,017
Deposits from related parties	<b>139,814</b>	106,472
Shareholders' credit balances	<b>749</b>	847
Interest received on loans and advances to related parties	<b>653</b>	841
Interest paid on related party deposits	<b>8,376</b>	5,783

### Compensation of the key management personnel of the Group

	<b>2009</b>			<b>2008</b>		
	<i>Chairman &amp; Board members</i> <i>LL million</i>	<i>Senior Management</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>	<i>Chairman &amp; Board members</i> <i>LL million</i>	<i>Senior Management</i> <i>LL million</i>	<i>Total</i> <i>LL million</i>
Salaries and allowances	4,178	6,185	10,363	3,660	6,262	9,922
Bonuses	5,490	2,389	7,879	4,674	2,564	7,238
Attendance fees	831	84	915	592	77	669

**47 COMMITMENTS AND CONTINGENT LIABILITIES***Credit-related commitments*

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances that are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letter of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Group has the following credit-related commitments:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Financing Commitments given to banks and financial institutions	<b>803,564</b>	862,122
Guarantees given to banks and financial institutions	<b>360,485</b>	267,414
Guarantees given to customers	<b>885,543</b>	793,830
Acceptances (reflected on balance sheet)	<b>335,904</b>	284,468
	<hr/> <b>2,385,496</b>	<hr/> 2,207,834
Undrawn commitments to lend	<b>812,871</b>	941,822
	<hr/> <b>3,198,367</b> <hr/>	<hr/> 3,149,656 <hr/>

*Operating lease commitments*

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Within one year	<b>2,466</b>	3,219
After one year but not more than five years	<b>5,177</b>	8,631
More than five years	<b>10,435</b>	7,007
	<hr/> <b>18,078</b> <hr/>	<hr/> 18,857 <hr/>

**48 CONCENTRATION OF ASSETS, LIABILITIES AND OFF BALANCE SHEET ITEMS**

Concentrations arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The table below indicates the distribution of the Group's total assets, liabilities and credit commitments by geographic region:

	<i>2009</i>		
	<i>Assets</i> <i>LL million</i>	<i>Liabilities and</i> <i>stockholders equity</i> <i>LL million</i>	<i>Credit</i> <i>commitments</i> <i>LL million</i>
Geographical segment:			
- Lebanon	14,289,186	15,674,371	921,674
- Europe	2,554,505	847,380	105,902
- Other countries	3,621,495	3,943,435	1,022,015
	<u>20,465,186</u>	<u>20,465,186</u>	<u>2,049,591</u>
	<i>2008</i>		
	<i>Assets</i> <i>LL million</i>	<i>Liabilities and</i> <i>stockholders equity</i> <i>LL million</i>	<i>Credit</i> <i>commitments</i> <i>LL million</i>
Geographical segment:			
- Lebanon	11,851,557	13,121,677	949,951
- Europe	2,414,937	817,066	163,951
- Other countries	2,662,648	2,990,399	809,464
	<u>16,929,142</u>	<u>16,929,142</u>	<u>1,923,366</u>

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### 49 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	<i>31 December 2009</i>					
	<i>Held for trading LL million</i>	<i>Held to maturity LL million</i>	<i>Loans and receivables LL million</i>	<i>Available for sale LL million</i>	<i>Held at amortized cost LL million</i>	<i>Total LL million</i>
Financial assets						
Cash and balances with the central banks	-	-	-	-	2,533,372	2,533,372
Banks and financial institutions	-	-	-	-	3,142,483	3,142,483
Financial assets given as collateral on securities borrowed and reverse repurchase agreements	-	-	-	1,193	-	1,193
Derivative financial instruments	12,224	-	-	-	-	12,224
Financial assets held for trading	204,128	-	-	-	-	204,128
Loans and advances to customers	-	-	4,807,633	-	-	4,807,633
Loans and advances to related parties	-	-	11,515	-	-	11,515
Banks acceptances	-	-	335,904	-	-	335,904
Financial assets – available-for-sale	-	-	-	1,793,540	-	1,793,540
Financial assets classified as loans and receivables	-	-	6,681,970	-	-	6,681,970
Financial assets – held to maturity	-	564,640	-	-	-	564,640
	<u>216,352</u>	<u>564,640</u>	<u>11,837,022</u>	<u>1,794,733</u>	<u>5,675,855</u>	<u>20,088,602</u>
Financial liabilities						
Due to central banks	-	-	-	-	11,704	11,704
Due to banks and financial institutions	-	-	-	-	1,675,807	1,675,807
Derivative financial instruments	11,144	-	-	-	-	11,144
Customers' deposits	-	-	-	-	15,366,354	15,366,354
Related parties deposits	-	-	-	-	139,814	139,814
Debt issued and other borrowed funds	-	-	-	-	281,609	281,609
Engagements by acceptances	-	-	-	-	335,904	335,904
Liabilities related to non-current assets held for sale	-	-	-	-	1,995	1,995
Subordinated loans	-	-	-	-	299,634	299,634
	<u>11,144</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,112,821</u>	<u>18,123,965</u>

# Byblos Bank SAL

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

### 49 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

	<i>31 December 2008</i>					
	<i>Held for trading LL million</i>	<i>Held to maturity LL million</i>	<i>Loans and receivables LL million</i>	<i>Available for sale LL million</i>	<i>Held at amortized cost LL million</i>	<i>Total LL million</i>
Financial assets						
Cash and balances with the central banks	-	-	-	-	2,023,979	2,023,979
Banks and financial institutions	-	-	-	-	2,525,830	2,525,830
Financial assets given as collateral on securities borrowed and reverse repurchase agreements	-	-	-	6,550	90,297	96,847
Derivative financial instruments	30,117	-	-	-	-	30,117
Financial assets held for trading	210,825	-	-	-	-	210,825
Loans and advances to customers	-	-	4,194,647	-	-	4,194,647
Loans and advances to related parties	-	-	12,017	-	-	12,017
Banks acceptances	-	-	284,468	-	-	284,468
Financial assets – available-for-sale	-	-	-	1,280,283	-	1,280,283
Financial assets classified as loans and receivables	-	-	4,619,105	-	-	4,619,105
Financial assets – held to maturity	-	1,299,646	-	-	-	1,299,646
	<u>240,942</u>	<u>1,299,646</u>	<u>9,110,237</u>	<u>1,286,833</u>	<u>4,640,106</u>	<u>16,577,764</u>
Financial liabilities						
Due to central banks	-	-	-	-	83,656	83,656
Due to banks and financial institutions	-	-	-	-	1,462,261	1,462,261
Derivative financial instruments	28,866	-	-	-	-	28,866
Customers' deposits	-	-	-	-	12,500,408	12,500,408
Related parties deposits	-	-	-	-	106,472	106,472
Debt issued and other borrowed funds	-	-	-	-	267,555	267,555
Engagements by acceptances	-	-	-	-	284,468	284,468
Liabilities related to non-current assets held for sale	-	-	-	-	1,720	1,720
Subordinated loans	-	-	-	-	296,203	296,203
	<u>28,866</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>15,002,743</u>	<u>15,031,609</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**49 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)****Amendments to IAS 39 and IFRS 7, “Reclassification of financial assets”**

During 2008, the Group reclassified certain trading assets and available for sale financial assets to loans and receivables. The Group identified assets, eligible under the amendments, for which it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. Under IAS 39 as amended, the reclassifications were made at fair value at the date of reclassification. The disclosures below detail the impact of the reclassifications to the Group.

The following table shows carrying values and fair values of the reclassified assets.

	<i>Carrying value at Reclassification date LL million</i>	<i>31 December 2009</i>	
		<i>Carrying value LL million</i>	<i>Fair value LL million</i>
Trading assets reclassified to loans and receivables	54,112	55,098	59,004
Available-for-sale financial assets reclassified to loans and receivables	1,259,425	1,264,019	1,393,431
Total financial assets reclassified to loans and receivables	<u>1,313,537</u>	<u>1,319,117</u>	<u>1,452,435</u>
		<i>31 December 2008</i>	
	<i>Carrying value at Reclassification date LL million</i>	<i>Carrying value LL million</i>	<i>Fair value LL million</i>
Trading assets reclassified to loans and receivables	104,071	104,299	101,249
Available-for-sale financial assets reclassified to loans and receivables	1,652,944	1,654,020	1,505,672
Total financial assets reclassified to loans and receivables	<u>1,757,015</u>	<u>1,758,319</u>	<u>1,606,921</u>

During 2009, interest income on reclassified securities recognized in the consolidated income statement amounted to LL 119,389 million. The net gain on disposal of these securities recognized in the consolidated income statement amounted to LL 7,390 million.

As of the reclassification date, effective interest rates on reclassified trading assets ranged from 6.79% to 10.29% with expected recoverable cash flows of LL 134,199 million. Effective interest rates on reclassified financial assets available for sale ranged from 4.90% to 11.44% with expected recoverable cash flows of LL 2,730,488 million.

If the reclassification had not been made, the Group’s income statement for the year 2008 would have included unrealized fair value losses on the reclassified trading assets of LL 2,759 million, and available-for-sale reserve in shareholders’ equity would have included LL 117,995 million of additional unrealized fair value losses on the reclassified financial assets available for sale.

After reclassification, the reclassified trading financial assets contributed LL 1,558 million to income before income taxes for the year 2008 while reclassified available-for-sale financial assets contributed LL 27,213 million to income before taxes for 2008.

For the period between 1 January 2008 and reclassification date, LL 64 million of unrealized fair value gains on the reclassified trading assets were recognized in the consolidated income statement. For the same period, unrealized fair value losses of LL 24,736 million on reclassified financial assets available-for-sale that were not impaired were recorded directly in shareholders’ equity. As of the reclassification date, such unrealized fair value losses recorded directly in shareholders’ equity amounted to LL 31,272 million. This amount will be released from this position in shareholders’ equity and added to the carrying value of the reclassified financial assets available for sale on an effective interest rate basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**50 FAIR VALUE OF FINANCIAL INSTRUMENTS**

The table below sets out the estimated carrying values and fair values of the financial instruments at the date of the balance sheet:

	2009			2008		
	<i>Fair value</i> <i>LL million</i>	<i>Book value</i> <i>LL million</i>	<i>Unrealised Profits (losses)</i> <i>LL million</i>	<i>Fair value</i> <i>LL million</i>	<i>Book value</i> <i>LL million</i>	<i>Unrealised profits (losses)</i> <i>LL million</i>
<b>FINANCIAL ASSETS</b>						
Cash and balances with the Central Banks	2,533,372	2,533,372	-	2,025,817	2,023,979	1,838
Due from banks and financial institutions	3,147,616	3,142,483	5,133	2,527,730	2,525,830	1,900
Financial assets given as collateral on securities borrowed and reverse repurchase agreements	1,193	1,193	-	96,847	96,847	-
Derivative financial instruments	12,224	12,224	-	30,117	30,117	-
Financial assets held for trading	204,128	204,128	-	210,825	210,825	-
Net loans and advances to customers and related parties	4,826,100	4,819,148	6,952	4,219,248	4,206,664	12,584
Debtors by acceptances	335,904	335,904	-	284,468	284,468	-
Available for sale financial instruments	1,793,540	1,793,540	-	1,280,283	1,280,283	-
Financial assets classified as loans and receivables	6,946,263	6,681,970	264,293	4,519,426	4,619,105	(99,679)
Held to maturity financial instruments	587,588	564,640	22,948	1,283,737	1,299,646	(15,909)
<b>FINANCIAL LIABILITIES</b>						
Due to central banks	11,704	11,704	-	83,656	83,656	-
Due to banks and financial institutions	1,698,377	1,675,807	(22,570)	1,468,212	1,462,261	(5,951)
Cash collateral on securities lent and repurchase agreements	1,193	1,193	-	-	-	-
Derivative financial instruments	11,144	11,144	-	28,866	28,866	-
Deposits from customers and related parties	15,516,881	15,506,168	(10,713)	12,631,336	12,606,880	(24,456)
Debt issued and other borrowed funds	281,609	281,609	-	267,555	267,555	-
Engagements by acceptances	335,904	335,904	-	284,468	284,468	-
Liabilities linked to unquoted available for sale assets	1,995	1,995	-	1,720	1,720	-
Subordinated notes	321,036	299,634	(21,402)	254,521	296,203	41,682
			<u>244,641</u>			<u>(87,991)</u>

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique;

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)**

The table below shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

	2009			<i>Total LL million</i>
	<i>Level 1 LL million</i>	<i>Level 2 LL million</i>	<i>Level 3 LL million</i>	
<b>FINANCIAL ASSETS</b>				
Derivative financial instruments:				
Currency swaps	976	-	-	976
Forward foreign exchange contracts	1,811	-	-	1,811
Spot foreign exchange contracts	83	-	-	83
	<b>2,870</b>	<b>-</b>	<b>-</b>	<b>2,870</b>
Hedging instruments related to:				
Equity linked notes	-	-	9,354	9,354
	<b>-</b>	<b>-</b>	<b>9,354</b>	<b>9,354</b>
Financial assets held for trading				
Treasury bills	139,836	16,404	-	156,240
Bonds and financial assets with fixed income	15,782	-	7,188	22,970
Shares, securities and financial assets with variable income	24,918	-	-	24,918
	<b>180,536</b>	<b>16,404</b>	<b>7,188</b>	<b>204,128</b>
Financial assets available for sale				
Treasury bills	531,978	1,023,199	-	1,555,177
Bonds and financial assets with fixed income	99,927	64,284	-	164,211
Shares, securities and financial assets with variable income	41,253	32,899	-	74,152
	<b>673,158</b>	<b>1,120,382</b>	<b>-</b>	<b>1,793,540</b>
	<b>856,564</b>	<b>1,136,786</b>	<b>16,542</b>	<b>2,009,892</b>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments:				
Currency swaps	354	-	-	354
Forward foreign exchange contracts	1,217	-	-	1,217
Spot foreign exchange contracts	219	-	-	219
	<b>1,790</b>	<b>-</b>	<b>-</b>	<b>1,790</b>
Hedging instruments related to:				
Equity linked notes	-	-	9,354	9,354
	<b>-</b>	<b>-</b>	<b>9,354</b>	<b>9,354</b>
	<b>1,790</b>	<b>-</b>	<b>9,354</b>	<b>11,144</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

## 50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2008			<i>Total</i> <i>LL million</i>
	<i>Level 1</i> <i>LL million</i>	<i>Level 2</i> <i>LL million</i>	<i>Level 3</i> <i>LL million</i>	
<b>FINANCIAL ASSETS</b>				
Derivative financial instruments:				
Currency swaps	123	-	-	123
Forward foreign exchange contracts	14,478	-	-	14,478
Spot foreign exchange contracts	634	-	-	634
	<u>15,235</u>	<u>-</u>	<u>-</u>	<u>15,235</u>
Hedging instruments related to:				
Index linked notes	-	-	5,683	5,683
Commodity linked notes	-	-	41	41
Equity linked notes	-	-	9,158	9,158
	<u>-</u>	<u>-</u>	<u>14,882</u>	<u>14,882</u>
Financial assets held for trading				
Treasury bills	98,451	74,510	-	172,961
Bonds and financial assets with fixed income	898	-	7,012	7,910
Shares, securities and financial assets with variable income	29,954	-	-	29,954
	<u>129,303</u>	<u>74,510</u>	<u>7,012</u>	<u>210,825</u>
Financial assets available for sale				
Treasury bills	109,465	991,188	-	1,100,653
Bonds and financial assets with fixed income	42,530	77,753	-	120,283
Shares, securities and financial assets with variable income	30,498	28,849	-	59,347
	<u>182,493</u>	<u>1,097,790</u>	<u>-</u>	<u>1,280,283</u>
	<u>327,031</u>	<u>1,172,300</u>	<u>21,894</u>	<u>1,521,225</u>
<b>FINANCIAL LIABILITIES</b>				
Derivative financial instruments:				
Currency swaps	152	-	-	152
Forward foreign exchange contracts	13,761	-	-	13,761
Spot foreign exchange contracts	71	-	-	71
	<u>13,984</u>	<u>-</u>	<u>-</u>	<u>13,984</u>
Hedging instruments related to:				
Index linked notes	-	-	5,683	5,683
Commodity linked notes	-	-	41	41
Equity linked notes	-	-	9,158	9,158
	<u>-</u>	<u>-</u>	<u>14,882</u>	<u>14,882</u>
	<u>13,984</u>	<u>-</u>	<u>14,882</u>	<u>28,866</u>

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**51 RISK MANAGEMENT**

The Group risk management was established as a function handling the measurement and management of the risks.

The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- The individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors;
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

*Risk Management- Basel Perspective*

The Group risk management is broadly following the guidelines of the Basel 2 text to measure and assess the risks identified under the pillars 1 and 2, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel II recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take a more sophisticated approach to credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate its capital requirement for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for. Through addressing these three risks - credit, market, and operational risks – the Group addresses 'Pillar I' risks.

As for addressing the capital management issue in the context of Basel II, the Group is in the process of developing a comprehensive Internal Capital Adequacy Assessment Process (ICAAP), proportionate to the Group's scope and complexity of activities so as to cover all risks to which the Group is or may be exposed, as well as risk factors from the environment in which it operates. The considered key aspects of the ICAAP are qualitative (Board oversight, policies, identification of material risk, etc.) and quantitative (Capital Adequacy Ratio, Stress Testing, Economic Capital, etc.).

*Group risk management structure*

Risk management lies at the core of the Group's organization structure. It interfaces with all the different businesses within the Group, as well as all supporting functions. The Risk Management Organization is structured in three layers:

**Strategic or Supervisory level**, which consists of an oversight by the Board of Directors through a Board Risk and Compliance Committee, and committees of the senior management. It includes defining the institution's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that aggregate risk remain within acceptable level and the rewards compensate for the risk taken

**Analytical level**, which consists of the Group Risk Management (GRM) Division, with the over-arching responsibility to translate the directions of the various risk committees into policies and procedures of the Group and to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

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**51 RISK MANAGEMENT (continued)**

**Tactical level**, which consists of the management of the risk at the source of origination of the risks, in the businesses, in treasury and banking operations divisions. It is the responsibility of these units to decide on which risks to take and which risks to mitigate within the policies and procedures set by the GRM Division.

The GRM Division has a direct reporting line to the Chairman/ Board of Directors and is independent from the business units that generate risks. The Board of Directors carries the ultimate responsibility for being aware of and understanding the risks run by the Group's business activities, ensuring that they are properly managed, approving the risk principles and determining the risk appetite. The Board plays a pivotal role in ensuring a culture and an environment of sound risk management.

After having been part of the audit committee, a distinct "Board Risk, Anti-Money Laundering and Compliance" Committee has been established, composed of knowledgeable and independent members from the Board. This reflects the growing importance for the implementation of best risk management practices under the guidance and supervision of the Board. The committee is responsible for implementing the risk principles, including approval of core risk policies and for managing the risk profile of the Group.

*Risk Governance*

The Group currently has five senior management committees dealing with risk related issues - Risk Management Committee (RMC), Assets & Liabilities Management Committee (ALCO), Operational Risk Management Committee (ORMC), Anti-Money Laundering Committee (AML) and the Information Security Committee (ISC). These committees are comprised of the heads of different divisions and one executive member of the Board of Directors.

The RMC is entrusted with the responsibility of managing the credit and reputational risks. It has to frame policies and procedures relating to management of such risks and ensure that these are being complied with. The ALCO has the responsibility of managing the balance sheet (assets and liabilities) in terms of the liquidity and interest rates, ensure compliance with regulatory ratios, manage market risk and manage capital efficiently. The ORMC is entrusted with the responsibility of managing the operational risks of the Group. The AML ensures that the Group is in compliance with anti-money laundering laws, internal and regulatory requirements. The ISC is responsible for alignment of the security program with organizational objectives.

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**52 CREDIT RISK**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual borrowers, and groups and for geographical and industry segments. The Group also monitors credit exposures and continually assesses the creditworthiness of counter parties. In addition, the Group obtains security where appropriate, enters into master netting agreements and collateral arrangements with counter parties, and limits the duration of exposures. In certain cases the Group may also close out transactions or assign them to counterparties to mitigate credit risk.

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains the necessary securities when appropriate.

The Group uses Moody's Risk Advisor (MRA) to classify its commercial loan portfolio according to credit risks. MRA is used to classify borrowers whether corporate or small and medium enterprises in Lebanon and abroad. Corporate portfolio includes companies with a yearly turnover exceeding US\$ 5 million operating in different industries. The Group risk management also established a comprehensive database which allows the monitoring of different retail products.

In measuring credit risk at a counterparty level the Group reflects three components – the “probability of default” (PD) by the client or counterparty on its contractual obligations; the Group's current exposure to the counterparty and its likely future development, from which the Group derives the “exposure at default” (EAD); and the likely recovery ratio on the defaulted obligations to give the “loss given default” (LGD). These components are also important parameters in determining portfolio risk, not only for internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which the Group intend to adopt.

*Risk concentration of the maximum exposure to credit risk*

The below schedule presents the maximum exposure to credit risk before and after taking into account any collateral held or other credit enhancements.

	2009		2008	
	Gross maximum exposure LL million	Net maximum exposure LL million	Gross maximum exposure LL million	Net maximum exposure LL million
Cash and balances with the central banks	2,418,035	2,418,035	1,914,356	1,914,356
Due from banks and financial institutions	3,142,483	3,142,483	2,525,830	2,525,830
Financial assets given as collateral and reverse repurchase agreements	1,193	1,193	96,847	96,847
Derivative financial instruments	12,224	12,224	30,117	30,117
Financial assets held for trading	204,128	204,128	210,825	210,825
Net loans and advances to customers and related parties	4,819,148	3,498,046	4,206,664	3,260,993
Debtors by acceptances	335,904	335,904	284,468	284,468
Available for sale financial instruments	1,793,540	1,793,540	1,280,283	1,280,283
Financial asset classified as loans & receivables	6,681,970	6,681,970	4,619,105	4,619,105
Held to maturity financial instruments	564,640	564,640	1,299,646	1,299,646
Other assets	35,183	35,183	37,451	37,451
	<b>20,008,448</b>	<b>18,687,346</b>	16,505,592	15,559,921
Commitments and contingencies	2,049,591	2,049,591	1,923,366	1,923,366
Undrawn commitments to lend	812,871	812,871	941,822	941,822
Total financial commitments	<b>2,862,462</b>	<b>2,862,462</b>	2,865,188	2,865,188
Total credit risk exposure	<b>22,870,910</b>	<b>21,549,808</b>	19,370,780	18,425,109



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**52 CREDIT RISK (continued)***Maximum credit risk concentration exposure*

	2009			
	<i>Lebanon</i>	<i>Europe</i>	<i>Other countries</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Cash and balances with Central Banks	2,107,935	69,555	240,545	2,418,035
Due from banks and financial institutions	81,193	1,776,854	1,284,436	3,142,483
Financial assets given as collateral and reverse repurchase agreements	-	1,193	-	1,193
Derivative financial instruments	2,744	9,480	-	12,224
Financial assets held for trading	180,362	17,486	6,280	204,128
Net loans and advances to customers and related parties	3,320,194	234,542	1,264,412	4,819,148
Debtors by acceptances	158,983	13,834	163,087	335,904
Available-for-sale financial instruments	1,542,941	111,555	139,044	1,793,540
Financial assets classified as loans and receivables	6,320,836	112,923	248,211	6,681,970
Held to maturity financial instruments	418,740	311	145,589	564,640
Other assets	31,003	193	3,987	35,183
<b>Total</b>	<b>14,164,931</b>	<b>2,347,926</b>	<b>3,495,591</b>	<b>20,008,448</b>
Commitments and contingencies	921,675	105,902	1,022,014	2,049,591
Undrawn commitments to lend	558,297	10,812	243,762	812,871
<b>Total financial commitments</b>	<b>1,479,972</b>	<b>116,714</b>	<b>1,265,776</b>	<b>2,862,462</b>
<b>Total credit risk exposure</b>	<b>15,644,903</b>	<b>2,464,640</b>	<b>4,761,367</b>	<b>22,870,910</b>
	2008			
	<i>Lebanon</i>	<i>Europe</i>	<i>Other countries</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Cash and balances with the central banks	1,667,274	24,023	223,059	1,914,356
Due from banks and financial institutions	73,920	1,587,644	864,266	2,525,830
Financial assets given as collateral and reverse repurchase agreements	40,474	56,373	-	96,847
Derivative financial instruments	4,880	16,113	9,124	30,117
Financial assets held for trading	197,567	7,759	5,499	210,825
Net loans and advances to customers and related parties	2,886,897	274,884	1,044,883	4,206,664
Debtors by acceptances	85,822	20,686	177,960	284,468
Available-for-sale financial instruments	1,095,403	90,110	94,770	1,280,283
Financial assets classified as loans and receivables	4,330,999	207,228	80,878	4,619,105
Held to maturity financial instruments	1,146,454	-	153,192	1,299,646
Other assets	37,451	-	-	37,451
<b>Total</b>	<b>11,567,141</b>	<b>2,284,820</b>	<b>2,653,631</b>	<b>16,505,592</b>
Commitments and contingencies	949,951	163,951	809,464	1,923,366
Undrawn commitments to lend	716,693	113,927	111,202	941,822
<b>Total financial commitments</b>	<b>1,666,644</b>	<b>277,878</b>	<b>920,666</b>	<b>2,865,188</b>
<b>Total credit risk exposure</b>	<b>13,233,785</b>	<b>2,562,698</b>	<b>3,574,297</b>	<b>19,370,780</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**52 CREDIT RISK (continued)***Maximum credit risk concentration exposure (continued)*

An industry sector analysis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

	<b>2009</b>	2008
	<b>LL million</b>	LL million
<i>Industry Sector:</i>		
Commercial	<b>1,657,265</b>	1,422,039
Industrial	<b>947,759</b>	821,679
Agriculture	<b>73,553</b>	85,524
Services	<b>594,056</b>	737,423
Banks and other financial institutions	<b>3,991,284</b>	3,236,808
Construction	<b>592,590</b>	472,650
Retail	<b>1,162,054</b>	931,742
Government	<b>10,826,928</b>	8,673,533
Other	<b>162,959</b>	124,194
	<b>20,008,448</b>	16,505,592

## Aging analysis of past due but not impaired loans per class of financial assets

	<b>2009</b>					
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>181 to 365 days</i>	<i>366 to 720 days</i>	<i>More than 720 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Loans and advances to customers and related parties						
- Commercial loans	24,849	7,153	5,044	457	-	37,503
- Other customer loans	65,202	8,385	5,371	5,896	6,185	91,039
Total	<b>90,051</b>	<b>15,538</b>	<b>10,415</b>	<b>6,353</b>	<b>6,185</b>	<b>128,542</b>

	<b>2008</b>					
	<i>Less than 90 days</i>	<i>91 to 180 days</i>	<i>181 to 365 days</i>	<i>366 to 720 days</i>	<i>More than 720 days</i>	<i>Total</i>
	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>	<i>LL million</i>
Loans and advances to customers and related parties						
- Commercial loans	31,368	2,017	1,855	652	-	35,892
- Other customer loans	67,051	6,969	3,865	4,309	9,300	91,494
Total	<b>98,419</b>	<b>8,986</b>	<b>5,720</b>	<b>4,961</b>	<b>9,300</b>	<b>127,386</b>

The fair value of the collateral held against past due but not impaired facilities as at 31 December 2009 amounted to LL 100,790 million (2008: LL 70,454 million).

The outstanding balance of financial assets that were renegotiated is as follows:

	<b>2009</b>	2008
	<b>LL million</b>	LL million
Loans and advances to customers	<b>61,475</b>	18,289

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**53 LIQUIDITY RISK**

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and maintains a healthy balance of cash and cash equivalents, and readily marketable securities.

*Analysis of financial liabilities by remaining contractual maturities*

The table below summarizes the maturity profile of the Group's financial liabilities at 31 December 2009 and 2008 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

	2009					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>More than 5 years LL million</i>	<i>Total LL million</i>
Due to central banks	10,564	1	8	1,404	-	11,977
Due to banks and financial institutions	764,172	392,672	81,289	246,127	310,877	1,795,137
Cash collateral on securities lent and repurchase agreements	1,193	-	-	-	-	1,193
Derivative financial instruments	1,262	404	9,478	-	-	11,144
Customers' deposits	11,188,490	1,779,117	2,007,028	675,340	5,844	15,655,819
Debt issued and other borrowed funds	-	3,534	78,907	240,210	-	322,651
Engagements by acceptances	89,747	155,700	69,629	20,828	-	335,904
Liabilities related to non-current assets held for sale	-	-	1,995	-	-	1,995
Subordinated loans	-	-	21,181	346,572	-	367,753
<b>Total undiscounted financial liabilities</b>	<b>12,055,428</b>	<b>2,331,428</b>	<b>2,269,515</b>	<b>1,530,481</b>	<b>316,721</b>	<b>18,503,573</b>

	2008					
	<i>Up to 1 month LL million</i>	<i>1 to 3 months LL million</i>	<i>3 months to 1 year LL million</i>	<i>1 to 5 years LL million</i>	<i>More than 5 years LL million</i>	<i>Total LL million</i>
Due to central banks	33,004	3	51,261	1,602	-	85,870
Due to banks and financial institutions	637,625	230,851	209,426	177,305	334,636	1,589,843
Derivative financial instruments	13,984	-	5,724	-	9,158	28,866
Customers' deposits	8,788,556	1,653,748	1,827,135	380,565	74,882	12,724,886
Debt issued and other borrowed funds	-	207,815	74,259	-	-	282,074
Engagements by acceptances	67,691	156,507	59,222	1,048	-	284,468
Liabilities related to non-current assets held for sale	1,720	-	-	-	-	1,720
Subordinated notes	-	-	21,181	357,630	-	378,811
<b>Total undiscounted financial liabilities</b>	<b>9,542,580</b>	<b>2,248,924</b>	<b>2,248,208</b>	<b>918,150</b>	<b>418,676</b>	<b>15,376,538</b>

The table below summarizes the maturity profile of the Group's commitments and contingencies:

	2009					
	<i>On demand LL million</i>	<i>Less than 3 months LL million</i>	<i>3 to 12 months LL million</i>	<i>1 to 5 years LL million</i>	<i>More than 5 years LL million</i>	<i>Total LL million</i>
Commitments and contingencies	36,442	749,383	729,845	508,709	25,212	2,049,591
Undrawn commitments to lend	609,370	6	123,298	80,031	166	812,871
	<b>645,812</b>	<b>749,389</b>	<b>853,143</b>	<b>588,740</b>	<b>25,378</b>	<b>2,862,462</b>

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**53 LIQUIDITY RISK (continued)***Analysis of financial liabilities by remaining contractual maturities (continued)*

	2008					Total LL million
	On demand LL million	Less than 3 months LL million	3 to 12 months LL million	1 to 5 years LL million	More than 5 years LL million	
Commitments and contingencies	86,052	543,896	766,838	525,704	876	1,923,366
Undrawn commitments to lend	941,822	-	-	-	-	941,822
	<u>1,027,874</u>	<u>543,896</u>	<u>766,838</u>	<u>525,704</u>	<u>876</u>	<u>2,865,188</u>

The Group expects that not all the commitments and contingencies will be demanded before maturity.

*Maturity analysis of assets and liabilities*

The table below summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

The maturity profile of the assets and liabilities at 31 December 2009 was as follows:

(Amounts in LL million)	2009					Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
<b>ASSETS</b>						
Cash and balances with central banks	1,419,469	393,135	2,531	717,665	572	2,533,372
Due from banks and financial institutions	1,870,210	980,085	117,800	174,200	188	3,142,483
Financial assets given as collateral and reverse repurchase agreements	1,193	-	-	-	-	1,193
Derivative financial instruments	1,453	1,281	9,490	-	-	12,224
Financial assets held for trading	614	2,552	25,367	101,947	73,648	204,128
Net loans and advances to customers and related parties	1,807,747	383,323	740,354	1,231,931	655,793	4,819,148
Debtors by acceptances	89,747	155,700	69,629	20,828	-	335,904
Available-for-sale financial instruments	9,484	25,238	36,562	1,323,634	398,622	1,793,540
Financial assets classified as loans and receivables	156,226	546,375	623,797	3,903,242	1,452,330	6,681,970
Held to maturity financial instruments	230	41,534	188,528	207,131	127,217	564,640
Property and equipment	-	-	-	-	266,738	266,738
Intangible assets	-	-	-	-	734	734
Non-current assets held for sale	-	-	-	-	38,567	38,567
Other assets	4,495	4,887	633	5,491	55,039	70,545
<b>Total assets</b>	<u>5,360,868</u>	<u>2,534,110</u>	<u>1,814,691</u>	<u>7,686,069</u>	<u>3,069,448</u>	<u>20,465,186</u>
<b>LIABILITIES</b>						
Due to central banks	10,563	1	7	1,133	-	11,704
Due to banks and financial institutions	755,313	398,491	73,882	213,340	234,781	1,675,807
Cash collateral on securities lent and repurchase agreements	1,193	-	-	-	-	1,193
Derivative financial instruments	1,262	404	9,478	-	-	11,144
Deposits from customers and related parties	11,221,679	1,760,379	1,932,889	587,753	3,468	15,506,168
Debt issued and other borrowed funds	39	-	68,108	213,462	-	281,609
Engagements by acceptances	89,747	155,700	69,629	20,828	-	335,904
Current tax liability	10,777	803	28,632	-	-	40,212
Deferred tax liability	63	204	324	11,259	3,635	15,485
Other liabilities	197,681	6,094	20,518	43	11,833	236,169
Liabilities linked to held for sale assets	-	-	1,995	-	-	1,995
Provision for risks and charges	-	-	2,193	-	64,761	66,954
End of Service benefits	-	-	-	-	28,276	28,276
Subordinated notes	-	-	-	299,634	-	299,634
<b>Total liabilities</b>	<u>12,288,317</u>	<u>2,322,076</u>	<u>2,207,655</u>	<u>1,347,452</u>	<u>346,754</u>	<u>18,512,254</u>
<b>Net liquidity gap</b>	<u>(6,927,449)</u>	<u>212,034</u>	<u>(392,964)</u>	<u>6,338,617</u>	<u>2,722,694</u>	<u>1,952,932</u>

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**53 LIQUIDITY RISK (continued)**

The maturity profile of the assets and liabilities at 31 December 2008 were as follows:

(Amounts in LL million)	2008					Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	
<b>ASSETS</b>						
Cash and balances with central banks	1,011,036	166,031	2,575	774,698	69,639	2,023,979
Due from banks and financial institutions	1,851,330	486,801	167,971	15,311	4,417	2,525,830
Financial assets given as collateral and reverse repurchase agreements	56,373	-	40,474	-	-	96,847
Derivative financial instruments	15,235	-	5,724	-	9,158	30,117
Financial assets held for trading	1,169	6,278	79,829	64,715	58,834	210,825
Net loans and advances to customers and related parties	1,711,733	311,168	527,026	1,026,880	629,857	4,206,664
Debtors by acceptances	67,691	156,507	59,222	1,048	-	284,468
Available-for-sale financial instruments	13,109	14,633	56,229	1,095,692	100,620	1,280,283
Financial assets classified as loans and receivables	46,571	88,730	827,632	2,467,478	1,188,694	4,619,105
Held to maturity financial instruments	74,453	169,352	600,284	310,184	145,373	1,299,646
Property and equipment	-	-	-	-	243,322	243,322
Intangible assets	-	-	-	-	1,074	1,074
Non-current assets held for sale	-	-	-	-	46,108	46,108
Other assets	39,459	2,303	16,186	659	2,267	60,874
<b>Total assets</b>	<b>4,888,159</b>	<b>1,401,803</b>	<b>2,383,152</b>	<b>5,756,665</b>	<b>2,499,363</b>	<b>16,929,142</b>
<b>LIABILITIES</b>						
Due to central banks	33,004	3	49,047	1,602	-	83,656
Due to banks and financial institutions	637,402	230,584	207,969	150,503	235,803	1,462,261
Derivative financial instruments	13,984	-	5,724	-	9,158	28,866
Deposits from customers and related parties	8,781,435	1,647,919	1,762,893	343,257	71,376	12,606,880
Debt issued and other borrowed funds	-	203,872	63,683	-	-	267,555
Engagements by acceptances	67,691	156,507	59,222	1,048	-	284,468
Current tax liability	22,864	2,745	4,387	-	-	29,996
Other liabilities	21,255	5,579	145,959	18,226	40	191,059
Liabilities linked to held for sale assets	-	-	-	-	1,720	1,720
Provision for risks and charges	26,778	-	1,348	-	2,465	30,591
End of Service benefits	387	-	-	-	27,091	27,478
Subordinated notes	-	-	3,227	292,976	-	296,203
<b>Total liabilities</b>	<b>9,604,800</b>	<b>2,247,209</b>	<b>2,303,459</b>	<b>807,612</b>	<b>347,653</b>	<b>15,310,733</b>
<b>Net liquidity gap</b>	<b>(4,716,641)</b>	<b>(845,406)</b>	<b>79,693</b>	<b>4,949,053</b>	<b>2,151,710</b>	<b>1,618,409</b>

**54 INTEREST RATE RISK AND MARKET RISK**

Market risk is the risk of loss arising from movements in market variables, including interest rates, exchange rates and equity market indices. Market risk is incurred primarily through the Group's trading and foreign exchange activities.

The market risk unit is responsible for the independent control of market risk. It ensures that all market risks are identified, establishes the necessary controls and limits, monitors positions and exposures, and ensures compliance with regulatory and internal limits as set in the market risk policy and securities portfolio investment policy.

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-balance sheet items that mature or are repriced in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies.

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**54 INTEREST RATE RISK AND MARKET RISK (continued)***Interest rate sensitivity*

The table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel changes in interest rates, all other variables being held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at year end, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at year end for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

Currency	Increase in interest rate	2009		2008	
		Net effect on interest income LL million	Net effect on shareholders equity LL million	Net effect on interest income LL million	Net effect on shareholders equity LL million
LBP	+0.5%	(19,048)	66,853	(11,550)	33,085
Other currencies	+0.5%	(5,061)	68,874	(7,105)	68,806
		<u>(24,109)</u>	<u>135,727</u>	<u>(18,655)</u>	<u>101,891</u>

*Effective interest rates on financial instruments*

The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The effective interest rates of the financial instruments denominated in Lebanese Lira and foreign currencies, primarily US Dollars, are as follows:

	2009		2008	
	Foreign currencies %	LL %	Foreign currencies %	LL %
<b>ASSETS</b>				
Cash and balances with central banks	0.96%	0.58%	2.84%	1.43%
Due from banks and financial institutions	1.10%	2.29%	3.43%	2.99%
Financial assets held for trading	8.31%	9.55%	7.40%	10.27%
Net loans and advances to customers and related parties	8.08%	7.90%	8.31%	8.37%
Available-for-sale financial instruments	5.91%	9.15%	8.65%	10.06%
Financial assets classified as loans and receivables	7.59%	10.04%	7.17%	9.25%
Held to maturity financial instruments	8.95%	9.30%	8.40%	9.28%
<b>LIABILITIES</b>				
Due to Central Banks	0.25%	8.94%	0.18%	9.51%
Due to banks and financial institutions	2.49%	8.29%	4.43%	8.50%
- Weighted average rate, including:				
- Deposits	0.51%	8.29%	3.48%	8.50%
- Loans	5.69%	-	6.39%	-
Customers' deposits	3.15%	7.20%	3.92%	7.32%
Debt issued and other borrowed funds	6.51%	-	6.42%	-
Subordinated notes	9.68%	-	9.00%	-

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**54 INTEREST RATE RISK AND MARKET RISK (continued)**

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2009 was as follows:

(Amounts in LL million)	2009						Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non interest bearing items	
<b>ASSETS</b>							
Cash and balances with the central banks	1,220,938	391,978	2,531	716,063	-	201,862	2,533,372
Due from banks and financial institutions	1,868,524	978,231	115,762	173,363	-	6,603	3,142,483
Financial assets given as collateral and reverse repurchase agreements	1,193	-	-	-	-	-	1,193
Derivative financial instruments	-	-	-	-	-	12,224	12,224
Financial assets held for trading	-	647	24,224	101,947	48,141	29,169	204,128
Net loans and advances to customers and related parties	2,161,557	746,281	1,132,774	710,263	64,868	3,405	4,819,148
Debtors by acceptances	6,880	2,858	6,158	-	-	320,008	335,904
Available for sale financial instruments	1,715	4,324	24,036	1,323,344	324,820	115,301	1,793,540
Financial assets classified as loans and receivables	117,740	511,018	582,276	3,903,362	1,451,525	116,049	6,681,970
Held to maturity financial instruments	182	37,726	185,049	207,131	127,219	7,333	564,640
Property and equipment	-	-	-	-	44,899	221,839	266,738
Intangible assets	-	-	-	-	-	734	734
Non-current assets held for sale	-	-	-	-	-	38,567	38,567
Other assets	1,117	85	90	105	-	69,148	70,545
<b>Total assets</b>	<b>5,379,846</b>	<b>2,673,148</b>	<b>2,072,900</b>	<b>7,135,578</b>	<b>2,061,472</b>	<b>1,142,242</b>	<b>20,465,186</b>
<b>LIABILITIES</b>							
Due to central banks	1,814	1	7	1,133	-	8,749	11,704
Due to banks and financial institutions	1,016,433	396,561	90,913	73,531	88,309	10,060	1,675,807
Cash collateral on securities lent and repurchase agreements	1,193	-	-	-	-	-	1,193
Derivative financial instruments	-	-	-	-	-	11,144	11,144
Deposits from customers and related parties	11,139,094	1,746,735	1,916,324	581,758	3,465	118,792	15,506,168
Debt issued and other borrowed funds	-	-	68,108	213,462	-	39	281,609
Engagement by acceptances	6,880	2,858	6,158	-	-	320,008	335,904
Current tax liability	982	-	2,957	-	-	36,273	40,212
Deferred tax liability	-	-	-	-	-	15,485	15,485
Other liabilities	136,649	-	22,497	-	-	77,023	236,169
Liabilities linked to held for sale assets	-	-	-	-	-	1,995	1,995
Provision for risks and charges	-	-	2,193	-	-	64,761	66,954
End of Service benefits	-	-	-	-	583	27,693	28,276
Subordinated notes	-	-	-	296,335	-	3,299	299,634
Total equity	-	-	-	-	-	1,952,932	1,952,932
<b>Total liabilities and equity</b>	<b>12,303,045</b>	<b>2,146,155</b>	<b>2,109,157</b>	<b>1,166,219</b>	<b>92,357</b>	<b>2,648,253</b>	<b>20,465,186</b>
Total interest rate sensitivity gap	(6,923,199)	526,993	(36,257)	5,969,359	1,969,115	(1,506,011)	
Cumulative interest rate sensitivity gap	(6,923,199)	(6,396,206)	(6,432,463)	(463,104)	1,506,011	-	

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**54 INTEREST RATE RISK AND MARKET RISK (continued)**

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2008 was as follows:

(Amounts in LL million)	2008						Total
	Up to 1 month	1 to 3 months	3 months to 1 year	1 to 5 years	Over 5 years	Non interest bearing items	
<b>ASSETS</b>							
Cash and balances with the central banks	803,386	165,971	2,558	768,825	2,416	280,823	2,023,979
Due from banks and financial institutions	1,986,510	410,500	92,010	15,075	4,417	17,318	2,525,830
Financial assets given as collateral and reverse repurchase agreements	6,550	-	-	-	-	90,297	96,847
Derivative financial instruments	10,389	-	-	-	-	19,728	30,117
Financial assets held for trading	266	5,499	91,861	50,057	59,222	3,920	210,825
Net loans and advances to customers and related parties	1,669,296	493,120	750,780	845,398	428,448	19,622	4,206,664
Debtors by acceptances	-	1,808	-	-	-	282,660	284,468
Available for sale financial instruments	2,203	-	46,827	1,095,964	44,251	91,038	1,280,283
Financial assets classified as loans and receivables	98,895	116,219	692,057	2,425,235	1,179,780	106,919	4,619,105
Held to maturity financial instruments	71,000	153,244	583,717	310,553	145,373	35,759	1,299,646
Property and equipment	-	-	-	-	-	243,322	243,322
Intangible assets	-	-	-	-	-	1,074	1,074
Non-current assets held for sale	-	-	-	-	-	46,108	46,108
Other assets	-	-	-	-	-	60,874	60,874
<b>Total assets</b>	<b>4,648,495</b>	<b>1,346,361</b>	<b>2,259,810</b>	<b>5,511,107</b>	<b>1,863,907</b>	<b>1,299,462</b>	<b>16,929,142</b>
<b>LIABILITIES</b>							
Due to central banks	16,715	3	40,017	1,602	-	25,319	83,656
Due to banks and financial institutions	618,579	213,923	60,348	168,566	226,558	174,287	1,462,261
Derivative financial instruments	13,984	-	-	-	-	14,882	28,866
Deposits from customers and related parties	8,743,199	1,777,902	1,666,074	221,484	37,824	160,397	12,606,880
Debt issued and other borrowed funds	-	202,936	-	65,705	-	(1,086)	267,555
Engagement by acceptances	-	1,808	-	-	-	282,660	284,468
Current tax liability	5	2,420	-	-	-	27,571	29,996
Other liabilities	233	102	1	4	18,262	172,457	191,059
Liabilities linked to held for sale assets	-	-	-	-	-	1,720	1,720
Provision for risks and charges	-	-	-	-	-	30,591	30,591
End of Service benefits	-	-	-	-	-	27,478	27,478
Subordinated notes	-	-	-	293,117	-	3,086	296,203
Total equity	-	-	-	-	-	1,618,409	1,618,409
<b>Total liabilities and equity</b>	<b>9,392,715</b>	<b>2,199,094</b>	<b>1,766,440</b>	<b>750,478</b>	<b>282,644</b>	<b>2,537,771</b>	<b>16,929,142</b>
<b>Total interest rate sensitivity gap</b>	<b>(4,744,220)</b>	<b>(852,733)</b>	<b>493,370</b>	<b>4,760,629</b>	<b>1,581,263</b>	<b>(1,238,309)</b>	
<b>Cumulative interest rate sensitivity gap</b>	<b>(4,744,220)</b>	<b>(5,596,953)</b>	<b>(5,103,583)</b>	<b>(342,954)</b>	<b>1,238,309</b>	<b>-</b>	

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**55 CURRENCY RISK**

Currency risk arises when the value of a financial instrument fluctuates due to changes in foreign exchange rates. The Bank protects its capital and reserves by holding a foreign currency position in US Dollars representing 60% of its equity after adjustment according to specific requirements set by the Bank of Lebanon. The Bank is also allowed to hold a net trading position, debit or credit, not to exceed 1% of its net equity, as long as the global foreign position does not exceed, at the same time, 40% of its equity (Bank of Lebanon circular number 32).

*Group's sensitivity to currency exchange rates*

The table below shows the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The numbers represent the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, first on the income statement (due to the potential change in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A negative amount reflects a potential net reduction in income or equity, while a positive amount reflects a net potential increase.

<i>Currency</i>	<i>Change in currency rate %</i>	<i>2009</i>		<i>2008</i>	
		<i>Effect on profit before tax LL million</i>	<i>Effect on equity LL million</i>	<i>Effect on profit before tax LL million</i>	<i>Effect on equity LL million</i>
US Dollar	+5	(13,760)	13,342	(17,712)	13,514
Euro	+5	(2,329)	2,351	(2,283)	2,399
GBP	+5	(8)	1	12	-
Other currencies	+5	2,519	(5)	5,862	1,952
		<u>(13,578)</u>	<u>15,689</u>	<u>(14,121)</u>	<u>17,865</u>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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## 55 CURRENCY RISK (continued)

The following consolidated balance sheet as of 31 December 2009, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

(Amounts in LL million)

	LL million	2009		Total LL million
		Foreign currencies USD (000)	C/V LL million	
<b>ASSETS</b>				
Cash and balances with central banks	690,283	1,222,613	1,843,089	2,533,372
Due from banks and financial institutions	5,256	2,081,079	3,137,227	3,142,483
Financial assets given as collateral and reverse repurchase agreements	-	791	1,193	1,193
Derivative financial instruments	2,744	6,289	9,480	12,224
Financial assets held for trading	16,404	124,527	187,724	204,128
Net loans and advances to customers	631,916	2,769,962	4,175,717	4,807,633
Net loans and advances to related parties	-	7,638	11,515	11,515
Debtors by acceptances	-	222,822	335,904	335,904
Available-for-sale financial instruments	1,038,408	500,917	755,132	1,793,540
Financial assets classified as loans and receivables	4,619,714	1,367,997	2,062,256	6,681,970
Held to maturity financial instruments	153,772	272,549	410,868	564,640
Property and equipment	156,503	73,124	110,235	266,738
Intangible assets	734	-	-	734
Non-current assets held for sale	(10,723)	32,697	49,290	38,567
Other assets	71,605	(704)	(1,060)	70,545
<b>Total assets</b>	<b>7,376,616</b>	<b>8,682,301</b>	<b>13,088,570</b>	<b>20,465,186</b>
<b>LIABILITIES AND EQUITY</b>				
Due to central banks	-	7,764	11,704	11,704
Due to banks and financial institutions	50,597	1,078,083	1,625,210	1,675,807
Cash collateral on securities lent and repurchase agreements	-	791	1,193	1,193
Derivative financial instruments	1,558	6,359	9,586	11,144
Customers' deposits	6,173,403	6,098,143	9,192,951	15,366,354
Deposits from related parties	51,501	58,582	88,313	139,814
Debt issued and other borrowed funds	-	186,805	281,609	281,609
Engagement by acceptances	-	222,822	335,904	335,904
Current tax liability	29,312	7,231	10,900	40,212
Deferred tax liability	7,471	5,316	8,014	15,485
Other liabilities	60,772	116,350	175,397	236,169
Liabilities linked to held for sale assets	-	1,323	1,995	1,995
Provision for risks and charges	54,965	7,953	11,989	66,954
End of service benefits	27,652	414	624	28,276
Subordinated notes	(101)	198,829	299,735	299,634
	<b>6,457,130</b>	<b>7,996,765</b>	<b>12,055,124</b>	<b>18,512,254</b>
<b>Share capital</b>				
Share capital	516,835	-	-	516,835
Issue premium	-	401,632	605,460	605,460
Capital reserves	285,106	65,678	99,009	384,115
Treasury shares	-	(117)	(176)	(176)
Retained earnings	20,338	3,062	4,616	24,954
Revaluation reserve of real estate	5,689	-	-	5,689
Available-for-sale reserve	42,333	15,717	23,693	66,026
Net results of the financial period – profit	168,571	25,244	38,057	206,628
Foreign currency translation reserve	-	8,885	13,394	13,394
Other reserve	6,958	-	-	6,958
Minority Interest	10,639	74,567	112,410	123,049
<b>Total equity</b>	<b>1,056,469</b>	<b>594,668</b>	<b>896,463</b>	<b>1,952,932</b>
<b>Total liabilities and equity</b>	<b>7,513,599</b>	<b>8,591,433</b>	<b>12,951,587</b>	<b>20,465,186</b>

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**55 CURRENCY RISK (continued)***(Amounts in LL million)*

	LL million	2008		Total LL million
		Foreign currencies		
		USD (000)	C/V LL million	
<b>ASSETS</b>				
Cash and balances with central banks	476,622	1,026,439	1,547,357	2,023,979
Due from banks and financial institutions	28,426	1,656,653	2,497,404	2,525,830
Financial assets given as collateral and reverse repurchase agreements	40,474	37,395	56,373	96,847
Derivative financial instruments	5,087	16,604	25,030	30,117
Financial assets held for trading	74,511	90,424	136,314	210,825
Net loans and advances to customers	453,356	2,481,785	3,741,291	4,194,647
Net loans and advances to related parties	-	7,971	12,017	12,017
Debtors by acceptances	-	188,702	284,468	284,468
Available-for-sale financial instruments	1,006,434	181,658	273,849	1,280,283
Financial assets classified as loans and receivables	2,048,876	1,704,961	2,570,229	4,619,105
Held to maturity financial instruments	889,256	272,232	410,390	1,299,646
Property and equipment	151,134	61,153	92,188	243,322
Intangible assets	1,074	-	-	1,074
Non-current assets held for sale	(11,643)	38,309	57,751	46,108
Other assets	29,314	20,935	31,560	60,874
<b>Total assets</b>	<b>5,192,921</b>	<b>7,785,221</b>	<b>11,736,221</b>	<b>16,929,142</b>
<b>LIABILITIES AND EQUITY</b>				
Due to central banks	38,515	29,944	45,141	83,656
Due to banks and financial institutions	61,150	929,427	1,401,111	1,462,261
Derivative financial instruments	3,886	16,570	24,980	28,866
Customers' deposits	4,335,968	5,415,881	8,164,440	12,500,408
Deposits from related parties	28,100	51,988	78,372	106,472
Debt issued and other borrowed funds	-	177,483	267,555	267,555
Engagement by acceptances	325	188,486	284,143	284,468
Current tax liability	18,879	7,374	11,117	29,996
Other liabilities	44,735	97,064	146,324	191,059
Liabilities linked to held for sale assets	-	1,141	1,720	1,720
Provision for risks and charges	27,355	2,147	3,236	30,591
End of service benefits	27,054	281	424	27,478
Subordinated notes	-	196,486	296,203	296,203
	<b>4,585,967</b>	<b>7,114,272</b>	<b>10,724,766</b>	<b>15,310,733</b>
Share Capital	511,363	-	-	511,363
Issue Premium	-	312,523	471,129	471,129
Capital Reserves	245,708	58,799	88,640	334,348
Treasury shares	-	(103)	(1,554)	(1,554)
Retained earnings	12,874	1,621	2,443	15,317
Revaluation reserve of real estate	5,689	-	-	5,689
Available-for-sale reserve	18,315	(32,393)	(10,032)	(30,517)
Net results of the financial period – profit	133,658	25,623	38,627	172,285
Foreign currency translation reserve	1,116	11,601	17,488	18,604
Other reserve	5,538	-	-	5,538
Minority Interest	9,809	70,579	106,398	116,207
<b>Total equity</b>	<b>944,070</b>	<b>448,250</b>	<b>674,339</b>	<b>1,618,409</b>
<b>Total liabilities and equity</b>	<b>5,530,037</b>	<b>7,562,522</b>	<b>11,399,105</b>	<b>16,929,142</b>

**56 EQUITY PRICE RISK**

Equity price risk is the risk that the fair values of equities decrease as a result of a variation in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

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**56 EQUITY PRICE RISK (continued)**

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2009) due to a reasonable possible change in equity indices, with all other variables held consistent, is as follows:

<b>Market indices</b>	<b>Change in equity price %</b>	<b>2009 Effect on equity LL million</b>	<b>2008 Effect on equity LL million</b>
New York stock exchange	+5	194	-
Jordan stock exchange	+5	3,630	1,908

**57 OPERATIONAL RISK**

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group's approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the Group has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The Head of the GRM division is responsible for ensuring the independence, objectivity and effectiveness of the operational risk framework as prepared by the Operational Risk Management (ORM) unit for identification, assessment and measurement of operational risk across the Group. The roles and responsibilities of the ORM unit encompasses the development of ORM policies, the assistance and facilitation of the ORM programs and tools, the analysis of new products, activities and systems from an operational risk perspective. It is also responsible for promoting of the ORM culture across the Group through awareness sessions and coaching.

The business line managers are directly responsible for managing and mitigating operational risks in their areas of responsibility. Each business line /support function is assigned a "Risk Champion" who will have a dotted line reporting to the ORM unit. This structure is set to confirm the effective implementation of the operational risk framework in the business lines and to ensure transparent assessment and reporting of operational risks. Aside from the Risk Champion, all staff in the bank should play a role in the identification and management of Operational Risk.

**58 PREPAYMENT RISK**

Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group's assets with fixed interest rates are not considered material with respect to the total assets. Moreover, other market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

**59 CAPITAL MANAGEMENT**

The primary objectives of capital management are to ensure compliance with externally imposed capital requirements and that maintaining strong credit ratings and healthy capital ratios in order to support business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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**59 CAPITAL MANAGEMENT (continued)**

Capital consists of the following as of 31 December 2009 and 2008:

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
Tier 1 Capital	<b>1,533,294</b>	1,332,157
Tier 2 Capital	<b>367,638</b>	267,664
Total Capital	<b>1,900,932</b>	1,599,821

Tier 1 Capital consists of capital, reserves and brought forward results. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordinated loans and cumulative changes in fair values.

**60 LEGAL CLAIMS**

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Management, after review with its legal counsel of all pending actions and proceedings, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the financial position of the Group.

**61 DIVIDENDS PAID AND PROPOSED**

	<i>2009</i> <i>LL million</i>	<i>2008</i> <i>LL million</i>
<i>Declared and paid during the year</i>		
Equity dividends on ordinary shares:		
Dividends for 2008: LL 157.9 (2007: LL 157.9)	<b>34,281</b>	32,373
Equity dividends on priority shares:		
Dividends for 2008: LL 157.9 (2007: LL 157.9)	<b>32,531</b>	32,531
Distributions to preferred shares – 2003 series:		
Distributions for 2008: USD 12.00 (2007: USD 12.00)	<b>18,168</b>	18,168
Distributions to preferred shares – 2008 series:		
Distributions for 2008: USD 3.35 (2007: USD nil)	<b>10,144</b>	-
Distributions to priority shares		
Interest paid at 4% of share's nominal value: LL 48 for 2008 (2007: LL 48)	<b>9,889</b>	9,889
	<b>105,013</b>	92,961
<i>Proposed for approval at annual general meeting</i> <i>(not recognized as a liability as at 31 December)</i>		
Equity dividends on ordinary shares:		
Dividends for 2009: LL 200 (2008: LL 157.9)	<b>43,423</b>	34,281
Equity dividends on priority shares:		
Dividends for 2009: LL 200 (2008: LL 157.9)	<b>41,205</b>	32,531
Distributions to preferred shares – 2003 series:		
Distributions for 2009: nil (2008: USD 12.00)	-	18,168
Distributions to preferred shares – 2008 series:		
Distributions for 2009: USD 8.00 (2008: USD 3.35)	<b>24,032</b>	10,144
Distributions to preferred shares – 2009 series:		
Distributions for 2009: USD 3.35 (2008: USD nil)	<b>10,063</b>	-
Distributions to priority shares:		
Interest paid at 4% of share's nominal value: LL 48.40 for 2009 (2008: LL 48)	<b>9,972</b>	9,889
	<b>128,695</b>	105,013

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2009

**62 EVENTS AFTER THE STATEMENT OF FINANCIAL POSITION DATE**

The extraordinary general assembly convened on 19 February 2010 approved the increase in capital of LL 172,279 million from LL 516,835 million to LL 689,113 million by issuing 142,378,760 ordinary shares with a par value of LL 1,210 each. The shares have the same rights and obligations as the Bank's common ordinary shares. Conditions for the issuance and subscription of the new shares are as follows:

- The shares will be issued at a price which includes the issue premium and the par value of the shares of LL 1,210. The total value of the shares to be paid upon subscription.
- The issue premium is denominated in US Dollars and is equal to the difference between US\$ 1.75 and the US Dollar counter value of shares' par value using the exchange rate ruling on the last day of the subscription period.
- Shareholders of the bank (including preferred shareholders) will be given priority to subscribe in the new shares at a ratio of one share for every three shares they own.
- Shareholders have the right to cede their subscription rights to other individuals, whether current shareholders or not, after the approval of the Central Bank of Lebanon.

As of the date of the audit report, no call for subscription in the above capital increase has been made.

# BYBLOS BANK <sup>SAL</sup>

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Capital LBP 689,113,000,000 Fully Paid, C.R.B.14150,

List of Banks No. 39, Head Office - Beirut

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(LBP millions)	Unaudited 31/MAR/11	Unaudited 31/DEC/10
<b>ASSETS</b>		
Cash and balances with central banks	3,203,414	2,761,110
Due from banks and financial institutions	5,219,592	4,529,007
Financial assets given as collateral and reverse repurchase agreements	13,569	8,918
Derivative financial instruments	2,941	1,462
Net loans and advances to customers	5,669,886	5,674,283
Net loans and advances to related parties	10,634	10,957
Debtors by acceptances	394,415	291,833
Financial assets	9,088,388	9,371,309
Property and equipment	280,773	281,303
Intangible assets	1,062	1,039
Non-current assets held-for-sale	35,588	39,091
Other assets	66,974	77,081
<b>Total Assets*</b>	<b>23,987,236</b>	<b>23,047,393</b>
(*) After Deducting:		
Reserved Interest on sub-standard, doubtful, and bad loans	58,318	59,667
Specific Provisions for doubtful and bad loans	63,390	67,018
Provisions Based on Collective Assessment	89,965	79,516

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## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(LBP millions)	Unaudited 31/MAR/11	Unaudited 31/DEC/10
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES</b>		
Due to central banks	21,387	19,492
Due to banks and financial institutions	1,705,012	1,441,346
Derivative financial instruments	2,849	4,350
Customers' deposits	18,323,164	17,815,282
Deposits from related parties	97,446	112,396
Engagements by acceptances	394,415	291,833
Debt issued and other borrowed funds	213,501	213,501
Current tax liability	49,079	44,526
Deferred tax liabilities	2,128	11,445
Other liabilities	270,302	212,265
Liabilities linked to held-for-sale assets	961	1,312
Provision for risks and charges	94,255	88,983
End of service benefits	32,011	30,922
Subordinated notes	309,276	303,324
<b>Total Liabilities</b>	<b>21,515,786</b>	<b>20,590,977</b>
<b>EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT</b>		
Share capital – Common ordinary shares	434,984	434,984
Share capital – Common priority shares	249,289	249,289
Share capital – Preferred shares	4,840	4,840
Issue premium – Common ordinary shares	229,014	229,014
Issue premium – Preferred shares	581,456	581,456
Other equity instruments	14,979	14,979
Capital reserves	469,058	461,652
Treasury shares	(25,676)	(16,189)
Retained earnings	272,484	14,494
Revaluation reserve of real estate	5,689	5,689
Revaluation reserve on financial assets	12,538	53,876
Net results of the financial period - profit	55,773	255,771
Foreign currency translation reserve	857	(426)
Other reserves	6,958	6,958
	<b>2,312,243</b>	<b>2,296,387</b>
<b>Non-Controlling Interest</b>	<b>159,207</b>	<b>160,029</b>
<b>Total Equity</b>	<b>2,471,450</b>	<b>2,456,416</b>
<b>Total Liabilities and Equity</b>	<b>23,987,236</b>	<b>23,047,393</b>

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**Capital LBP 689,113,000,000 Fully Paid, C.R.B.14150,**

**List of Banks No. 39, Head Office - Beirut**

## CONSOLIDATED OFF BALANCE SHEET ITEMS

(LBP millions)	Unaudited 31/MAR/11	Unaudited 31/DEC/10
<b><u>Financing commitments</u></b>		
Financing commitments given to banks & financial institutions	833,111	933,859
Financing commitments received from banks & financial institutions	39,069	81,765
Engagement to customers	176,973	341,872
<b><u>Bank guarantees</u></b>		
Guarantees given to banks & financial institutions	356,453	401,245
Guarantees given to customers	995,738	1,002,197
Guarantees received from customers	21,515,502	20,151,969
<b><u>Foreign currencies Forwards</u></b>		
Foreign currencies to receive	438,823	270,648
Foreign currencies to deliver	438,391	273,051
Claims from legal cases	5,937	301,406
Fiduciary assets	95,301	127,661
Asset under management	3,327,173	3,243,277
Bad debts fully provided for	95,979	98,700

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**List of Banks No. 39, Head Office - Beirut**

## CONSOLIDATED STATEMENT OF INCOME

(LBP millions)	Unaudited 31/MAR/11	Unaudited 31/MAR/10
Interest and similar income	310,321	296,201
Interest and similar expense	(196,175)	(199,609)
<b>Net interest income</b>	<b>114,146</b>	<b>96,592</b>
Fees and commissions income	37,029	35,362
Fees and commissions expense	(3,015)	(5,061)
<b>Net Fees and commissions income</b>	<b>34,014</b>	<b>30,301</b>
Net trading income	6,093	6,996
Net gain or loss on financial assets	9,104	19,128
Other operating income	3,073	3,059
<b>Total operating income</b>	<b>166,430</b>	<b>156,076</b>
Credit loss expense	(9,920)	(8,768)
Impairment losses on financial investments, net	-	(998)
<b>Net operating income</b>	<b>156,510</b>	<b>146,310</b>
Personnel expenses	(39,732)	(38,198)
Depreciation of property and equipment	(8,244)	(8,339)
Amortization of intangible assets	-	(19)
Other operating expenses	(34,515)	(36,912)
Impairment loss on financial investments	-	-
<b>Total operating expenses</b>	<b>(82,491)</b>	<b>(83,468)</b>
<b>Operating profit</b>	<b>74,019</b>	<b>62,842</b>
Impairment loss on assets held for sale	-	-
<b>Profit before tax</b>	<b>74,019</b>	<b>62,842</b>
Income tax expense	(15,895)	(15,492)
<b>Profit for the period</b>	<b>58,124</b>	<b>47,350</b>
<b>Attributable to</b>		
-Equity Holders of the Parent	55,773	43,484
-Minority interests	2,351	3,866
	<b>58,124</b>	<b>47,350</b>
<b>Earnings per share</b>		
Equity holders of the parent for the period	<b>L.L.</b>	<b>L.L.</b>
Basic earnings per share - Common ordinary shares	73.32	68.95
Basic earnings per share - Common priority shares	85.42	81.05
Diluted earnings per share - Common ordinary shares	70.51	67.79
Diluted earnings per share - Common priority shares	82.67	79.89

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## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(LBP millions)	Unaudited 31/MAR/11	Unaudited 31/MAR/10
<b>Profit for the period</b>	58,124	47,350
Net gain (loss) on financial assets held through other comprehensive income	(50,655)	6,100
Income tax relating to components of other comprehensive income	9,317	(727)
	(41,338)	5,373
Exchange differences on translation of foreign operations	1,283	(3,638)
<b>Other comprehensive income for the period</b>	(40,055)	1,735
<b>Total comprehensive income for the period</b>	18,069	49,085
<b>Attributable to</b>		
-Equity Holders of the Parent	15,735	45,219
-Minority interests	2,334	3,866
	18,069	49,085

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