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   Semaan, Gholam & Co.

26 March 2010
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Notes	2009 LL million	2008 LL million
Interest and similar income	4	**1,141,893**	1,037,795
Interest and similar expense	5	**(754,832)**	(681,953)
NET INTEREST INCOME		**387,061**	355,842
Fees and Commissions income	6	**129,573**	116,719
Fees and Commissions expense	6	**(12,905)**	(9,796)
NET FEES AND COMMISSIONS INCOME		**116,668**	106,923
Net trading income	7	**37,688**	9,383
Net gain on financial assets	8	**14,464**	14,471
Other operating income	9	**16,251**	17,519
TOTAL OPERATING INCOME		**572,132**	504,138
Credit loss expense	10	**(26,245)**	(5,434)
Impairment losses on financial investments	11	**(15,278)**	(37,700)
NET OPERATING INCOME		**530,609**	461,004
Personnel expenses	12	**(129,339)**	(123,143)
Depreciation of property and equipment	26	**(25,585)**	(16,997)
Amortisation of intangibles assets	27	**(340)**	(125)
Other operating expenses	13	**(109,513)**	(98,208)
TOTAL OPERATING EXPENSES		**(264,777)**	(238,473)
OPERATING PROFIT		**265,832**	222,531
Impairment loss on assets held for sale	28	**-**	(408)
PROFIT BEFORE TAX		**265,832**	222,123
Income tax expense	14	**(46,410)**	(38,208)
PROFIT FOR THE YEAR		**219,422**	183,915
Attributable to:			
Equity holders of the parent		**206,628**	172,285
Minority interests		**12,794**	11,630
		219,422	183,915
Earnings per share			
Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares	15	**LL 384.65**	LL 317.19
Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares	15	**LL 433.05**	LL 365.19
Diluted for profit for the period attributable to ordinary equity holders of the parent – common shares	15	**LL 362.97**	-
Diluted for profit for the period attributable to ordinary equity holders of the parent – priority shares	15	**LL 411.37**	-

The attached notes 1 to 62 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009	*2008*
	LL million	*LL million*
Profit for the year	**219,422**	183,915
Net gain on available-for-sale financial assets	**112,073**	15,987
Income tax effect	**(15,485)**	-
	96,588	15,987
Exchanges differences on translation of foreign operations	**(5,210)**	(3,065)
Other comprehensive income for the year	**91,378**	12,922
Total comprehensive income for the year	**310,800**	196,837
Attributable to:		
Equity holders of the parent	**297,943**	184,967
Minority interests	**12,857**	11,870
	310,800	196,837

The attached notes 1 to 62 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2009

	Notes	**2009 LL million**	2008 LL million
ASSETS			
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
TOTAL ASSETS		**20,465,186**	16,929,142
LIABILITIES AND EQUITY			
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
TOTAL LIABILITIES		**18,512,254**	15,310,733
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
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
		1,829,883	1,502,202
MINORITY INTEREST	44	**123,049**	116,207
TOTAL EQUITY		**1,952,932**	1,618,409
TOTAL LIABILITIES AND EQUITY		**20,465,186**	16,929,142

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 26 March 2010.

Dr Francois Bassil

Mr Alain Wanna

Chairman/ General Manager

Financial and Administrative Manager

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

At 31 December 2009

	Notes	***2009 LL million***	*2008 LL million*
Off-financial position			
Financing Commitments			
Financing commitments given to banks and financial institutions	47	**803,564**	862,122
Financing commitments received from banks and financial institutions		**244,917**	184,563
Engagements to customers		**403,731**	276,964
Bank Guarantees			
Guarantees given to banks and financial institutions	47	**360,485**	267,414
Guarantees given to customers	47	**885,543**	793,830
Foreign Currencies Contracts			
Foreign currencies to receive		**297,126**	339,685
Foreign currencies to deliver		**296,046**	338,434
Claims from legal cases		**290,679**	265,458
Fiduciary assets		**116,590**	174,558
Assets under management		**3,835,767**	2,604,921
Bad debts fully provided for	21	**113,117**	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*														
	Ordinary Shares	*Preferred shares*	*Priority shares*	*Issue premium - Common shares*	*Issue premium - Preferred shares*	*Treasury shares*	*Legal reserve*	*Reserves appropriated for capital increase*	*General reserve*	*Equity component of convertible subordinated notes*	*Reserve for general Banking risks*	*Other capital reserves*	*Other reserve*	*Retained earnings*	*Revaluation reserve*	*Available-for-sale reserve*	*Net results of the financial period - profit*	*Foreign currency translation reserve*	*Total*		
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
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
Balance at 1 January 2009	**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**
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.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2009

	Note	2009 LL million	2008 LL million
OPERATING ACTIVITIES			
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)
		361,194	288,667
Changes in operating assets and liabilities			
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
Cash from operations		**2,700,101**	1,745,856
End of service benefits paid		**(2,888)**	(349)
Taxation paid		**(29,996)**	(25,400)
Net cash from operating activities		**2,667,217**	1,720,107
INVESTING ACTIVITIES			
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)
Net cash used in investing activities		**(1,770,886)**	(2,305,263)
FINANCING ACTIVITIES			
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
Net cash from financing activities		**(39,066)**	258,126
Effect of exchange rates:			
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)
Net effect of foreign exchange rates		**(9,937)**	(6,737)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**847,328**	(333,767)
Cash and cash equivalents at 1 January		**2,651,204**	2,984,971
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	45	**3,498,532**	2,651,204

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.

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.

2 ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
The consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

Subsidiary	*Percentage of ownership*		*Principal activity*	*Country of incorporation*
	2009	*2008*		
	%	%		
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 then 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 derivate 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

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 liked 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*	
	Year end rate LL	***Average rate LL***	*Year end rate LL*	*Average rate LL*
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 determined the amount of deferred tax assets that can e 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:

	31 December 2009					
	Consumer 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	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)
Net operating income	183,054	160,593	165,672	7,434	13,856	530,609
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)
Operating profit	95,367	151,822	162,050	(2,145)	(141,262)	265,832
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

3 SEGMENTAL INFORMATION (continued)

	31 December 2008					
	Consumer 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	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	155,259	147,918	134,224	7,375	16,228	461,004
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	(73,223)	(7,722)	(6,335)	(8,067)	(143,534)	(238,881)
Operating profit	82,036	140,196	127,889	(692)	(127,306)	222,123
Total assets	1,031,627	3,459,505	12,086,633	72,200	279,177	16,929,142
Total liabilities	11,680,817	926,063	2,138,541	95,101	470,211	15,310,733

4 INTEREST AND SIMILAR INCOME

	***2009* LL million**	*2008 LL million*
Cash and balances with central banks	**19,158**	47,987
Due from banks and financial institutions	**32,958**	90,864
Financial assets given as collateral	**2,606**	3,105
Financial assets – held for trading	**16,245**	39,841
Financial assets – available-for-sale	**124,862**	187,858
Financial assets – held-to-maturity	**89,549**	148,527
Financial assets - loans & receivables	**498,312**	204,637
Loans and advances to customers	**357,550**	314,135
Loans and advances to related parties	**653**	841
	1,141,893	1,037,795

5 INTEREST AND SIMILAR EXPENSE

	***2009* LL million**	*2008 LL million*
Due to central banks	**3,088**	3,859
Due to banks and financial institutions	**41,445**	56,082
Customers' deposits	**650,725**	571,423
Related parties' deposits	**8,376**	5,783
Debt issued and other borrowed funds	**22,108**	17,151
Subordinated notes	**29,090**	27,655
	754,832	681,953

6 NET FEES AND COMMISSIONS INCOME

	2009 ***LL million***	*2008* *LL million*
Fees and commissions income:		
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
	129,573	116,719
Fees and commissions expense:		
Brokerage fees	**(8,556)**	(5,108)
Other fees	**(4,349)**	(4,688)
	(12,905)	(9,796)
Net fees and commissions income	**116,668**	106,923

7 NET TRADING INCOME

	2009 ***LL million***	*2008* *LL million*
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
	37,688	9,383

8 NET GAIN ON FINANCIAL ASSETS

	2009	*2008*
	LL million	*LL million*
:		
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
	14,464	14,471

9 OTHER OPERATING INCOME

	2009	*2008*
	LL million	*LL million*
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
	16,251	17,519

10 CREDIT LOSS EXPENSE

	2009	*2008*
	LL million	*LL million*
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
	34,616	11,912
Provision recovered during the year against loans and advances recovered or upgraded (note 21)	**(8,371)**	(6,478)
	26,245	5,434

11 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

	2009	*2008*
	LL million	*LL million*
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**	-
	15,278	37,700

12 PERSONNEL EXPENSES

	2009	*2008*
	LL million	*LL million*
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
	129,339	123,143

13 OTHER OPERATING EXPENSES

	2009	*2008*
	LL million	*LL million*
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
	109,513	98,208

14 INCOME TAX EXPENSE

The reconciliation of the Group's income tax for the year ended 31 December 2009 and 2008 is as follows:

	2009 *LL million*	*2008* *LL million*
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)
Taxable income	**276,935**	222,004
Effective income tax rate	**17.5%**	17.2%
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)**	-
Net taxes due	**24,005**	22,058
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:

	2009	*2008*
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

	2009 *LL million*	*2008* *LL million*
Net profit for the year	**206,628**	172,285
(Less): Proposed dividends to preferred shares	**(34,095)**	(28,312)
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)
Net profits attributable to common shares (ordinary and priority shares)	**162,567**	134,091

15 EARNINGS PER SHARE (continued)

	2009 LL million	2008 LL million
Of which:		
Net profits attributable to priority shares (205,915,830 shares) (2008: 205,875,672 shares)	**79,205**	65,303
Net profits attributable to ordinary shares (216,721,108 shares) (2008: 216,862,160 shares)	**83,361**	68,788
Basic earnings per share in LL:		
- Common shares	**384.65**	317.19
- Priority shares	**433.05**	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:

	2009 LL million
Net profit attributable to common shares (ordinary and priority) of the parent	**162,567**
Interest on convertible subordinated notes (note 38)	**22,057**
Less: income tax	**(3,309)**
Net profit attributable to common shares (ordinary and priority) of the parent adjusted for the effect of convertible subordinated notes	**181,315**
(Less): Net profit attributable to priority shares: 205,915,830 shares	**(74,742)**
Net profit attributable to ordinary shares of the parent adjusted for the effect of convertible subordinated notes	**106,573**

	Number of shares 2009
Weighted average number of ordinary shares for basic earnings per share	**216,721,108**
Effect of dilution:	
Convertible subordinated notes (Note 38)	**76,888,889**
Weighted average number of ordinary shares adjusted for the effect of dilution	**293,609,997**
Diluted earnings per common share in LL:	
- Ordinary shares	**362.97**
- Priority shares	**411.37**

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.

16 CASH AND BALANCES WITH CENTRAL BANKS

	2009 ***LL million***	*2008* *LL million*
Cash on hand	**115,337**	109,623
Balances with the Bank of Lebanon:		
- Current Accounts	**763,485**	440,122
- Time Deposits	**1,341,675**	1,228,036
	2,105,160	1,668,158
Balances with Central Banks in other countries:		
- Current Accounts	**301,290**	232,320
- Time Deposits	**2,716**	3,002
- Statutory blocked fund	**6,056**	6,008
	310,062	241,330
Accrued interest receivable	**2,813**	4,868
	2,533,372	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:

	2009			*2008*
	LL million	***Foreign currencies C/V LL million***	***Total LL million***	*Total LL million*
Current accounts	**661,217**	**102,268**	**763,485**	440,122
Time deposits	**-**	**1,341,675**	**1,341,675**	1,228,036
	661,217	**1,443,943**	**2,105,160**	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.

17 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

	2009	*2008*
	LL million	*LL million*
Commercial banks:		
- Current accounts	**248,618**	210,212
- Time deposits	**2,878,609**	2,304,192
- Interest receivable	**6,009**	5,591
- Doubtful bank accounts	**6,183**	2,507
- Provision for doubtful bank accounts	**(6,183)**	(2,507)
	3,133,236	2,519,995
Financial institutions:		
- Current accounts	**5,847**	237
- Time deposits	**-**	2,200
- Interest receivable	**-**	2
	5,847	2,439
Registered exchange companies:		
- Current accounts	**3,400**	941
- Doubtful exchange companies accounts	**2,259**	2,259
- Provision for doubtful exchange companies accounts	**(2,259)**	(2,259)
	3,400	941
Brokerage companies:		
- Current accounts	**-**	2,455
	3,142,483	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:

	2009		*2008*	
	Doubtful balances LL million	***Provision LL million***	*Doubtful balances LL million*	*Provision LL million*
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	**8,442**	**8,442**	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
	8,442	**8,442**	4,766	4,766

18 FINANCIAL ASSETS GIVEN AS COLLATERAL AND REVERSE REPURCHASE AGREEMENTS

	2009 LL million	2008 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	**1,193**	6,550
	1,193	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.

	2009			*2008*		
	Assets ***LL million***	***Liabilities*** ***LL million***	***Notional amount*** ***LL million***	*Assets* *LL million*	*Liabilities* *LL million*	*Notional amount* *LL million*
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
	2,870	**1,790**	**297,126**	15,235	13,984	339,685
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	-
	9,354	**9,354**	**-**	14,882	14,882	-
	12,224	**11,144**	**297,126**	30,117	28,866	339,685

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.

20 FINANCIAL ASSETS HELD FOR TRADING

	2009 **LL million**	2008 LL million
Treasury bills and other governmental bills	**152,988**	169,115
Bonds and financial assets with fixed income	**22,565**	7,866
Shares, securities and financial assets with variable income	**24,918**	29,954
Accrued interest receivable on Treasury bills and other governmental bills	**3,252**	3,846
Accrued interest receivable on bonds and financial assets with fixed income	**405**	44
	204,128	210,825

The portfolio of Treasury bills and other governmental bills had the following maturities as of 31 December 2009 and 31 December 2008:

2009		*2008*	
Maturity	***Nominal Value LL million***	*Maturity*	*Nominal Value LL million*
Between one and three months	**647**	Between one and three months	-
Between three months and one year	**15,799**	Between three months and one year	76,716
Between one and five years	**82,422**	Between one and five years	57,611
More than five years	**41,542**	More than five years	36,016
Total	**140,410**	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:

2009		2008	
Maturity	***Nominal Value LL million***	*Maturity*	*Nominal Value LL million*
Between three months and one year	**7,990**	Between three months and one year	-
Between one and five years	**12,753**	Between one and five years	8,442
More than five years	**2,060**	More than five years	126
	22,803		8,568

21 NET LOANS AND ADVANCES TO CUSTOMERS

Following is a comparison of loans and advances at 31 December 2009 and 2008:

	2009 ***LL million***	*2008* *LL million*
Gross loans and advances	**5,091,844**	4,464,445
Accrued interest receivable	**11,661**	7,403
Interest received in advance	**(109,915)**	(89,558)
	4,993,590	4,382,290
Unrealized interest on substandard loans	**(5,749)**	(13,454)
Unrealized interest on doubtful and bad loans	**(58,091)**	(67,351)
Specific provision on doubtful and bad loans	**(56,800)**	(59,668)
Collective provisions	**(59,572)**	(41,964)
Provision for country risk	**(5,745)**	(5,206)
	4,807,633	4,194,647
Commercial loans	**3,697,970**	3,263,975
Other loans to customers	**1,248,282**	1,022,817
Substandard loans	**11,204**	27,027
Bad and doubtful loans (net)	**19,497**	23,607
Unrealized interest on substandard loans	**(5,749)**	(13,454)
Accrued interest receivable	**11,661**	7,403
Less: Interest received in advance	**(109,915)**	(89,558)
	4,872,950	4,241,817
Less:		
- Provision for country risk	**(5,745)**	(5,206)
- Collective provision	**(59,572)**	(41,964)
	4,807,633	4,194,647
Bad loans transferred to off balance sheet accounts:		
- Gross balance	**113,117**	121,244

Breakdown of loans and advances to customers by economic sector

	2009 ***LL million***	*2008* *LL million*
Commercial	**1,390,838**	1,166,082
Industrial	**971,652**	876,259
Agriculture	**73,012**	91,242
Services	**600,990**	635,772
Construction	**631,983**	524,607
Retail	**1,280,309**	1,029,389
Other	**143,060**	141,094
	5,091,844	4,464,445

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*				
	Gross balance LL million	***Unrealized interest LL million***	***Specific provision LL million***	***Collective provision LL million***	***Net balance LL million***	*Gross balance LL million*	*Unrealized interest LL million*	*Specific provision LL million*	*Collective provision LL million*	*Net balance LL million*
- Good loans	**4,718,506**	**-**	**-**	**-**	**4,718,506**	4,037,805	-	-	-	4,037,805
- Watch loans	**227,746**	**-**	**-**	**-**	**227,746**	248,987	-	-	-	248,987
	4,946,252	**-**	**-**	**-**	**4,946,252**	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)	-	-
	5,091,844	**(63,840)**	**(56,800)**	**-**	**4,971,204**	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)
	4,993,590	**(63,840)**	**(56,800)**	**(65,317)**	**4,807,633**	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).

21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

Bad and doubtful loans (net)

	2009 ***LL million***	*2008* *LL million*
Financial position accounts:		
Gross amount of bad and doubtful loans	**134,388**	150,626
Unrealized interest	**(58,091)**	(67,351)
Specific provision	**(56,800)**	(59,668)
Net amount of bad and doubtful loans	**19,497**	23,607

Movement of unrealized interest on doubtful and bad loans during the years ended 31 December was as follows:

	2009		
	Commercial loans LL million	***Retail loans LL million***	***Total LL million***
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	**57,849**	**242**	**58,091**

	2008		
	Commercial loans LL million	*Retail loans LL million*	*Total LL million*
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	67,249	102	67,351

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:

	2009		
	Commercial loans LL million	***Retail loans LL million***	***Total LL million***
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	**49,793**	**7,007**	**56,800**

	2008		
	Commercial loans LL million	*Other customers loans LL million*	*Total LL million*
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	54,952	4,716	59,668

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

	2009 LL million	*2008 LL million*
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
	59,572	41,964

21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of collective provision during the years ended 31 December

	2009 LL million	*2008 LL million*
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	**59,572**	41,964

Provision for country risk

	2009 LL million	*2008 LL million*
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	**5,745**	5,206

Bad loans transferred to off balance sheet accounts in accordance with Banking Control Commission Circular No. 240

31 December 2009	***Loan amount LL million***	***Specific provision LL million***	***Unrealized interest LL million***	***Net balance LL million***
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	**113,117**	**58,936**	**54,181**	**-**

21 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

31 December 2008	*Loan amount LL million*	*Specific provision LL million*	*Unrealized interest LL million*	*Net balance LL million*
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	121,244	64,967	56,277	-

22 BANK ACCEPTANCES

	2009 ***LL million***	*2008* *LL million*
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances discounted by the Group without recourse to the beneficiary	**13,877**	13,877
- Other acceptances	**322,027**	270,591
	335,904	284,468

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

	2009 ***LL million***	*2008* *LL million*
Lebanese treasury bills and other governmental bills	**1,516,505**	1,072,398
Bonds and financial assets with fixed income	**161,668**	116,782
Shares, securities and financial assets with variable income	**74,152**	59,346
Accrued interest receivable	**41,215**	31,757
	1,793,540	1,280,283

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:

2009 Maturity	*2009* Nominal Value LL million	*2008* Maturity	*2008* Nominal Value LL million
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	**1,426,708**	Total	1,075,717

The portfolio of bonds and financial assets with fixed income had the following maturities as of 31 December 2009 and 2008:

2009 Maturity	*2009* Nominal Value LL million	*2008* Maturity	*2008* Nominal Value LL million
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	**160,076**	Total	134,284

24 FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

	2009 ***LL million***	*2008* *LL million*
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
	6,681,970	4,619,105

The portfolio of certificates of deposit had the following maturities as of 31 December 2009 and 2008:

2009 Maturity	*2009* Nominal Value LL million	*2008* Maturity	*2008* Nominal Value LL million
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	**3,252,705**	Total	2,174,097

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:

2009		*2008*	
Maturity	***Nominal Value LL million***	*Maturity*	*Nominal Value LL million*
Less than one month	**50,000**	Less than one month	-
Between one and three months	**430,600**	Between one and three months	25,000
Between three months and one year	**424,641**	Between three months and one year	476,775
Between one and five years	**1,153,101**	Between one and five years	557,133
More than five years	**820,450**	More than five years	901,955
Total	**2,878,792**	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:

2009		*2008*	
Maturity	***Nominal Value LL million***	*Maturity*	*Nominal Value LL million*
Between one and five years	**21,859**	Between one and five years	5,276
More than five years	**163,112**	More than five years	179,693
Total	**184,971**	Total	184,969

25 HELD TO MATURITY FINANCIAL INSTRUMENTS

	2009 LL million	*2008 LL million*
Lebanese treasury bills and other governmental bills	**493,582**	1,191,968
Bonds and financial assets with fixed income	**54,224**	71,322
Accrued interest receivable	**16,834**	36,356
	564,640	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:

2009		*2008*	
Maturity	***Nominal Value LL million***	*Maturity*	*Nominal Value LL million*
Within one month	**-**	Within one month	71,000
Between one and three months	**33,094**	Between one and three months	153,244
Between three months and one year	**167,790**	Between three months and one year	567,349
Between one and five years	**192,364**	Between one and five years	287,185
More than five years	**103,565**	More than five years	118,490
Total	**496,813**	Total	1,197,268

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 Maturity	Nominal Value LL million	*2008* Maturity	Nominal Value LL million
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

	Buildings ***LL million***	***Motor vehicles*** ***LL million***	***Furniture and equipment*** ***LL million***	***Deposits*** ***LL million***	***Advance payments*** ***LL million***	***Total*** ***LL million***
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**

	Buildings *LL million*	*Motor vehicles* *LL million*	*Furniture and equipment* *LL million*	*Deposits* *LL million*	*Advance payments* *LL million*	*Total* *LL million*
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.

26 PROPERTY AND EQUIPMENT (continued)

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity are as follows:

	2009	*2008*
	LL million	*LL million*
- 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
	5,689	5,689

27 INTANGIBLE ASSETS

	2009	*2008*
	LL million	*LL million*
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	**903**	563
Net book value:		
At 31 December	**734**	1,074

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:

	2009	*2008*
	LL million	*LL million*
Cost:		
At 1 January	**51,267**	56,140
Additions during the year	**826**	5,719
Disposal	**(8,367)**	(10,592)
At 31 December	**43,726**	51,267
Impairment :		
At 1 January	**(5,159)**	(4,751)
Addition during the year	**-**	(408)
At 31 December	**(5,159)**	(5,159)
Net carrying value:		
At 31 December	**38,567**	46,108

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).

29 OTHER ASSETS

		2009 LL million	2008 LL million
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)
		70,545	60,874

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:

	2009 LL million	2008 LL million
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
	65,760	55,943

d) Movement of the doubtful debtors accounts and related provisions during the year is as follows:

	2009		2008	
	Balance LL million	Provision LL million	Balance LL million	Provision LL million
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	**72**	**37**	241	186

30 DUE TO CENTRAL BANKS

	2009 ***LL million***	*2008* *LL million*
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)
	-	38,515
Current account due to Central Bank of Syria	**4,308**	30,256
Current account due to Central Bank of Sudan	**6,250**	6,700
	10,558	36,956
Loan due to the Central Bank of Armenia	**1,142**	8,185
Accrued interest payable	**4**	-
	1,146	8,185
	11,704	83,656

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

	2009 ***LL million***	*2008* *LL million*
Commercial banks:		
- Current accounts	**369,179**	373,456
- Time deposits	**755,553**	567,013
- Medium term loans	**287,390**	295,924
- Accrued interest payable	**7,456**	8,820
	1,419,578	1,245,213

31 DUE TO BANKS AND FINANCIAL INSTITUTIONS (continued)

	2009	*2008*
	LL million	*LL million*
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)
	251,191	210,673
Registered exchange companies:		
- Current accounts	**1,632**	2,955
- Time deposits	**3,354**	3,290
- Accrued interest Payable	**52**	23
	5,038	6,268
Brokerage Institutions:		
- Current accounts	**-**	107
	1,675,807	1,462,261

32 CUSTOMERS' DEPOSITS

	2009	*2008*
	LL million	*LL million*
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
	15,366,354	12,500,408

33 DEBT ISSUED AND OTHER BORROWED FUNDS

	2009	*2008*
	LL million	*LL million*
Certificates of deposit		
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)
	213,501	121,246
Index linked notes		
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)
	-	67,976

33 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

	2009	*2008*
	LL million	*LL million*
Equity linked notes		
Issuance value: US$ (000) 49,414 (2008: US$ (000) 49,414)	**74,491**	74,491
Discount to be amortized over the period of the notes: US$ (000) 4,234 (2008: US$ (000) 4,932)	**(6,383)**	(7,435)
Accrued interest payable: US$ (000) nil (2008: US$ (000) 1,676)	**-**	2,527
	68,108	69,583
Commodity linked notes		
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
	281,609	267,555
Interest and similar expense:		
- Certificates of deposit:		
- Interest: US$ (000) 9,754 (2008: US$ (000) 5,079)	**14,630**	7,656
- Add: Amortization of issuing cost: US$ (000) 49 (2008: US$ (000) 90)	**74**	136
	14,704	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)	**2,759**	(84)
	2,759	4,280
- Equity linked notes:		
- Interest: US$ (000) 2,194 (2008: US$ (000) 3,979)	**3,307**	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)	**980**	(1,430)
	4,287	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)	**358**	(40)
	358	510
	22,108	17,151

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.

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

	2009	*2008*
	LL million	*LL million*
Taxes payable:		
- Income tax on profit (note 14)	**27,018**	22,176
- Tax on services	**669**	385
- Tax on dividends	**2,207**	7
- Tax on salaries and wages	**1,226**	1,382
- Tax on Board of Directors' attendance fees	**137**	58
- Tax on interest	**4,815**	4,126
- Value added tax	**350**	70
- Other taxes	**3,790**	1,792
	40,212	29,996

35 OTHER LIABILITIES

		2009 **LL million**	*2008* *LL million*
Payables to National Social Security Fund		**1,338**	1,355
Other creditors	a	**73,222**	92,897
Due to shareholders		**749**	847
Margins against documentary letters of credit and acceptances		**160,860**	95,960
		236,169	191,059

a) Other Creditors

	2009 **LL million**	*2008* *LL million*
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
	73,222	92,897

36 PROVISIONS FOR RISKS AND CHARGES

	2009 **LL million**	*2008* *LL million*
Provision for foreign currency fluctuation	**782**	517
Technical reserves of insurance company	**60,571**	26,953
Other provisions	**5,601**	3,121
	66,954	30,591

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).

37 END OF SERVICE BENEFITS

	2009	*2008*
	LL million	*LL million*
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	**28,276**	27,478

38 SUBORDINATED NOTES

		2009	*2008*
		LL million	*LL million*
Convertible subordinated notes	a	**251,379**	248,061
Subordinated notes	b	**48,255**	48,142
Total		**299,634**	296,203

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:

	LL million	*USD (000)*
Nominal value of convertible bonds	301,500	200,000
Equity component	(20,809)	(13,804)
Liability component	280,691	186,196

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

39 SHARE CAPITAL

	2009		2008	
	No of Shares	***LL million***	*No of Shares*	*LL million*
Issued shares				
Common shares:				
Ordinary shares	**217,112,557**	**262,706**	217,112,557	260,535
Priority shares	**206,023,723**	**249,289**	206,023,723	247,228
Preferred shares:				
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
	427,136,280	**516,835**	426,136,280	511,363

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:

	No of Shares	***LL million***
Issued shares		
Common shares:		
Ordinary shares	**217,112,557**	**262,706**
Priority shares	**206,023,723**	**249,289**
Preferred shares:		
Series 2008	**2,000,000**	**2,420**
	425,136,280	**514,415**

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 5th 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.

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:

31 December 2009	*Ordinary shares*			*Priority shares*		
	No. of shares	*Average price US$*	*Amount US$ (000)*	*No. of shares*	*Average price US$*	*Amount US$ (000)*
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	**441,846**		**180**	**60,072**		**(63)**
In LL million			**271**			**(95)**
Total treasury shares (ordinary and priority) in LL million						**176**

31 December 2008	*Ordinary shares*			*Priority shares*		
	No. of shares	*Average price US$*	*Amount US$ (000)*	*No. of shares*	*Average price US$*	*Amount US$ (000)*
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	444,748	1.77	790	221,290	1.08	240
In LL million			1,192			362
Total treasury shares (ordinary and priority) in LL million						1,554

40 REVALUATION RESERVE OF REAL ESTATE

	2009 LL million	2008 LL million
Revaluation reserve recognized in the complementary equity		
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)
	1,978	1,978
Revaluation reserve of other assets	**3,711**	3,711
	5,689	5,689

41 AVAILABLE-FOR-SALE RESERVE

Available-for-sale reserve as at 31 December relates to the following available-for-sale financial instruments:

	2009 LL million	2008 LL million
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)
	66,026	(30,517)

Movement of available-for-sale reserve during the year was as follows:

	2009 LL million	2008 LL million
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	**66,026**	(30,517)

42 CAPITAL RESERVES

	2009 Group share LL million	*2008 Group share LL million*
Legal reserve	**120,358**	104,646
Reserves appropriated for capital increase	**22,676**	20,807
General reserve	**137,190**	117,941
Equity component of convertible subordinated bonds (note 38)	**18,040**	18,040
Reserve for general banking risks	**80,429**	66,886
Other capital reserves	**5,422**	6,028
	384,115	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

	2009 LL million	*2008 LL million*
Reserve equivalent to realized profit on sale of assets acquired in settlement of bad debt, in accordance with BCC circular No 173	**3,550**	2,947
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	**9,737**	8,471
Reserve equivalent to profits realized on sale of Solidere Company shares acquired in compensation of leased property in Beirut Central District	**220**	220
Reserve equivalent to profits realized on liquidation of structural foreign exchange positions, in accordance with BCC circular No 197.	**8,870**	8,870
Others	**299**	299
	22,676	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).

42 CAPITAL RESERVES (continued)

Other capital reserve

		2009 LL million	2008 LL million
Premium on capital increase of Byblos Bank Armenia CJSC	(a)	**1,263**	1,263
Premium on capital increase of Byblos Bank Africa	(b)	**4,765**	4,765
		6,028	6,028
Translation difference		**(606)**	-
		5,422	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

	2009 LL million	2008 LL million
- Capital of subsidiary banks and companies	**92,701**	81,752
- Other reserves and premiums	**13,374**	13,374
- Net results of the financial period - profit	**12,794**	11,630
- Retained earnings (accumulated losses)	**1,482**	(2,882)
- Cumulative changes in fair values	**63**	240
- Sale of subsidiary shares to minority interests	**-**	10,949
- Foreign currency translation reserve	**2,635**	1,144
	123,049	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.

45 CASH AND CASH EQUIVALENTS

	2009 *LL million*	*2008* *LL million*
Cash and balances with central banks	**1,812,604**	1,176,842
Deposits from banks and financial institutions	**2,850,295**	2,423,612
	4,662,899	3,600,454
Less: Due to banks and financial institutions	**(1,153,803)**	(949,250)
Less: Due to Central Bank	**(10,564)**	-
Cash and cash equivalents at 31 December	**3,498,532**	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:

	2009 *Major shareholders* *LL million*	*2008* *Major shareholders* *LL million*
Net loans and advances to related parties	**11,515**	12,017
Deposits from related parties	**139,814**	106,472
Shareholders' credit balances	**749**	847
Interest received on loans and advances to related parties	**653**	841
Interest paid on related party deposits	**8,376**	5,783

Compensation of the key management personnel of the Group

	2009			*2008*		
	Chairman & Board members *LL million*	*Senior Management* *LL million*	*Total* *LL million*	*Chairman & Board members* *LL million*	*Senior Management* *LL million*	*Total* *LL million*
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:

	2009 ***LL million***	*2008* *LL million*
Financing Commitments given to banks and financial institutions	**803,564**	862,122
Guarantees given to banks and financial institutions	**360,485**	267,414
Guarantees given to customers	**885,543**	793,830
Acceptances (reflected on balance sheet)	**335,904**	284,468
	2,385,496	2,207,834
Undrawn commitments to lend	**812,871**	941,822
	3,198,367	3,149,656

Operating lease commitments

Future minimum lease payments under non-cancellable operating leases as at 31 December are as follows:

	2009 ***LL million***	*2008* *LL million*
Within one year	**2,466**	3,219
After one year but not more than five years	**5,177**	8,631
More than five years	**10,435**	7,007
	18,078	18,857

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:

	2009		
	Assets LL million	***Liabilities and stockholders equity LL million***	***Credit commitments LL million***
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**
	20,465,186	**20,465,186**	**2,049,591**

	2008		
	Assets LL million	*Liabilities and stockholders equity LL million*	*Credit commitments LL million*
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
	16,929,142	16,929,142	1,923,366

49 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	31 December 2009					
	Held for trading LL million	*Held to maturity LL million*	*Loans and receivables LL million*	*Available for sale LL million*	*Held at amortized cost LL million*	*Total LL million*
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
	216,352	564,640	11,837,022	1,794,733	5,675,855	20,088,602
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
	11,144	-	-	-	18,112,821	18,123,965

49 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

	31 December 2008					
	Held for trading LL million	*Held to maturity LL million*	*Loans and receivables LL million*	*Available for sale LL million*	*Held at amortized cost LL million*	*Total LL million*
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
	240,942	1,299,646	9,110,237	1,286,833	4,640,106	16,577,764
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
	28,866	-	-	-	15,002,743	15,031,609

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.

		31 December 2009	
	Carrying value at Reclassification date	***Carrying value***	***Fair value***
	LL million	***LL million***	***LL million***
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	**1,313,537**	**1,319,117**	**1,452,435**

		31 December 2008	
	Carrying value at Reclassification date	*Carrying value*	*Fair value*
	LL million	*LL million*	*LL million*
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	1,757,015	1,758,319	1,606,921

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.

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*		
	Fair value LL million	***Book value LL million***	***Unrealised Profits (losses) LL million***	*Fair value LL million*	*Book value LL million*	*Unrealised profits (losses) LL million*
FINANCIAL ASSETS						
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)
FINANCIAL LIABILITIES						
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
			244,641			(87,991)

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.

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			
	Level 1	*Level 2*	*Level 3*	*Total*
FINANCIAL ASSETS	*LL million*	*LL million*	*LL million*	*LL million*
Derivative financial instruments:				
Currency swaps	976	-	-	976
Forward foreign exchange contracts	1,811	-	-	1,811
Spot foreign exchange contracts	83	-	-	83
	2,870	**-**	**-**	**2,870**
Hedging instruments related to:				
Equity linked notes	-	-	9,354	9,354
	-	**-**	**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	99,927	64,284	-	164,211
Shares, securities and financial assets with variable income	41,253	32,899	-	74,152
	673,158	**1,120,382**	**-**	**1,793,540**
	856,564	**1,136,786**	**16,542**	**2,009,892**
FINANCIAL LIABILITIES				
Derivative financial instruments:				
Currency swaps	354	-	-	354
Forward foreign exchange contracts	1,217	-	-	1,217
Spot foreign exchange contracts	219	-	-	219
	1,790	**-**	**-**	**1,790**
Hedging instruments related to:				
Equity linked notes	-	-	9,354	9,354
	-	**-**	**9,354**	**9,354**
	1,790	**-**	**9,354**	**11,144**

50 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

	2008			
FINANCIAL ASSETS	*Level 1* *LL million*	*Level 2* *LL million*	*Level 3* *LL million*	*Total* *LL million*
Derivative financial instruments:				
Currency swaps	123	-	-	123
Forward foreign exchange contracts	14,478	-	-	14,478
Spot foreign exchange contracts	634	-	-	634
	15,235	-	-	15,235
Hedging instruments related to:				
Index linked notes	-	-	5,683	5,683
Commodity linked notes	-	-	41	41
Equity linked notes	-	-	9,158	9,158
	-	-	14,882	14,882
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
	129,303	74,510	7,012	210,825
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
	182,493	1,097,790	-	1,280,283
	327,031	1,172,300	21,894	1,521,225
FINANCIAL LIABILITIES				
Derivative financial instruments:				
Currency swaps	152	-	-	152
Forward foreign exchange contracts	13,761	-	-	13,761
Spot foreign exchange contracts	71	-	-	71
	13,984	-	-	13,984
Hedging instruments related to:				
Index linked notes	-	-	5,683	5,683
Commodity linked notes	-	-	41	41
Equity linked notes	-	-	9,158	9,158
	-	-	14,882	14,882
	13,984	-	14,882	28,866

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.

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.

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
	20,008,448	**18,687,346**	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	**2,862,462**	**2,862,462**	2,865,188	2,865,188
Total credit risk exposure	**22,870,910**	**21,549,808**	19,370,780	18,425,109

52 CREDIT RISK (continued)

Credit quality per class of financial asset

The credit quality of financial assets is managed by the Group using internal credit ratings. The table below presents the credit quality by class of asset for loan-related balance sheet lines, based on the credit rating system.

	2009				
	Neither past due nor impaired				
	High-grade LL million	***Standard grade LL million***	***Past due but not impaired LL million***	***Past due and / or impaired LL million***	***Total LL million***
Cash and balances with central banks	**2,533,372**	**-**	**-**	**-**	**2,533,372**
Due from banks and financial institutions	**2,874,611**	**267,872**	**-**	**8,441**	**3,150,924**
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	**168,428**	**10,782**	**-**	**-**	**179,210**
Loans and advances to customers and related parties					
- Commercial loans	**3,485,125**	**198,519**	**37,502**	**131,839**	**3,852,985**
- Other customer loans	**1,040,074**	**7,252**	**91,040**	**13,754**	**1,152,120**
Debtors by acceptances	**335,904**	**-**	**-**	**-**	**335,904**
Available-for-sale financial instruments	**1,671,380**	**41,153**	**-**	**7,338**	**1,719,871**
Financial assets classified as loans and receivables	**6,542,462**	**127,782**	**-**	**15,494**	**6,685,738**
Held to maturity financial instruments	**549,014**	**3,446**	**-**	**15,947**	**568,407**
	19,213,787	**656,806**	**128,542**	**192,813**	**20,191,948**

	2008				
	Neither past due nor impaired				
	High-grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Past due and / or impaired LL million*	*Total LL million*
Cash and balances with central banks	2,023,979	-	-	-	2,023,979
Due from banks and financial institutions	2,379,874	145,956	-	4,766	2,530,596
Financial assets given as collateral and reverse repurchase agreements	96,847	-	-	-	96,847
Derivative financial instruments	30,117	-	-	-	30,117
Financial assets held for trading	180,871	-	-	-	180,871
Loans and advances to customers and related parties					
- Commercial loans	3,034,416	217,646	35,892	169,192	3,457,146
- Other customer loans	828,949	8,257	91,494	8,461	937,161
Debtors by acceptances	284,468	-	-	-	284,468
Available-for-sale financial instruments	1,219,262	-	-	7,178	1,226,440
Financial assets classified as loans and receivables	1,299,646	-	-	-	1,299,646
Held to maturity financial instruments	4,594,905	24,200	-	-	4,619,105
	15,973,334	396,059	127,386	189,597	16,686,376

Standards & Poors agency rated the Lebanese Government risks “B^{-}” as at 31 December 2009 and 2008.

52 CREDIT RISK (continued)

Maximum credit risk concentration exposure

	2009			
	Lebanon	*Europe*	*Other countries*	*Total*
	LL million	*LL million*	*LL million*	*LL million*
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**
Total	**14,164,931**	**2,347,926**	**3,495,591**	**20,008,448**
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**
Total financial commitments	**1,479,972**	**116,714**	**1,265,776**	**2,862,462**
Total credit risk exposure	**15,644,903**	**2,464,640**	**4,761,367**	**22,870,910**

	2008			
	Lebanon	*Europe*	*Other countries*	*Total*
	LL million	*LL million*	*LL million*	*LL million*
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
Total	11,567,141	2,284,820	2,653,631	16,505,592
Commitments and contingencies	949,951	163,951	809,464	1,923,366
Undrawn commitments to lend	716,693	113,927	111,202	941,822
Total financial commitments	1,666,644	277,878	920,666	2,865,188
Total credit risk exposure	13,233,785	2,562,698	3,574,297	19,370,780

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:

	2009 ***LL million***	*2008* *LL million*
Industry Sector:		
Commercial	**1,657,265**	1,422,039
Industrial	**947,759**	821,679
Agriculture	**73,553**	85,524
Services	**594,056**	737,423
Banks and other financial institutions	**3,991,284**	3,236,808
Construction	**592,590**	472,650
Retail	**1,162,054**	931,742
Government	**10,826,928**	8,673,533
Other	**162,959**	124,194
	20,008,448	16,505,592

Aging analysis of past due but not impaired loans per class of financial assets

	2009					
	Less than 90 days LL million	***91 to 180 days LL million***	***181 to 365 days LL million***	***366 to 720 days LL million***	***More than 720 days LL million***	***Total LL million***
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	**90,051**	**15,538**	**10,415**	**6,353**	**6,185**	**128,542**

	2008					
	Less than 90 days LL million	*91 to 180 days LL million*	*181 to 365 days LL million*	*366 to 720 days LL million*	*More than 720 days LL million*	*Total LL million*
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	98,419	8,986	5,720	4,961	9,300	127,386

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:

	2009 ***LL million***	*2008* *LL million*
Loans and advances to customers	**61,475**	18,289

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 summaries 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					
	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***	***More than 5 years LL million***	***Total LL million***
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**
Total undiscounted financial liabilities	**12,055,428**	**2,331,428**	**2,269,515**	**1,530,481**	**316,721**	**18,503,573**

	2008					
	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*	*More than 5 years LL million*	*Total LL million*
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
Total undiscounted financial liabilities	9,542,580	2,248,924	2,248,208	918,150	418,676	15,376,538

The table below summarizes the maturity profile of the Group's commitments and contingencies:

	2009					
	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***	***Total LL million***
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**
	645,812	**749,389**	**853,143**	**588,740**	**25,378**	**2,862,462**

53 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	2008					
	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*	*Total 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
	1,027,874	543,896	766,838	525,704	876	2,865,188

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:

	2009					
(Amounts in LL million)	***Up to 1 month***	***1 to 3 months***	***3 months to 1 year***	***1 to 5 years***	***Over 5 years***	***Total***
ASSETS						
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**
Total assets	**5,360,868**	**2,534,110**	**1,814,691**	**7,686,069**	**3,069,448**	**20,465,186**
LIABILITIES						
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**
Total liabilities	**12,288,317**	**2,322,076**	**2,207,655**	**1,347,452**	**346,754**	**18,512,254**
Net liquidity gap	**(6,927,449)**	**212,034**	**(392,964)**	**6,338,617**	**2,722,694**	**1,952,932**

53 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2008 were as follows:

	2008					
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Total*
ASSETS						
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
Total assets	4,888,159	1,401,803	2,383,152	5,756,665	2,499,363	16,929,142
LIABILITIES						
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
Total liabilities	9,604,800	2,247,209	2,303,459	807,612	347,653	15,310,733
Net liquidity gap	(4,716,641)	(845,406)	79,693	4,949,053	2,151,710	1,618,409

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.

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.

		2009		2008	
Currency	***Increase in interest rate***	***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
		(24,109)	**135,727**	(18,655)	101,891

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 %*
ASSETS				
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%
LIABILITIES				
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%	-

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:

	2009						
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Non interest bearing items*	*Total*
ASSETS							
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**
Total assets	**5,379,846**	**2,673,148**	**2,072,900**	**7,135,578**	**2,061,472**	**1,142,242**	**20,465,186**
LIABILITIES							
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**
Total liabilities and equity	**12,303,045**	**2,146,155**	**2,109,157**	**1,166,219**	**92,357**	**2,648,253**	**20,465,186**
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**	**-**	

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:

	2008						
(Amounts in LL million)	*Up to 1 month*	*1 to 3 months*	*3 months to 1 year*	*1 to 5 years*	*Over 5 years*	*Non interest bearing items*	*Total*
ASSETS							
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
Total assets	4,648,495	1,346,361	2,259,810	5,511,107	1,863,907	1,299,462	16,929,142
LIABILITIES							
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
Total liabilities and equity	9,392,715	2,199,094	1,766,440	750,478	282,644	2,537,771	16,929,142
Total interest rate sensitivity gap	(4,744,220)	(852,733)	493,370	4,760,629	1,581,263	(1,238,309)	
Cumulative interest rate sensitivity gap	(4,744,220)	(5,596,953)	(5,103,583)	(342,954)	1,238,309	-	

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.

		2009		*2008*	
Currency	***Change in currency rate %***	***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**	**(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
		(13,578)	**15,689**	(14,121)	17,865

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)	*2009*			
		Foreign currencies		*Total*
	LL million	*USD (000)*	*C/V LL million*	*LL million*
ASSETS				
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**
Total assets	**7,376,616**	**8,682,301**	**13,088,570**	**20,465,186**
LIABILITIES AND EQUITY				
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**
	6,457,130	**7,996,765**	**12,055,124**	**18,512,254**
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**
Total equity	**1,056,469**	**594,668**	**896,463**	**1,952,932**
Total liabilities and equity	**7,513,599**	**8,591,433**	**12,951,587**	**20,465,186**

55 CURRENCY RISK (continued)

(Amounts in LL million)	*2008*			
		Foreign currencies		*Total*
	LL million	*USD (000)*	*C/V LL million*	*LL million*
ASSETS				
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
Total assets	5,192,921	7,785,221	11,736,221	16,929,142
LIABILITIES AND EQUITY				
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
	4,585,967	7,114,272	10,724,766	15,310,733
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)	(48,832)	(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
Total equity	944,070	448,250	674,339	1,618,409
Total liabilities and equity	5,530,037	7,562,522	11,399,105	16,929,142

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.

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:

Market indices	***Change in equity price*** *%*	***2009 Effect on equity*** ***LL million***	*2008 Effect on equity LL million*
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.

59 CAPITAL MANAGEMENT (continued)

Capital consists of the following as of 31 December 2009 and 2008:

	2009 ***LL million***	*2008* *LL million*
Tier 1 Capital	**1,533,294**	1,332,157
Tier 2 Capital	**367,638**	267,664
Total Capital	**1,900,932**	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

	2009 ***LL million***	*2008* *LL million*
Declared and paid during the year		
Equity dividends on ordinary shares:		
Dividends for 2008: LL 157.9 (2007: LL 157.9)	**34,281**	32,373
Equity dividends on priority shares:		
Dividends for 2008: LL 157.9 (2007: LL 157.9)	**32,531**	32,531
Distributions to preferred shares – 2003 series:		
Distributions for 2008: USD 12.00 (2007: USD 12.00)	**18,168**	18,168
Distributions to preferred shares – 2008 series:		
Distributions for 2008: USD 3.35 (2007: USD nil)	**10,144**	-
Distributions to priority shares		
Interest paid at 4% of share's nominal value: LL 48 for 2008 (2007: LL 48)	**9,889**	9,889
	105,013	92,961
Proposed for approval at annual general meeting *(not recognized as a liability as at 31 December)*		
Equity dividends on ordinary shares:		
Dividends for 2009: LL 200 (2008: LL 157.9)	**43,423**	34,281
Equity dividends on priority shares:		
Dividends for 2009: LL 200 (2008: LL 157.9)	**41,205**	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)	**24,032**	10,144
Distributions to preferred shares – 2009 series:		
Distributions for 2009: USD 3.35 (2008: USD nil)	**10,063**	-
Distributions to priority shares:		
Interest paid at 4% of share's nominal value: LL 48.40 for 2009 (2008: LL 48)	**9,972**	9,889
	128,695	105,013

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.