# BYBLOS BANK SAL

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2010**

Ernst & Young

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## INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

We have audited the accompanying consolidated financial statements of Byblos Bank SAL (the Bank) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2010 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

**Auditors' Responsibility**
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Ernst & Young

Semaan, Gholam & Co.

Semaan, Gholam & Co.

16 April 2011
Beirut, Lebanon

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2010

| | Notes | 2010 LL million | 2009 LL million |
|---|---|---|---|
| Interest and similar income | 5 | **1,224,014** | 1,141,893 |
| Interest and similar expense | 6 | **(796,751)** | (753,113) |
| **NET INTEREST INCOME** | | **427,263** | 388,780 |
| Fee and commissions income | 7 | **140,221** | 129,573 |
| Fee and commissions expense | 7 | **(14,563)** | (14,624) |
| **NET FEE AND COMMISSIONS INCOME** | | **125,658** | 114,949 |
| Net trading income | 8 | **22,158** | 38,141 |
| Net gain on financial assets | 9 | **100,965** | 14,011 |
| Other operating income | 10 | **8,118** | 16,251 |
| **TOTAL OPERATING INCOME** | | **684,162** | 572,132 |
| Credit loss expense | 11 | **(29,272)** | (26,245) |
| Impairment losses on other financial assets | 12 | **(8,863)** | (15,278) |
| **NET OPERATING INCOME** | | **646,027** | 530,609 |
| Personnel expenses | 13 | **(145,552)** | (129,339) |
| Depreciation and impairment of property and equipment | 27 | **(31,014)** | (25,585) |
| Amortisation of intangibles assets | 28 | **(112)** | (340) |
| Other operating expenses | 14 | **(142,144)** | (109,513) |
| **TOTAL OPERATING EXPENSES** | | **(318,822)** | (264,777) |
| **PROFIT BEFORE TAX** | | **327,205** | 265,832 |
| Income tax expense | 15 | **(59,386)** | (46,410) |
| **PROFIT FOR THE YEAR** | | **267,819** | 219,422 |
| Attributable to: | | | |
| Equity holders of the parent | | **255,770** | 206,628 |
| Non controlling interest | | **12,049** | 12,794 |
| | | **267,819** | 219,422 |
| **Earnings per share** | | *LL* | *LL* |
| Equity shareholders of the parent for the year: | | | |
| Basic earnings per share – common shares | 16 | **399.61** | 384.65 |
| Basic earnings per share – priority shares | 16 | **448.01** | 433.05 |
| Diluted earnings per share – common shares | 16 | **374.78** | 362.97 |
| Diluted earnings per share – priority shares | 16 | **423.18** | 411.37 |

The attached notes 1 to 55 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| **Profit for the year** | **267,819** | 219,422 |
| **Other comprehensive income (loss)** | | |
| Net (loss) gain on available-for-sale financial assets | **(15,968)** | 112,073 |
| Exchanges differences on translation of foreign operations | **(36,090)** | (5,210) |
| Income tax effect on components of other comprehensive income | **4,225** | (15,485) |
| **Other comprehensive (loss) income for the year, net of tax** | **(47,833)** | 91,378 |
| **Total comprehensive income for the year, net of tax** | **219,986** | 310,800 |
| Attributable to: | | |
| Equity holders of the parent | **220,770** | 297,943 |
| Non controlling interest | **(784)** | 12,857 |
| | **219,986** | 310,800 |

The attached notes 1 to 55 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2010

| | Notes | 2010 LL million | 2009 LL million |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 17 | 2,761,110 | 2,533,372 |
| Due from banks and financial institutions | 18 | 3,899,011 | 3,142,483 |
| Financial assets given as collateral and reverse repurchase agreements | 19 | 8,918 | 1,193 |
| Derivative financial instruments | 20 | 1,462 | 12,224 |
| Financial assets held for trading | 21 | 205,940 | 204,128 |
| Net loans and advances to customers | 22 | 5,674,283 | 4,807,633 |
| Net loans and advances to related parties | 48 | 10,957 | 11,515 |
| Debtors by acceptances | 23 | 291,834 | 335,904 |
| Available-for-sale financial instruments | 24 | 1,875,811 | 1,794,657 |
| Other financial assets classified as loans and receivables | 25 | 7,490,856 | 6,681,889 |
| Held to maturity financial instruments | 26 | 428,698 | 563,604 |
| Property and equipment | 27 | 281,303 | 266,738 |
| Intangible assets | 28 | 1,039 | 734 |
| Non-current assets held-for-sale | 29 | 39,092 | 38,567 |
| Other assets | 30 | 77,078 | 70,545 |
| **TOTAL ASSETS** | | 23,047,392 | 20,465,186 |
| **LIABILITIES AND EQUITY** | | | |
| Due to central banks | 31 | 19,492 | 11,704 |
| Due to banks and financial institutions | 32 | 1,441,346 | 1,675,807 |
| Financial assets against securities lent and repurchase agreements | 19 | - | 1,193 |
| Derivative financial instruments | 20 | 4,350 | 1,790 |
| Customers' deposits | 33 | 17,815,282 | 15,366,354 |
| Deposits from related parties | 49 | 112,396 | 139,814 |
| Debt issued and other borrowed funds | 34 | 213,501 | 290,963 |
| Engagements by acceptances | 23 | 291,834 | 335,904 |
| Current tax liability | 35 | 44,526 | 40,212 |
| Other liabilities | 36 | 212,261 | 236,169 |
| Liabilities linked to held-for-sale assets | 29 | 1,312 | 1,995 |
| Provision for risks and charges | 37 | 88,983 | 66,954 |
| End of service benefits | 38 | 30,922 | 28,276 |
| Deferred tax liabilities | 15 | 11,445 | 15,485 |
| Subordinated notes | 39 | 303,324 | 299,634 |
| **TOTAL LIABILITIES** | | 20,590,974 | 18,512,254 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital – common shares | 40 | 434,984 | 262,706 |
| Share capital – priority shares | 40 | 249,289 | 249,289 |
| Share capital – preferred shares | 40 | 4,840 | 4,840 |
| Share premium – common shares | 40 | 229,014 | 26,425 |
| Share premium – preferred shares | 40 | 581,456 | 579,035 |
| Capital reserves | 43 | 475,653 | 391,073 |
| Other equity instruments | 46 | 14,979 | - |
| Treasury shares | 44 | (16,189) | (176) |
| Retained earnings | | 16,484 | 24,954 |
| Revaluation reserve of real estate | 41 | 5,689 | 5,689 |
| Available-for-sale reserve | 42 | 53,993 | 66,026 |
| Net results of the financial period - profit | | 255,770 | 206,628 |
| Foreign currency translation reserve | | (9,573) | 13,394 |
| | | 2,296,389 | 1,829,883 |
| **NON CONTROLLING INTEREST** | 45 | 160,029 | 123,049 |
| **TOTAL EQUITY** | | 2,456,418 | 1,952,932 |
| **TOTAL LIABILITIES AND EQUITY** | | 23,047,392 | 20,465,186 |

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 16 April 2011.

Dr François Bassil
Chairman/ General Manager

Mr Ziad El-Zoghbi
Financial and Administrative Manager

The attached notes 1 to 55 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION
At 31 December 2010

| | *Notes* | *2010 LL million* | *2009 LL million* |
|---|---|---|---|
| **Off statement of financial position items** | | | |
| **Financing Commitments** | | | |
| Financing commitments given to banks and financial institutions | 53 | **933,859** | 803,564 |
| Financing commitments received from banks and financial institutions | | **81,765** | 244,917 |
| Engagements to customers | | **341,871** | 403,731 |
| Undrawn commitments to lend | | **1,514,547** | 812,871 |
| **Bank Guarantees** | | | |
| Guarantees given to banks and financial institutions | 53 | **401,244** | 360,485 |
| Guarantees given to customers | 53 | **1,001,997** | 885,543 |
| **Foreign Currencies Contracts** | | | |
| Foreign currencies to receive | 20 | **282,530** | 297,126 |
| Foreign currencies to deliver | | **285,418** | 296,046 |
| **Claims from legal cases** | | **5,937** | 5,937 |
| **Assets under management** | | **3,385,897** | 3,952,357 |
| **Bad debts fully provided for** | 22 | **98,700** | 113,117 |

The attached notes 1 to 55 form part of these consolidated financial statements.

Byblos Bank SAL

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

| | | Attributable to equity holders of the parent | | | | | | | | | | | | | | Non controlling interest | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | | | | | | | | | | | | | | | |
| | Notes | Common shares LL million | Priority shares LL million | Preferred shares LL million | Share premium - Common shares LL million | Share premium - Preferred shares LL million | Capital reserves LL million | Other equity instruments LL million | Treasury shares LL million | Retained earnings LL million | Revaluation reserve of real estate LL million | Available-for-sale reserve LL million | Net results of the financial period - profit LL million | Foreign currency translation reserve LL million | Total LL million | LL million | LL million |
| Balance at 1 January 2009 | | 260,535 | 247,228 | 3,600 | 26,425 | 444,704 | 339,886 | - | (1,554) | 15,317 | 5,689 | (30,517) | 172,285 | 18,604 | 1,502,202 | 116,207 | 1,618,409 |
| Profit for the year | | - | - | - | - | - | - | - | - | - | - | - | 206,628 | - | 206,628 | 12,794 | 219,422 |
| Other comprehensive income | | - | - | - | - | - | - | - | - | - | - | 96,525 | - | (5,210) | 91,315 | 63 | 91,378 |
| Total comprehensive income | | - | - | - | - | - | - | - | - | - | - | 96,525 | 206,628 | (5,210) | 297,943 | 12,857 | 310,800 |
| Transfer to retained earnings | | - | - | - | - | - | - | - | - | 172,285 | - | - | (172,285) | - | - | - | - |
| Transfer to reserves and premiums | 43 | - | - | - | - | - | 53,165 | - | - | (53,165) | - | - | - | - | - | - | - |
| Redemption of series 2003 preferred shares | 40 | - | - | (1,200) | - | (149,550) | - | - | - | - | - | - | - | - | (150,750) | - | (150,750) |
| Increase in par value of outstanding shares | 40 | 2,171 | 2,061 | 20 | - | - | (3,052) | - | - | (1,200) | - | - | - | - | - | - | - |
| Issuance of series 2009 preferred shares | 40 | - | - | 2,420 | - | 283,881 | - | - | - | - | - | - | - | - | 286,301 | - | 286,301 |
| Net sale of treasury shares | 44 | - | - | - | - | - | - | - | 1,378 | - | - | - | - | - | 1,378 | - | 1,378 |
| Non controlling interest's share of dividends paid by subsidiaries | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (3,558) | (3,558) |
| Other | | - | - | - | - | | 1,074 | - | - | (3,270) | | 18 | | | (2,178) | (2,457) | (4,635) |
| Dividends paid | 54 | - | - | - | - | - | - | - | - | (105,013) | - | - | - | - | (105,013) | - | (105,013) |
| Balance at 31 December 2009 | | 262,706 | 249,289 | 4,840 | 26,425 | 579,035 | 391,073 | - | (176) | 24,954 | 5,689 | 66,026 | 206,628 | 13,394 | 1,829,883 | 123,049 | 1,952,932 |
| **Balance at 1 January 2010** | | **262,706** | **249,289** | **4,840** | **26,425** | **579,035** | **391,073** | **-** | **(176)** | **24,954** | **5,689** | **66,026** | **206,628** | **13,394** | **1,829,883** | **123,049** | **1,952,932** |
| Profit for the year | | - | - | - | - | - | - | - | - | - | - | - | 255,770 | - | 255,770 | 12,049 | 267,819 |
| Other comprehensive income | | - | - | - | - | - | - | - | - | - | - | (12,033) | - | (22,967) | (35,000) | (12,833) | (47,833) |
| Total comprehensive income | | - | - | - | - | - | - | - | - | - | - | (12,033) | 255,770 | (22,967) | 220,770 | (784) | 219,986 |
| Transfer to retained earnings | | - | - | - | - | - | - | - | - | 206,628 | - | - | (206,628) | - | - | - | - |
| Transfer to reserves and premiums | 40 & 43 | - | - | - | - | 2,421 | 84,124 | - | - | (86,545) | - | - | - | - | - | - | - |
| Capital increase | 40 | 172,278 | - | - | 202,589 | - | - | - | - | - | - | - | - | - | 374,867 | - | 374,867 |
| Net purchase of treasury shares | 44 | - | - | - | - | - | 456 | - | (16,013) | - | - | - | - | - | (15,557) | - | (15,557) |
| Non controlling interest share in capital increase of a subsidiary | 45 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 38,037 | 38,037 |
| Non controlling interest's share of dividends paid by subsidiaries | | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (5,966) | (5,966) |
| Dividends paid to treasury shares | 44 | - | - | - | - | - | - | - | - | 141 | - | - | - | - | 141 | - | 141 |
| Dividends paid | 54 | - | - | - | - | - | | | - | (128,694) | - | - | - | - | (128,694) | - | (128,694) |
| Non-controlling interest in subsidiary acquired | 3 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 7,505 | 7,505 |
| Non-controlling interest in subsidiary liquidated | 45 | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (1,812) | (1,812) |
| Other equity instruments issued | 46 | - | - | - | - | - | - | 14,979 | - | - | - | - | - | - | 14,979 | - | 14,979 |
| **Balance at 31 December 2010** | | **434,984** | **249,289** | **4,840** | **229,014** | **581,456** | **475,653** | **14,979** | **(16,189)** | **16,484** | **5,689** | **53,993** | **255,770** | **(9,573)** | **2,296,389** | **160,029** | **2,456,418** |

The attached notes 1 to 55 form part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

| | Notes | 2010 LL million | 2009 LL million |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | 327,205 | 265,832 |
| Adjustments to reconcile profit before tax to net cash flows: | | | |
| Depreciation and amortisation | 27 & 28 | 30,115 | 25,344 |
| Provision for loans and advances and other doubtful accounts, net | 11 | 29,272 | 26,245 |
| Gain on disposal of property, plant and equipment | 10 | (900) | (860) |
| Gain on disposal of non-current assets held for sale | 10 | (3,914) | (11,275) |
| Provisions for risks and charges, net | | 22,029 | 36,363 |
| Provision for impairment of financial instruments | | 8,863 | 15,278 |
| Provision for end of services benefits | 38 | 4,456 | 3,686 |
| Impairment provision on non-current assets held for sale | | - | 581 |
| Impairment provision on property and equipment | 27 | 1,011 | - |
| **Operating profit before working capital changes** | | 418,137 | 361,194 |
| **Changes in operating assets and liabilities** | | | |
| Due from central banks | | (8,284) | 126,370 |
| Due from banks and financial institutions | | (7,189) | (189,970) |
| Financial assets given as collateral | | (7,725) | 95,654 |
| Due to banks and financial institutions | | 52,040 | 8,993 |
| Cash collateral on securities lent and repurchase agreements | | (1,193) | 1,193 |
| Derivative financial instruments | | 13,322 | 171 |
| Financial assets held for trading | | (1,812) | 6,697 |
| Net loans and advances | | (887,365) | (638,729) |
| Other assets | | (6,382) | (9,671) |
| Customers' and related party deposits | | 2,412,583 | 2,899,288 |
| Other liabilities | | (39,652) | 38,911 |
| Cash from operations | | 1,936,480 | 2,700,101 |
| End of service benefits paid | 38 | (1,810) | (2,888) |
| Taxation paid | | (40,212) | (29,996) |
| **Net cash from operating activities** | | 1,894,458 | 2,667,217 |
| **INVESTING ACTIVITIES** | | | |
| Available for sale financial instruments | | (98,167) | (416,507) |
| Financial assets classified as loans and receivables | | (818,076) | (2,062,865) |
| Held to maturity financial instruments | | 136,092 | 735,006 |
| Purchase of property and equipment | | (59,992) | (52,887) |
| Proceeds from sale of property and equipment | | 2,552 | 7,277 |
| Purchase of non current assets held for sale | | (5,389) | (772) |
| Proceeds from sale of non-current assets held for sale | | 8,778 | 19,587 |
| Liabilities linked to held for sale assets | | (683) | 275 |
| Acquisition of subsidiary, net of cash acquired | 3 | (12,557) | - |
| **Net cash used in investing activities** | | (847,442) | (1,770,886) |
| **FINANCING ACTIVITIES** | | | |
| Issuance of ordinary common shares | | 374,867 | - |
| Issuance of preferred shares | | - | 286,301 |
| Issuance of other equity instrument | | 14,979 | - |
| Redemption of preferred shares | | - | (150,750) |
| Due to Central Bank | | 9,865 | (82,516) |
| Debts issued and other borrowed funds | | (77,462) | 14,054 |
| Subordinated notes | | 3,690 | 3,431 |
| Treasury shares | | (15,415) | 1,378 |
| Dividends paid | | (128,694) | (105,013) |
| Change in minority interest | | 17,366 | (5,951) |
| **Net cash from financing activities** | | 199,196 | (39,066) |
| **Effect of exchange rates:** | | | |
| Effect of exchange rates on property and equipment | | 13,591 | (2,530) |
| Foreign currency translation differences | | (22,967) | (5,210) |
| Effect of exchange rates on reserves and premiums | | - | (2,197) |
| **Net effect of foreign exchange rates** | | (9,376) | (9,937) |
| **INCREASE IN CASH AND CASH EQUIVALENTS** | | 1,236,836 | 847,328 |
| Cash and cash equivalents at 1 January | | 3,498,532 | 2,651,204 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 48 | 4,735,368 | 3,498,532 |

The attached notes 1 to 55 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

Byblos Bank SAL (the "Bank"), a Lebanese joint stock company, was incorporated in 1961 and registered under No 14150 at the commercial registry of Beirut and under No 39 on the banks' list published by the Bank of Lebanon. The Bank's head office is located in Ashrafieh, Elias Sarkis Street, Beirut, Lebanon.

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 9 locations abroad (Cyprus, Belgium, United Kingdom, France, Syria, Sudan, Iraq, Democratic Republic of Congo and Armenia).

## 2 ACCOUNTING POLICIES

### 2.1 Basis of preparation

The consolidated financial statements have been prepared on a historical cost basis except for: a) the restatement of certain tangible real estate properties in Lebanon according to the provisions of law No 282 dated 30 December 1993, and b) the measurement at fair value of derivative financial instruments, financial assets held for trading and financial instruments available for sale. The carrying values of recognised assets and liabilities that are hedged items in fair value hedges, and otherwise carried at amortised cost, are adjusted to record changes in fair value attributable to the risks that are being hedged.

The consolidated financial statements are presented in Lebanese Lira (LL) and all values are rounded to the nearest LL million except when otherwise indicated.

**Statement of compliance**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Standards Board (IASB), and the regulations of the Bank of Lebanon and the Banking Control Commission ("BCC").

**Presentation of financial statements**

The Group presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within one year after the statement of financial position date (current) and more than one year after the statement of financial position date (non-current) is presented in note 47.

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense will not be offset in the consolidated income statement unless required or permitted by any accounting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

**Basis of consolidation from 1 January 2010**

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 31 December 2010.

Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

## 2 ACCOUNTING POLICIES (continued)

**Basis of consolidation prior to 1 January 2010**
Certain of the above-mentioned requirements were applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests, prior to 1 January 2010, were accounted for using the parent entity extension method, whereby, the difference between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributed to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying value of such investments at 1 January 2010 have not been restated.

The consolidated financial statements comprise the financial statements of Byblos Bank SAL and the following subsidiaries:

| *Subsidiary* | *Percentage of ownership* 2010 % | 2009 % | *Principal activity* | *Country of incorporation* |
|---|---|---|---|---|
| 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 | **100.00** | 100.00 | 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 Bank RDC s.a.r.l. ** (formerly Solidaire Banque International S.B.I. SARL) | **66.67** | - | Banking activities | Democratic Republic of Congo |
| Byblos Management SAL (Holding) *** | **-** | 99.98 | Investment | Lebanon |
| Byblos Ventures SAL (Holding)**** (under liquidation) | **-** | 50.00 | Investment | Lebanon |

* The Group has control by virtue of agreement with other investors over Byblos Bank Syria S.A. and consequently, the financial statements of Byblos Bank Syria S.A. have been consolidated with those of the Group.

** The above subsidiary was acquired on 31 March 2010 (please refer to note 3).

*** The general assembly of the above subsidiary held on 30 September 2010 decided to dissolve the company and liquidate its assets and liabilities.

**** The general assembly of the above subsidiary held on 15 February 2010 decided to dissolve the company and liquidate its assets and liabilities.

## 2 ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policy and disclosures

**New and amended standards and interpretations**
The accounting policies adopted are consistent with those of the previous financial year. Amendments resulting from Improvements to IFRSs to the following standards did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 2 *Share-based payment:* Group Cash-settled Share-based Payment Transactions effective 1 January 2010
- IFRS 3 *Business Combinations (Revised)* and *IAS 27 Consolidated and Separate Financial Statements* (Amended) effective 1 July 2009, including consequential amendments to IFRS 2, IFRS 5, IFRS 7, IAS 7, IAS 21, IAS 28, IAS 31 and IAS 39
- IAS 39 *Financial Instruments: Recognition and Measurement – Eligible* Hedged Items effective 1 July 2009
- IFRIC 17 *Distributions of Non-cash Assets* to Owners effective 1 July 2009

The adoption of the above standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group.

Improvements to IFRSs

*Issued in May 2008*
- IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* effective 1 January 2010

*Issued in April 2009*
- IFRS 2 *Share-based Payment*
- IAS 1 *Presentation of Financial Statements*
- IAS 17 *Leases*
- IAS 38 *Intangible Assets*
- IAS 39 *Financial Instruments: Recognition and Measurement*
- IFRIC 9 *Reassessment of Embedded Derivatives*

**Standards issued but not yet effective**
Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

*IAS 24 Related Party Disclosures (Amendment)*
The amended standard is effective for annual periods beginning on or after 1 January 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. The Group does not expect any impact on its financial position or performance. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

*IAS 32 Financial Instruments: Presentation – Classification of Rights Issues*
The amendment to IAS 32 is effective for annual periods beginning on or after 1 February 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no impact on the Group after initial application.

*IFRIC 14 Prepayments of a minimum funding requirement (Amendment)*
The amendment to IFRIC 14 is effective for annual periods beginning on or after 1 January 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset. The amendment is expected to have no impact on the financial statements of the Group.

## 2 ACCOUNTING POLICIES (continued)

### 2.2 Changes in accounting policy and disclosures (continued)

*IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments*
IFRIC 19 is effective for annual periods beginning on or after 1 July 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case this cannot be reliably measured, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. The adoption of this interpretation will have no effect on the financial statements of the Group.

*Improvements to IFRSs (issued in May 2010)*
The IASB issued *Improvements to IFRSs*, an omnibus of amendments to its IFRS standards. The amendments have not been adopted as they become effective for annual periods on or after either 1 July 2010 or 1 January 2011. The amendments are listed below.

- IFRS 3 *Business Combinations*
- IFRS 7 *Financial Instruments: Disclosures*
- IAS 1 *Presentation of Financial Statements*
- IAS 27 *Consolidated and Separate Financial Statements*
- IFRIC 13 *Customer Loyalty Programmes*

The Group, however, expects no impact from the adoption of the amendments on its financial position or performance.

### 2.3 Impact of the early adoption of phase I of IFRS 9 effective 1 January 2011 on the amounts reported

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2013. However, it will be early adopted by the Group beginning 1 January 2011, in accordance with the regulatory directives of the Banking Control Commission Circular No. 265 issued on 23 September 2010.

Management's preliminary assessment of the impact of the early adoption of phase I of IFRS 9 is summarized as follows:

- In accordance with the provisions of IFRS 9, adoption by the Group in 2011 will be applied retrospectively and comparative amounts will not be restated as permitted by IFRS 9.

- Effective 1 January 2011 the Group's available-for-sale financial assets under IAS 39 will be classified as financial assets at amortized cost, financial assets designated at fair value through other comprehensive income or financial assets designated at fair value through profit or loss.

  As a result, the cumulative change in fair value of available-for-sale reserve is expected to decrease by an amount of LL 61,819 million against a decrease in the opening balance of retained earnings in the amount of LL 5,239 million, an increase in financial assets at amortized cost in the amount of LL 1,750,287 million, an increase in financial assets designated at fair value through profit or loss in the amount of LL 3,636 million.

- Effective 1 January 2011, part of the Group's financial assets measured at amortized cost under IAS 39 will be measured at fair value through profit or loss. As a result, the financial assets designated at fair value through profit and loss are expected to increase by an amount of LL 69,998 million against an increase in the opening balance of retained earnings by an amount of LL 1,534 million as at 1 January 2011.

- Effective 1 January 2011, part of the Group's financial assets held for trading under IAS 39 will be measured at amortized cost which will result in a decrease in retained earnings by an amount of LL 584 million as of 1 January 2011.

- Effective 1 January 2011, unrealized losses resulting from the reclassification of available for sale securities in 2008 to loans and receivables as per IAS 39 and IFRS 7 will be eliminated, as a result, cumulative change in fair value of available for sale reserve is expected to increase by an amount of LL 18,918 million against an increase in financial assets measured at amortized cost.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of significant accounting policies

**Foreign currency translation**
The consolidated financial statements are presented in Lebanese Lira which is the Group's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

***(i) Transactions and balances***
Transactions in foreign currencies are initially recorded at the functional currency rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange at the statement of financial position date. Differences on trading activities are taken to the "Net trading income". All differences arising on non–trading activities are taken to the income statement, with the exception of differences on foreign currency borrowings that provide an effective hedge against a net investment in a foreign entity. These differences are taken directly to equity until the disposal of the net investment, at which time they are recognised in the income statement. Tax charges and credits attributable to exchange differences on those borrowings are also recorded in equity.

Non–monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non–monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operations and translated at closing rate.

***(ii) Group companies***
As at the reporting date, the assets and liabilities of subsidiaries are translated into the Group's presentation currency at the rate of exchange as at the statement of financial position date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement in 'Other operating expenses' or 'Other operating income'.

**Financial instruments – initial recognition and subsequent measurement**

*(i) Date of recognition*
All financial assets and liabilities are initially recognized on the trade date, i.e. the date that the Group becomes a party to the contractual provisions of the instrument. This includes "regular way trades": purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

*(ii) Initial measurement of financial instruments*
The classification of financial instruments at initial recognition depends on the purpose and the management's intention for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus transaction costs except, in the case of financial assets and financial liabilities classified at fair value through profit or loss.

*(iii) Derivatives recorded at fair value through profit or loss*
The Group uses derivatives such as interest rate swaps and futures, credit default swaps, cross currency swaps, forward foreign exchange contracts and options on interest rates, foreign currencies and equities. Derivatives are recorded at fair value and carried as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of derivatives are recognised in the consolidated income statement.

Derivatives embedded in other financial instruments, such as the conversion option in an acquired convertible bond, are treated as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contract, and the host contract is not itself held for trading or designated at fair value through profit or loss. The embedded derivatives separated from the host are carried at fair value in the trading portfolio with changes in fair value recognised in the consolidated income statement.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Financial instruments – initial recognition and subsequent measurement (continued)**

*(iv) Financial assets held for trading*
Financial assets held for trading are recorded in the consolidated statement of financial position at fair value. Changes in fair value and dividends are recognised in "Net trading income". Interest income is recorded in "Interest and similar income" according to the terms of the contract, or when the right to the payment has been established. Included in this classification are debt securities and equities which have been acquired principally for the purpose of selling or repurchasing in the near term.

*(v) Financial assets and financial liabilities designated at fair value through profit or loss*
Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- The financial instrument contains one or more embedded derivatives which significantly modify the cash flows that otherwise would be required by the contact.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in the consolidated income statement in "Net gain or loss on financial assets and liabilities designated at fair value through profit or loss". Interest earned or incurred is accrued in "Interest and similar income" or "Interest and similar expenses", respectively, using the effective interest rate, while dividend income is recorded in "Other operating income" when the right to the payment has been established.

*(vi) Day 1 profit or loss*
When the transaction price differs from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Group immediately recognizes the difference between the transaction price and fair value (a "Day 1" profit or loss) in the consolidated income statement. In cases where fair value is determined using data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated income statement when the inputs become observable, or when the instrument is derecognized.

*(vii) Other financial assets classified as loans and receivables*
These include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These financial assets are initially recognized at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributed to the acquisition are also included in the cost of investment.

After initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount of premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included in "Interest and similar income" in the income statement. The losses arising from impairment are recognised in the income statement in "Impairment losses on other financial assets". Gains or losses are recognised in the income statement when the investments are derecognised or impaired.

*(viii) Available-for-sale financial instruments*
Available-for-sale instruments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Financial instruments – initial recognition and subsequent measurement (continued)**

*(viii) Available-for-sale financial instruments (continued)*
After initial measurement, available-for-sale financial instruments are subsequently measured at fair value. Unrealized gains and losses are recognized directly in shareholders' equity (other comprehensive income) in the "Available-for-sale reserve". When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated income statement. Where the Group holds more than one investment in the same security they are deemed to be disposed of on a first–in first–out basis. Interest earned whilst holding available-for-sale financial instruments is reported as interest income using the Effective Interest Rate (EIR). Dividends earned whilst holding available-for-sale financial instruments are recognised in the consolidated income statement as when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the consolidated income statement in "Impairment loss on financial instruments" and removed from the "Available-for-sale reserve".

*(ix) Held to maturity financial instruments*
Held to maturity financial instruments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial instruments are subsequently measured at amortised cost using the effective interest rate, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortisation is included in "Interest and similar income" in the consolidated income statement. The losses arising from impairment of such investments are recognized in the consolidated income statement as "Impairment loss on financial instruments".

*(x) Due from banks and financial institutions and loans and advances to customers*
"Due from banks and financial institutions" and "Loans and advances to customers", include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Group intends to sell immediately or in the near term and those that the Group upon initial recognition designates as at fair value through profit or loss.
- Those that the Group, upon initial recognition, designates as available for sale.
- Those for which the Group may not recover substantially all of its initial investment, other than because of credit deterioration.

After initial measurement, amounts "Due from banks and financial institutions" and "Loans and advances to customers" are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest and similar income' in the consolidated income statement. The losses arising from impairment are recognised in the consolidated income statement in "Net credit losses"

*(xi) Debt issued and other borrowed funds*
Financial instruments issued by the Group, which are not designated at fair value through profit or loss, are classified as liabilities under "Debt issued and other borrowed funds", where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate method.

A compound financial instrument which contains both a liability and an equity component is separated at the issue date. A portion of the net proceeds of the instrument is allocated to the debt component on the date of issue based on its fair value (which is generally determined based on the quoted market prices for similar debt instruments). The equity component is assigned the residual amount after deducting from the fair value of the instrument as a whole the amount separately determined for the debt component. The value of any derivative features (such as a call option) embedded in the compound financial instrument other than the equity component is included in the debt component.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Financial instruments – initial recognition and subsequent measurement (continued)**

*(xii) Customers' deposits*
All customers' deposits are carried at amortized cost less amounts repaid.

*(xiii) Reclassification of financial assets*
Effective from 1 July 2008, the Group was permitted to reclassify, in certain circumstances, non-derivative financial assets out of the "Held for trading" category and into the "Available for sale", "Loans and receivables", or "Held to maturity" categories. From this date it was also permitted to reclassify, in certain circumstances, financial instruments out of the "Available for sale" category and into the "Loans and receivables" category. Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the "Available for sale" category, any previous gain or loss on that asset that has been recognized in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired then the amount recorded in other comprehensive income is recycled to the consolidated income statement.

The Group may reclassify a non-derivative trading asset out of the "Held-for-trading" category and into the "Loans and receivables" category if it meets the definition of loans and receivables and it has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified, and if the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of management, and is determined on an instrument by instrument basis. The Group does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

**Derecognition of financial assets and financial liabilities**

*(i) Financial assets*
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- The rights to receive cash flows from the asset have expired.
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either:
  - The Group has transferred substantially all the risks and rewards of the asset, or
  - The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Derecognition of financial assets and financial liabilities (continued)**

*(ii) Financial liabilities*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the consolidated income statement.

**Repurchase and reverse repurchase agreements**
Securities sold under agreements to repurchase at a specified future date are not derecognised from the consolidated statement of financial position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the consolidated statement of financial position as an asset with a corresponding obligation to return it, including accrued interest as a liability within "Cash collateral on securities lent and repurchase agreements", reflecting the transaction's economic substances as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of the agreement using the EIR. When the counterparty has the right to sell or repledge the securities, the Group reclassifies those securities in its statement of financial position to "Financial assets held for trading "pledged as collateral" or to "financial investments available-for-sale" pledged as collateral", as appropriate.

Conversely, securities purchased under agreements to resell at a specified future date are not recognised in the consolidated statement of financial position. The consideration paid, including accrued interest is recorded in the consolidated statement of financial position within "Cash collateral on securities borrowed and reverse purchase agreements", reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in "Net interest income" and is accrued over the life of the agreement using the EIR.

If securities purchased under agreement to resell are subsequently sold to third parties, the obligation to return the securities is recorded as a short sale within "Financial liabilities held-for-trading" and measured at fair value with any gains or losses included in "Net trading income".

**Determination of fair value**
The fair value for financial instruments traded in active markets at the statement of financial position date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction cost.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the Group's best estimate of the most appropriate model assumptions.

**Impairment of financial assets**
The Group assesses at each statement of financial position date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Impairment of financial assets (continued)**
Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the probability that they will enter bankruptcy or other financial reorganization default or delinquency in interest or principal payments, and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

*(i) Financial assets carried at amortised cost*
For financial assets carried at amortised cost (such as amounts due from banks, loans and advances to customers, other financial assets classified as loans and receivables as well as held to maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised; the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the "Credit loss expense" in the consolidated income statement.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate. If the Group has reclassified trading assets to loans and advances, the discount rate for measuring any impairment loss is the new EIR rate determined at the reclassification date. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Group's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year (such as changes in unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the Group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See note 12 for details of impairment losses on financial assets carried at amortised cost and note 22 for an analysis of the impairment allowance on loans and advances by class.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Impairment of financial assets (continued)**

*(ii) Available for sale financial investments*
For available for sale financial investments, the Group assesses at each statement of financial position date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of debt instruments classified as available for sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of "Interest and similar income". If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to credit event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

In the case of equity investments classified as available for sale, objective evidence would also include a "significant" or "prolonged" decline in the fair value of the investment below its cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the consolidated income statement is removed from other comprehensive income and recognized in the consolidated income statement. Impairment losses on equity investments are not reversed through the consolidated income statement; increases in the fair value after impairment are recognized directly in other comprehensive income.

*(iii) Renegotiated loans*
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original effective interest rate.

**Hedge accounting**
The Group makes use of derivative instruments to manage exposures to interest rate, foreign currency and credit risks, including exposures arising from forecast transactions and firm commitments. In order to manage particular risks, the Group applies hedge accounting for transactions which meet the specified criteria.

At inception of the hedge relationship, the Group formally documents the relationship between the hedged item and the hedging instrument, including the nature of the risk, the objective and strategy for undertaking the hedge and the method that will be used to assess the effectiveness of the hedging relationship.

Also at the inception of the hedge relationship, a formal assessment is undertaken to ensure the hedging instrument is expected to be highly effective in offsetting the designated risk in the hedged item. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated are expected to offset in a range of 80% to 125%. For situations where that hedged item is a forecast transaction, the Group assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the consolidated income statement.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

***Hedge accounting (continued)***

*(i) Fair value hedges*
For designated and qualifying fair value hedges, the change in the fair value of a hedging derivative is recognised in the consolidated income statement. Meanwhile, the change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item and is also recognised in the consolidated income statement in "Net trading income".

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the effective interest rate. If the hedged item is derecognised, the unamortised fair value adjustment is recognised immediately in the consolidated income statement.

*(ii) Cash flow hedges*
For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument is initially recognised directly in equity in the "Cash flow hedge" reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated income statement.

When the hedged cash flow affects the consolidated income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the consolidated income statement. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged forecast transaction is ultimately recognised in the consolidated income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the consolidated income statement.

*(iii) Hedge of a net investment*
Hedges of net investments in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a way similar to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the consolidated income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity statement is transferred to the consolidated income statement.

**Leasing**
The determination of whether an arrangement is a lease, or it contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

*Group as a lessee*
Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the consolidated income statement on a straight line basis over the lease term. Contingent rental payable are recognised as an expense in the period in which they are incurred.

*Group as a lessor*
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

**2 ACCOUNTING POLICIES (continued)**

**2.4 Summary of Significant Accounting Policies (continued)**

**Recognition of income and expenses**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

***(i) Interest and similar income and expense***
For all financial instruments measured at amortized cost, interest bearing financial assets classified as available for sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate. However, for a reclassified financial asset for which the Group subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Once the recorded value of a financial asset on a group of similar financial assets has been reduced due to an impairment loss, interest income continue to be recognized using the rate of interest used to discount the future cash flows of the purpose of measuring the impairment loss.

***(ii) Fee and commission income***
The Group earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

*Fee income earned from services that are provided over a certain period of time*
Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan. When it is unlikely that a loan be drawn down, the loan commitment fees are recognized over the commitment period on a straight line basis.

*Fee income from providing transaction services*
Fee arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized on completion of the underlying transaction. Fee or components of fee that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

*Dividend income*
Dividend income is recognised when the right to receive the payment is established.

*Net trading income*
Results arising from trading activities include all gains and losses from changes in fair value and related income or expense and dividends for financial assets held for trading. This includes any ineffectiveness recorded in hedging transactions.

*Net gain on financial assets*
Net gain on financial assets includes gains and losses from sale of financial instruments classified other than fair value through profit or loss, and dividend income on these financial instruments.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

***(ii) Fee and commission income (continued)***

*Insurance revenue*
For the insurance subsidiaries, net premiums and accessories (gross premiums) are taken to income over the terms of the policies to which they relate using the prorate temporise method for non-marine business and 25% of gross premiums for marine business. Unearned premiums reserve represents the portion of the gross premiums written relating to the unexpired period of coverage.

If the unearned premiums reserve is not considered adequate to cover future claims arising on these premiums a premium deficiency reserve is created.

**Cash and cash equivalents**
Cash and cash equivalents as referred to in the cash flow statement comprise balances with original maturities of a period of three months or less including: cash and non restricted balances with the central banks, deposits with banks and financial institutions, and deposits due to banks and financial institutions.

**Property and equipment**
Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

Changes in the expected useful life are accounted for by changing the depreciation period or method, as appropriate and treated as changes in accounting estimates.

Depreciation is calculated using the straight line method to write down the cost of property and equipment to their residual values over their estimated useful lives. Land is not depreciated. The estimated useful lives are as follows:

| | |
|---|---|
| Buildings | 50 years |
| Office equipment and furniture | 6.66 – 12.5 years |
| Computer equipment and software | 3.33 – 5 years |
| General installations | 5 years |
| Vehicles | 4 years |

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists where the carrying values exceeds the estimated recoverable amount, the assets are written down to their recoverable amount.

Expenditure incurred to replace a component of an item of property and equipment that is accounted for separately is capitalised and the carrying amount of the component that is replaced is written off. Other subsequent expenditure is capitalised only when it increases the future economic benefits of the related item of property and equipment. All other expenditure is recognised in the consolidated income statement as the expense is incurred.

**Non current assets held for sale**
Non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Gains and losses on disposal are recognized in the consolidated income statement.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Business combinations and goodwill**

*Business combinations from 1 January 2010*

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the Group measures the non controlling interest in the acquiree at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated income statement.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

*Business combinations prior to 1 January 2010*

In comparison to the above-mentioned requirements, the following differences applied:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest (formerly known as minority interest) was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill. When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Intangible assets**
An intangible asset is recognized only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Group.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite of indefinite. Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated income statement.

Amortisation is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives as follows:

- Key money 10-15 years

**Impairment of non-financial assets**
The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognized in the consolidated income statement.

**Provisions for risks ad charges**
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the consolidated income statement net of any reimbursement.

**Employees' end-of-service benefits**
For the Group and its subsidiaries operating in Lebanon, end-of-service benefit subscriptions paid and due to the National Social Security Fund (NSSF) are calculated on the basis of 8.5% of the staff salaries. The final end-of-service benefits due to employees after completing 20 years of service, at the retirement age, or if the employee permanently leaves employment, are calculated based on the last salary multiplied by the number of years of service. The Group is liable to pay to the NSSF the difference between the subscriptions paid and the final end-of-service benefits due to employees. The Group provides for end-of-service benefits on that basis.

End-of-service benefits for employees at foreign branches and subsidiaries are accrued for in accordance with the laws and regulations of the respective countries in which the branches and subsidiaries are located.

## 2 ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Taxes**
Taxes are provided for in accordance with regulations and laws that are effective in the countries where the Group operates.

*(i) Current tax*
Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the statement of financial position date.

*(ii) Deferred tax*
Deferred tax is provided on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Current tax and deferred tax relating to items recognized directly in equity are also recognised in equity and not in the consolidated income statement.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of financial position date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.4 Summary of Significant Accounting Policies (continued)

**Treasury shares**
Own equity instruments of the Group which are acquired by it or by any of its subsidiaries (treasury shares) are deducted from equity and accounted for at weighted average cost. Consideration paid or received on the purchase sale, issue or cancellation of the Group's own equity instruments is recognized directly in equity. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Group's own equity instruments.

When the Group holds own equity instruments on behalf of its clients, those holdings are not included in the Group's consolidated statement of financial position.

**Assets under management**
The Group provides trust and other fiduciary services that result in the holding or investing of assets on behalf of its clients. Assets held in trust, under management or in a fiduciary capacity, are not treated as assets of the Group and accordingly are recorded as off balance sheet items.

**Financial guarantees**
In the ordinary course of business, the Group gives financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognised in the financial statements (within "Other liabilities") at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less, when appropriate, cumulative amortization recognized in the consolidated income statement, and the best estimate of expenditure required to settle any financial obligation arising as a result of the guarantee.

Any increase in the liability relating to financial guarantees is recorded in the consolidated income statement. The premium received is recognised in the consolidated income statement on a straight line basis over the life of the guarantee.

**Customers' acceptances**
Customers' acceptances represent term documentary credits which the Group has committed to settle on behalf of its clients against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

**Equity reserves**
The reserves recorded in equity (other comprehensive income) on the Group statement of financial position include:

'Available–for–sale' reserve which comprises changes in fair value of available–for–sale investments.

'Foreign currency translation reserve' which is used to record exchange differences arising from the translation of the net investment in foreign operations, net of the effects of hedging.

'Capital reserves' which include transfers from retained earnings in accordance with regulatory requirements and the portions of compound financial liabilities that qualify for treatment as equity (Note 34).

**Segment reporting**
The Group's segmental reporting is based on the following operating segments: Consumer banking, Corporate banking, treasury and capital markets, insurance and Group functions.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

### 2.5 Significant accounting judgements and estimates

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect in the amounts recognised in the financial statements:

*Going concern*
The Group's management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

*Fair value of financial instruments*
Where the fair values of financial assets and financial liabilities recorded on the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. The judgments include considerations of liquidity and model inputs such as volatility for longer dated derivatives and discount rates, prepayment rates and default rate assumptions for asset backed securities.

*Impairment losses on loans and advances*
The Group reviews its individually significant loans and advances at each statement of financial position date to assess whether an impairment loss should be recorded in the consolidated income statement. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Group makes judgments about the borrower's financial situation and the net realizable value of collateral. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as credit quality, levels of arrears, credit utilization, loan to collateral ratios etc.), concentrations of risks and economic date (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups).

*Impairment of available-for-sale investments*
The Group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgement as applied to the individual assessment of loans and advances.

The Group also records impairment charges on available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below their cost. The determination of what is "significant" or "prolonged" requires judgment. In making this judgment, the Group evaluates, among other factors, historical share price movements and the duration and extent to which the fair value of an investment is less than its cost.

*Deferred tax assets*
Deferred tax assets are recognized in respect to tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Judgment is required to 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 BUSINESS COMBINATION

On 31 March 2010, the Group completed the acquisition of 66.67% of the share capital of Solidaire Banque International S.B.I. SARL, unlisted entity specializing in banking activities in Democratic Republic of Congo, for a total consideration of LL 15,075 million (equivalent to US$ (000) 10,000).

**Assets acquired and liabilities assumed**
The fair value of the identifiable assets and liabilities of Solidaire Banque International S.B.I. SARL, an unlisted entity engaged in banking activities in the Democratic Republic of Congo as of 31 March 2010 were as follows:

| | *Fair value recognized on acquisition LL million* | *Carrying value LL million* |
|---|---|---|
| **Assets** | | |
| Cash and balances with central bank | **2,518** | **2,518** |
| Amounts due from Head office | **18,553** | **18,553** |
| Loans and advances to customers | **7,998** | **7,998** |
| Deposits with banks and financial institutions | **1,982** | **1,982** |
| Tangible fixed assets | **1,250** | **1,250** |
| Other assets | **153** | **153** |
| **Total assets** | **32,454** | **32,454** |
| **Liabilities** | | |
| Customers' deposits | **8,927** | **8,927** |
| Other liabilities | **916** | **916** |
| **Total liabilities** | **9,843** | **9,843** |
| **Total identifiable net assets at fair value** | **22,611** | **22,611** |
| Non-controlling interest measured at fair value | **(7,505)** | |
| Excess of Group's interest in the net fair value of identifiable assets and liabilities over cost | **(31)** | |
| **Purchase consideration transferred** | **15,075** | |

Cash outflow on acquisition was as follows:

| | *LL million* |
|---|---|
| Cash paid | **15,075** |
| Net cash acquired with subsidiary | **(2,518)** |
| Net cash outflow arising on acquisition of the subsidiary | **12,557** |

From the date of acquisition, the subsidiary contributed to a loss of LL 5,001 million to the results of the Group.

If the combination had taken place at the beginning of the year, the total net operating income for the year would have been less by LL 83 million.

The excess of the Group's interest in the fair value of net assets over cost was recognized in the consolidated income statement.

## 4 SEGMENTAL INFORMATION

The business segments are distinctive components of the Group that have different risks and rates of returns and which offer different products and services. The Group segments its business into Consumer Banking, Corporate Banking, Treasury and Capital Markets, and Insurance. Management treats the operations of these segments separately for the purposes of decision making, resource allocation and performance assessment. There is no inter-segment transactions.

**Retail Banking**
Retail Banking provides a diversified range of products and services to individuals. The range includes housing loans, consumer loans, credit cards, deposits, foreign exchange and other branch related services.

**Corporate Banking**
Corporate Banking provides a comprehensive product and service offering to business and corporate customers, including lending, deposits, trade finance and foreign exchange operations.

**Treasury and capital markets**
Treasury and capital markets include treasury, investments and other defined Group activities. It also includes investment products and services to institutional investors and intermediaries. Treasury is also responsible for the bank's liquidity management and market risk.

**Insurance**
The Group provides insurance services through subsidiaries operating in Lebanon and Syria.

**Unallocated**
This includes long term investments and other operating income and expenses not allocated to any of the above segments in addition to other miscellaneous activities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the financial statements. Income taxes are not allocated to operating segments.

Interest income is reported net since the majority of the segments' revenues are from interest. Management primarily relies on net interest revenue as performance measure, not the gross revenue and expense amounts.

The following table presents net operating income, profit and total assets information in respect of the Group's operating segments:

| | *31 December 2010* | | | | | |
|---|---|---|---|---|---|---|
| | *Retail Banking LL million* | *Corporate Banking LL million* | *Treasury and capital markets LL million* | *Insurance LL million* | *Unallocated LL million* | *Total LL million* |
| Net interest income | 219,668 | 106,218 | 100,691 | 686 | - | 427,263 |
| Net fees and commissions income | 41,204 | 61,637 | (2,454) | 12,288 | 12,983 | 125,658 |
| Net trading income | - | - | 19,474 | (16) | 2,700 | 22,158 |
| Net gain or loss on financial assets | - | - | 98,320 | - | 2,645 | 100,965 |
| Other operating income | - | - | - | 87 | 8,031 | 8,118 |
| Credit loss expense | (10,801) | (7,506) | - | - | (10,965) | (29,272) |
| Impairment losses on other financial assets | - | - | (8,863) | - | - | (8,863) |
| **Net operating income** | 250,071 | 160,349 | 207,168 | 13,045 | 15,394 | 646,027 |
| Personnel and other operating expenses | (83,586) | (12,578) | (7,043) | (9,487) | (175,002) | (287,696) |
| Depreciation and amortization | (10,134) | (1,098) | (165) | (1,435) | (18,294) | (31,126) |
| Income tax expense | - | - | - | (1,798) | (57,588) | (59,386) |
| Total operating expenses | (93,720) | (13,676) | (7,208) | (12,720) | (250,884) | (378,208) |
| **Operating profit** | 156,351 | 146,673 | 199,960 | 325 | (235,490) | 267,819 |
| **Total assets** | 1,409,368 | 4,567,705 | 16,671,807 | 89,784 | 308,728 | 23,047,392 |
| **Total liabilities** | 16,752,227 | 1,175,452 | 1,982,013 | 167,429 | 513,853 | 20,590,974 |

## 4 SEGMENTAL INFORMATION (continued)

| | *31 December 2009* | | | | | |
|---|---|---|---|---|---|---|
| | *Retail Banking LL million* | *Corporate Banking LL million* | *Treasury and capital markets LL million* | *Insurance LL million* | *Unallocated LL million* | *Total LL million* |
| Net interest income | 153,653 | 109,451 | 124,155 | 1,521 | - | 388,780 |
| Net fee and commission income | 33,649 | 69,297 | 8,199 | 6,024 | (2,220) | 114,949 |
| Net trading income | - | - | 38,328 | (187) | - | 38,141 |
| Net gain or loss on financial assets | - | - | 14,011 | - | - | 14,011 |
| Other operating income | - | - | - | 175 | 16,076 | 16,251 |
| Credit loss expense | (4,248) | (18,155) | (3,842) | - | - | (26,245) |
| Impairment losses on other financial assets | - | - | (15,179) | (99) | - | (15,278) |
| 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) |
| Income tax expense | - | - | - | - | (46,410) | (46,410) |
| Total operating expenses | (87,687) | (8,771) | (3,622) | (9,579) | (201,528) | (311,187) |
| Operating profit | 95,367 | 151,822 | 162,050 | (2,145) | (187,672) | 219,422 |
| Total assets | 1,280,772 | 3,874,280 | 14,933,550 | 77,039 | 299,545 | 20,465,186 |
| Total liabilities | 14,516,466 | 989,702 | 2,281,091 | 135,973 | 589,022 | 18,512,254 |

### Geographic information

The Group operates in two geographic markets; local and international. The local market represents the Lebanese market and the international market represents markets outside Lebanon. The following table shows the distribution of the Group's external net operating income, total assets and capital expenditure by geographical segment.

| | *Domestic* | | *International* | | *Total* | |
|---|---|---|---|---|---|---|
| | ***2010* LL million** | *2009 LL million* | ***2010* LL million** | *2009 LL million* | ***2010* LL million** | *2009 LL million* |
| Net interest income | **349,536** | 329,432 | **77,727** | 59,348 | **427,263** | 388,780 |
| Net fees and commission income | **58,118** | 48,444 | **67,540** | 66,505 | **125,658** | 114,949 |
| Net trading income | **13,623** | 30,657 | **8,535** | 7,484 | **22,158** | 38,141 |
| Net gain on financial assets | **95,897** | 8,740 | **5,068** | 5,271 | **100,965** | 14,011 |
| Other operating income | **7,794** | 14,728 | **324** | 1,523 | **8,118** | 16,251 |
| Credit loss expense | **(16,727)** | (19,644) | **(12,545)** | (6,601) | **(29,272)** | (26,245) |
| Impairment losses on other financial assets | **(3,800)** | (8,658) | **(5,063)** | (6,620) | **(8,863)** | (15,278) |
| **Net operating income** | **504,441** | 403,699 | **141,586** | 126,910 | **646,027** | 530,609 |
| Personnel expenses | **(114,378)** | (102,512) | **(31,174)** | (26,827) | **(145,552)** | (129,339) |
| Depreciation of property, plants and equipments | **(20,143)** | (16,924) | **(10,871)** | (8,661) | **(31,014)** | (25,585) |
| Amortization of intangibles | **(112)** | (340) | **-** | - | **(112)** | (340) |
| Other operating expenses | **(114,108)** | (87,476) | **(28,036)** | (22,037) | **(142,144)** | (109,513) |
| Income tax expense | **(46,615)** | (35,420) | **(12,771)** | (10,990) | **(59,386)** | (46,410) |
| **Total operating expenses** | **(295,356)** | (242,672) | **(82,852)** | (68,515) | **(378,208)** | (311,187) |
| **Operating profit** | **209,085** | 161,027 | **58,734** | 58,395 | **267,819** | 219,422 |
| **Total assets** | **14,987,694** | 14,289,186 | **8,059,698** | 6,176,000 | **23,047,392** | 20,465,186 |

## 5 INTEREST AND SIMILAR INCOME

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Cash and balances with central banks | **15,116** | 19,158 |
| Due from banks and financial institutions | **32,573** | 32,958 |
| Financial assets given as collateral | **403** | 2,606 |
| Financial assets – held for trading | **10,809** | 16,245 |
| Financial assets – available-for-sale | **137,341** | 124,862 |
| Financial assets – held-to-maturity | **47,166** | 89,549 |
| Financial assets - loans & receivables | **576,494** | 498,312 |
| Loans and advances to customers | **403,624** | 357,550 |
| Loans and advances to related parties | **488** | 653 |
| | **1,224,014** | 1,141,893 |

## 6 INTEREST AND SIMILAR EXPENSE

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Due to central banks | **253** | 3,088 |
| Due to banks and financial institutions | **33,515** | 41,445 |
| Customer deposits | **709,785** | 650,725 |
| Related party deposits | **8,386** | 8,376 |
| Debt issued and other borrowed funds | **17,150** | 22,108 |
| Subordinated notes | **27,662** | 27,371 |
| | **796,751** | 753,113 |

## 7 NET FEES AND COMMISSIONS INCOME

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| **Fees and commissions income** | | |
| Loans and advances commission | **19,535** | 14,932 |
| Letters of guarantee commission | **14,535** | 13,736 |
| Acceptances commission | **6,037** | 6,877 |
| Letters of credit commission | **42,791** | 40,420 |
| Credit cards commission | **5,414** | 4,839 |
| Domiciliation commission | **1,738** | 1,526 |
| Checks for collection commission | **2,451** | 2,206 |
| Maintenance of accounts commission | **6,613** | 7,504 |
| Closing of accounts commission | **5** | 59 |
| Transfers commission | **7,462** | 4,885 |
| Safe rental commission | **472** | 472 |
| Portfolio commission | **2,334** | 2,456 |
| Insurance premiums' commission and commission on reinsurance ceded | **16,250** | 11,524 |
| Other commissions | **14,584** | 18,137 |
| | **140,221** | 129,573 |

## 7 NET FEES AND COMMISSIONS INCOME (continued)

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| **Fees and commissions expense** | | |
| Commissions paid on financial instruments | **(1,714)** | (2,119) |
| Other fees | **(12,849)** | (12,505) |
| | **(14,563)** | (14,624) |
| **Net fees and commissions income** | **125,658** | 114,949 |

Fee income relating to fiduciary activities is not significant.

## 8 NET TRADING INCOME

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Treasury bills and other governmental bills | **(551)** | 13,392 |
| Bonds and financial assets with fixed income | **1,110** | 753 |
| Shares, securities and financial assets with variable income | **(185)** | 7,043 |
| Dividends income | **957** | 1,287 |
| Foreign exchange | **20,827** | 15,666 |
| | **22,158** | 38,141 |

"Treasury bills, other governmental bills, bonds and financial assets with fixed income" net income (loss) includes the results of buying and selling and change in the fair value of debt securities as well as related interest income and expenses.

"Shares, securities and financial assets with variable income" net income (loss) includes the results of buying and selling and changes in the fair value of equity securities.

"Foreign exchange" net income (loss) includes gains and losses from spot and forward contracts, foreign exchange operations, and other currency derivatives.

## 9 NET GAIN ON FINANCIAL ASSETS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Gain on sale of certificates of deposits classified as loans and receivables | **2,183** | 1,704 |
| Gain on sale of treasury bills and other governmental bonds classified as available-for-sale | **25,076** | 651 |
| Gain on sale of bonds and investments with fixed income classified as available-for-sale | **-** | 706 |
| Gain on sale of treasury bills and other governmental bonds classified as loans and receivables | **67,892** | 6,391 |
| Gain on sale of bonds and investments with fixed income classified as loans and receivables | **427** | - |
| Dividends income | **4,030** | 5,012 |
| Gain (loss) on foreign exchange | **1,357** | (453) |
| | **100,965** | 14,011 |

## 10 OTHER OPERATING INCOME

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Net gain on sale of assets acquired in settlement of debt | **3,914** | 11,275 |
| Rental income | **882** | 850 |
| Net gain on sale or disposal of property and equipment | **900** | 860 |
| Others | **2,422** | 3,266 |
| | **8,118** | 16,251 |

## 11 CREDIT LOSS EXPENSE

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Provisions for commercial loans (note 22) | **(26,192)** | (27,456) |
| Provisions for consumer loans (note 22) | **(14,083)** | (3,073) |
| Provision for doubtful banks and registered exchange companies (note 18) | **(5,682)** | (3,870) |
| Bad debts written off | **(269)** | (217) |
| | **(46,226)** | (34,616) |
| Write back of provisions: | | |
| Commercial loans (note 22) | **14,368** | 7,635 |
| Consumer loans (note 22) | **1,633** | 736 |
| Doubtful banks and registered exchange companies (note 18) | **953** | - |
| | **16,954** | 8,371 |
| Net credit loss expense | **(29,272)** | (26,245) |

## 12 IMPAIRMENT LOSSES ON OTHER FINANCIAL ASSETS

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Financial investments – available-for-sale: | | |
| -Shares, securities and financial assets with variable income | - | 6,520 |
| -Treasury bills and other governmental bills | **940** | - |
| Financial investments – held-to-maturity (note 26): | | |
| -Treasury bills and other governmental bills | - | 100 |
| -Bonds and investments with fixed income | - | 4,809 |
| Financial investments – Loans and receivables (note 25): | | |
| - Bonds and investments with fixed income | **9,110** | 3,849 |
| Write back of impairment losses on bonds and investments classified as held to maturity (note 26) | **(1,187)** | - |
| | **8,863** | 15,278 |

## 13 PERSONNEL EXPENSES

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Salaries and related charges | **125,622** | 111,156 |
| Social security contributions | **15,474** | 14,497 |
| Provision for end of service benefits (note 38) | **4,456** | 3,686 |
| | **145,552** | 129,339 |

## 14 OTHER OPERATING EXPENSES

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Taxes on interest | **9,689** | 8,070 |
| Taxes and duties | **10,848** | 7,825 |
| Contribution to deposits guarantee fund | **7,520** | 6,205 |
| Rent and related charges | **7,662** | 6,390 |
| Consulting fees | **8,008** | 6,235 |
| Telecommunications and postage expenses | **9,585** | 8,640 |
| Board of Directors' attendance fees | **1,182** | 1,046 |
| Maintenance and repairs | **12,498** | 9,939 |
| Electricity and fuel | **5,148** | 4,787 |
| Travel and entertainment | **5,451** | 4,630 |
| Publicity and advertising | **9,727** | 9,150 |
| Subscriptions | **3,526** | 2,877 |
| Bonuses | **23,731** | 16,719 |
| Legal expenses | **3,658** | 3,195 |
| Insurance | **3,137** | 1,558 |
| Other operating expenses | **20,774** | 12,247 |
| | **142,144** | 109,513 |

## 15 INCOME TAX EXPENSE

The components of income tax expense for the years ended 31 December 2010 and 2009 are:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Current income tax expense reported in the consolidated statement of comprehensive income | **59,386** | 46,410 |

## 15 INCOME TAX EXPENSE (continued)

The reconciliation of the Group's income tax for the year ended 31 December 2010 and 2009 is as follows:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Net profit before income tax | **327,205** | 265,831 |
| Non-deductible expenses | **69,178** | 13,268 |
| Non-taxable revenue | **(24,490)** | (2,164) |
| Taxable income | **371,893** | 276,935 |
| Effective income tax rate | **16%** | 17.5% |
| Income tax reported in the consolidated income statement | **59,386** | 46,410 |
| Less: taxes on interest | **(21,502)** | (18,337) |
| Less: tax advances | **(4,068)** | (4,068) |
| Net taxes due | **33,816** | 24,005 |
| Current tax liability (note 35) | **32,516** | 27,018 |

**Deferred tax liability**

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| At 1 January | **15,485** | - |
| Deferred tax on available for sale instruments reflected in other comprehensive income | **(4,225)** | 15,485 |
| Translation differences | **185** | - |
| At 31 December | **11,445** | 15,485 |

## 16 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Group by the weighted average number of shares (common and priority) outstanding during the year.

Diluted earnings per share is calculated by dividing the net profit attributable to common and priority equity holders of the Group (after adjusting for interest on the convertible instruments) by the weighted average number of shares (common and priority) outstanding during the year plus the weighted average number of shares (common and priority) that would be issued on the conversion of all the dilutive potential shares into ordinary shares (common and priority).

The following table shows the calculations of the basic earnings per share:

| | *2010* | *2009* |
|---|---|---|
| Weighted average number of shares outstanding during the period: | | |
| - Common shares | **288,838,287** | 216,721,108 |
| - Priority shares | **205,982,021** | 205,915,830 |

## 16 EARNINGS PER SHARE (continued)

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Net profit for the year attributable to equity holders of the parent | **255,770** | 206,628 |
| (Less): Proposed dividends to preferred shares | **(48,064)** | (34,095) |
| Net profit attributable to common and priority shareholders | **207,706** | 172,533 |
| (Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year 205,982,021 shares (2009: 205,915,830 shares) | **(9,970)** | (9,966) |
| Net profits attributable to common and priority shareholders | **197,736** | 162,567 |

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Of which: | | |
| Net profits attributable to priority shares (205,982,021 shares) (2009: 205,915,830 shares) | **82,313** | 79,206 |
| Net profits attributable to common shares (288,838,287 shares) (2009: 216,721,108 shares) | **115,423** | 83,361 |
| | **197,736** | 162,567 |
| Basic earnings per share in LL: | | |
| - Common shares | **399.61** | 384.65 |
| - Priority shares | **448.01** | 433.05 |

**Diluted earnings per share**

The following table shows the calculations of the diluted earnings per share for the year ended 31 December 2010 and 2009 for common and priority shares:

| | *2010* | *2009* |
|---|---|---|
| Weighted average number of common shares for basic earnings per share | **288,838,287** | 216,721,108 |
| Effect of dilution: | | |
| Convertible subordinated notes | **80,652,681** | 76,888,889 |
| Other equity instruments (note 46) | **2,601,205** | - |
| Weighted average number of common shares adjusted for the effect of dilution | **372,092,173** | 293,609,997 |

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Net profit attributable to ordinary shares (common and priority) of the parent | **207,706** | 172,533 |
| Interest on convertible subordinated notes | **22,038** | 22,057 |
| Interest on other equity instruments (note 46) | **213** | - |
| Less: income tax | **(3,338)** | (3,309) |
| Net profit attributable to ordinary shares (common and priority) of the parent adjusted for the effect of convertible instruments | **226,619** | 191,281 |

## 16 EARNINGS PER SHARE (continued)

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| (Less): Distribution of 4% on nominal value of priority shares (LL 1,210) calculated on the basis of the weighted average number of priority shares outstanding during the year 205,982,021 shares (2009: 205,915,830 shares) | **(9,970)** | (9,966) |
| Net profits attributable to shares (common and priority) after the interest paid to priority shares | **216,649** | 181,315 |
| Of which: | | |
| Net profits attributable to priority shares (205,982,021 shares) (2009: 205,915,830 shares) | **77,198** | 74,743 |
| Net profits attributable to common shares (372,092,173 shares) (2009: 293,609,997 shares) | **139,451** | 106,572 |
| Diluted earnings per common share in LL: | | |
| - Common shares | **374.78** | 362.97 |
| - Priority shares | **423.18** | 411.37 |

There were no transactions involving common shares or potential common shares between the reporting date and the date of the completion of these financial statements.

## 17 CASH AND BALANCES WITH CENTRAL BANKS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Cash on hand | **151,145** | 115,337 |
| Balances with the Bank of Lebanon: | | |
| - Current accounts | **739,580** | 763,485 |
| - Time deposits | **1,389,915** | 1,341,675 |
| | **2,129,495** | 2,105,160 |
| Balances with central Banks in other countries: | | |
| - Current accounts | **428,203** | 301,290 |
| - Time deposits | **38,164** | 2,716 |
| - Statutory blocked fund | **12,468** | 6,056 |
| | **478,835** | 310,062 |
| Accrued interest receivable | **1,635** | 2,813 |
| | **2,761,110** | 2,533,372 |

In accordance with the Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Bank of Lebanon an obligatory reserve calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira. Additionally, all banks operating in Lebanon are required to deposit with the Bank of Lebanon interest - bearing placements representing 15% of total deposits in foreign currencies regardless of nature. Obligatory reserve amounted to LL 1,903,716 million as at 31 December 2010 (2009: LL 1,802,430 million).

*Balances with the central banks in other countries (Cyprus, Iraq, Sudan and Syria)*
Current accounts with Central Banks in other countries include obligatory reserve deposits with the Central Bank of Cyprus amounting to LL 2,422 million (2009: LL 2,659 million).

In accordance with the requirements of the Syrian Law statutory blocked fund of LL 12,468 million (2009: LL 6,056 million) represents non-interest bearing legal blocked deposit at the Central Bank of Syria.

## 18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Commercial banks: | | |
| - Current accounts | **273,324** | 248,618 |
| - Time deposits | **3,583,500** | 2,878,609 |
| - Interest receivable | **6,343** | 6,009 |
| - Doubtful bank accounts | **10,727** | 6,183 |
| - Provision for doubtful bank accounts | **(10,727)** | (6,183) |
| | **3,863,167** | 3,133,236 |
| Financial institutions: | | |
| - Current accounts | **32,363** | 5,847 |
| Registered exchange companies: | | |
| - Current accounts | **3,481** | 3,400 |
| - Doubtful exchange companies accounts | **2,259** | 2,259 |
| - Provision for doubtful exchange companies accounts | **(2,259)** | (2,259) |
| | **3,481** | 3,400 |
| | **3,899,011** | 3,142,483 |

*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:

| | *2010* *Provision* *LL million* | *2009* *Provision* *LL million* |
|---|---|---|
| Balance at 1 January | **8,442** | 4,766 |
| Charge for the year | **5,682** | 3,870 |
| Write-off | **-** | (185) |
| Write-back | **(953)** | - |
| Exchange difference | **(185)** | (9) |
| Balance at 31 December | **12,986** | 8,442 |
| Out of which | | |
| - banks | **10,727** | 6,183 |
| - registered exchange companies | **2,259** | 2,259 |
| | **12,986** | 8,442 |

## 19 FINANCIAL ASSETS GIVEN AS COLLATERAL AND REVERSE REPURCHASE AGREEMENTS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Treasury bills mortgaged in favor of the Central Bank as a guarantee for loans (note 31) classified as held to maturity | **8,814** | - |
| Government securities pledged under repurchase agreements classified as loans and receivables | **-** | 1,193 |
| Interest receivable | **104** | - |
| | **8,918** | 1,193 |

The carrying amount of securities sold under agreements to repurchase at 31 December 2010 was nil (2009: LL 1,193 million).

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities, together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

| | *2010* | | | *2009* | | |
|---|---|---|---|---|---|---|
| | *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 | **129** | **2,441** | **117,520** | 976 | 354 | 68,991 |
| Forward foreign exchange contracts | **1,333** | **1,909** | **165,010** | 1,894 | 1,436 | 228,135 |
| | **1,462** | **4,350** | **282,530** | 2,870 | 1,790 | 297,126 |
| **Derivatives held for hedging:** | | | | | | |
| Equity options | **-** | **-** | **-** | 9,354 | - | 75,375 |
| | **1,462** | **4,350** | **282,530** | 12,224 | 1,790 | 372,501 |

Derivatives often involve at their inception only a mutual exchange of promises with little or no transfer of consideration. However, these instruments frequently involve a high degree of leverage and are very volatile. A relatively small movement in the value of the asset, rate or index underlying a derivative contract may have a significant impact on the profit or loss of the Group.

Over–the–counter derivatives may expose the Group to the risks associated with the absence of an exchange market on which to close out an open position.

The Group's exposure under derivative contracts is closely monitored as part of the overall management of the Group's market risk.

## 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

**Forwards**
Forward are contractual agreements to buy or sell a specified financial instrument at a specific price and date in the future. Forwards are customised contracts transacted in the over–the–counter market.

The Group has credit exposure to the counterparties of forward contracts. Forward contracts are settled gross and are, therefore, considered to bear a higher liquidity risk than the futures contracts which are settled on a net basis. Forward result in market risk exposure.

**Swaps**
Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

In a currency swap, the Group pays a specified amount in one currency and receives a specified amount in another currency. Currency swaps are mostly gross–settled.

**Options**
Options are contractual agreements that convey the right, but not the obligation, for the purchaser either to buy or sell a specific amount of a financial instrument at a fixed price, either at a fixed future date or at any time within a specified period.

The Group purchases options through regulated exchanges and in the over–the–counter markets. Options purchased by the Group provide the Group with the opportunity to purchase (call options) the underlying asset at an agreed–upon value either on or before the expiration of the option. The Group is exposed to credit risk on purchased options only to the extent of their carrying amount, which is their fair value.

Equity options outstanding as of 31 December 2009 relate to the 50% of the positive performance of portfolio of stocks related to equity linked notes (note 34).

## 21 FINANCIAL ASSETS HELD FOR TRADING

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Treasury bills and other governmental bills | **142,007** | 152,988 |
| Bonds and financial assets with fixed income | **33,929** | 22,565 |
| Shares, securities and financial assets with variable income | **26,447** | 24,918 |
| Accrued interest receivable on Treasury bills and other governmental bills | **3,278** | 3,252 |
| Accrued interest receivable on bonds and financial assets with fixed income | **279** | 405 |
| | **205,940** | 204,128 |

## 22 NET LOANS AND ADVANCES TO CUSTOMERS

Following is a comparison of loans and advances at 31 December 2010 and 2009:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Commercial loans | **4,433,698** | 3,801,240 |
| Consumer loans | **1,446,786** | 1,192,350 |
| | **5,880,484** | 4,993,590 |
| Less: | | |
| - Allowance for impairment | **(146,534)** | (122,117) |
| - Unrealized interest | **(59,667)** | (63,840) |
| | **5,674,283** | 4,807,633 |

*Breakdown of loans and advances to customers by economic sector (gross loans before deduction of interest received in advance and addition of accrued interest receivable)*

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Commercial | **1,672,626** | 1,390,838 |
| Industrial | **1,143,544** | 971,652 |
| Agriculture | **70,828** | 73,012 |
| Services | **800,062** | 600,990 |
| Construction | **618,214** | 631,983 |
| Retail | **1,533,561** | 1,280,309 |
| Other | **126,577** | 143,060 |
| | **5,965,412** | 5,091,844 |

## 22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

The loans and advances to customers are classified in accordance with the Bank of Lebanon main circular No. 58 as follows:

| | 2010 | | | | 2009 | | | |
|---|---|---|---|---|---|---|---|---|
| | *Gross balance LL million* | *Unrealized interest LL million* | *Provisions LL million* | *Net balance LL million* | *Gross balance LL million* | *Unrealized interest LL million* | *Provisions LL million* | *Net balance LL million* |
| - Good loans | **5,630,447** | **-** | **-** | **5,630,447** | 4,718,506 | - | - | 4,718,506 |
| - Watch loans | **190,380** | **-** | **-** | **190,380** | 227,746 | - | - | 227,746 |
| | **5,820,827** | **-** | **-** | **5,820,827** | 4,946,252 | - | - | 4,946,252 |
| - Substandard loans | **2,317** | **(677)** | **-** | **1,640** | 11,204 | (5,749) | - | 5,455 |
| - Doubtful loans | **35,856** | **(8,296)** | **(11,300)** | **16,260** | 61,066 | (21,087) | (20,482) | 19,497 |
| - Bad loans | **106,412** | **(50,694)** | **(55,718)** | **-** | 73,322 | (37,004) | (36,318) | - |
| | **5,965,412** | **(59,667)** | **(67,018)** | **5,838,727** | 5,091,844 | (63,840) | (56,800) | 4,971,204 |
| Less: | | | | | | | | |
| - Collective provisions | **-** | **-** | **(79,516)** | **(79,516)** | - | - | (65,317) | (65,317) |
| Accrued interest receivable | **21,938** | **-** | **-** | **21,938** | 11,661 | - | - | 11,661 |
| Less: Interest received in advance | **(106,866)** | **-** | **-** | **(106,866)** | (109,915) | - | - | (109,915) |
| | **5,880,484** | **(59,667)** | **(146,534)** | **5,674,283** | 4,993,590 | (63,840) | (122,117) | 4,807,633 |

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off balance sheet accounts. The gross balance of these loans amounted to LL 98,700 million as of 31 December 2010 (2009: LL 113,117 million).

## 22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

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

| | ***2010*** ***Commercial loans*** ***LL million*** |
|---|---|
| Balance at 1 January | **63,840** |
| Add (less): | |
| - Charge for the year | **10,578** |
| - Recoveries | **(7,049)** |
| - Amounts written off | **(7,657)** |
| - Difference of exchange | **(45)** |
| Balance at 31 December | **59,667** |

| | *2009* *Commercial loans* *LL million* |
|---|---|
| Balance at 1 January | 80,777 |
| Add (less): | |
| - Charge for the year | 11,579 |
| - Recoveries | (18,369) |
| - Amounts written off | (10,381) |
| - Difference of exchange | 234 |
| Balance at 31 December | 63,840 |

Movement of the allowance for impairment losses during the years ended 31 December was as follows:

| | ***2010*** | | |
|---|---|---|---|
| | ***Commercial loans LL million*** | ***Consumer loans LL million*** | ***Total LL million*** |
| Balance at 1 January | **94,278** | **27,839** | **122,117** |
| Add (less): | | | |
| - Charge for the year | **26,192** | **14,083** | **40,275** |
| - Amounts written off | **(447)** | **(728)** | **(1,175)** |
| - Recoveries | **(14,368)** | **(1,633)** | **(16,001)** |
| - Transfer from off balance sheet | **6,607** | **-** | **6,607** |
| - Difference of exchange | **(5,733)** | **444** | **(5,289)** |
| Balance at 31 December | **106,529** | **40,005** | **146,534** |
| Individual impairment | **49,749** | **17,269** | **67,018** |
| Collective impairment | **56,780** | **22,736** | **79,516** |
| | **106,529** | **40,005** | **146,534** |
| Gross amount of loans individually determined to be impaired | **124,255** | **20,330** | **144,585** |

## 22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

| | *2009* | | |
|---|---|---|---|
| | *Commercial loans LL million* | *Consumer loans LL million* | *Total LL million* |
| Balance at 1 January | 80,548 | 26,290 | 106,838 |
| Add (less): | | | |
| - Charge for the year | 27,456 | 3,073 | 30,529 |
| - Amounts written off | (5,928) | (849) | (6,777) |
| - Recoveries | (7,635) | (736) | (8,371) |
| - Transfer to provision for risk and charges | (1,065) | - | (1,065) |
| - Transfer from off balance sheet | 2,289 | - | 2,289 |
| - Difference of exchange | (1,387) | 61 | (1,326) |
| Balance at 31 December | 94,278 | 27,839 | 122,117 |
| Individual impairment | 49,793 | 7,007 | 56,800 |
| Collective impairment | 44,485 | 20,832 | 65,317 |
| | 94,278 | 27,839 | 122,117 |
| Gross amount of loans individually determined to be impaired | 131,839 | 13,753 | 145,592 |

**Collateral repossessed**
During the year 2010, the Group took possession of collateral amounting to LL 5,389 million (note 29).

**Bad loans transferred to off statement of financial position accounts**
As per Banking Control Commission Circular no 24, banks are required to transfer to the off-statement of financial position doubtful loans fully provided for and which meet some additional criteria outlined in the circular.

The movement in the allowance for impairment losses for doubtful loans fully provided for and transferred to off-statement of financial position accounts was as follows:

| | ***2010* LL million** | *2009 LL million* |
|---|---|---|
| Balance at 1 January | **113,117** | 121,244 |
| Transferred to balance sheet | **(10,309)** | (5,541) |
| Interest on off balance sheet loans | **(12,099)** | (7,730) |
| Interest charged on off balance sheet loans | **9,074** | 4,741 |
| Difference of exchange | **(1,083)** | 403 |
| Balance at 31 December | **98,700** | 113,117 |

## 23 BANK ACCEPTANCES

| | ***2010* LL million** | *2009 LL million* |
|---|---|---|
| Letters of credit payable by the Group on behalf of its customers: | | |
| - Acceptances confirmed by the Group without recourse to the beneficiary | **7,959** | 13,877 |
| - Other acceptances | **283,875** | 322,027 |
| | **291,834** | 335,904 |

Customers' acceptances represent documentary credits, which the Group has committed to settle on behalf of its clients, against commitments by those clients (acceptances). The commitments resulting from these acceptances are stated as a liability in the statement of financial position for the same amount.

## 24 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Lebanese treasury bills and other governmental bills | **1,433,865** | 1,516,505 |
| Bonds and financial assets with fixed income | **316,422** | 162,152 |
| Shares, securities and financial assets with variable income | **84,324** | 74,785 |
| Accrued interest receivable | **41,200** | 41,215 |
| | **1,875,811** | 1,794,657 |

## 25 OTHER FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Certificates of deposits | **4,389,114** | 3,267,756 |
| Lebanese treasury bills and other governmental bills | **2,203,391** | 2,820,948 |
| Bonds and financial assets with fixed income | **155,342** | 179,829 |
| Loans to banks and financial institutions | **369,694** | 104,998 |
| Discounted acceptances | **262,466** | 196,780 |
| Interest received in advance | **(3,614)** | (2,655) |
| Accrued interest receivable | **127,422** | 118,082 |
| | **7,503,815** | 6,685,738 |
| Less: allowance for impairment losses | **(12,959)** | (3,849) |
| | **7,490,856** | 6,681,889 |

The movement of the allowance for impairment losses is as follows:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Balance at 1 January | **3,849** | - |
| Charge for the year | **9,110** | 3,849 |
| Balance at 31 December | **12,959** | 3,849 |

## 26 HELD TO MATURITY FINANCIAL INSTRUMENTS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Lebanese treasury bills and other governmental bills | **376,975** | 493,582 |
| Bonds and financial assets with fixed income | **42,790** | 58,097 |
| Accrued interest receivable | **12,655** | 16,834 |
| | **432,420** | 568,513 |
| Less: allowance for impairment losses | **(3,722)** | (4,909) |
| | **428,698** | 563,604 |

## 26 HELD TO MATURITY FINANCIAL INSTRUMENTS (continued)

The movement of the allowance for impairment losses is as follows:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Balance at 1 January | **4,909** | - |
| Charge for the year | **-** | 4,909 |
| Written back during the year | **(1,187)** | - |
| Balance at 31 December | **3,722** | 4,909 |

## 27 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: | | | | | | |
| At 1 January 2010 | 232,009 | 3,465 | 150,338 | 1,453 | 12,781 | 400,046 |
| Additions during the year | 20,250 | 535 | 22,857 | 106 | 17,494 | 61,242 |
| Addition through acquisition of a bank | - | 73 | 1,177 | - | - | 1,250 |
| Transfers | 1,720 | - | 1,916 | - | (3,636) | - |
| Disposal of fixed assets | (3,272) | (83) | (1,719) | - | (43) | (5,117) |
| Foreign exchange difference | (11,511) | (181) | (1,342) | (14) | (2,015) | (15,063) |
| At 31 December 2010 | 239,196 | 3,809 | 173,227 | 1,545 | 24,581 | 442,358 |
| Depreciation: | | | | | | |
| At 1 January 2010 | 34,425 | 1,905 | 96,978 | - | - | 133,308 |
| Depreciation during the year | 6,460 | 694 | 22,849 | - | - | 30,003 |
| Impairment of fixed assets | 1,011 | - | - | - | - | 1,011 |
| Related to disposals of fixed assets | (166) | (51) | (1,578) | - | - | (1,795) |
| Foreign exchange difference | (1,213) | (79) | (180) | - | - | (1,472) |
| At 31 December 2010 | 40,517 | 2,469 | 118,069 | - | - | 161,055 |
| Net carrying value: | | | | | | |
| At 31 December 2010 | 198,679 | 1,340 | 55,158 | 1,545 | 24,581 | 281,303 |

| | *Buildings* *LL million* | *Motor vehicles* *LL million* | *Furniture and equipment* *LL million* | *Deposits* *LL million* | *Advance payments* *LL million* | *Total* *LL million* |
|---|---|---|---|---|---|---|
| Cost: | | | | | | |
| At 1 January 2009 | 205,045 | 3,672 | 119,724 | 1,348 | 23,530 | 353,319 |
| Additions during the year | 20,623 | 886 | 21,667 | 106 | 9,617 | 52,899 |
| Transfers | 9,050 | - | 10,740 | - | (19,790) | - |
| Disposal of fixed assets | (1,043) | (1,009) | (1,558) | - | (50) | (3,660) |
| Foreign exchange difference | (1,666) | (84) | (235) | (1) | (526) | (2,512) |
| At 31 December 2009 | 232,009 | 3,465 | 150,338 | 1,453 | 12,781 | 400,046 |
| Depreciation: | | | | | | |
| At 1 January 2009 | 28,721 | 1,870 | 79,489 | - | - | 110,080 |
| Depreciation during the year | 5,675 | 779 | 18,549 | - | - | 25,003 |
| Impairment of fixed assets | 582 | - | - | - | - | 582 |
| Related to transfers | (3) | - | 3 | - | - | - |
| Related to disposals of fixed assets | (36) | (716) | (1,150) | - | - | (1,902) |
| Foreign exchange difference | (514) | (28) | 87 | - | - | (455) |
| At 31 December 2009 | 34,425 | 1,905 | 96,978 | - | - | 133,308 |
| Net carrying value: | | | | | | |
| At 31 December 2009 | 197,584 | 1,560 | 53,360 | 1,453 | 12,781 | 266,738 |

The cost of buildings at 31 December 2010 and 2009 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

Revaluation differences on property and equipment reflected as revaluation reserve of real estate in equity amounted to LL 5,689 million as at 31 December 2010 (2009: the same) (note 41).

## 28 INTANGIBLE ASSETS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Key money | | |
| Cost: | | |
| At 1 January | **1,637** | 1,637 |
| Additions for the year | **417** | - |
| At 31 December | **2,054** | 1,637 |
| Accumulated amortization: | | |
| At 1 January | **903** | 563 |
| Amortization expense for the year | **112** | 340 |
| At 31 December | **1,015** | 903 |
| Net book value: | | |
| At 31 December | **1,039** | 734 |

## 29 NON-CURRENT ASSETS HELD FOR SALE

Other non-current assets held-for-sale represent assets acquired in settlement of bad loans and advances to customers. Movement of other non-current assets held for sale and related impairment is as follows:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Cost | | |
| At 1 January | **43,726** | 51,267 |
| Additions during the year | **5,389** | 826 |
| Disposal | **(4,864)** | (8,367) |
| At 31 December | **44,251** | 43,726 |
| Impairment | | |
| At 1 January | **(5,159)** | (5,159) |
| At 31 December | **(5,159)** | (5,159) |
| Net carrying value | | |
| At 31 December | **39,092** | 38,567 |

Liabilities linked to held-for-sale assets in the amount of LL 1,312 million represent advance payments received in connection with future sale transactions for the above assets (2009: LL 1,995 million).

Rental income from foreclosed properties for the year amounted to LL 1,046 million (2009: LL 850 million).

## 30 OTHER ASSETS

| | | 2010 LL million | 2009 LL million |
|---|---|---|---|
| Obligatory financial assets | a | **2,250** | 2,250 |
| Blocked deposit | b | **-** | 2,500 |
| Other assets | c | **74,793** | 65,760 |
| Doubtful debtor accounts | | **72** | 72 |
| | | **77,115** | 70,582 |
| Less: Allowance for credit losses | d | **(37)** | (37) |
| | | **77,078** | 70,545 |

a) Obligatory financial assets consist of a deposit amounting to 15% of the share capital of subsidiary bank that was blocked at incorporation as a guarantee with the Lebanese Treasury Department. This deposit shall be returned to the subsidiary bank without any interest upon liquidation of its activities.

b) Blocked deposit is maintained with the Bank of Lebanon in favor of the Ministry of Finance and was transferred to the Bank upon the acquisition of the net assets of Unicredit Banca Di Roma SpA – Beirut Branch. This deposit, which is denominated in Lebanese Lira and does not earn any interest, was released in 2010.

c) Other assets comprise of the following:

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Prepaid rent | **5,664** | 2,928 |
| Printings and stationery | **2,990** | 3,263 |
| Credit card balances due from customers | **9,501** | 7,637 |
| Insurance premiums receivable | **5,248** | 4,207 |
| Reinsurers' share of technical reserve of subsidiary insurance company | **16,624** | 14,325 |
| Other debit balances | **34,766** | 33,400 |
| | **74,793** | 65,760 |

d) Movement of the allowance for credit losses is as follows:

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Balance at 1 January | **37** | 186 |
| Write off | **-** | (149) |
| Balance at 31 December | **37** | 37 |

## 31 DUE TO CENTRAL BANKS

| | *2010 LL million* | *2009 LL million* |
|---|---|---|
| Current accounts | **9,570** | 10,558 |
| Loan due to the Central Bank of Lebanon | **8,814** | - |
| Loan due to the Central Bank of Armenia | **1,061** | 1,142 |
| Accrued interest payable | **47** | 4 |
| | **9,922** | 1,146 |
| | **19,492** | 11,704 |

During the year ended 31 December 2010, the Group obtained 3 loans from the Central Bank of Lebanon to finance customers affected by July 2006 war as follows :

| | *Amount LL million* | *Interest rate* | *Maturity* |
|---|---|---|---|
| First loan | **1,899** | 2,425% | 2 May 2019 |
| Second loan | **5,528** | 2,9% | 23 April 2015 |
| Third loan | **1,387** | 2,9% | 21 April 2016 |
| | **8,814** | | |

The above loans are secured by the pledge of Lebanese treasury bills amounting to LL 8,814 million and included under financial assets given as collateral and reverse purchase agreements (note 19).

## 32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

| | *2010 LL million* | *2009 LL million* |
|---|---|---|
| Commercial banks: | | |
| - Current accounts | **212,149** | 369,179 |
| - Time deposits | **738,055** | 755,553 |
| - Medium term loans | **266,930** | 287,390 |
| - Accrued interest payable | **8,415** | 7,456 |
| | **1,225,549** | 1,419,578 |
| Financial institutions: | | |
| - Current account | **2,640** | 13 |
| - Term loans | **201,238** | 194,470 |
| - Time deposits | **6,560** | 52,272 |
| - Accrued interest payable | **2,122** | 5,558 |
| - Less: Cost to be amortized over the loan period | **-** | (1,122) |
| | **212,560** | 251,191 |
| Registered exchange companies: | | |
| - Current accounts | **813** | 1,632 |
| - Time deposits | **2,424** | 3,354 |
| - Accrued interest Payable | **-** | 52 |
| | **3,237** | 5,038 |
| Total | **1,441,346** | 1,675,807 |

## 33 CUSTOMERS' DEPOSITS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Current accounts | **2,514,441** | 1,916,710 |
| Demand deposits | **568,339** | 494,088 |
| Term deposits | **13,856,849** | 12,246,746 |
| Blocked deposits | **793,115** | 639,064 |
| Accrued interest payable | **82,538** | 69,746 |
| | **17,815,282** | 15,366,354 |

Customers' deposits include coded deposit accounts amounting to LL 42,496 million as of 31 December 2010 (2009: LL 42,816 million).

## 34 DEBT ISSUED AND OTHER BORROWED FUNDS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| **Certificates of deposit** | | |
| 2009 – First Series (US$ (000) 101,150) | **152,484** | 152,484 |
| 2009 – Second Series (US$ (000) 40,450) | **60,978** | 60,978 |
| Accrued interest payable: US$ (000) 26 (2009: US$ (000) 26) | **39** | 39 |
| | **213,501** | 213,501 |
| **Equity linked notes** | | |
| Issuance value: US$ (000) 49,414 | - | 74,491 |
| Discount to be amortized over the period of the notes: US$ (000) 4,234 | - | (6,383) |
| | - | 68,108 |
| Accrued 50% of the positive performance of a portfolio of stocks (note 20) | - | 9,354 |
| | - | 77,462 |
| | **213,501** | 290,963 |
| *Interest and similar expense:* | | |
| - Certificates of deposit: | | |
| Interest: US$ (000) 9,729 (2009: US$ (000) 9,754) | **14,667** | 14,630 |
| Add: Amortization of issuing cost: US$ (000) nil (2009: US$ (000) 49) | - | 74 |
| | **14,667** | 14,704 |
| - Equity linked notes: | | |
| Interest: nil (2009: US$ (000) 2,194) | - | 3,307 |
| Add: amortization of discount | **2,483** | 980 |
| | **2,483** | 4,287 |
| - Interest on index linked notes (matured on 9 October 2009) | - | 2,759 |
| - Interest on commodity linked notes (matured on 12 September 2009) | - | 358 |
| | **17,150** | 22,108 |

**34 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)**

*Certificates of deposit – series 2009*

On 31 March 2009, Byblos Bank SAL issued two series of Certificates of deposit with a total nominal value of US$ (000) 141,600 detailed as follows:

First series:

Amount: US$ (000) 101,150
Interest: Fixed at an annual rate of 6.5% payable every three months with the first interest due on 1 July 2010, not subject to withholding taxes.
Maturity: 31 March 2012

Second series:

Amount: US $ (000) 40,450
Interest: Fixed at an annual rate of 7.25% payable every three months with the first interest due on 1 July 2010, not subject to withholding taxes.
Maturity: 31 March 2014.

*Certificate of deposit – series 2004*

On 1 July 2004, Byblos Bank SAL issued certificates of deposit in the amount of US$ (000) 78,054. The certificates of deposit are subject to the following conditions:

Interest: Fixed at an annual rate of 6.5% payable every six months with the first interest due on 1 January 2005, not subject to withholding taxes.

The cost of issuing the certificates amounted to US$ (000) 490, to be amortized until maturity, of which US$ (000) 49 was amortized during 2009.

The certificates of deposit matured on 1 July 2009.

*Equity Linked Notes*
The Equity Linked Notes issued on 1 August 2005 by a subsidiary amounted to US$ 50 million are subject to the following conditions:

- The notes mature on 4 August 2010,
- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable every six months during the first four years,
- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of stocks.

The subsidiary bought an option from a third party to receive the 50% positive performance of a portfolio of stocks (note 20). The cost of the option amounted to US$ (000) 1,764 and the cost of issuing the Equity Linked Notes amounted to US$ (000) 169.

At maturity on 4 August 2010, the subsidiary settled US$ 47.5 million to the holders of the notes. The effective interest rate on the notes was 6.67% per annum.

**35 CURRENT TAX LIABILITY**

| | *2010* | *2009* |
|---|---|---|
| | *LL million* | *LL million* |
| Income tax due (note 15) | **32,516** | 27,018 |
| Withholding tax on salaries | **2,632** | 1,226 |
| Withholding tax on interest earned by customers | **5,274** | 4,815 |
| Value added tax | **145** | 350 |
| Withholding tax on dividends | **6** | 2,207 |
| Other taxes | **3,953** | 4,596 |
| | **44,526** | 40,212 |

## 36 OTHER LIABILITIES

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Margins on letters of credit and acceptances | **123,787** | 160,860 |
| Accrued expenses | **44,603** | 27,418 |
| Fixed assets suppliers | **10,032** | 3,393 |
| Unearned commission and interest | **2,847** | 3,177 |
| Cash margin related to companies under establishment | **2,709** | 1,834 |
| Insurance premium received in advance | **2,170** | 1,209 |
| Partial payments received from customers | **7,209** | 6,715 |
| Payables to National Social Security Fund | **1,636** | 1,338 |
| Other creditors | **17,268** | 30,225 |
| | **212,261** | 236,169 |

## 37 PROVISIONS FOR RISKS AND CHARGES

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Technical reserves of insurance company | **75,253** | 60,571 |
| Other provisions (a) | **13,730** | 6,383 |
| | **88,983** | 66,954 |

(a) Movement for other provisions during the year:

| | 2010 LL million | 2009 LL million |
|---|---|---|
| At 1 January | **6,383** | 3,638 |
| Charge for the year | **7,864** | 2,860 |
| Foreign exchange | **(517)** | (115) |
| At 31 December | **13,730** | 6,383 |

## 38 END OF SERVICE BENEFITS

| | 2010 LL million | 2009 LL million |
|---|---|---|
| Balance at 1 January | **28,276** | 27,478 |
| Provision constituted during the year (note 13) | **4,456** | 3,686 |
| End of service benefits paid during the year | **(1,810)** | (2,888) |
| Balance at 31 December | **30,922** | 28,276 |

## 39 SUBORDINATED NOTES

| | | 2010 LL million | 2009 LL million |
|---|---|---|---|
| Convertible subordinated notes | a | **254,976** | 251,379 |
| Subordinated notes | b | **48,348** | 48,255 |
| | | **303,324** | 299,634 |

*a) Convertible subordinated notes*

On 20 November 2007, the Bank signed a US$ 200 million subordinated loan agreement with an international financial institution, whereby the latter acted as an issuer of US$ 200 million subordinated notes convertible into Byblos Bank SAL shares or GDR's according to the following terms:

| | |
|---|---|
| Number of notes: | 200 |
| Note's issue price: | US$ 1,000,000 |
| Note's nominal value: | US$ 1,000,000 |
| Date of issue: | 20 November 2007 |
| Maturity: | 30 November 2012, subject to the earlier conversion of these notes, in whole or in part, into Byblos Bank SAL shares or GDR's at a price of US$ 2.25 per share. |
| Interest rate: | Contractual interest rate of 6.5% payable semi-annually, but excluding the equity conversion option. |
| Rights of holders: | The noteholder has the right to convert all or portion of the subordinated notes into Byblos Bank SAL shares or GDR's on any quarterly conversion date falling on 31 March, 30 June, 30 September or 31 December in any year during the term of the subordinated loan or on the loan maturity date at a conversion price of US$ 2.25 per share. The conversion price was reduced to US$ 2.145 in accordance with the terms of the subordinated loan agreement and following the capital increase of the Bank in 2009 and 2010. |

The convertible subordinated notes have been recorded at initial recognition on 20 November 2007 as follows:

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

At 31 December, convertible subordinated notes were recorded as follows:

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | LL million | US$ (000) | LL million | US$ (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 | **10,287** | **6,824** | 6,690 | 4,438 |
| Amortized cost at 31 December | **254,976** | **169,138** | 251,379 | 166,752 |

The equity component of the convertible subordinated notes is recorded in equity under "capital reserves" (note 43).

## 39 SUBORDINATED NOTES (continued)

During 2008, convertible notes with a nominal value of US$ (000) 27,000 were converted to Byblos Bank SAL ordinary shares at a price of USD 2.25 per share and as such the nominal value of outstanding convertible notes was in the amount of US$ (000) 173,000 as of 31 December 2010 and 2009.

*b) Subordinates notes*

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | *LL million* | *US$ (000)* | *LL million* | *US$ (000)* |
| 31,169 notes at US$ 1,000 each maturing on 30 June 2012 | **46,988** | **31,169** | 46,988 | 31,169 |
| Less: Issuing cost of US$ (000) 836 to be amortized till maturity | **(60)** | **(40)** | (102) | (67) |
| Amortized cost | **46,928** | **31,129** | 46,886 | 31,102 |
| Add: Yield payable | **1,420** | **942** | 1,369 | 908 |
| | **48,348** | **32,071** | 48,255 | 32,010 |

The notes pay an annual yield, not to exceed 15% of the annual amount, detailed as follows:

- an annual yield of 9% compounded and paid quarterly.
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and after deducting taxes.

The subordinated notes' original issue on 1 July 2002 was 100,000 notes at US$ 1,000 each. In accordance with the decision of the ordinary general assembly held on 20 April 2006, the Bank redeemed 68,831 subordinated notes on 7 June 2006 for a consideration of US Dollars 1,060 per note, i.e. with a premium of US Dollars 60 per note constituting 6% of the nominal value.

## 40 SHARE CAPITAL

| | 2010 | | 2009 | |
|---|---|---|---|---|
| | *No of Shares* | *LL million* | *No of Shares* | *LL million* |
| *Ordinary shares* | | | | |
| - Common shares | **359,491,317** | **434,984** | 217,112,557 | 262,706 |
| - Priority shares | **206,023,723** | **249,289** | 206,023,723 | 249,289 |
| *Preferred shares* | | | | |
| - Series 2009 | **2,000,000** | **2,420** | 2,000,000 | 2,420 |
| - Series 2008 | **2,000,000** | **2,420** | 2,000,000 | 2,420 |
| | **569,515,040** | **689,113** | 427,136,280 | 516,835 |

The capital of the Bank is divided into 596,515,040 shares of LL 1,210 each fully paid (2009: 427,136,280 shares of LL 1,210 each).

***Capital increase in 2009***

On 1 August 2009, an extraordinary general assembly resolved to increase the capital of Byblos Bank SAL in two phases.

In phase 1, capital was increased by the amount of LL 3,052 million from LL 511,363 million to LL 514,415 million through an increase of the par value of the outstanding shares from LL (000) 1,200 to LL (000) 1,210 by a transfer from the reserve appropriated for capital increase (note 43). Accordingly, by the end of phase 1, the Bank's capital was divided as follows:

| | *No of Shares* | *LL million* |
|---|---|---|
| *Ordinary shares* | | |
| - Common 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** |

**40 SHARE CAPITAL (continued)**

***Capital increase in 2009 (continued)***
In phase 2, the capital of the Bank was increased by LL 2,420 million from LL 514,415 million to LL 516,835 million through the issuance of 2,000,000 Tier I Series 2009 preferred shares of LL 1,210 par value.

As such, the capital of the Bank was divided into 427,135,280 shares with a par value of LL 1,210 each as of 31 December 2009.

***Capital increase in 2010***
The extraordinary general assembly convened on 19 February 2010 approved the increase in capital of LL 172,278 million from LL 516,835 million to LL 689,113 million by issuing 142,378,760 common shares with a par value of LL 1,210 each. The issue price was US$ 1.75 per share (LL 2,638.125) and accordingly total share premium amounted to US$ (000) 134,387 (equivalent to LL million 202,589).

***Priority shares***
On 10 December 2005, the Bank issued 206,023,723 priority shares which have the same rights and obligations as common shares, and benefit from an additional yearly distribution of 4% of the priority share's nominal value representing non-cumulative distribution of the non-consolidated net profits. Such right is established after dividends distribution to the preferred shares. The right of payment from profits is established over a period of 5 years starting from the year 2005, inclusive of the period from 10 December 2005 till 31 December 2005. At the end of the 5th year, priority shares are converted into common shares without any further resolution by the general assembly.

The Board of Directors' meeting held on 16 April 2011 resolved that the conversion of the priority shares into common shares shall become effective on the same date of the Annual General Assembly meeting of Shareholders held to approve 2010 accounts which falls on 5 May 2011.

***Preferred shares***

*i) Series 2009 Preferred Shares*
On 4 September 2009, and based on the decision of the extraordinary general assembly held on 1 August 2009, the Bank issued Series 2009 Preferred Shares according to the following terms:

| | |
|---|---|
| Number of shares: | 2,000,000 |
| Share's issue price: | US$ 96 |
| Share's nominal value: | LL 1,210 |
| Issue premium : | US$ (000) 188,313 (equivalent to LL 283,881 million) calculated in US$ as the difference between the total issue of US$(000) 192,000 and the total par value of the issue amounting to LL 2,420 million and after deducting issuance commissions of US$ (000) 2,082 |
| Benefits: | Non-cumulative annual dividends of US$ 8.00 per share, subject to the availability of non-consolidated distributable net profits. Series 2009 preferred shares are entitled to dividends in the amount of US$ 3.35 per share relating to the remaining period of 2009. |
| Repurchase right: | Redeemable (at a date subsequent to the approval of 2014 accounts by the general assembly) at the Bank's option at US$ 100 plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time. |

During 2010, the Bank transferred LL 2,421 million from retained earnings to the share premium on Series-2009 preferred shares.

**40 SHARE CAPITAL (continued)**

***Preferred shares (continued)***

*ii) Series 2008 Preferred Shares*

On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank issued Series 2008 preferred shares, according to the following terms:

| | |
|---|---|
| Number of shares: | 2,000,000 |
| Share's issue price: | US$ 100 |
| Share's nominal value: | LL 1,200 |
| Issue premium : | US$ (000) 195,790 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.

*iii) Series 2003 preferred share*

| | |
|---|---|
| Number of shares: | 1,000,000 |
| Share's issue price: | US$ 100 |
| Share's nominal value: | LL 1,200 |
| Issue premium : | US$ (000) 99,204 calculated in US$ as the difference between US$ 100 and the counter value of the par value per share (LL 1,200). |
| Benefits: | Non-cumulative annual dividends of USD 12.00 per share, subject to the availability of non-consolidated distributable net profits. |
| Repurchase right: | Redeemable (at a date subsequent to the approval of 2008 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time. |

In 2009, the Bank redeemed and cancelled Series 2003 preferred shares that were outstanding as at 31 December 2008 in accordance with the extraordinary general assembly resolution dated 1 August 2009.

***Listing of shares***

As of 31 December 2010 and 2009, all of the Bank's common and preferred shares were listed on Beirut Stock Exchange.

On 6 February 2009, the Bank signed an agreement with a foreign bank enabling holders of the Bank's common shares to deposit their common shares for the issuance of Global Depository Shares (GDS's) at a ratio of 50 Common Shares per one GDS. The GDS's were listed on the London Stock Exchange.

## 41 REVALUATION RESERVE OF REAL ESTATE

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Revaluation reserve accepted in Tier II capital | **1,978** | 1,978 |
| Revaluation reserve not accepted in Tier II capital | **3,711** | 3,711 |
| | **5,689** | 5,689 |

## 42 AVAILABLE-FOR-SALE RESERVE

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

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Balance at 1 January | **66,026** | (30,517) |
| Realized during the year | **(25,077)** | 1,386 |
| Impairment loss recognized during the year | **-** | 6,521 |
| Net unrealized gain on available for sale financial assets | **2,998** | 98,780 |
| Amortization of unrealized losses related to securities transferred to the loans and receivables portfolio | **6,006** | 5,176 |
| Net changes in deferred taxes | **4,225** | (15,306) |
| Difference on exchange | **(185)** | (14) |
| Balance at 31 December | **53,993** | 66,026 |

## 43 CAPITAL RESERVES

| | *Legal reserve LL million* | *Reserves for capital increase LL million* | *General reserve LL million* | *Equity ccomponent of convertible subordinated notes LL million* | *Reserve for general banking risks LL million* | *Other capital reserves LL million* | *Total LL million* |
|---|---|---|---|---|---|---|---|
| Balance at 1 January 2009 | 104,646 | 26,345 | 117,941 | 18,040 | 66,886 | 6,028 | 339,886 |
| Appropriation from retained earnings | 15,770 | 7,239 | 16,613 | - | 13,543 | - | 53,165 |
| Transfer to general reserve | - | (898) | 898 | - | - | - | - |
| Transfer to share capital (note 40) | - | (3,052) | - | - | - | - | (3,052) |
| Other | (58) | - | 1,738 | - | - | (606) | 1,074 |
| Balance at 31 December 2009 | 120,358 | 29,634 | 137,190 | 18,040 | 80,429 | 5,422 | 391,073 |
| **Balance at 1 January 2010** | **120,358** | **29,634** | **137,190** | **18,040** | **80,429** | **5,422** | **391,073** |
| Appropriation from retained earnings | **23,383** | **10,045** | **17,916** | **-** | **32,780** | **-** | **84,124** |
| Net gain on sale of treasury shares (note 44) | **-** | **456** | **-** | **-** | **-** | **-** | **456** |
| **Balance at 31 December 2010** | **143,741** | **40,135** | **155,106** | **18,040** | **113,209** | **5,422** | **475,653** |

*Legal reserve*

According to the Lebanese Code of Commerce and to the Money and Credit Act, banks and companies operating in Lebanon have to transfer 10% of their annual net profit to a legal reserve. This reserve cannot be distributed as dividends.

During 2010, the Group appropriated LL 23,383 million from 2009 profits to the legal reserve in accordance with the General Assembly of Shareholders' resolutions.

## 43 CAPITAL RESERVES (continued)

*Reserves for capital increase*
This represents regulatory reserves constituted in accordance with circulars issued by the Banking Control Commission. These reserves cannot be distributed as dividends and comprise the following:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Reserve equivalent to realized profit on sale of assets acquired in settlement of debt, in accordance with BCC circular No 173 | **13,595** | 3,550 |
| Reserve equivalent to provisions recovered, in accordance with BCC circular No 167 | **9,737** | 9,737 |
| Reserve against assets acquired in settlement of debt in accordance with BCC circular (a) | **6,958** | 6,958 |
| Others | **9,845** | 9,389 |
| | **40,135** | 29,634 |

*General reserve*
The Group appropriates general reserves from its retained earnings to strengthen its equity.

During 2010, the Group appropriated LL 17,916 million from 2009 profits to the general reserve in accordance with the General Assembly of Shareholders' resolutions. This reserve is available for dividends distribution.

*Reserve for general banking risks*
According to the Bank of Lebanon regulations, banks are required to appropriate from their annual net profit a minimum of 0.2% and a maximum of 0.3% of total risk weighted assets and off statement of financial position items based on rates specified by the Bank of Lebanon to cover general banking risks. The consolidated ratio should not be less than 1.25% of these risks at the end of year ten (2007) and 2% at the end of year twenty (2017).

The appropriation in 2010 from the profits of the year 2009 amounted to LL 32,780 million (2009: LL 13,543 million).

*Other capital reserves*

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Premium on capital increase of Byblos Bank Armenia CJSC | **1,263** | 1,263 |
| Premium on capital increase of Byblos Bank Africa | **4,765** | 4,765 |
| | **6,028** | 6,028 |
| Less: translation difference | **(606)** | (606) |
| | **5,422** | 5,422 |

## 44 TREASURY SHARES

Movement of treasury shares recognized in the balance sheet for the years 2010 and 2009 is as follows:

| | *Common shares* | | *Priority shares* | |
|---|---|---|---|---|
| | *No. of shares* | *Amount LL million* | *No. of shares* | *Amount LL million* |
| At 1 January 2010 | **141,846** | **271** | **60,072** | **(95)** |
| Acquisition of treasury shares | **10,890,935** | **29,804** | **164,942** | **445** |
| Sale of treasury shares | **(5,224,996)** | **(14,330)** | **(111,613)** | **(309)** |
| Adjustments | **-** | **142** | **-** | **261** |
| At 31 December 2010 | **5,807,785** | **15,887** | **113,401** | **302** |
| Total treasury shares (common and priority) in LL million | | | | **16,189** |

| | *Common shares* | | *Priority shares* | |
|---|---|---|---|---|
| | *No. of shares* | *Amount LL million* | *No. of shares* | *Amount LL million* |
| At 1 January 2009 | 444,748 | 1,192 | 221,287 | 362 |
| Acquisition of treasury shares | 1,402,186 | 3,918 | 817,156 | 2,409 |
| Sale of treasury shares | (1,705,088) | (4,839) | (978,371) | (2,866) |
| At 31 December 2009 | 141,846 | 271 | 60,072 | (95) |
| Total treasury shares (common and priority) in LL million | | | | 176 |

During 2010, the Group transferred dividends paid on treasury shares amounting to LL 141 million to retained earnings.

During 2010, the Group realised a net gain on disposal of treasury shares amounting to LL 456 million. This amount was transferred to reserves for capital increase (note 43).

## 45 NON-CONTROLLING INTEREST

Byblos Bank Syria increased its capital from SYP 2,000 million to SYP 4,000 million. Accordingly, non controlling interest share of the capital increase amounted to SYP 1,170 million (equivalent to LL 38,037 million).

In 2010, two of the Group's subsidiaries, Byblos Management SAL (Holding) and Byblos Ventures SAL (Holding), were liquidated. Non-controlling interest in the subsidiaries liquidated was in the amount of LL 1,812 million.

## 46 OTHER EQUITY INSTRUMENTS

On 12 July 2010, Byblos Bank SAL issued 3- year notes ("3 Years Byblos Bank Note") for a total amount of US$ 9,936,000 (equivalent to LL 14,979 million) according to the following terms:

| | |
|---|---|
| Number of notes: | 46 |
| Principal of one note: | US$ 216,000 |
| Issuing price: | 100% |
| Total issue: | US$ 9,936,000 (equivalent to LL 14,979 million). |
| Annual return : | 3% per year payable on a monthly basis plus any dividend paid on Byblos Bank shares during the period preceding the payments of the notes on the basis of 120,000 shares per note. |
| Maturity: | 12 July 2013 |
| Prepayment: | The Bank has the right to redeem the notes before maturity on an annual basis, but only within 30 days following the Annual Ordinary General Meeting of shareholders. In such case, the bank shall pay in addition to the principal amount of the Note and the return, a bonus of 6% on the principal of the note. |
| Settlement: | At maturity, and at its discretion, Byblos bank shall either settle 120,000 Byblos Bank common shares per note (calculated on the basis of a strike price of US$ 1.8 per share) or the principal amount of the note in addition-to a bonus of 6%. |

In 2010, the Group accounted for LL 213 million relating to the 3% annual return payable on the notes. In addition, the Group accounted for a liability relating to 6% bonus on the principal of the notes, and which covers for the period from 12 July 2010 till 31 December 2010, in the amount of LL 125 million.

## 47 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled.

| | 2010 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Less than 12 months* | | | | *Over 12 months* | | | |
| *(Amounts in LL million)* | *Up to 1 month* | *1 to 3 months* | *3 months to 1 year* | *Total* | *1 to 5 years* | *Over 5 years* | *Total* | *Total* |
| ASSETS | | | | | | | | |
| Cash and balances with central banks | 2,032,058 | - | - | 2,032,058 | 716,063 | 12,989 | 729,052 | 2,761,110 |
| Due from banks and financial institutions | 3,214,450 | 364,649 | 271,072 | 3,850,171 | 48,674 | 166 | 48,840 | 3,899,011 |
| Financial assets given as collateral and reverse repurchase agreements | - | - | 104 | 104 | 8,814 | - | 8,814 | 8,918 |
| Derivative financial instruments | 938 | 363 | 161 | 1,462 | - | - | - | 1,462 |
| Financial assets held for trading | 12,220 | 6,946 | 5,371 | 24,537 | 108,964 | 72,439 | 181,403 | 205,940 |
| Net loans and advances to customers and related parties | 2,150,023 | 494,096 | 1,036,829 | 3,680,948 | 1,552,408 | 451,884 | 2,004,292 | 5,685,240 |
| Debtors by acceptances | 96,867 | 104,320 | 80,656 | 281,843 | 9,991 | - | 9,991 | 291,834 |
| Available-for-sale financial instruments | 13,201 | 275,338 | 686,560 | 975,099 | 576,363 | 324,349 | 900,712 | 1,875,811 |
| Other financial assets classified as loans and receivables | 118,274 | 332,526 | 874,554 | 1,325,354 | 4,218,479 | 1,947,023 | 6,165,502 | 7,490,856 |
| Held to maturity financial instruments | 7,962 | 185,748 | 57,942 | - | 44,729 | 132,317 | 177,046 | 428,698 |
| Property and equipment | - | - | - | - | - | 281,303 | 281,303 | 281,303 |
| Intangible assets | - | - | - | - | - | 1,039 | 1,039 | 1,039 |
| Non-current assets held for sale | - | - | - | 26,403 | - | 39,092 | 39,092 | 39,092 |
| Other assets | 23,147 | 1,672 | 1,584 | - | 911 | 49,764 | 50,675 | 77,078 |
| Total assets | 7,669,140 | 1,765,658 | 3,014,833 | 12,449,631 | 7,285,396 | 3,312,365 | 10,597,761 | 23,047,392 |
| LIABILITIES | | | | | | | | |
| Due to central banks | 8,486 | 1 | 1,138 | 9,625 | 8,480 | 1,387 | 9,867 | 19,492 |
| Due to banks and financial institutions | 746,736 | 120,566 | 151,587 | 1,018,889 | 250,591 | 171,866 | 422,457 | 1,441,346 |
| Derivative financial instruments | 3,717 | 448 | 185 | 4,350 | - | - | - | 4,350 |
| Deposits from customers and related parties | 12,495,113 | 2,205,037 | 2,642,483 | 17,342,633 | 581,580 | 3,465 | 585,045 | 17,927,678 |
| Debt issued and other borrowed funds | - | 39 | - | 39 | 213,462 | - | 213,462 | 213,501 |
| Engagements by acceptances | 96,867 | 104,320 | 80,656 | 281,843 | 9,991 | - | 9,991 | 291,834 |
| Current tax liability | 11,877 | 907 | 31,742 | 44,526 | - | - | - | 44,526 |
| Deferred tax liability | 1,950 | 1,482 | 3,720 | 7,152 | 2,451 | 1,842 | 4,293 | 11,445 |
| Other liabilities | 139,357 | 6,620 | 50,905 | 196,882 | 7,090 | 8,289 | 15,379 | 212,261 |
| Liabilities linked to held for sale assets | - | - | 1,312 | 1,312 | - | - | - | 1,312 |
| Provision for risks and charges | - | - | - | - | - | 88,983 | 88,983 | 88,983 |
| End of Service benefits | - | - | - | - | | 30,922 | 30,922 | 30,922 |
| Subordinated notes | - | 12 | 3,340 | 3,352 | 299,972 | - | 299,972 | 303,324 |
| Total liabilities | 13,504,103 | 2,439,432 | 2,967,068 | 18,910,603 | 1,373,617 | 306,754 | 1,680,371 | 20,590,974 |
| Net liquidity gap | (5,834,963) | (673,774) | 47,765 | (6,460,972) | 5,911,779 | 3,005,611 | 8,917,390 | 2,456,418 |

## 47 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)

| | 2009 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | *Less than 12 months* | | | | *Over 12 months* | | | |
| *(Amounts in LL million)* | *Up to 1 month* | *1 to 3 months* | *3 months to 1 year* | *Total* | *1 to 5 years* | *Over 5 years* | *Total* | *Total* |
| ASSETS | | | | | | | | |
| Cash and balances with central banks | 1,419,469 | 393,135 | 2,531 | 1,815,135 | 717,665 | 572 | 718,237 | 2,533,372 |
| Due from banks and financial institutions | 1,870,210 | 980,085 | 117,800 | 2,968,095 | 174,200 | 188 | 174,388 | 3,142,483 |
| Financial assets given as collateral and reverse repurchase agreements | 1,193 | - | - | 1,193 | - | - | - | 1,193 |
| Derivative financial instruments | 1,453 | 1,281 | 9,490 | 12,224 | - | - | - | 12,224 |
| Financial assets held for trading | 614 | 2,552 | 25,367 | 28,533 | 101,947 | 73,648 | 175,595 | 204,128 |
| Net loans and advances to customers and related parties | 1,807,747 | 383,323 | 740,354 | 2,931,424 | 1,231,931 | 655,793 | 1,887,724 | 4,819,148 |
| Debtors by acceptances | 89,747 | 155,700 | 69,629 | 315,076 | 20,828 | - | 20,828 | 335,904 |
| Available-for-sale financial instruments | 9,484 | 25,238 | 36,562 | 71,284 | 1,323,634 | 399,739 | 1,723,373 | 1,794,657 |
| Other financial assets classified as loans and receivables | 156,226 | 546,375 | 623,797 | 1,326,398 | 3,903,242 | 1,452,249 | 5,355,491 | 6,681,889 |
| Held to maturity financial instruments | 230 | 41,534 | 188,528 | 230,292 | 207,131 | 126,181 | 333,312 | 563,604 |
| Property and equipment | - | - | - | - | - | 266,738 | 266,738 | 266,738 |
| Intangible assets | - | - | - | - | - | 734 | 734 | 734 |
| Non-current assets held for sale | - | - | - | - | - | 38,567 | 38,567 | 38,567 |
| Other assets | 4,495 | 4,887 | 633 | 10,015 | 5,491 | 55,039 | 60,530 | 70,545 |
| Total assets | 5,360,868 | 2,534,110 | 1,814,691 | 9,709,669 | 7,686,069 | 3,069,448 | 10,755,517 | 20,465,186 |
| LIABILITIES | | | | | | | | |
| Due to central banks | 10,563 | 1 | 7 | 10,571 | 1,133 | - | 1,133 | 11,704 |
| Due to banks and financial institutions | 755,313 | 398,491 | 73,882 | 1,227,686 | 213,340 | 234,781 | 448,121 | 1,675,807 |
| Cash collateral on securities lent and repurchase agreements | 1,193 | - | - | 1,193 | - | - | - | 1,193 |
| Derivative financial instruments | 1,262 | 404 | 124 | 1,790 | - | - | - | 1,790 |
| Deposits from customers and related parties | 11,221,679 | 1,760,379 | 1,932,889 | 14,914,947 | 587,753 | 3,468 | 591,221 | 15,506,168 |
| Debt issued and other borrowed funds | 39 | - | 77,462 | 77,501 | 213,462 | - | 213,462 | 290,963 |
| Engagements by acceptances | 89,747 | 155,700 | 69,629 | 315,076 | 20,828 | - | 20,828 | 335,904 |
| Current tax liability | 10,777 | 803 | 28,632 | 40,212 | - | - | - | 40,212 |
| Deferred tax liability | 63 | 204 | 324 | 591 | 11,259 | 3,635 | 14,894 | 15,485 |
| Other liabilities | 197,681 | 6,094 | 20,518 | 224,293 | 43 | 11,833 | 11,876 | 236,169 |
| Liabilities linked to held for sale assets | - | - | 1,995 | 1,995 | - | - | - | 1,995 |
| Provision for risks and charges | - | - | 2,193 | 2,193 | - | 64,761 | 64,761 | 66,954 |
| End of Service benefits | - | - | - | - | - | 28,276 | 28,276 | 28,276 |
| Subordinated notes | - | - | - | - | 299,634 | - | 299,634 | 299,634 |
| Total liabilities | 12,288,317 | 2,322,076 | 2,207,655 | 16,818,048 | 1,347,452 | 346,754 | 1,694,206 | 18,512,254 |
| Net liquidity gap | (6,927,449) | 212,034 | (392,964) | (7,108,379) | 6,338,617 | 2,722,694 | 9,061,311 | 1,952,932 |

## 48 CASH AND CASH EQUIVALENTS

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Cash and balances with central banks | **2,032,058** | 1,812,604 |
| Due from banks and financial institutions | **3,579,099** | 2,850,295 |
| | **5,611,157** | 4,662,899 |
| Less: Due to banks and financial institutions | **(867,302)** | (1,153,803) |
| Less: Due to Central Bank | **(8,487)** | (10,564) |
| Cash and cash equivalents at 31 December | **4,735,368** | 3,498,532 |

## 49 RELATED PARTY TRANSACTIONS

The Group enters into transactions, arrangements and agreements involving directors, senior management and their related concerns in the ordinary course of business at commercial interest and commission rates.

The following table provides the total amount of transactions, which have been entered into with related parties for the relevant financial year.

| | *2010* *Major shareholders* *LL million* | *2009* *Major shareholders* *LL million* |
|---|---|---|
| Net loans and advances | **10,957** | 11,515 |
| Deposits | **112,396** | 139,814 |
| Other credit balances | **764** | 749 |
| Interest income on loans and advances | **488** | 653 |
| Interest expense on deposits | **8,386** | 8,376 |

## 49 RELATED PARTY TRANSACTIONS (continued)

**Compensation of the key management personnel of the Group**

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | *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 | **3,365** | **6,768** | **10,133** | 4,178 | 6,185 | 10,363 |
| Bonuses | **6,391** | **3,286** | **9,677** | 5,490 | 2,389 | 7,879 |
| Attendance fees | **703** | **84** | **787** | 831 | 84 | 915 |

## 50 CONTINGENT LIABILITIES, COMMITMENTS AND LEASING ARRANGEMENTS

To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. These consist of financial guarantees, letters of credit and other undrawn commitments to lend. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Guarantees and standby letters of credit carry a similar credit risk to loans.

**Legal claims**

Litigation is a common occurrence in the banking industry due to the nature of the business undertaken. The Group has formal controls and policies for managing legal claims. Once professional advice has been obtained and the amount of loss reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. At year end, the Group had several unresolved legal claims. Management believes that legal claims will not result in any financial loss to the Group based on information presently available.

**Lease arrangements**

*Operating leases – Group as lessee*

The Group has entered into commercial leases on premises. These leases have an average life of between five and ten years.

There are no restrictions placed upon the lessee by entering into these leases.

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

| | *2010 LL million* | *2009 LL million* |
|---|---|---|
| Within one year | **3,009** | 2,466 |
| After one year but not more than five years | **11,922** | 5,177 |
| More than five years | **16,091** | 10,435 |
| | **31,022** | 18,078 |

*Operating leases – Group as lessor*

As of 31 December 2010 and 2009, the Group rented some of the assets acquired in settlement of bad loans. Rental income for the year amounted to LL 1,046 million (2009: LL 850 million) (note 29).

**Other contingencies**

The Group's books and records are being reviewed by Department of Income Tax for the years 2006 and 2007. The ultimate outcome of this review cannot be presently determined.

The Group's contributions to the National Social Security Fund (NSSF) have not been reviewed since May 2004. The ultimate outcome of any review that may take place cannot be presently determined.

The Group's books and records have not yet been reviewed by the department of Value Added Tax since inception. The ultimate outcome of any tax review that might take place cannot be presently determined. Management believes that other contingencies will not result in any financial loss to the Group based on information presently available.

## 51 FAIR VALUE OF FINANCIAL INSTRUMENTS

### A. Determination of fair value and fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique.

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly, and

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

| | *2010* | | | |
|---|---|---|---|---|
| | *Level 1 LL million* | *Level 2 LL million* | *Level 3 LL million* | *Total LL million* |
| **FINANCIAL ASSETS** | | | | |
| Derivative financial instruments: | | | | |
| Currency swaps | - | 129 | - | 129 |
| Forward foreign exchange contracts | - | 1,333 | - | 1,333 |
| | - | 1,462 | - | 1,462 |
| Financial assets held for trading | | | | |
| Treasury bills | 137,274 | 8,011 | - | 145,285 |
| Bonds and financial assets with fixed income | 26,313 | - | 7,895 | 34,208 |
| Shares, securities and financial assets with variable income | 26,447 | - | - | 26,447 |
| | 190,034 | 8,011 | 7,895 | 205,940 |
| Financial assets available for sale | | | | |
| Treasury bills | 484,008 | 986,955 | - | 1,470,963 |
| Bonds and financial assets with fixed income | 250,721 | 69,804 | - | 320,525 |
| Shares, securities and financial assets with variable income | 50,371 | 33,952 | - | 84,323 |
| | 785,100 | 1,090,711 | - | 1,875,811 |
| | 975,134 | 1,100,184 | 7,895 | 2,083,213 |
| **FINANCIAL LIABILITIES** | | | | |
| Derivative financial instruments: | | | | |
| Currency swaps | - | 2,441 | - | 2,441 |
| Forward foreign exchange contracts | - | 1,909 | - | 1,909 |
| | - | 4,350 | - | 4,350 |

## 51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### A. Determination of fair value and fair value hierarchy (continued)

| | *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 | - | 1,894 | - | 1,894 |
| | - | 2,870 | - | 2,870 |
| Derivatives held for hedging | | | | |
| Equity options | - | 9,354 | - | 9,354 |
| Financial assets held for trading | | | | |
| Treasury bills | 139,836 | 16,404 | - | 156,240 |
| Bonds and financial assets with fixed income | 15,782 | - | 7,188 | 22,970 |
| Shares, securities and financial assets with variable income | 24,918 | - | - | 24,918 |
| | 180,536 | 16,404 | 7,188 | 204,128 |
| Financial assets available for sale | | | | |
| Treasury bills | 531,978 | 1,023,199 | - | 1,555,177 |
| Bonds and financial assets with fixed income | 99,778 | 64,284 | - | 164,062 |
| Shares, securities and financial assets with variable income | 42,519 | 32,899 | - | 75,418 |
| | 674,275 | 1,120,382 | - | 1,794,657 |
| | 854,811 | 1,149,010 | 7,188 | 2,011,009 |
| FINANCIAL LIABILITIES | | | | |
| Derivative financial instruments: | | | | |
| Currency swaps | - | 354 | - | 354 |
| Forward foreign exchange contracts | - | 1,436 | - | 1,436 |
| | - | 1,790 | - | 1,790 |

***Financial instruments recorded at fair value***

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Group's estimate of assumptions that a market participant would make when valuing the instruments.

***Derivatives***

Derivative products valued using a valuation technique with market observable inputs are mainly currency swaps, forward foreign exchange contracts, and options. The most frequently applied valuation techniques include forward pricing and swap models, using present value calculations. The models incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves.

***Financial investments – available–for–sale and held for trading***

Available–for–sale and held for trading financial assets valued using valuation techniques or pricing models primarily consist of unquoted equities and debt securities.

These assets are valued using models that use both observable and un–observable data. The non–observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Total gains relating to level 3 financial instruments included in the income statement were in the amount of LL 707 million during 2010 (2009: gain of LL 170 million). Except for the above gains, there was no other movement in level 3 financial instruments in 2010 and 2009.

## 51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### A. Determination of fair value and fair value hierarchy (continued)

Set out below is a comparison of the carrying amounts and fair values of the Group's financial instruments that are not carried at fair value in the financial statements. This table does not include the fair values of non–financial assets and non–financial liabilities.

| | *2010* | | *2009* | |
|---|---|---|---|---|
| | *Fair value LL million* | *Carrying value LL million* | *Fair value LL million* | *Carrying value LL million* |
| FINANCIAL ASSETS | | | | |
| Cash and balances with the Central Banks | **2,761,110** | **2,761,110** | 2,533,372 | 2,533,372 |
| Due from banks and financial institutions | **3,902,884** | **3,899,011** | 3,147,616 | 3,142,483 |
| Financial assets given as collateral on securities borrowed and reverse repurchase agreements | **9,075** | **8,918** | 1,193 | 1,193 |
| Net loans and advances to customers and related parties | **5,720,953** | **5,685,240** | 4,826,100 | 4,819,148 |
| Other financial assets classified as loans and receivables | **7,951,106** | **7,490,856** | 6,946,263 | 6,681,889 |
| Held to maturity financial instruments | **447,820** | **428,698** | 587,588 | 563,604 |
| FINANCIAL LIABILITIES | | | | |
| Due to central banks | **19,492** | **19,492** | 11,704 | 11,704 |
| Due to banks and financial institutions | **1,442,542** | **1,441,346** | 1,698,377 | 1,675,807 |
| Cash collateral on securities lent and repurchase agreements | **-** | **-** | 1,193 | 1,193 |
| Deposits from customers and related parties | **17,969,300** | **17,927,678** | 15,516,881 | 15,506,168 |
| Debt issued and other borrowed funds | **213,501** | **213,501** | 290,963 | 290,963 |
| Liabilities linked to unquoted available for sale assets | **1,312** | **1,312** | 1,995 | 1,995 |
| Subordinated notes | **320,436** | **303,324** | 321,036 | 299,634 |

**Fair value of financial assets and liabilities not carried at fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

*Assets for which fair value approximates carrying value*

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits, and savings accounts without a specific maturity.

*Fixed rate financial instruments*

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money–market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are determined based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity and credit spreads. For other variable rate instruments an adjustment is also made to reflect the change in required credit spread since the instrument was first recognised.

### B. Reclassification of financial assets

During 2008, the Group reclassified certain trading assets and available for sale financial assets to loans and receivables. The Group identified assets, eligible under the amendments, for which it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. Under IAS 39 as amended, the reclassifications were made at fair value at the date of reclassification. The disclosures below detail the impact of the reclassifications to the Group.

## 51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### B. Reclassification of financial assets (continued)

The following table shows the carrying amount and fair value of financial assets reclassified from "Available-for-sale" to the "Loans and receivables" category, as at the date of reclassification and as at the reporting date. All transfers occurred on 1 July 2008 and thereafter. There were no reclassifications prior to 1 July 2008.

| | *Available-for-sale* | | | |
|---|---|---|---|---|
| | *2010* | | *2009* | |
| | *Carrying amount LL million* | *Fair value LL million* | *Carrying amount LL million* | *Fair value LL million* |
| Financial assets reclassified during the year as at the date of reclassification | - | - | - | - |
| Financial assets reclassified during 2008 as at year end | **704,435** | **789,318** | 1,264,019 | 1,393,431 |

The following table shows the carrying amount and fair value of financial assets reclassified from "Held-for-trading" to the "Loans and receivables" category, as at the date of reclassification and as at the reporting date. All transfers occurred on 15 October 2008 and thereafter. There were no reclassifications prior to 15 October 2008.

| | *Held-for-trading* | | | |
|---|---|---|---|---|
| | *2010* | | *2009* | |
| | *Carrying amount LL million* | *Fair value LL million* | *Carrying amount LL million* | *Fair value LL million* |
| Financial assets reclassified during the year as at the date of reclassification | - | - | - | - |
| Financial assets reclassified during 2008 as at year end | **33,924** | **40,372** | 55,098 | 59,004 |

| | *2010 LL million* | *2009 LL million* |
|---|---|---|
| Expected undiscounted cash recoveries, as assessed at the date of reclassification | **2,848,483** | 2,848,483 |
| Anticipated average effective interest rate over the remaining life of the assets | **8.03%** | 8.03% |

The following table shows the total fair value gains or losses and the difference in net interest income that would have been recognized during the period subsequent to reclassification if the Group had not reclassified financial assets from the "Held-for-trading" and "Available-for-sale" to the "Loans and receivables" category. This disclosure is provided for information purposes only; it does not reflect what has actually been recorded in the consolidated financial statements of the Group.

| | *Debt securities* | | | |
|---|---|---|---|---|
| | *2010* | | *2009* | |
| | *Income statement LL million* | *Equity LL million* | *Income statement LL million* | *Equity LL million* |
| Fair value gains and losses which would otherwise have been recorded after reclassification, during the current period | **6,448** | **84,883** | 2,759 | 117,995 |
| Net interest income which would otherwise have been recorded after reclassification, during the current period | **6,083** | **-** | 5,239 | - |
| Total income or expense which would otherwise have been recorded during the year since reclassification | **12,531** | **84,883** | 7,998 | 117,995 |

## 51 FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

### B. Reclassification of financial assets (continued)

The following table shows the net profit or loss actually recorded on assets reclassified to loans and receivables subsequent to reclassification:

| | *2010* | | *2009* | |
|---|---|---|---|---|
| | ***Debt securities held-for-trading LL million*** | ***Debt securities-available for sale LL million*** | *Debt securities held-for-trading LL million* | *Debt securities-available for sale LL million* |
| Net interest income | **4,451** | **78,765** | 5,825 | 113,564 |

## 52 RISK MANAGEMENT

The Group risk management was established as a function handling the measurement and management of the risks.
The Group's risk management process involves identification, measurement, monitoring and controlling risks to ensure that:

- The individuals who take or manage risks clearly understand it;
- The organization's risk exposure is within the limits established by the Board of Directors;
- Risk taking decisions are in line with the business strategy and objectives set by the Board of Directors;
- The expected payoffs compensate for the risks taken;
- Risk taking decisions are explicit and clear; and
- Sufficient capital is available to act as a buffer for risks taken.

*Risk Management- Basel Perspective*
The Group risk management is broadly following the guidelines of the Basel 2 text to measure and assess the risks identified under the pillars 1 and 2, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

With regard to Basel II recommendations relating to best practices in risk management and its objective of capital measurement and capital adequacy, the Group adopts a phased approach to take a more sophisticated approach to credit risk and make use of internal ratings based methodology - or 'IRB Approach'- to calculate its capital requirement for credit risk. In addition to the market risk capital charge, an explicit capital charge for operational risk is being accounted for. Through addressing these three risks - credit, market, and operational risks – the Group addresses 'Pillar I' risks.

As for addressing the capital management issue in the context of Basel II, the Group is in the process of developing a comprehensive Internal Capital Adequacy Assessment Process (ICAAP), proportionate to the Group's scope and complexity of activities so as to cover all risks to which the Group is or may be exposed, as well as risk factors from the environment in which it operates. The considered key aspects of the ICAAP are qualitative (Board oversight, policies, identification of material risk, etc.) and quantitative (Capital Adequacy Ratio, Stress Testing, Economic Capital, etc.).

## 52 RISK MANAGEMENT (continued)

*Group risk management structure*

Risk management lies at the core of the Group's organization structure. It interfaces with all the different businesses within the Group, as well as all supporting functions. The Risk Management Organization is structured in three layers:

**Strategic or Supervisory level**, which consists of an oversight by the Board of Directors through a Board Risk and Compliance Committee, and committees of the senior management. It includes defining the institution's risk appetite, formulating strategy and policies for managing risks and establishing adequate systems and controls to ensure that aggregate risk remain within acceptable level and the rewards compensate for the risk taken

**Analytical level**, which consists of the Group Risk Management (GRM) Division, with the over-arching responsibility to translate the directions of the various risk committees into policies and procedures of the Group and to identify, measure, monitor and report the risks taken by the Group in a consistent manner across all business lines and operational units.

**Tactical level**, which consists of the management of the risk at the source of origination of the risks, in the businesses, in treasury and banking operations divisions. It is the responsibility of these units to decide on which risks to take and which risks to mitigate within the policies and procedures set by the GRM Division.

The GRM Division has a direct reporting line to the Chairman/ Board of Directors and is independent from the business units that generate risks. The Board of Directors carries the ultimate responsibility for being aware of and understanding the risks run by the Group's business activities, ensuring that they are properly managed, approving the risk principles and determining the risk appetite. The Board plays a pivotal role in ensuring a culture and an environment of sound risk management.

After having been part of the audit committee, a distinct "Board Risk, Anti-Money Laundering and Compliance" Committee has been established, composed of knowledgeable and independent members from the Board. This reflects the growing importance for the implementation of best risk management practices under the guidance and supervision of the Board. The committee is responsible for implementing the risk principles, including approval of core risk policies and for managing the risk profile of the Group.

*Risk Governance*

The Group currently has five senior management committees dealing with risk related issues - Risk Management Committee (RMC), Assets & Liabilities Management Committee (ALCO), Operational Risk Management Committee (ORMC), Anti-Money Laundering Committee (AML) and the Information Security Committee (ISC). These committees are comprised of the heads of different divisions and one executive member of the Board of Directors.

The RMC is entrusted with the responsibility of managing the credit and reputational risks. It has to frame policies and procedures relating to management of such risks and ensure that these are being complied with. The ALCO has the responsibility of managing the balance sheet (assets and liabilities) in terms of the liquidity and interest rates, ensure compliance with regulatory ratios, manage market risk and manage capital efficiently. The ORMC is entrusted with the responsibility of managing the operational risks of the Group. The AML ensures that the Group is in compliance with anti-money laundering laws, internal and regulatory requirements. The ISC is responsible for alignment of the security program with organizational objectives.

**52 RISK MANAGEMENT (continued)**

**CREDIT RISK**
Credit risk is the risk that the Group will incur a loss because its customers or counterparties fail to discharge their contractual obligations. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process aims to allow the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action. The classification system includes six grades, of which three grades relate to the performing portfolio (regular credit facilities: risk ratings "1" and "2" and special mention – watch list: risk rating "3"), one grade relates to substandard loans (risk rating "4") and two grades relate to non-performing loans (risk ratings "5" and "6").

The Group seeks to manage its credit risk exposure through diversification of lending activities to avoid undue concentrations of risks with individuals or groups of customers in specific locations or businesses. It also obtains the necessary securities when appropriate.

The Group uses Moody's Risk Advisor (MRA) to classify its commercial loan portfolio according to credit risks. MRA is used to classify borrowers whether corporate or small and medium enterprises in Lebanon and abroad. Corporate portfolio includes companies with a yearly turnover exceeding US$ 5 million operating in different industries. The Group risk management also established a comprehensive database which allows the monitoring of different retail products.

In measuring credit risk at a counterparty level the Group reflects three components – the "probability of default" (PD) by the client or counterparty on its contractual obligations; the Group's current exposure to the counterparty and its likely future development, from which the Group derives the "exposure at default" (EAD); and the likely recovery ratio on the defaulted obligations to give the "loss given default" (LGD). These components are also important parameters in determining portfolio risk, not only for internal credit risk measures but also for future regulatory capital calculations, since they are the basis of the Basel II Advanced Internal Rating Based approach, which the Group intend to adopt.

The Group uses the above internal grading system for the classification of all financial assets portfolio.

**Derivative financial instruments**
Credit risk arising from derivative financial instruments is, at any time, limited to those with positive fair values, as recorded on the statement of financial position. In the case of credit derivatives, the Group is also exposed to or protected from the risk of default of the underlying entity referenced by the derivative.

With gross–settled derivatives, the Group is also exposed to a settlement risk, being the risk that the Group honours its obligation but the counterparty fails to deliver the counter–value.

**Credit–related commitments risks**
The Group makes available to its customers guarantees which may require that the Group makes payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Group to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Group to similar risks to loans and are mitigated by the same control processes and policies.

**Risk concentrations: maximum exposure to credit risk without taking account of any collateral and other credit enhancements**
The Group concentrations of risk are managed by client/counterparty, by geographical region and by industry sector. The maximum credit exposure to any client or counterparty as of 31 December 2010 was LL 197,975 million (2009: LL140,530 million) before taking account of collateral or other credit enhancements and nil (2009: LL 8,926 million) net of such protection.

## 52 RISK MANAGEMENT (continued)

**CREDIT RISK (continued)**

The following table shows the maximum exposure to credit risk for the components of the statement of financial position, including derivatives, by geography of counterparty and by industry before the effect of mitigation through the use of master netting and collateral agreements. Where financial instruments are recorded at fair value, the amounts shown represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

*Geographic analysis*

| | *2010* | | |
|---|---|---|---|
| | *Domestic LL million* | *International LL million* | *Total LL million* |
| Balances with Central Banks | **2,130,818** | **479,147** | **2,609,965** |
| Due from banks and financial institutions | **60,507** | **3,838,504** | **3,899,011** |
| Financial assets given as collateral and reverse repurchase agreements | **8,918** | **-** | **8,918** |
| Derivative financial instruments | **1,056** | **406** | **1,462** |
| Financial assets held for trading | **130,475** | **49,018** | **179,493** |
| Net loans and advances to customers and related parties | **3,848,263** | **1,836,977** | **5,685,240** |
| Available-for-sale financial instruments | **1,359,876** | **431,611** | **1,791,487** |
| Other financial assets classified as loans and receivables | **6,837,785** | **653,071** | **7,490,856** |
| Held to maturity financial instruments | **310,714** | **117,984** | **428,698** |
| | **14,688,412** | **7,406,718** | **22,095,130** |

| | *2009* | | |
|---|---|---|---|
| | *Domestic LL million* | *International LL million* | *Total LL million* |
| Balances with Central Banks | 2,107,935 | 310,100 | 2,418,035 |
| Due from banks and financial institutions | 81,193 | 3,061,290 | 3,142,483 |
| Financial assets given as collateral and reverse repurchase agreements | - | 1,193 | 1,193 |
| Derivative financial instruments | 2,744 | 9,480 | 12,224 |
| Financial assets held for trading | 164,199 | 15,011 | 179,210 |
| Net loans and advances to customers and related parties | 3,320,194 | 1,498,954 | 4,819,148 |
| Available-for-sale financial instruments | 1,506,729 | 213,143 | 1,719,872 |
| Other financial assets classified as loans and receivables | 6,320,836 | 361,053 | 6,681,889 |
| Held to maturity financial instruments | 418,740 | 144,864 | 563,604 |
| | 13,922,570 | 5,615,088 | 19,537,658 |

An industry sector analysis of the Group's financial assets, before taking into account any collateral held or other credit enhancements, is as follows:

| | *2010 LL million* | *2009 LL million* |
|---|---|---|
| *Industry Sector:* | | |
| Commercial | **1,627,730** | 1,321,361 |
| Industrial | **565,960** | 947,759 |
| Agriculture | **70,282** | 73,553 |
| Services | **780,780** | 594,056 |
| Banks and other financial institutions | **5,654,460** | 3,891,581 |
| Construction | **577,584** | 592,590 |
| Retail | **1,409,368** | 1,162,054 |
| Government | **11,286,462** | 10,826,928 |
| Other | **122,504** | 127,776 |
| | **22,095,130** | 19,537,658 |

## 52 RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

**Collateral and other credit enhancements**
The amount and type of collateral required depends on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- For securities lending and reverse repurchase transactions, cash or securities
- For commercial lending, charges over real estate properties, inventory and trade receivables
- For retail lending, mortgages over residential properties

The Group also obtains guarantees from parent companies for loans to their subsidiaries.

Management monitors the market value of collateral, requests additional collateral in accordance with the underlying agreement, and monitors the market value of collateral obtained during its review of the adequacy of the allowance for impairment losses.

It is the Group's policy to dispose of repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim. In general, the Group does not occupy repossessed properties for business use.

**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 shows the credit quality by class of asset for all financial assets exposed to credit risk, based on the Group's internal credit rating system. The amount presented are gross of impairment allowances.

| | *2010* | | | | |
|---|---|---|---|---|---|
| | *Neither past due nor impaired* | | | | |
| | *High-grade LL million* | *Standard grade LL million* | *Past due but not impaired LL million* | *Past due and impaired LL million* | *Total LL million* |
| Balances with central banks | 2,557,909 | 52,056 | - | - | 2,609,965 |
| Due from banks and financial institutions | 3,508,376 | 390,635 | - | 12,986 | 3,911,997 |
| Financial assets given as collateral and reverse repurchase agreements | 8,918 | - | - | - | 8,918 |
| Derivative financial instruments | 1,462 | - | - | - | 1,462 |
| Financial assets held for trading | 154,028 | 12,647 | - | 12,818 | 179,493 |
| Loans and advances to customers and related parties | | | | | |
| - Commercial loans | 4,098,055 | 164,111 | 58,234 | 124,255 | 4,444,655 |
| - Consumer loans | 1,306,200 | 6,063 | 114,193 | 20,330 | 1,446,786 |
| Available-for-sale financial instruments | 1,695,424 | 96,063 | - | - | 1,791,487 |
| Other financial assets classified as loans and receivables | 6,856,898 | 646,917 | - | - | 7,503,815 |
| Held to maturity financial instruments | 403,640 | 28,780 | - | - | 432,420 |
| | 20,590,910 | 1,397,272 | 172,427 | 170,389 | 22,330,998 |

| | *2009* | | | | |
|---|---|---|---|---|---|
| | *Neither past due nor impaired* | | | | |
| | *High-grade LL million* | *Standard grade LL million* | *Past due but not impaired LL million* | *Past due and 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 | - | 8,442 | 3,150,925 |
| 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 | 3,444,895 | 198,519 | 37,503 | 131,838 | 3,812,755 |
| - Consumer loans | 1,080,304 | 7,252 | 91,040 | 13,754 | 1,192,350 |
| Available-for-sale financial instruments | 1,671,380 | 48,492 | - | - | 1,719,872 |
| Other financial assets classified as loans and receivables | 6,542,462 | 143,276 | - | - | 6,685,738 |
| Held to maturity financial instruments | 549,120 | 19,393 | - | - | 568,513 |
| | 18,877,989 | 695,586 | 128,543 | 154,034 | 19,856,152 |

Standards & Poors agency rated the Lebanese Government risks "B⁻" as at 31 December 2010 and 2009.

## 52 RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

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

| | *2010* | | | | | |
|---|---|---|---|---|---|---|
| | *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 | 28,714 | 18,172 | 6,414 | 4,934 | - | 58,234 |
| - Consumer loans | 89,374 | 9,638 | 6,944 | 3,775 | 4,462 | 114,193 |
| | 118,088 | 27,810 | 13,358 | 8,709 | 4,462 | 172,427 |

| | *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 |
| - Consumer loans | 65,202 | 8,385 | 5,371 | 5,897 | 6,185 | 91,040 |
| | 90,051 | 15,538 | 10,415 | 6,354 | 6,185 | 128,543 |

The fair value of the collateral held against past due but not impaired facilities as at 31 December 2010 amounted to LL 62,931 million (2009: LL 100,790 million).

See Note 22 for more detailed information on the allowance for impairment losses on loans and advances to customers.

At 31 December 2010 the fair value of collateral that the Group holds relating to loans individually determined to be impaired amounts to LL 77,860 million (2009: LL 54,287 million). The collateral consists of cash, securities, letters of guarantee and properties.

**Collateral repossessed**
During the year, the Group took possession of real-estate properties with a carrying value of LL 5,389 million at the statement of financial position date, which the Group is in the process of selling.

The outstanding balance of financial assets that were renegotiated is as follows:

| | ***2010*** *LL million* | *2009* *LL million* |
|---|---|---|
| Loans and advances to customers – corporate lending | **4,893** | 61,475 |

**Impairment assessment**
For accounting purposes, the Group uses an incurred loss model for the recognition of losses on impaired financial assets. This means that losses can only be recognised when objective evidence of a specific loss event has been observed. Triggering events include the following:

- Significant financial difficulty of the customer.
- A breach of contract such as a default of payment.
- Where the Group grants the customer a concession due to the customer experiencing financial difficulty.
- It becomes probable that the customer will enter bankruptcy or other financial reorganisation.
- Observable data that suggests that there is a decrease in the estimated future cash flows from the loans.

This approach differs from the expected loss model used for regulatory capital purposes in accordance with Basel II.

## 52 RISK MANAGEMENT (continued)

### CREDIT RISK (continued)

**Individually assessed allowances**
The Group determines the allowances appropriate for each individually significant loan or advance on an individual basis, include any overdue payments of interests, credit rating downgrades, or infringement of the original terms of the contract. Items considered when determining allowance amounts include the sustainability of the counterparty's business plan, its ability to improve performance once a financial difficulty has arisen, projected receipts and the expected payout should bankruptcy ensue, the availability of other financial support, the realisable value of collateral and the timing of the expected cash flows. Impairment allowances are evaluated at each reporting date, unless unforeseen circumstances require more careful attention.

**Collectively assessed allowances**
Allowances are assessed collectively for losses on loans and advances and for held–to–maturity debt investments that are not individually significant (including credit cards, residential mortgages and unsecured consumer lending) and for individually significant loans and advances that have been assessed individually and found not to be impaired.

The Group generally bases its analyses on historical experience. However, when there are significant market developments, regional and/or global, the Group would include macroeconomic factors within its assessments. These factors include, depending on the characteristics of the individual or collective assessment: unemployment rates, current levels of bad debts, changes in laws, changes in regulations, bankruptcy trends, and other consumer data. The Group may use the aforementioned factors as appropriate to adjust the impairment allowances.

Allowances are evaluated separately at each reporting date with each portfolio. The collective assessment is made for groups of assets with similar risk characteristics, in order to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident in the individual loans assessments. The collective assessment takes account of data from the loan portfolio (such as historical losses on the portfolio, levels of arrears, credit utilisation, loan to collateral ratios and expected receipts and recoveries once impaired). The approximate delay between the time a loss is likely to have been incurred and the time it will be identified as requiring an individually assessed impairment allowance is also taken into consideration. Local management is responsible for deciding the length of this period which can extend for as long as one year. The impairment allowance is then reviewed by credit management to ensure alignment with the Group overall policy.

Financial guarantees and letters of credit are assessed and provisions are made in a similar manner as for loans.

**Commitments and guarantees**
To meet the financial needs of customers, the Group enters into various irrevocable commitments and contingent liabilities. Even though these obligations may not be recognised on the statement of financial position, they do contain credit risk and are therefore part of the overall risk of the Group.

The table below shows the Group maximum credit risk exposure for commitments and guarantees. The maximum exposure to credit risk relating to a financial guarantee is the maximum amount the Group could have to pay if the guarantee is called upon. The maximum exposure to credit risk relating to a loan commitment is the full amount of the commitment. In both cases, the maximum risk exposure is significantly greater than the amount recognised as a liability in the statement of financial position.

| | *2010* | *2009* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Financing commitments given to banks and financial institutions | **933,859** | 803,564 |
| Guarantees given to banks and financial institutions | **401,244** | 360,485 |
| Guarantees given to customers | **1,001,997** | 885,543 |
| Undrawn commitments to lend | **1,514,547** | 812,871 |
| | **3,851,647** | 2,862,463 |

## 52 RISK MANAGEMENT (continued)

**LIQUIDITY RISK AND FUNDING MANAGEMENT**

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and of monitoring future cash flows and liquidity on a daily basis. The Group has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The Group maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Group maintains statutory deposits with Central Banks. As per Lebanese banking regulations, the Bank must retain reserves with the Central Bank of Lebanon equivalent to 25% of the sight deposits and 15% of term deposits denominated in Lebanese Pounds. As for foreign currencies, the Bank must retain with the Central Bank of Lebanon interest bearing statutory investments equivalent to 15% of all deposits regardless of their nature.

The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Group. The Group maintains a solid ratio of highly liquid net assets in foreign currencies to deposits and commitments in foreign currencies taking market conditions into consideration. In accordance, with the Central Bank of Lebanon circulars, the ratio of net liquid assets to deposits and commitments in foreign currencies and Lebanese Pounds should not be less than 10% and 40%, respectively. The highly liquid net assets consist of cash and balances with central banks, deposits with banks and financial institutions less deposits from banks and financial institutions and deposits that mature within one year. Deposits and commitments are composed of total customer deposits in addition to acceptances and loans that mature within one year.

*Analysis of financial assets and liabilities by remaining contractual maturities*

The table below summaries the maturity profile of the Group's financial assets and liabilities at 31 December 2010 and 2009 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

| | *2010* | | | | | |
|---|---|---|---|---|---|---|
| | *Up to 1 month LL million* | *1 to 3 months LL million* | *3 months to 1 year LL million* | *1 to 5 years LL million* | *Over 5 years LL million* | *Total LL million* |
| **Financial assets** | | | | | | |
| Cash and balances with central banks | 2,032,669 | - | 6,410 | 726,221 | 12,989 | 2,778,289 |
| Due from banks and financial institutions | 3,214,661 | 364,934 | 273,997 | 49,905 | 165 | 3,903,662 |
| Financial assets given as collateral and reverse repurchase agreements | - | - | 702 | 10,362 | - | 11,064 |
| Derivative financial instruments | 938 | 363 | 161 | - | - | 1,462 |
| Financial assets held for trading | 12,889 | 9,108 | 13,494 | 136,396 | 83,614 | 255,501 |
| Net loans and advances to customers and related parties | 2,159,496 | 521,794 | 1,122,429 | 1,706,860 | 471,991 | 5,982,570 |
| Debtors by acceptances | 96,867 | 104,320 | 80,656 | 9,991 | - | 291,834 |
| Available-for-sale financial instruments | 23,075 | 311,960 | 733,627 | 693,050 | 332,459 | 2,094,171 |
| Held to maturity financial instruments | 8,004 | 192,780 | 70,718 | 90,407 | 174,133 | 536,042 |
| Other financial assets classified as loans and receivables | 162,976 | 400,406 | 1,318,267 | 5,425,185 | 2,243,749 | 9,550,583 |
| **Total undiscounted financial assets** | 7,711,575 | 1,905,665 | 3,620,461 | 8,848,377 | 3,319,100 | 25,405,178 |
| **Financial liabilities** | | | | | | |
| Cue to central banks | 8,486 | 99 | 1,152 | 9,279 | 1,601 | 20,617 |
| Due to banks and financial institutions | 751,445 | 120,623 | 152,270 | 277,587 | 228,585 | 1,530,510 |
| Derivative financial instruments | 3,717 | 448 | 185 | - | - | 4,350 |
| Deposits from customers and related parties | 12,517,985 | 2,228,393 | 2,704,442 | 657,333 | 19,126 | 18,127,279 |
| Debt issued and other borrowed funds | - | 3,622 | 10,749 | 225,887 | - | 240,258 |
| Engagements by acceptances | 96,867 | 104,320 | 80,656 | 9,991 | - | 291,834 |
| Liabilities linked to held-for-sale assets | - | - | 1,312 | - | - | 1,312 |
| Subordinated notes | - | 12 | 11,428 | 306,269 | - | 317,709 |
| Total undiscounted financial liabilities | 13,378,500 | 2,457,517 | 2,962,194 | 1,486,346 | 249,312 | 20,533,869 |
| Net undiscounted financial assets / (liabilities) | (5,666,925) | (551,852) | 658,267 | 7,362,031 | 3,069,788 | 4,871,309 |

## 52 RISK MANAGEMENT (continued)

### LIQUIDITY RISK AND FUNDING MANAGEMENT (continued)

| | 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* | *Over 5 years LL million* | *Total LL million* |
| **Financial assets** | | | | | | |
| Cash and balances with central banks | 1,419,469 | 393,135 | 2,531 | 743,342 | 572 | 2,559,049 |
| Due from banks and financial institutions | 1,870,525 | 980,786 | 119,224 | 180,558 | 188 | 3,151,281 |
| Financial assets given as collateral and reverse repurchase agreements | 1,193 | - | - | - | - | 1,193 |
| Derivative financial instruments | 1,453 | 1,281 | 9,490 | - | - | 12,224 |
| Financial assets held for trading | 1,313 | 5,612 | 33,392 | 128,875 | 82,979 | 252,171 |
| Net loans and advances to customers and related parties | 1,814,301 | 404,773 | 806,169 | 1,345,981 | 663,666 | 5,034,890 |
| Debtors by acceptances | 89,747 | 155,700 | 69,629 | 20,828 | - | 335,904 |
| Available-for-sale financial instruments | 18,485 | 59,244 | 127,638 | 1,490,410 | 449,804 | 2,145,581 |
| Held to maturity financial instruments | 289 | 48,543 | 213,110 | 243,846 | 175,530 | 681,318 |
| Other financial assets classified as loans and receivables | 200,481 | 599,014 | 1,008,117 | 5,217,102 | 1,879,047 | 8,903,761 |
| **Total undiscounted financial assets** | 5,417,256 | 2,648,088 | 2,389,300 | 9,370,942 | 3,251,786 | 23,077,372 |
| **Financial liabilities** | | | | | | |
| Due to central banks | 10,564 | 1 | 8 | 1,404 | - | 11,977 |
| Due to banks and financial institutions | 764,172 | 392,672 | 81,289 | 246,127 | 310,877 | 1,795,137 |
| Cash collateral on securities lent and repurchase agreements | 1,193 | - | - | - | - | 1,193 |
| Derivative financial instruments | 1,262 | 404 | 124 | - | - | 1,790 |
| Deposits from customers and related parties | 11,188,490 | 1,779,117 | 2,007,028 | 675,340 | 5,844 | 15,655,819 |
| Debt issued and other borrowed funds | - | 3,534 | 88,261 | 240,210 | - | 332,005 |
| Engagements by acceptances | 89,747 | 155,700 | 69,629 | 20,828 | - | 335,904 |
| Liabilities linked to held-for-sale assets | - | - | 1,995 | - | - | 1,995 |
| Subordinated notes | - | - | 21,181 | 346,572 | - | 367,753 |
| Total undiscounted financial liabilities | 12,055,428 | 2,331,428 | 2,269,515 | 1,530,481 | 316,721 | 18,503,573 |
| Net undiscounted financial assets / (liabilities) | (6,638,172) | 316,660 | 119,785 | 7,840,461 | 2,935,065 | 4,573,799 |

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

| | *2010* | | | | | |
|---|---|---|---|---|---|---|
| | ***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*** |
| Financing commitments and guarantees | **80,374** | **324,207** | **1,432,742** | **499,569** | **208** | **2,337,100** |
| Undrawn commitments to lend | **839,403** | **52,310** | **556,912** | **65,660** | **262** | **1,514,547** |
| | **919,777** | **376,517** | **1,989,654** | **565,229** | **470** | **3,851,647** |

| | *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* |
| Financing commitments and guarantees | 36,442 | 749,383 | 729,845 | 508,709 | 25,213 | 2,049,592 |
| Undrawn commitments to lend | 609,370 | 6 | 123,298 | 80,031 | 166 | 812,871 |
| | 645,812 | 749,389 | 853,143 | 588,740 | 25,379 | 2,862,463 |

The Group expects that not all of the contingent liability or commitments will be demanded before maturity.

## 52 RISK MANAGEMENT (continued)

### INTEREST RATE RISK AND MARKET RISK

Market risk is the risk of loss arising from movements in market variables, including interest rates, exchange rates and equity market indices. Market risk is incurred primarily through the Group's trading and foreign exchange activities.

The market risk unit is responsible for the independent control of market risk. It ensures that all market risks are identified, establishes the necessary controls and limits, monitors positions and exposures, and ensures compliance with regulatory and internal limits as set in the market risk policy and securities portfolio investment policy.

Interest rate risk arises from the possibility that changes in interest rates will affect the fair values of the financial instruments. The Group is exposed to interest rate risk as a result of mismatches of interest rate repricing of assets and liabilities and off-balance sheet items that mature or are repriced in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies.

*Interest rate sensitivity*

The table below shows the sensitivity of interest income and shareholders' equity to reasonably possible parallel changes in interest rates, all other variables being held constant.

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at year end, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at year end for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

| | | *2010* | | *2009* | |
|---|---|---|---|---|---|
| *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% | (19,920) | 77,567 | (19,048) | 66,853 |
| Other currencies | +0.5% | (5,987) | 43,757 | (5,061) | 68,874 |
| | | (25,907) | 121,324 | (24,109) | 135,727 |

| | | *2010* | | *2009* | |
|---|---|---|---|---|---|
| *Currency* | *Decrease 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% | 19,920 | 77,567 | 19,048 | (66,853) |
| Other currencies | -0.5% | 5,987 | 43,757 | 5,061 | (68,874) |
| | | 25,907 | 121,324 | 24,109 | (135,727) |

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2010 was as follows:

| | *2010* | | | | | | |
|---|---|---|---|---|---|---|---|
| *(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 | 1,002,813 | - | - | 716,063 | - | 1,042,234 | 2,761,110 |
| Due from banks and financial institutions | 3,361,014 | 362,423 | 165,995 | 3,241 | 2,761 | 3,577 | 3,899,011 |
| Financial assets given as collateral and reverse repurchase agreements | - | - | - | 8,814 | - | 104 | 8,918 |
| Derivative financial instruments | - | - | - | - | - | 1,462 | 1,462 |
| Financial assets held for trading | 11,538 | 4,733 | 4,666 | 108,964 | 55,861 | 20,178 | 205,940 |
| Net loans and advances to customers and related parties | 2,402,081 | 533,039 | 1,515,105 | 1,086,303 | 196,557 | (47,845) | 5,685,240 |
| Debtors by acceptances | - | - | - | - | - | 291,834 | 291,834 |
| Available for sale financial instruments | 11,171 | 268,206 | 703,724 | 489,909 | 275,870 | 126,931 | 1,875,811 |
| Other financial assets classified as loans and receivables | 177,706 | 348,904 | 777,143 | 4,214,930 | 1,860,489 | 111,684 | 7,490,856 |
| Held to maturity financial instruments | 22,872 | 192,087 | 59,138 | 41,444 | 110,598 | 2,559 | 428,698 |
| Property and equipment | - | - | - | - | 2,569 | 278,734 | 281,303 |
| Intangible assets | - | - | - | - | - | 1,039 | 1,039 |
| Non-current assets held for sale | - | - | - | - | - | 39,092 | 39,092 |
| Other assets | 30 | 274 | 79 | 41 | - | 76,654 | 77,078 |
| Total assets | 6,989,225 | 1,709,666 | 3,225,850 | 6,669,709 | 2,504,705 | 1,948,237 | 23,047,392 |

## 52 RISK MANAGEMENT (continued)

### INTEREST RATE RISK AND MARKET RISK (continued)

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(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* |
| **LIABILITIES** | | | | | | | |
| Due to central banks | 4,184 | 4,303 | 9,909 | 1,053 | - | 43 | 19,492 |
| Due to banks and financial institutions | 968,075 | 215,509 | 221,039 | 26,750 | 378 | 9,595 | 1,441,346 |
| Cash collateral on securities lent and repurchase agreements | - | - | - | - | - | - | - |
| Derivative financial instruments | - | - | - | - | - | 4,350 | 4,350 |
| Deposits from customers and related parties | 12,421,873 | 2,207,698 | 2,635,408 | 575,968 | 3,465 | 83,266 | 17,927,678 |
| Debt issued and other borrowed funds | - | - | - | 213,462 | - | 39 | 213,501 |
| Engagement by acceptances | - | - | - | - | - | 291,834 | 291,834 |
| Current tax liability | - | - | 2,598 | - | - | 41,928 | 44,526 |
| Deferred tax liability | - | - | - | - | - | 11,445 | 11,445 |
| Other liabilities | 274 | 77 | 46 | 9 | 33 | 211,822 | 212,261 |
| Liabilities linked to held for sale assets | - | - | - | - | - | 1,312 | 1,312 |
| Provision for risks and charges | - | - | - | - | - | 88,983 | 88,983 |
| End of Service benefits | - | - | - | - | - | 30,922 | 30,922 |
| Subordinated notes | - | - | 1,410 | 299,972 | - | 1,942 | 303,324 |
| Total liabilities | 13,394,406 | 2,427,587 | 2,870,410 | 1,117,214 | 3,876 | 777,481 | 20,590,974 |
| Total interest rate sensitivity gap | (6,405,181) | (717,921) | 355,440 | 5,552,495 | 2,500,829 | 1,170,756 | 2,456,418 |

The Group's interest sensitivity position based on the earlier of contractual re-pricing or maturity date at 31 December 2009 was as follows:

| | 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 | - | - | - | - | - | 335,904 | 335,904 |
| Available for sale financial instruments | 1,715 | 4,324 | 24,036 | 1,323,344 | 324,820 | 116,418 | 1,794,657 |
| Other financial assets classified as loans and receivables | 117,740 | 511,018 | 582,276 | 3,903,362 | 1,451,525 | 115,968 | 6,681,889 |
| Held to maturity financial instruments | 182 | 37,726 | 185,049 | 207,131 | 127,219 | 6,297 | 563,604 |
| Property and equipment | - | - | - | - | 44,899 | 221,839 | 266,738 |
| Intangible assets | - | - | - | - | - | 734 | 734 |
| Non-current assets held for sale | - | - | - | - | - | 38,567 | 38,567 |
| Other assets | 1,117 | 85 | 90 | 105 | - | 69,148 | 70,545 |
| Total assets | 5,372,966 | 2,670,290 | 2,066,742 | 7,135,578 | 2,061,472 | 1,158,138 | 20,465,186 |

## 52 RISK MANAGEMENT (continued)

### INTEREST RATE RISK AND MARKET RISK (continued)

| | 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* |
| 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 | - | - | - | - | - | 1,790 | 1,790 |
| Deposits from customers and related parties | 11,139,094 | 1,746,735 | 1,916,324 | 581,758 | 3,465 | 118,792 | 15,506,168 |
| Debt issued and other borrowed funds | - | - | 68,108 | 213,462 | - | 9,393 | 290,963 |
| Engagement by acceptances | - | - | - | - | - | 335,904 | 335,904 |
| Current tax liability | 982 | - | 2,957 | - | - | 36,273 | 40,212 |
| Deferred tax liability | - | - | - | - | - | 15,485 | 15,485 |
| Other liabilities | 136,649 | - | 22,497 | - | - | 77,023 | 236,169 |
| Liabilities linked to held for sale assets | - | - | - | - | - | 1,995 | 1,995 |
| Provision for risks and charges | - | - | 2,193 | - | - | 64,761 | 66,954 |
| End of Service benefits | - | - | - | - | 583 | 27,693 | 28,276 |
| Subordinated notes | - | - | - | 296,335 | - | 3,299 | 299,634 |
| Total liabilities | 12,296,165 | 2,143,297 | 2,102,999 | 1,166,219 | 92,357 | 711,217 | 18,512,254 |
| Total interest rate sensitivity gap | (6,923,199) | 526,993 | (36,257) | 5,969,359 | 1,969,115 | 446,921 | 1,952,932 |

### Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group protects its capital and reserves by holding a foreign currency position in US Dollars representing 60% of its equity after adjustment according to specific requirements set by the Bank of Lebanon. The Group is also allowed to hold a net trading position, debit or credit, not to exceed 1% of its net equity, as long as the global foreign position does not exceed, at the same time, 40% of its equity (Bank of Lebanon circular number 32).

*Group's sensitivity to currency exchange rates*

The table below shows the currencies to which the Group had significant exposure at 31 December on its non-trading monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the currency rate against the Lebanese Lira, with all other variables held constant, first on the income statement (due to the potential change in fair value of currency sensitive non-trading monetary assets and liabilities) and equity (due to the change in fair value of currency swaps and forward foreign exchange contracts used as cash flow hedges). A negative amount reflects a potential net reduction in income or equity, while a positive amount reflects a net potential increase.

| | | **2010** | | 2009 | |
|---|---|---|---|---|---|
| *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 | **107** | **551** | 2,664 | 320 |
| Euro | +5 | **461** | **5,009** | 26 | 5,259 |
| GBP | +5 | **-** | **-** | (8) | 1 |
| Other currencies | +5 | **594** | **8,223** | (2,130) | 7,232 |

## 52 RISK MANAGEMENT (continued)

### INTEREST RATE RISK AND MARKET RISK (continued)

**Equity price risk**
Equity price risk is the risk that the fair value of equities decreases as the result of changes in the level of equity indices and individual stocks. The non–trading equity price risk exposure arises from equity securities classified as available–for–sale. A 5 per cent increase in the value of the Group's available–for–sale equities at 31 December 2010 would have increased equity by LL 2,493 million (2009: LL 3,824 million). An equivalent decrease would have resulted in an equivalent but opposite impact.

**Prepayment risk**
Prepayment risk is the risk that the Group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected, such as fixed rate mortgages when interest rates fall.

The Group's assets with fixed interest rates are not considered material with respect to the total assets. Moreover, other market risks that lead to prepayments are not material with respect to the markets where the Group operates. Accordingly, the Group considers prepayment risk on net profits as not material after considering any penalties arising from prepayments.

### OPERATIONAL RISK
Operational risk is the risk of loss arising from systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss.

The Group's approach to operational risk is not designed to eliminate risk per se but, rather, to contain it within acceptable levels, as determined by senior management, and to ensure that the Group has sufficient information to make informed decisions about additional controls, adjustments to controls, or other risk responses. The Head of the GRM division is responsible for ensuring the independence, objectivity and effectiveness of the operational risk framework as prepared by the Operational Risk Management (ORM) unit for identification, assessment and measurement of operational risk across the Group. The roles and responsibilities of the ORM unit encompasses the development of ORM policies, the assistance and facilitation of the ORM programs and tools, the analysis of new products, activities and systems from an operational risk perspective. It is also responsible for promoting of the ORM culture across the Group through awareness sessions and coaching.

The business line managers are directly responsible for managing and mitigating operational risks in their areas of responsibility. Each business line /support function is assigned a "Risk Champion" who will have a dotted line reporting to the ORM unit. This structure is set to confirm the effective implementation of the operational risk framework in the business lines and to ensure transparent assessment and reporting of operational risks. Aside from the Risk Champion, all staff in the Group should play a role in the identification and management of Operational Risk.

## 53 CAPITAL

The Group maintains an actively managed capital base to cover risks, inherent in the business. The adequacy of the Group's capital is monitored using, among other measures, the rules and ratios established by the Bank of Lebanon and the Banking Control Commission.

The primary objectives of the Group's capital management are to ensure that the Group complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

Groups should maintain a required capital adequacy ratio (not less than 8%) based on their capital funds over the total risk weighted assets. The Group complies in full with all its externally imposed capital requirements (2009: the same).

## 53 CAPITAL (continued)

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years, however, it is under constant scrutiny of the Board.

**Regulatory capital**

At 31 December 2010 and 2009, the capital consists of the following:

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| Tier 1 capital | **2,203,688** | 1,740,128 |
| Tier 2 capital | **359,295** | 367,638 |
| **Total capital** | **2,562,983** | 2,107,766 |
| **Risk weighted assets** | **14,743,346** | 13,764,908 |

The capital adequacy ratio as of 31 December (including profit for the year less proposed dividends) is as follows:

| | | |
|---|---|---|
| Tier 1 capital ratio | **14.94%** | 12.64% |
| Total capital ratio | **17.38%** | 15.31% |

Tier 1 Capital consists of capital, reserves and brought forward results. Tier 2 capital consists of revaluation variance recognized in the complementary equity, subordinated loans and cumulative changes in fair values.

## 54 DIVIDENDS PAID AND PROPOSED

| | *2010* *LL million* | *2009* *LL million* |
|---|---|---|
| *Declared and paid during the year* | | |
| Equity dividends on ordinary shares: | | |
| Dividends for 2010: LL 200 (2009: LL 157.9) | **43,422** | 34,282 |
| Equity dividends on priority shares: | | |
| Dividends for 2010: LL 200 (2009: LL 157.9) | **41,205** | 32,531 |
| Distributions to preferred shares – 2003 series: | | |
| Distributions for 2010: US$ nil (2009: US$ 12.00) | **-** | 18,168 |
| Distributions to preferred shares – 2008 series: | | |
| Distributions for 2010: US$ 8.00 (2009: US$ 3.35) | **24,032** | 10,143 |
| Distributions to preferred shares – 2009 series: | | |
| Distributions for 2010: US$ 3.53 (2009: US$ nil) | **10,063** | - |
| Distributions to priority shares | | |
| Interest paid at 4% of share's nominal value: LL 48 for 2010 (2009: LL 48) | **9,972** | 9,889 |
| | **128,694** | 105,013 |

## 54 DIVIDENDS PAID AND PROPOSED (continued)

| | ***2010*** ***LL million*** | *2009* *LL million* |
|---|---|---|
| *Proposed for approval at annual general meeting (not recognized as a liability as at 31 December)* | | |
| Equity dividends on ordinary shares: | | |
| Dividends for 2010: LL 200 (2009: LL 200) | **71,898** | 43,422 |
| Equity dividends on priority shares: | | |
| Dividends for 2010: LL 200 (2009: LL 200) | **41,205** | 41,205 |
| Distributions to preferred shares – 2008 series: | | |
| Distributions for 2010: USD 8.00 (2009: USD 8.00) | **24,120** | 24,032 |
| Distributions to preferred shares – 2009 series: | | |
| Distributions for 2010: USD 8.00 (2009: 3.35) | **24,120** | 10,063 |
| Distributions to priority shares: | | |
| Interest paid at 4% of share's nominal value: LL 48.40 for 2010 (2009: LL 48.40) | **9,972** | 9,972 |
| | **171,315** | 128,694 |

Dividends paid by the subsidiaries during the year were as follows:

| | ***2010*** | | *2009* | |
|---|---|---|---|---|
| | ***Dividends paid LL million*** | ***Non controlling interest share LL million*** | *Dividends paid LL million* | *Non controlling interest share LL million* |
| Byblos Bank Africa | **4,543** | **1,960** | 5,945 | 2,564 |
| Byblos Invest Bank SAL | **23,000** | **2** | 22,000 | 2 |
| Adonis Insurance and Reinsurance Co. (ADIR) SAL | **2,750** | **992** | 2,750 | 992 |
| Byblos Bank Syria S.A. | **5,149** | **3,012** | - | - |
| | **35,442** | **5,966** | 30,695 | 3,558 |

## 55 COMPARATIVE INFORMATION

Commissions were reclassified from "interest and similar expense" to "Fee and commissions expense". Comparative figures amounting to LL 1,719 million were reclassified accordingly.

Loss on foreign exchange was reclassified from "Net trading income" to "Net gain on financial assets". Comparative figures amounting to LL 453 million were reclassified accordingly.

Accrual for liability related to equity linked notes was reclassified from "Derivative financial instruments" to "Debt issued and other borrowed funds". Comparative figures amounting to LL 9,354 million were reclassified accordingly.

Other reserves were reclassified from "Other reserves" to "Capital reserves". Comparative figures amounting to LL 6,958 million were reclassified accordingly.

These changes did not affect the previously reported results and have been made to improve the quality of information presented.