# BYBLOS BANK SAL

**CONSOLIDATED FINANCIAL STATEMENTS**

**31 DECEMBER 2008**

**BYBLOS BANK SAL**
**CONSOLIDATED FINANCIAL STATEMENTS**

1) Auditors' report;
2) Consolidated balance sheet as of 31 December 2008;
3) Consolidated income statement for the year ended 31 December 2008;
4) Consolidated cash flow statement for the year ended 31 December 2008;
5) Consolidated statement of changes in equity for the year ended 31 December 2008;
6) Notes to the consolidated financial statements.

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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 balance sheet as of 31 December 2008 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

**Directors' Responsibility for the Financial Statements**
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

**Opinion**
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 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.

23 April 2009
Beirut, Lebanon

# CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

| | Notes | *2008* *LL million* | *2007* *LL million* |
|---|---|---|---|
| Interest and similar income | 5 | **1,037,795** | 939,021 |
| Interest and similar expense | 6 | **(681,953)** | (661,014) |
| **NET INTEREST INCOME** | | **355,842** | 278,007 |
| Fees and Commissions income | 7 | **116,719** | 90,655 |
| Fees and Commissions expense | 7 | **(9,796)** | (8,808) |
| **NET FEES AND COMMISSIONS INCOME** | | **106,923** | 81,847 |
| Net trading income | 8 | **9,383** | 17,207 |
| Net gain or loss on financial assets | 9 | **14,471** | 12,173 |
| Other operating income | 10 | **17,519** | 3,885 |
| **TOTAL OPERATING INCOME** | | **504,138** | 393,119 |
| Credit loss expense | 11 | **(5,434)** | (4,761) |
| Impairment losses on financial investments | 12 | **(37,700)** | - |
| **NET OPERATING INCOME** | | **461,004** | 388,358 |
| Personnel expenses | 13 | **(123,143)** | (98,366) |
| Depreciation of property and equipment | 27 | **(16,997)** | (13,660) |
| Amortisation of intangibles assets | 28 | **(125)** | (125) |
| Other operating expenses | 14 | **(98,208)** | (87,234) |
| **TOTAL OPERATING EXPENSES** | | **(238,473)** | (199,385) |
| **OPERATING PROFIT** | | **222,531** | 188,973 |
| Excess of group's interest in the fair value of net assets of acquired subsidiary over cost | 4 | **-** | 870 |
| Impairment loss on assets held for sale | 29 | **(408)** | (4,751) |
| **PROFIT BEFORE TAX** | | **222,123** | 185,092 |
| Income tax expense | 15 | **(38,208)** | (35,574) |
| **PROFIT FOR THE YEAR** | | **183,915** | 149,518 |
| Attributable to: | | | |
| Equity holders of the parent | | **172,285** | 142,550 |
| Minority interests | | **11,630** | 6,968 |
| | | **183,915** | 149,518 |
| **Earnings per share** | | | |
| Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares | 16 | **LL 317.19** | LL 278.73 |
| Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares | 16 | **LL 365.19** | LL 326.73 |

Byblos Bank SAL

## CONSOLIDATED BALANCE SHEET
At 31 December 2008

| | Notes | 2008 LL million | 2007 LL million |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central banks | 17 | **2,023,979** | 1,788,544 |
| Due from banks and financial institutions | 18 | **2,525,830** | 2,778,817 |
| Financial assets given as collateral and reverse repurchase agreements | 19 | **96,847** | 90,929 |
| Derivative financial instruments | 20 | **30,117** | 19,146 |
| Financial assets held for trading | 21 | **210,825** | 836,771 |
| Net loans and advances to customers | 22 | **4,194,647** | 3,354,275 |
| Net loans and advances to related parties | 47 | **12,017** | 11,738 |
| Debtors by acceptances | 23 | **284,468** | 265,415 |
| Available-for-sale financial instruments | 24 | **1,280,283** | 2,030,428 |
| Financial assets classified as loans and receivables | 25 | **4,619,105** | 1,182,265 |
| Held to maturity financial instruments | 26 | **1,299,646** | 1,652,876 |
| Property and equipment | 27 | **243,322** | 192,348 |
| Intangible assets | 28 | **1,074** | 1,199 |
| Non-current assets held-for-sale | 29 | **46,108** | 51,389 |
| Other assets | 30 | **60,874** | 43,690 |
| **TOTAL ASSETS** | | **16,929,142** | 14,299,830 |
| **LIABILITIES AND EQUITY** | | | |
| Due to central banks | 31 | **83,656** | 60,950 |
| Derivative financial instruments | 20 | **28,866** | 18,988 |
| Due to banks and financial institutions | 32 | **1,462,261** | 1,008,162 |
| Customers' deposits | 33 | **12,500,408** | 10,825,202 |
| Deposits from related parties | 47 | **106,472** | 122,906 |
| Debt issued and other borrowed funds | 34 | **267,555** | 269,872 |
| Current tax liability | 35 | **29,996** | 25,400 |
| Engagements by acceptances | 23 | **284,468** | 265,415 |
| Other liabilities | 36 | **191,059** | 179,084 |
| Liabilities linked to held-for-sale assets | 29 | **1,720** | 2,139 |
| Provision for risks and charges | 37 | **30,591** | 18,033 |
| End of service benefits | 38 | **27,478** | 20,575 |
| Subordinated notes | 39 | **296,203** | 331,145 |
| **TOTAL LIABILITIES** | | **15,310,733** | 13,147,871 |
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT** | | | |
| Share capital – Common ordinary shares | 40 | **260,535** | 246,028 |
| Share capital – Common priority shares | 40 | **247,228** | 247,228 |
| Share capital – Preferred shares | 40 | **3,600** | 1,200 |
| Issue premium – Common ordinary shares | 40 | **26,425** | - |
| Issue premium – Preferred shares | | **444,704** | 149,550 |
| Capital reserves | 43 | **334,348** | 296,487 |
| Treasury shares | 40 | **(1,554)** | (947) |
| Retained earnings | | **15,317** | 11,127 |
| Revaluation reserve of real estate | 41 | **5,689** | 5,689 |
| Available-for-sale reserve | 42 | **(30,517)** | (46,244) |
| Net results of the financial period - profit | | **172,285** | 142,550 |
| Foreign currency translation reserve | | **18,604** | 21,669 |
| Other reserve | 44 | **5,538** | - |
| | | **1,502,202** | 1,074,337 |
| **MINORITY INTEREST** | 45 | **116,207** | 77,622 |
| **TOTAL EQUITY** | | **1,618,409** | 1,151,959 |
| **TOTAL LIABILITIES AND EQUITY** | | **16,929,142** | 14,299,830 |

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 18 April 2009.

Bassil

Dr François Bassil
Chairman/ General Manager

A. Wanna

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 64 form part of these consolidated financial statements.

CONSOLIDATED BALANCE SHEET
At 31 December 2008

| | Notes | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|---|
| **OFF-BALANCE SHEET ITEMS** | | | |
| **Financing Commitments** | | | |
| Financing commitments given to banks and financial institutions | 48 | **862,122** | 819,316 |
| Financing commitments received from banks and financial institutions | | **184,563** | 65,597 |
| Engagements to customers | | **276,964** | 326,566 |
| **Bank Guarantees** | | | |
| Guarantees given to banks and financial institutions | 48 | **267,414** | 126,738 |
| Guarantees given to customers | 48 | **793,830** | 767,135 |
| Guarantees received from customers | | **14,664,214** | 8,832,505 |
| **Foreign Currency Contracts** | | | |
| Foreign currencies to receive | | **339,685** | 474,402 |
| Foreign currencies to deliver | | **338,434** | 474,244 |
| **Claims from legal cases** | | **265,458** | 255,976 |
| **Fiduciary deposits** | | **174,558** | 177,875 |
| **Assets under management** | | **2,604,921** | 2,066,134 |
| **Bad debts fully provided for** | 22 | **121,244** | 113,690 |

The attached notes 1 to 64 form part of these consolidated financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

## Year ended 31 December 2008

| | Note | *2008* *LL million* | *2007* *LL million* |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before tax | | **222,123** | 185,092 |
| Adjustments to reconcile profit before tax to net cash flows: | | | |
| Depreciation and amortisation | | **17,122** | 13,785 |
| Provision for loans and advances, net | | **5,434** | 4,761 |
| Gain on disposal of property, plant and equipment | | **(72)** | (399) |
| Gain on disposal of non-current assets held for sale | | **(12,505)** | (602) |
| Provisions for risks and charges, net | | **12,558** | 14,787 |
| Provision for impairment of financial instruments | | **37,700** | - |
| Provision for end of services benefits | | **7,252** | 4,888 |
| Impairment provision on non-current assets held for sale | | **408** | 4,751 |
| Excess of group's interest in the net fair value of net assets of acquired subsidiary over cost | | **-** | (870) |
| Excess of fair value of net assets acquired of Unicredit Banca di Roma SpA- Beirut Branch overcost | | **(1,353)** | - |
| | | **288,667** | 226,193 |
| **Changes in operating assets and liabilities** | | | |
| Due from central banks | | **(221,380)** | (488,608) |
| Due from banks and financial institutions | | **108,814** | (266,997) |
| Financial assets given as collateral | | **(5,918)** | (50,479) |
| Due to banks and financial institutions | | **270,760** | 4,374 |
| Derivative financial instruments | | **(1,093)** | (586) |
| Financial assets held for trading | | **521,875** | 313,435 |
| Net loans and advances | | **(826,190)** | (733,052) |
| Other assets | | **(9,072)** | 1,054 |
| Customers’ and related party deposits | | **1,615,843** | 1,486,619 |
| Other liabilities | | **3,550** | 13,374 |
| Cash from operations | | **1,745,856** | 505,327 |
| End of service benefits paid | | **(349)** | (883) |
| Taxation paid | | **(25,400)** | (30,724) |
| **Net cash from operating activities** | | **1,720,107** | 473,720 |
| **INVESTING ACTIVITIES** | | | |
| Available for sale financial instruments | | **(987,470)** | (722,195) |
| Financial assets classified as loans and receivables | | **(1,616,818)** | 31,255 |
| Held to maturity financial instruments | | **352,921** | 160,562 |
| Purchase of property and equipment | | **(58,757)** | (50,246) |
| Proceeds from sale of property and equipment | | **317** | 1,103 |
| Purchase of non current assets held for sale | | **(5,179)** | (19,089) |
| Proceeds from sale of non-current assets held for sale | | **22,557** | 3,569 |
| Liabilities linked to held for sale assets | | **(419)** | 314 |
| Acquisition of a subsidiary, net of cash acquired | 4 | **-** | (8,530) |
| Acquisition of net assets of Unicredit Banca Di Roma SpA- Beirut Branch | | **(12,415)** | - |
| **Net cash used in investing activities** | | **(2,305,263)** | (603,257) |
| **FINANCING ACTIVITIES** | | | |
| Issuance of ordinary common shares | | **38,479** | - |
| Issuance of preferred shares | | **297,554** | - |
| Due to central bank | | **22,706** | 2,885 |
| Debts issued and other borrowed funds | | **(2,317)** | (3,647) |
| Subordinated notes | | **(37,711)** | 304,119 |
| Treasury shares | | **(607)** | (581) |
| Dividends paid | | **(92,961)** | (92,962) |
| Gain on sale of subsidiary shares to minority interest | 43 | **6,028** | - |
| Change in minority interest | | **26,955** | 9,980 |
| **Net cash from financing activities** | | **258,126** | 219,794 |
| **Effect of exchange rates:** | | | |
| Effect of exchange rates on property and equipment | | **(866)** | (1,593) |
| Foreign currency translation differences | | **(3,065)** | 10,031 |
| Effect of exchange rates on reserves and premiums | | **(2,806)** | 3,353 |
| **Net effect of foreign exchange rates** | | **(6,737)** | 11,791 |
| **(DECREASE) / INCREASE IN CASH AND CASH EQUIVALENTS** | | **(333,767)** | 102,048 |
| Cash and cash equivalents at 1 January | | **2,984,971** | 2,882,923 |
| **CASH AND CASH EQUIVALENTS AT 31 DECEMBER** | 46 | **2,651,204** | 2,984,971 |

In 2008, operating and investing activities include a non-cash item representing the increase in financial assets classified as loans and receivables in the amount of LL 1,820,022 against decrease in trading and available-for-sale financial assets in the amount of LL 104,071 million and LL 1,715,951 million, respectively.

The attached notes 1 to 64 form part of these consolidated financial statements.

# Byblos Bank SAL

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

### Year ended 31 December 2008

| | Attributable to equity holders of the parent | | | | | | | | | | | | | | | | | | | Minority interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital | | | | | | Capital reserves | | | | | | | | | | | | | | |
| | Share capital-Common shares LL million | Share capital-Preferred shares LL million | Share capital-Priority shares LL million | Issue premium - Common shares LL million | Issue premium - Preferred shares LL million | Treasury shares LL million | Legal reserve LL million | Reserves appropriated for capital increase LL million | General reserve LL million | Equity component of convertible subordinated notes LL million | Reserve for general Banking risks LL million | Other capital reserves LL million | Other reserve LL million | Retained earnings LL million | Revaluation reserve LL million | Available-for-sale reserve LL million | Net results of the financial period - profit LL million | Foreign currency translation reserve LL million | Total LL million | LL million | LL million |
| Balance at January 2007 | 246,028 | 1,200 | 247,228 | - | 149,550 | (366) | 77,256 | 20,010 | 96,776 | - | 48,159 | - | - | 18,824 | 5,689 | (12,250) | 115,389 | 11,638 | 1,025,131 | 60,951 | 1,086,082 |
| Net movement in cumulative changes in fair values | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (34,132) | - | - | (34,132) | (277) | (34,409) |
| Translation difference | - | - | - | - | - | - | 380 | - | 2,845 | - | - | - | - | 128 | - | 138 | - | 10,031 | 13,522 | 2,600 | 16,122 |
| Total income and expense for the year recognized directly in equity | - | - | - | - | - | - | 380 | - | 2,845 | - | - | - | - | 128 | - | (33,994) | - | 10,031 | (20,610) | 2,323 | (18,287) |
| Net profit for the year | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 142,550 | - | 142,550 | 6,968 | 149,518 |
| Total income and expenses for the year | - | - | - | - | - | - | 380 | - | 2,845 | - | - | - | - | 128 | - | (33,994) | 142,550 | 10,031 | 121,940 | 9,291 | 131,231 |
| Transfer to retained earnings | - | - | - | - | - | - | - | - | - | - | - | - | - | 115,389 | - | - | (115,389) | - | - | - | - |
| Transfer to capital reserves | - | - | - | - | - | - | 12,488 | 274 | 8,733 | - | 8,757 | - | - | (30,252) | - | - | - | - | - | - | - |
| Equity component of convertible subordinated loans (note 39) | - | - | - | - | - | - | - | - | - | 20,809 | - | - | - | - | - | - | - | - | 20,809 | - | 20,809 |
| Minority interests in capital increase of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 1 | 1 |
| Minority interests attributable of acquisition of subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 9,411 | 9,411 |
| Dividends paid – subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,032) | (2,032) |
| Equity dividends paid | - | - | - | - | - | - | - | - | - | - | - | - | - | (92,962) | - | - | - | - | (92,962) | - | (92,962) |
| Treasury shares | - | - | - | - | - | (581) | - | - | - | - | - | - | - | - | - | - | - | - | (581) | - | (581) |
| **Balance at 31 December 2007** | **246,028** | **1,200** | **247,228** | **-** | **149,550** | **(947)** | **90,124** | **20,284** | **108,354** | **20,809** | **56,916** | **-** | **-** | **11,127** | **5,689** | **(46,244)** | **142,550** | **21,669** | **1,074,337** | **77,622** | **1,151,959** |
| Net movement in cumulative changes in fair values | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 15,747 | - | - | 15,747 | 240 | 15,987 |
| Translation difference | - | - | - | - | - | - | (791) | - | (1,518) | - | - | - | - | (497) | - | (20) | - | (3,065) | (5,891) | (2,158) | (8,049) |
| Total income and expense for the year recognized directly in equity | - | - | - | - | - | - | (791) | - | (1,518) | - | - | - | - | (497) | - | 15,727 | - | (3,065) | 9,856 | (1,918) | 7,938 |
| Net profit for the year | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | 172,285 | - | 172,285 | 11,630 | 183,915 |
| Total income and expenses for the year | - | - | - | - | - | - | (791) | - | (1,518) | - | - | - | - | (497) | - | 15,727 | 172,285 | (3,065) | 182,141 | 9,712 | 191,853 |
| Transfer to retained earnings | - | - | - | - | - | - | - | - | - | - | - | - | - | 142,550 | - | - | (142,550) | - | - | - | - |
| Transfer to capital reserve and other reserves | - | - | - | - | - | - | 15,313 | 523 | 13,558 | - | 9,970 | | 5,538 | (44,902) | - | - | - | - | - | - | - |
| Increase in capital (note 40) | 14,507 | 2,400 | - | 26,425 | 295,154 | - | - | - | - | (2,769) | - | - | - | - | - | - | - | - | 335,717 | - | 335,717 |
| Capital increase of subsidiaries (notes 43 and 45) | - | - | - | - | - | - | - | - | (2,453) | - | - | 6,028 | - | | - | - | - | - | 3,575 | 31,203 | 34,778 |
| Dividends paid – subsidiaries | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | - | (2,330) | (2,330) |
| Equity dividends paid | - | - | - | - | - | - | - | - | - | - | - | - | - | (92,961) | - | - | - | - | (92,961) | - | (92,961) |
| Treasury shares | - | - | - | - | - | (607) | - | - | - | - | - | - | - | - | - | - | - | - | (607) | - | (607) |
| **Balance at 31 December 2008** | **260,535** | **3,600** | **247,228** | **26,425** | **444,704** | **(1,554)** | **104,646** | **20,807** | **117,941** | **18,040** | **66,886** | **6,028** | **5,538** | **15,317** | **5,689** | **(30,517)** | **172,285** | **18,604** | **1,502,202** | **116,207** | **1,618,409** |

The attached notes 1 to 64 form part of these consolidated financial statements.

## 1 CORPORATE INFORMATION

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

The Bank, together with its affiliated banks and subsidiaries (the Group), provides a wide range of banking and insurance services, through its headquarters and branches in Lebanon and 8 locations abroad (Limassol, Brussels, London, Paris, Damascus, Khartoum, Erbil and Yerevan) (Collectively the "Group").

On 23 October 2008, the Group entered into an agreement to acquire the net assets of Unicredit Banca Di Roma SpA- Beirut Branch for a total consideration of LL 12,415 million. The Bank of Lebanon approved the sale with effect from 18 December 2008 and all the assets and liabilities of the Branch as of that date were transferred to Byblos Bank SAL

## 2 SIGNIFICANT ACCOUNTING POLICIES

**Basis of preparation**
The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and circulars issued by the Bank of Lebanon and the Banking Control Commission ("BCC").

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of derivative financial instruments and investment securities other than held to maturity investments and for the revaluation of freehold buildings as accepted by the Bank of Lebanon under provisions of law no 282 dated 30 December 1993.

The consolidated financial statements are presented in Lebanese Lira (LL) which is the functional and presentation currency of the Bank.

**Changes in accounting policies**
The accounting policies adopted are consistent with those used in the previous financial year except as follows:

*Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets*

The amendments allow entities to reclassify certain financial assets out of held-for-trading if they are no longer held for the purpose of being sold or repurchased in the near term. The amendments also allow entities to reclassify, in certain circumstances, financial instruments out of the "Available-for-sale" category and into the "Loans and receivables" catergory.

- Financial assets that would be eligible for classification as loans and receiavables (ie those asset which, apart from not being held with the intent of sale in the near term, have fixed or determinable payments, are not quoted in an active market and contain no features which could cause the holder not to recover substantially all of its initial investment except through credit deterioration) may be transferred from "Held-for-trading" and "Available-for-sale" catergories to "Loans and receivables", if the entity has the intention and the ability to hold them for the foreseeable future.

- Financial assets that are not eligible for classification as loans and receivables, may be transferred from "Held-for-trading" to "Available-for-sale" or to "Held-to-maturity", only in rare circumstances.

The amendment requires detailed disclousers relating to such reclassifications. The effective date of the amendments is 1 July 2008 and reclassifications before that date are not permitted.

The Group has reclassified certain securities from "Held-for-trading" and "Available-for-sale" catergories into the "Loans and receivables" category. A full analysis of the financial impact of the reclassification is provided in note 51.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**New and amended standards and interpretations issued but not yet effective**
The following represents the International Financial Reporting Standards issued but not yet effective for the year ended 31 December 2008:

IFRS 2 Share-based Payment – Vesting Conditions and Cancellations (Amendments)
IFRS 3 Business Combinations (Revised)
IFRS 8 Operating Segments
IAS 1 Presentation of Financial Statements (Revised)
IAS 23 Borrowing Costs (Revised)
IAS 27 Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate (Amendments)
IAS 32 Financial Instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation (Amendments)
IAS 39 Financial Instruments: Recognition and Measurement – Eligible hedged items (Amendments)
IFRIC 13 Customer Loyalty Programmes
IFRIC 15 Agreements for the Construction of Real Estate
IFRIC 16 Hedges of Net Investment in a Foreign Operation.
IFRIC 17 Distribution of Non-cash Assets to Owners

Management does not expect these standards to have a significant impact on the Group's financial statements when implemented in future years.

**Basis of consolidation**
The consolidated financial statements comprise the financial statements of Byblos Bank SAL and its subsidiaries drawn up to 31 December each year. The financial statements of subsidiaries are prepared for the same reporting year as the Bank, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and continue to be consolidated until the date that such control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date of acquisition or up to the date of disposal, as appropriate.

Minority interests represent the portion of profit or loss and net assets not owned, directly or indirectly and are presented separately in the consolidated income statement and within equity in the consolidated balance sheet, separately from parent shareholders' equity. Acquisitions of minority interests are accounted for using the parent entity extension method, whereby, the difference between the consideration and the fair value of the share of the net assets acquired is recognized as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. a discount on acquisition) is recognized directly in the consolidated income statement in the year of acquisition.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

| *Subsidiary* | *Percentage of ownership* | | *Principal activity* | *Country of incorporation* |
|---|---|---|---|---|
| | ***2008*** % | *2007* % | | |
| 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 activities | Lebanon |
| Adonis Brokerage House SAL | **99.40** | 99.40 | Insurance brokerage | Lebanon |
| Byblos Invest Bank SAL | **99.99** | 99.99 | Investment banking activities | Lebanon |
| Byblos Bank Africa * | **56.86** | 65.00 | Banking activities | Sudan |
| Byblos Bank Syria S.A. | **41.50** | 41.50 | Banking activities | Syria |
| Byblos Bank Armenia CJSC * | **65.00** | 100.00 | Banking activities | Armenia |
| Adonis Insurance and Reinsurance (ADIR) Syria | **76.00** | 76.00 | Insurance activities | Syria |
| Byblos Management SAL (Holding) ** | **99.98** | - | Investment activities | Lebanon |

***** During 2008, the Group’s share in Byblos Bank Africa and Byblos Bank Armenia CJSC was reduced as a result of capital increase subscribed to by existing and other shareholders.
** A Company established on 12 May 2008.

**Business combinations and goodwill**
Business combinations are accounted for using the purchase method of accounting. This involves recognizing identifiable assets (including previously unrecognized intangible assets) and liabilities (including contingent liabilities but excluding future restructuring) of the acquired business at fair value. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognized as goodwill. If the cost of acquisition is less than the fair values of the identifiable net assets acquired, the discount on acquisition is recognized directly in the consolidated income statement in the year of acquisition.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group’s cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units or groups of units.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized in the consolidated income statement.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

**Trade and settlement date accounting**
All “regular way” purchases and sales of financial assets are recognized on the trade date, i.e. the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations.

**Initial recognition of financial instruments**
The classification of financial instruments at initial recognition depends on the purpose for which the financial instruments were acquired and their characteristics. All financial instruments are measured initially at their fair value plus, in the case of financial assets and financial liabilities not at fair value through profit or loss, any directly attributable incremental costs of acquisition or issue.

**Held for trading financial investments**
Financial assets or financial liabilities held for trading, comprising financial instruments held for trading other then derivatives, are recorded in the balance sheet at fair value. Changes in fair value and dividend income are recognised in the consolidated income statement in “Net trading income”. Interest income is recorded in “interest and similar income” according to the terms of the contract, or when the right to the payment has been established.

Included in this classification are debt securities, equities and short positions in debt securities and securities which have been acquired principally for the purpose of selling or repurchasing in the near term.

**Non-trading investments and financial assets**
Financial assets within the scope of IAS 39 are classified as follows:

- Held to maturity financial investments
- Investments carried at fair value through profit and loss
- Investments carried at amortized cost
- Available for sale financial assets

***Held-to-maturity financial investments***
Held-to-maturity financial investments are those which carry fixed or determinable payments and have fixed maturities and which the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in “Interest and similar income” or “interest and similar expense” in the consolidated income statement. The losses arising from impairment of such investments are recognized in the consolidated income statement as “Impairment losses on financial investments”.

***Fair value through profit or loss financial investments***
Financial assets and financial liabilities classified in this category are designated on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- The financial instrument contains an embedded derivative, unless the embedded derivate does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the consolidated balance sheet at fair value. Changes in fair value are recorded in the consolidated income statement as “Net gain or loss on financial assets and liabilities designated at fair value through profit or loss”. Interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Non-trading investments and financial assets (continued)**

***Investments carried at amortized cost***
Due from banks, loans and advances and financial assets classified as loans and receivables are financial assets with fixed or determined payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as “Financial assets held for trading”, designated as “Financial investment – available-for-sale” or “Financial assets designated at fair value through profit or loss”. After initial measurement, amounts due from banks, loans and advances and financial assets classified as loans and receivables are subsequently measured at amortised cost using the effective interest rate method, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortisation is included in “Interest and similar income” in the income statement. The losses arising from impairment of due from banks and loans and advances are recognized in the income statement in “Credit loss expense” while losses arising from impairment of financial assets classified as loans and receivable of are recognized in the income statement in “Impairment losses on financial investments”.

***Available-for-sale financial assets***
Available-for-sale financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified to any of the three preceding categories. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses are recognised directly in equity in the “Available-for-sale reserve”. When the security is disposed of, the cumulative gain or loss previously recognised in equity is recongised in income statement in “Net gain or loss on financial assets”. Interest earned whislt holding available-for-sale financial investments is reported as interest income using the effective interest rate. Dividends earned whilst holding available-for-sale financial investments are recognised in the income statement as “Net gain on financial assets” when the right of payment has been established. The losses arising from impairment of such investments are recognised in the income statement in “Impairment losses on financial investments” and removed from the available-for-sale reserve.

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

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

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

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Derecognition of financial assets and financial liabilities**

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

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

Continuing involvement the financial asset that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

*Financial liabilities*
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

**Repurchase and reverse repurchase agreements**
Securities sold under agreements to repurchase at a specified future date (“repos”) are not derecognised from the consolidated balance sheet. The corresponding cash received, including accrued interest, is recognised in the consolidated balance sheet as an asset with a corresponding obligation to return it, including accrued interest, as a liability within “cash collateral on securities lent and repurchase agreement”, reflecting the transactin’s economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated in the consolidated income statement as interest expense and is accrued over the life of the agreement using the effective interest rate method.

Conversely, securities purchased under agreements to resell at a specified future date (“reverse repos”) are not recognised in the balance sheet. The corresponding cash paid, including accrued interest, is recognised in the balance sheet within “financial assets given as collateral and reverse purchase agreements”, reflecting the transaction’s economic substance as a loan by the Group. The difference between the purchase and resale prices is treated in the consolidated income statement as interest income and is accrued over the life of the agreement using the effective interest method.

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. If such evidence exists, any impairment loss is recognised in the income statement.

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Impairment of financial assets (continued)**

***(i) Due from banks, loans and advances and financial assets classified as loans and receivables***

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

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

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

Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

***(ii) Held to-maturity financial investments***

For held to-maturity investments the Group assesses individually whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets's carrying amount and the present value of estimated future cash flows. The carrying amount of the asset is reduced and the amount of the loss is recognized in the income statement.

If, in a subsequent year, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amounts formerly charged are credited to the 'Impairment losses on financial investments'.

***(iii) Available-for-sale financial investments***

For available-for –sale financial investments, the Group assesses at each balance sheet date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would 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 income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized directly in equity.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets (continued)**

***(iii) Available-for-sale financial investments (continued)***

In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. 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 year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

***(iv) Renegotiated loans***

Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the arrangements of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment.

**Determination of fair value**

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

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

**Property and equipment**

Property and equipment are initially recorded at cost less accumulated depreciation and any impairment in value. Depreciation and amortisation are provided on a straight line basis on all property and equipment. The rates of depreciation and amortisation are based upon the assets' estimated useful lives as follows:

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

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

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

**Intangible assets**

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

| | |
|---|---|
| Key-money | 10 - 15 years |

**Impairment of non-financial assets**
The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired and whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, an estimate of the asset's recoverable amount is made. Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. Impairment losses relating to Goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

**Assets held for sale**
The Group occasionally acquires real estate in settlement of certain loans and advances in accordance with the regulatory authorities' directives. Such asset is stated at the lower of the net realizable value of the related loans and advances and the current fair value of such assets based on the instructions of the Banking Control Commission. Gains or losses on disposal and revaluation losses are recognized in the consolidated income statement for the period.

**Debt issued and other borrowed funds**
Debt issued and other borrowed funds represent certificates of deposit, index linked notes, commodity linked notes, and equity linked notes which are recorded at nominal value after the deduction of issuance costs and the addition of accrued interest and unamortized premiums up to the balance sheet date. Issuance costs and premiums are amortized on straight line basis to their maturities in the case of the certificates of deposit and using effective interest rate in the case of the index linked notes, equity linked notes, and commodity liked notes and are taken to the consolidated income statement.

**Subordinated notes**
Subordinated notes issued by the Bank are recorded at the principal amount in foreign currencies after deduction of issuance costs and the addition of accrued interest up to the balance sheet date. Premiums and discounts are amortized on straight-line basis to their maturities and are taken to interest and similar income or expense in the consolidated income statement.

Convertible subordinated notes is a compound financial instrument, that contains both liability and equity elements which are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

**2 SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Provisions**
Provisions are recognised when the Group has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and able to be reliably measured.

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

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

**Treasury shares**
Own equity instruments which are acquired (treasury shares) are deducted from equity and are accounted for at weighted average cost. No gain or loss is recognized in the consolidated income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

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

**Revenue recognition**
Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

*Interest and similar income and expense*
For all financial instruments measured at amortised cost and interest bearing financial instruments classified as available-for-sale financial investments, interest income or expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts thought the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument. The carrying amount of the financial asset or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recorded as interest income or expense. Interest income generated from sub-standard, doubtful and bad debts is recorded as a contra – asset account in the consolidated balance sheet.

*Fee and commission income*
Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees for loans that are likely to be drawn down and other credit related fees are deferred (together with any incremental costs) and recognised as an adjustment to the effective interest rate on the loan. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

*Dividend income*
Revenue is recognised when the Group's right to receive the payment is established.

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

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

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Revenue recognition (continued)**

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

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

**Cash and cash equivalents**
Cash and cash equivalents as referred to in the cash flow statement comprises cash on hand, current account with central banks and amounts due from banks on demand or with an original maturity of three months or less.

**Fiduciary assets**
Assets held in a fiduciary capacity are not treated as assets of the Group and accordingly are recorded as off-balance sheet items.

**Hedge accounting**
For the purposes of hedge accounting, hedges are classified into two categories:

(a) fair value hedges which hedge the exposure to changes in the fair value of a recognised asset or liability; and
(b) cash flow hedges which hedge the exposure to variability in cash flows of a recognised asset or liability or a forecasted transaction

In relation to effective fair value hedges any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the item being hedged, are recognised immediately in the consolidated income statement.

In relation to effective cash flow hedges, the gain or loss on the hedging instrument is recognised initially in equity and is transferred to the consolidated statement of income for the period in which the hedged transaction impacts the statement of income, or included as part of the cost of the related asset or liability.

For hedges which do not qualify for hedge accounting, any gain or loss arising from changes in the fair value of the hedging instrument are taken directly to the consolidated income statement for the period.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. For fair value hedges of financial instruments with fixed maturities any adjustment arising from hedge accounting is amortised over the remaining term to maturity. For cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity remains in equity until the hedged transaction occurs. If the hedged transaction is no longer expected to occur the net cumulative gain or loss recognised in equity is transferred to the consolidated statement of income.

**Off balance sheet items**
Off balance sheet balances include commitments which may take place in the Group's normal operations such as letters of guarantees, and letters of credit, without deducting the margins collected and related to these commitments.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

*Transactions and balances*
Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies are translated into Lebanese Lira or other functional currencies at rates of exchange prevailing at the balance sheet date. Any gains or losses are taken to the consolidated income statement.

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

*Group companies*
As at the reporting date, the assets and liabilities of subsidiaries and overseas branches are translated into the Bank's presentation currency (Lebanese Lira) at the rate of exchange ruling at the balance sheet date, and their income statements are translated at the weighted average exchange rates for the year. Exchange differences arising on translation are taken directly to a separate component of equity as foreign currency translation differences. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the consolidated income statement.

Following are the exchange rates used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***Year end rate LL*** | ***Average rate LL*** | *Year end rate LL* | *Average rate LL* |
| US Dollar | **1,507.5** | **1,507.5** | 1,507.50 | 1,507.50 |
| Euro | **2,136.88** | **2,225.69** | 2,212.56 | 2,077.55 |
| Sudanese Dinar | **690.25** | **721.11** | 734.435 | 746.97 |
| Syrian Lira | **32.52** | **32.48** | 31.37 | 30.24 |
| Armenian Dram | **4.91** | **4.94** | 4.96 | 4.85 |

**Offsetting financial instruments**
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

## 2 SIGNIFICANT ACCOUNTING POLICIES (continued)

**Taxes**
Taxation is provided for in accordance with the fiscal regulations of the respective countries in which the Bank and its branches and subsidiaries operate.

*(i) Current tax*
Current tax assets and liabilities for the current 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 balance sheet date.

*(ii) Deferred tax*
Deferred tax is provided on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

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

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

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

The carrying amount of deferred tax assets is reviewed at each balance sheet 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 balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

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

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

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

**Judgments**
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:

*Classification of investments*
Management decides on acquisition of an investment whether it should be classified as held to maturity, loans and receivables, held for trading, carried at fair value through profit and loss account, or available for sale.

For those deemed to be held to maturity management ensures that the requirements of IAS 39 (revised) are met and in particular the Group has the intention and ability to hold these to maturity.

The Group classifies investments as trading if they are acquired primarily for the purpose of making a short term profit by the dealers.

Classification of investments as fair value through profit and loss account depends on how management monitors the performance of these investments. When they are not classified as held for trading but have readily available reliable fair values and the changes in fair values are reported as part of profit or loss in the management accounts, they are classified as fair value through profit and loss.

All other investments are classified as available for sale.

*Impairment of investments*
The Group treats available for sale equity investments as impaired when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires considerable judgment. In addition, the Group evaluates other factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities.

**Estimation uncertainty**
The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

*Impairment losses on loans and advances*
The Group reviews its problem loans and advances on a regular basis to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty, and actual results may differ resulting in future changes to such provisions.

*Collective impairment provisions on loans and advances*
In addition to specific provisions against individually significant loans and advances, the Group also makes a collective impairment provision against loans and advances which although not specifically identified as requiring a specific provision have a greater risk of default than when originally granted. This collective provision is based on any deterioration in the internal grade of the loan since it was granted. The amount of the provision is based on the historical loss pattern for loans within each grade and is adjusted to reflect current economic changes.

These internal grading take into consideration factors such as any deterioration in country risk, industry, technological obsolescence as well as identified structural weaknesses or deterioration in cash flows.

*Impairment of available-for-sale investments*
The Group reviews its debt securities classified as available-for-sale investments at each balance sheet 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 dudgment, 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.

## 3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

**Estimation uncertainty (continued)**

*Fair value of financial instruments*

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

## 4 BUSINESS COMBINATION

On 31 August 2007, the Group completed the acquisition of 100% of the share capital of Byblos Bank Armenia CJSC (formerly International Trade Bank cjsc) specializing in banking activities, for a total consideration of LL 15,408 million (US$ (000) 10,221).

The fair value of the identifiable assets and liabilities of Byblos Bank Armenia CJSC as of 31 August 2007 were as follows:

| | *Recognized on acquisition LL million* | *Carrying value LL million* |
|---|---|---|
| Assets | | |
| Cash and balances with central bank | **7,407** | **7,407** |
| Amounts receivable under reverse repurchase agreement | **781** | **781** |
| Bonds and financial instruments with fixed income | **1,509** | **1,509** |
| Shares, securities and financial instruments with variable income | **40** | **40** |
| Banks and financial institutions | **1,068** | **1,068** |
| Loans and advances to customers | **10,034** | **10,034** |
| Tangible fixed assets | **5,297** | **2,602** |
| Other assets | **204** | **204** |
| Total assets | **26,340** | **23,645** |
| Liabilities | | |
| Banks and financial institutions | **529** | **529** |
| Customers' deposits | **9,279** | **9,279** |
| Other liabilities | **254** | **254** |
| Total liabilities | **10,062** | **10,062** |
| Fair value of net assets | **16,278** | **13,583** |
| Groups' interest | **16,278** | - |
| Cost of acquisition | **(15,408)** | - |
| Excess of group's interest in the net fair value of identifiable assets and liabilities over cost | **870** | - |

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

**4 BUSINESS COMBINATION (continued)**

Cash outflow on acquisition of the subsidiary is as follows:

| | ***2007*** ***LL million*** |
|---|---|
| Net cash acquired with the subsidiary | **6,878** |
| Cash paid | **(15,408)** |
| Net cash outflow | **(8,530)** |

From the date of acquisition till 31 December 2007, the above entity incurred losses amounted to LL 287 million which was accounted for in the determination of the Group's net profit under "excess of group's interest in the fair value of net assets of acquired subsidiary over cost".

The cost of acquisition includes directly attributable costs including legal, audit and other professional fees.

**5 INTEREST AND SIMILAR INCOME**

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Cash and balances with central banks | **47,987** | 64,328 |
| Due from banks and financial institutions | **90,864** | 128,754 |
| Financial assets given as collateral | **3,105** | 3,098 |
| Financial assets – held for trading | **39,841** | 74,913 |
| Financial assets – available-for-sale | **187,858** | 136,325 |
| Financial assets – held-to-maturity | **148,527** | 156,621 |
| Financial assets - loans & receivables | **204,637** | 116,066 |
| Loans and advances to customers | **314,135** | 258,246 |
| Loans and advances to related parties | **841** | 670 |
| | **1,037,795** | 939,021 |

**6 INTEREST AND SIMILAR EXPENSE**

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Due to central banks | **3,859** | 3,729 |
| Due to banks and financial institutions | **56,082** | 49,952 |
| Customers' deposits | **571,423** | 572,612 |
| Related parties' deposits | **5,783** | 9,466 |
| Debt issued and other borrowed funds | **17,151** | 16,979 |
| Subordinated notes | **27,655** | 8,669 |
| | **681,953** | 661,014 |

## 7 NET FEES AND COMMISSION INCOME

| | *2008 LL million* | *2007 LL million* |
|---|---|---|
| Loans and advances commission | **12,530** | 9,755 |
| Letters of guarantee commission | **12,261** | 8,366 |
| Acceptances commission | **6,133** | 6,972 |
| Letters of credit commission | **39,883** | 28,810 |
| Credit cards commission | **3,509** | 2,961 |
| Domiciliation commission | **1,353** | 1,358 |
| Checks collection commission | **2,061** | 1,769 |
| Maintenance of accounts commission | **7,282** | 5,104 |
| Closing of accounts commission | **554** | 434 |
| Transfers commission | **5,246** | 3,480 |
| Safe rental commission | **694** | 527 |
| Portfolio commission | **2,606** | 2,227 |
| Insurance premiums' commission | **8,889** | 6,948 |
| Other commissions | **5,716** | 5,949 |
| Refund of banking services | **8,002** | 5,995 |
| Total fees and commission income | **116,719** | 90,655 |
| Brokerage commission paid | **(5,108)** | (6,163) |
| Other commissions paid | **(4,688)** | (2,645) |
| Total fees and commission expense | **(9,796)** | (8,808) |
| Net fees and commission income | **106,923** | 81,847 |

## 8 NET TRADING INCOME

| | *2008 LL million* | *2007 LL million* |
|---|---|---|
| Gain (loss) on sale of treasury bills and other governmental bills | **11,302** | (938) |
| Loss on sale of bonds and financial assets with fixed income | **(2,179)** | (65) |
| Gain on sale of shares, securities and financial assets with variable income | **3,717** | 5,285 |
| Loss from revaluation of treasury bills and other governmental bills | **(12,843)** | (1,123) |
| (Loss) gain from revaluation of bonds and financial assets with fixed income | **(701)** | 55 |
| (Loss) gain from revaluation of shares, securities and financial assets with variable income | **(10,126)** | 503 |
| Dividends income | **2,016** | 1,261 |
| Gain on foreign exchange | **18,197** | 12,229 |
| | **9,383** | 17,207 |

## 9 NET GAIN OR LOSS ON FINANCIAL ASSETS

| | *2008* | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| : | | |
| Gain on sale of certificates of deposits classified as loans and receivables | **1,331** | 11,776 |
| Gain on sale of treasury bills and other governmental bonds classified as available-for-sale | **10,626** | 77 |
| Gain on sale of bonds and investments with fixed income classified as available-for-sale | **140** | - |
| Dividends income | **2,374** | 320 |
| | **14,471** | 12,173 |

## 10 OTHER OPERATING INCOME

| | *2008* | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Net gain on sale of assets acquired in settlement of debt | **12,181** | 304 |
| Write back of provision for properties in settlement of debt | **-** | 298 |
| Write back of provision for risk and charges | **-** | 181 |
| Rent income | **842** | 405 |
| Net gain on sale or disposal of property and equipment | **72** | 399 |
| Others | **4,424** | 2,298 |
| | **17,519** | 3,885 |

## 11 CREDIT LOSS EXPENSE

| | *2008* | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Provision constituted during the year: | | |
| - Loans and advances (note 22) | **6,135** | 9,619 |
| - Other debtors | **-** | 50 |
| - Country risk (note 22) | **696** | 54 |
| - General provision (note 22) | **4,851** | 3,929 |
| Bad debts written off | **230** | 156 |
| | **11,912** | 13,808 |
| Provision recovered during the year against: | | |
| - Loans and advances recovered or upgraded (note 22) | **(6,478)** | (8,044) |
| - General provisions recovered during the year (note 22) | **-** | (849) |
| - Other debtor accounts written back | **-** | (154) |
| | **(6,478)** | (9,047) |
| | **5,434** | 4,761 |

## 12 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

| | *2008* | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Financial investments – available-for-sale: | | |
| -Bonds and investments with fixed income | **5,503** | - |
| -Shares, securities and financial assets with variable income | **31,888** | - |
| Financial investments – held-to-maturity: | | |
| -Treasury bills and other governmental bills | **309** | - |
| | **37,700** | - |

## 13 PERSONNEL EXPENSES

| | *2008* | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Salaries and related charges | **101,286** | 85,141 |
| Social security contributions | **14,605** | 8,337 |
| Provision for end of service benefits (Note 38) | **7,252** | 4,888 |
| | **123,143** | 98,366 |

## 14 OTHER OPERATING EXPENSES

| | *2008* | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Taxes on interest | **4,171** | 3,135 |
| Taxes and duties | **4,792** | 5,761 |
| Contribution to deposits guarantee fund | **5,422** | 4,887 |
| Rent and related charges | **6,073** | 4,765 |
| Consulting fees | **7,440** | 4,707 |
| Telecommunications and postage expenses | **7,915** | 7,755 |
| Board of Directors' attendance fees | **1,150** | 599 |
| Maintenance and repairs | **9,697** | 8,073 |
| Electricity and fuel | **4,955** | 3,707 |
| Travel and entertainment | **4,766** | 3,492 |
| Publicity and advertising | **7,458** | 7,878 |
| Subscriptions | **2,614** | 2,266 |
| Bonuses | **13,585** | 11,993 |
| Legal expenses | **2,294** | 2,262 |
| Insurance | **1,051** | 167 |
| Other operating expenses | **14,825** | 15,787 |
| | **98,208** | 87,234 |

## 15 TAXATION

The reconciliation of the Group's income tax for the year ended 31 December 2008 and 2007 is as follows:

| | *2008* *LL million* | *2007* *LL million* |
|---|---|---|
| Net profit before income tax | **222,123** | 185,092 |
| Non-deductible expenses | **24,261** | 25,819 |
| Non-taxable revenue | **(24,164)** | (20,251) |
| Others | **(216)** | (1,640) |
| Taxable income | **222,004** | 189,020 |
| Effective income tax rate | **17%** | 19% |
| Income tax reported in the consolidated income statement | **38,208** | 35,574 |
| Less: taxes on interest | **(16,150)** | (13,461) |
| Net taxes due | **220,58** | 22,113 |
| Current tax liability (note 35) | **22,176** | 18,873 |

## 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 Bank by the weighted average number of common shares (ordinary and priority) outstanding during the year.

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

The following table shows the income and share data used in the basic and diluted earnings per share calculations:

| | *2008* | *2007* |
|---|---|---|
| Weighted average number of common shares outstanding during the year: | | |
| - Ordinary shares | **216,862,160** | 204,955,557 |
| - Priority shares | **205,875,672** | 205,838,523 |
| Net profit for the year in LL million | **172,285** | 142,550 |
| (Less): Proposed dividends to preferred shares (series 2003) | **(18,168)** | (18,168) |
| (Less): Proposed dividends to preferred shares (series 2008) | **(10,144)** | - |
| Net profit attributable to common shares in LL million | **143,973** | 124,382 |
| (Less): Distribution of 4% on nominal value of priority shares (LL 1,200) calculated on the basis of the weighted average number of priority shares outstanding during the year: | **(9,882)** | (9,880) |
| Net profits attributable to common shares in LL million | **134,091** | 114,502 |
| Of which: | | |
| Net profits attributable to ordinary shares | **68,788** | 57,128 |
| Net profits attributable to priority shares | **65,303** | 57,374 |
| Earnings per common share in LL: | | |
| - Ordinary shares | **317.19** | 278.73 |
| - Priority shares | **365.19** | 326.73 |

## 16 EARNINGS PER SHARE (continued)

No figure for diluted earning per shares has been presented as the Bank's issued convertible financial instruments would have an anti-dilutive impact on earnings per share when exercised.

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

## 17 CASH AND BALANCES WITH CENTRAL BANKS

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Cash on hand | **109,623** | 98,164 |
| Balances with Central Bank of Lebanon: | | |
| - Current Accounts | **440,122** | 284,270 |
| - Time Deposits | **1,228,036** | 1,250,574 |
| | **1,668,158** | 1,534,844 |
| Balances with Central Banks in other countries: | | |
| - Current Accounts | **232,320** | 143,770 |
| - Time Deposits | **3,002** | 434 |
| - Statutory blocked fund | **6,008** | 5,910 |
| | **241,330** | 150,114 |
| Accrued Interest Receivable | **4,868** | 5,422 |
| | **2,023,979** | 1,788,544 |

In accordance with the Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Bank of Lebanon an obligatory reserve and calculated on the basis of 25% of sight commitments and 15% of term commitments denominated in Lebanese Lira.

In addition to the above, all banks operating in Lebanon are required to deposit with the Bank of Lebanon interest- bearing placements representing 15% of total deposits in foreign currencies regardless of nature.

Deposits with the Bank of Lebanon in coverage of obligatory reserve are as follows:

| | ***2008*** | | | *2007* |
|---|---|---|---|---|
| | ***LL million*** | ***Foreign currencies C/V LL million*** | ***Total LL million*** | *Total LL million* |
| Current accounts | **384,157** | **55,965** | **440,122** | 268,832 |
| Time deposits | **65,000** | **1,163,036** | **1,228,036** | 1,250,574 |
| | **449,157** | **1,219,001** | **1,668,158** | 1,519,406 |

Foreign subsidiaries are also subject to obligatory reserve requirements with varying percentages, according to the banking rules and regulations of the countries in which they operate.

*Balances with the central banks in other countries*
In accordance with the requirements of the Syrian Law statutory blocked fund of LL 6,008 million (2007: LL 5,910 million) represents non-interest bearing legal blocked deposit at the Central Bank of Syria.

## 18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Commercial banks: | | |
| - Current accounts | **210,212** | 165,686 |
| - Time deposits | **2,304,192** | 2,589,546 |
| - Interest receivable | **5,591** | 9,119 |
| - Doubtful bank accounts | **2,507** | 10,657 |
| - Provision for doubtful bank accounts | **(2,507)** | (10,657) |
| | **2,519,995** | 2,764,351 |
| Financial institutions: | | |
| - Current accounts | **237** | 3,192 |
| - Time deposits | **2,200** | 3,090 |
| - Interest receivable | **2** | 19 |
| | **2,439** | 6,301 |
| Registered exchange companies: | | |
| - Current accounts | **941** | 6,460 |
| - Doubtful accounts | **2,259** | 2,259 |
| - Provision for doubtful accounts | **(2,259)** | (2,259) |
| | **941** | 6,460 |
| Brokerage companies: | | |
| - Current accounts | **2,455** | **1,705** |
| | **2,525,830** | 2,778,817 |

## 18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

*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:

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***Doubful balances LL million*** | ***Provision LL million*** | *Doubful balances LL million* | *Provision LL million* |
| Balance at 1 January | **12,916** | **12,916** | 12,892 | 12,892 |
| Exchange difference | **(79)** | **(79)** | 24 | 24 |
| Write-off | **(8,071)** | **(8,071)** | - | - |
| Balance at 31 December | **4,766** | **4,766** | 12,916 | 12,916 |
| Out of which | | | | |
| - banks | **2,507** | **2,507** | 10,657 | 10,657 |
| - registered exchange companies | **2,259** | **2,259** | 2,259 | 2,259 |
| | **4,766** | **4,766** | 12,916 | 12,916 |

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

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Pledged time deposits | **49,823** | 50,471 |
| Treasury bills mortgaged in favor of the Central Bank as a guarantee for loans. | **40,474** | 40,458 |
| Governmental securities pledged under repurchase agreements | **6,550** | - |
| | **96,847** | 90,929 |

## 20 DERIVATIVE FINANCIAL INSTRUMENTS

In the ordinary course of business the Group enters into various types of transactions that involve derivative financial instruments. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price in one or more underlying financial instrument, reference rate or index. Derivative financial instruments include forwards, futures, swaps and options.

The table below shows the positive and negative fair values of derivative financial instruments, together with the notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

## 20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The notional amounts indicate the volume of transactions outstanding at the year end and are neither indicative of the market risk nor the credit risk.

| | *2008* | | | *2007* | | |
|---|---|---|---|---|---|---|
| | ***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 | **123** | **152** | **56,552** | 900 | 1,184 | 116,463 |
| Forward foreign exchange contracts | **14,478** | **13,761** | **247,781** | 2,974 | 2,661 | 282,029 |
| Spot foreign exchange contracts | **634** | **71** | **35,352** | 212 | 83 | 75,910 |
| | **15,235** | **13,984** | **339,685** | 4,086 | 3,928 | 474,402 |
| Fair value of hedging instruments related to: | | | | | | |
| Index linked notes (Note 34) | **5,683** | **5,683** | **-** | 4,869 | 4,869 | - |
| Commodity linked notes (Note 34) | **41** | **41** | **-** | 641 | 641 | - |
| Equity linked notes (Note 34) | **9,158** | **9,158** | **-** | 9,550 | 9,550 | - |
| | **14,882** | **14,882** | **-** | 15,060 | 15,060 | - |
| | **30,117** | **28,866** | **339,685** | 19,146 | 18,988 | 474,402 |

*Forwards*
Forwards are contractual agreements to either buy or sell a specified currency, commodity or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the counter market.

*Swaps*
Swaps are contractual agreements between two parties to exchange movements in interest or foreign currency rates as well as the contracted upon amounts for currency swaps.

Credit risk in respect of derivative financial instruments arises from the potential for a counterparty to default on its contractual obligations and is limited to the positive market value of instruments that are favorable to the Group.

## 21 FINANCIAL ASSETS HELD FOR TRADING

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Treasury bills and other governmental bills | **169,115** | 787,967 |
| Bonds and financial assets with fixed income | **7,866** | 148 |
| Shares, securities and financial assets with variable income | **29,954** | 28,547 |
| Accrued interest receivable on Treasury bills and other governmental bills | **3,846** | 20,104 |
| Accrued interest receivable on bonds and financial assets with fixed income | **44** | 5 |
| | **210,825** | 836,771 |

## 21 FINANCIAL ASSETS HELD FOR TRADING (continued)

The portfolio of Treasury bills and other governmental bills has the following maturities as of 31 December 2008 and 31 December 2007:

| ***2008*** | | *2007* | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Between one and three months | **-** | Between one and three months | 287,482 |
| Between three months and one year | **76,716** | Between three months and one year | 17,496 |
| Between one and five years | **57,611** | Between one and five years | 410,999 |
| More than five years | **36,016** | More than five years | 69,820 |
| Total | **170,343** | Total | 785,797 |

The portfolio of bonds and financial assets with fixed income has the following maturities as of 31 December 2008 and 31 December 2007:

| ***2008*** | | 2007 | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Between one and five years | **8,442** | Between one and five years | 151 |
| More than five years | **126** | More than five years | - |
| | **8,568** | | 151 |

## 22 NET LOANS AND ADVANCES TO CUSTOMERS

Following is a comparison of loans and advances at 31 December 2008 and 2007:

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Gross loans and advances | **4,464,445** | 3,595,830 |
| Accrued interest receivable | **7,403** | 6,518 |
| Interest received in advance | **(89,558)** | (53,360) |
| | **4,382,290** | 3,548,988 |
| Unrealized interest on substandard loans | **(13,454)** | (14,114) |
| Unrealized interest on doubtful and bad loans | **(67,351)** | (73,008) |
| Specific provision on doubtful and bad loans | **(59,668)** | (65,690) |
| General provisions | **(41,964)** | (37,203) |
| Provision for country risk | **(5,206)** | (4,698) |
| | **4,194,647** | 3,354,275 |

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

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Commercial loans | **3,290,350** | 2,676,247 |
| Other loans to customers | **1,023,469** | 751,604 |
| Bad and doubtful loans (net) | **23,607** | 29,281 |
| Unrealized interest on substandard loans | **(13,454)** | (14,114) |
| Accrued interest receivable | **7,403** | 6,518 |
| Less: Interest received in advance | **(89,558)** | (53,360) |
| | **4,241,817** | 3,396,176 |
| Less: | | |
| - General provision for loans and advances | **(41,964)** | (37,203) |
| - Provision for country risk | **(5,206)** | (4,698) |
| | **4,194,647** | 3,354,275 |
| Bad loans transferred to off balance sheet accounts: | | |
| - Gross balance | **121,244** | 113,690 |

*Breakdown of loans and advances to customers by economic sector*

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Commercial | **1,166,082** | 1,041,522 |
| Manufacturing | **876,259** | 629,420 |
| Agriculture | **91,242** | 84,051 |
| Services | **635,772** | 526,617 |
| Construction | **524,607** | 440,958 |
| Retail | **1,029,389** | 762,248 |
| Other | **141,094** | 111,014 |
| | **4,464,445** | 3,595,830 |

## 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:

| | ***2008*** | | | | | *2007* | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | ***Gross balance LL million*** | ***Unrealized interest LL million*** | ***Specific provision LL million*** | ***General provision LL million*** | ***Net balance LL million*** | *Gross balance LL million* | *Unrealized interest LL million* | *Specific provision LL million* | *General provision LL million* | *Net balance LL million* |
| - Good loans | **4,037,805** | **-** | **-** | **-** | **4,037,805** | 3,110,677 | - | - | - | 3,110,677 |
| - Watch loans | **248,987** | **-** | **-** | **-** | **248,987** | 281,679 | - | - | - | 281,679 |
| | **4,286,792** | **-** | **-** | **-** | **4,286,792** | 3,392,356 | - | - | - | 3,392,356 |
| - Substandard loans | **27,027** | **(13,454)** | **-** | **-** | **13,573** | 35,495 | (14,114) | - | - | 21,381 |
| - Doubtful loans | **88,049** | **(38,671)** | **(25,771)** | **-** | **23,607** | 113,968 | (49,472) | (35,215) | - | 29,281 |
| - Bad loans | **62,577** | **(28,680)** | **(33,897)** | **-** | **-** | 54,011 | (23,536) | (30,475) | - | - |
| | **4,464,445** | **(80,805)** | **(59,668)** | **-** | **4,323,972** | 3,595,830 | (87,122) | (65,690) | - | 3,443,018 |
| Less: | | | | | | | | | | |
| - General provision to be allocated | **-** | **-** | **-** | **(41,964)** | **(41,964)** | - | - | - | (37,203) | (37,203) |
| - Provision for country risk | **-** | **-** | **-** | **(5,206)** | **(5,206)** | - | - | - | (4,698) | (4,698) |
| Accrued interest receivable | **7,403** | **-** | **-** | **-** | **7,403** | 6,518 | - | - | - | 6,518 |
| Less: Interest received in advance | **(89,558)** | **-** | **-** | **-** | **(89,558)** | (53,360) | - | - | - | (53,360) |
| | **4,382,290** | **(80,805)** | **(59,668)** | **(47,170)** | **4,194,647** | 3,548,988 | (87,122) | (65,690) | (41,901) | 3,354,275 |

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 121,244 million as of 31 December 2008 (2007: LL 113,690 million).

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

*Bad and doubtful loans (net)*

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Balance sheet accounts: | | |
| Gross amount of bad and doubtful loans | **150,626** | 167,979 |
| Unrealized interest | **(67,351)** | (73,008) |
| Specific provision | **(59,668)** | (65,690) |
| Net amount of bad and doubtful loans | **23,607** | 29,281 |

*Movement of unrealized interest on doubtful and bad loans during the years ended 31 December*

| | ***2008*** | | |
|---|---|---|---|
| | ***Commercial loans LL million*** | ***Other customers loans LL million*** | ***Total LL million*** |
| Balance at 1 January | **70,765** | **2,243** | **73,008** |
| Add (less): | | | |
| - Unrealized interest on doubtful and bad loans | **12,253** | **277** | **12,530** |
| - Recovery of unrealized interest | **(5,354)** | **(9)** | **(5,363)** |
| - Unrealized interest used to write off doubtful and bad loans | **(8,199)** | **(1,864)** | **(10,063)** |
| - Transfer from substandard loans | **-** | **(45)** | **(45)** |
| - Transfer upon acquisition of the net assets of Unicredit Banca Di Roma SpA – Beirut Branch | **4,895** | **-** | **4,895** |
| - Recovery of unrealized interest on bad loans previously transferred to off balance sheet | **1,918** | **9** | **1,927** |
| - Unrealized interest relating to bad loans transferred to off balance sheet accounts | **(9,309)** | **-** | **(9,309)** |
| - Difference of exchange | **(224)** | **(5)** | **(229)** |
| Balance at 31 December | **66,745** | **606** | **67,351** |

| | *2007* | | |
|---|---|---|---|
| | *Commercial loans LL million* | *Other customers loans LL million* | *Total LL million* |
| Balance at 1 January | 89,973 | 2,294 | 92,267 |
| Add (less): | | | |
| - Unrealized interest on doubtful and bad loans | 13,054 | 160 | 13,214 |
| - Recovery of unrealized interest | (3,083) | (20) | (3,103) |
| - Unrealized interest used to write off doubtful and bad loans | (1,365) | (24) | (1,389) |
| - Transfer from substandard loans | 1,190 | - | 1,190 |
| - Transfer to substandard loans | (9) | (2) | (11) |
| - Recovery of unrealized interest on bad loans previously transferred to off balance sheet | 1,146 | 17 | 1,163 |
| - Unrealized interest relating to bad loans transferred to off balance sheet accounts | (30,747) | (182) | (30,929) |
| - Difference of exchange | 606 | - | 606 |
| Balance at 31 December | 70,765 | 2,243 | 73,008 |

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

*Movement of provision for doubtful and bad loans during the years ended 31 December*

| | ***2008*** | | |
|---|---|---|---|
| | ***Commercial loans LL million*** | ***Other customers loans LL million*** | ***Total LL million*** |
| Balance at 1 January | **60,767** | **4,923** | **65,690** |
| Add (less): | | | |
| - Transfer to general provisions | **(914)** | **-** | **(914)** |
| - Provisions recorded during the year (Note 11) | **5,427** | **708** | **6,135** |
| - Provision transferred upon acquisition of the net assets of Unicredit Banca Di Roma SpA – Beirut Branch | **7,439** | **-** | **7,439** |
| - Provision relating to bad loans transferred to off balance sheet accounts | **(9,821)** | **-** | **(9,821)** |
| - Provisions used to write off doubtful and bad loans | **(4,584)** | **(70)** | **(4,654)** |
| - Recovery of provisions (Note 11) | **(3,238)** | **(3,240)** | **(6,478)** |
| - Recovery of provisions on bad loans previously transferred to off balance sheet accounts | **-** | **2,435** | **2,435** |
| - Difference of exchange | **(124)** | **(40)** | **(164)** |
| Balance at 31 December | **54,952** | **4,716** | **59,668** |

| | *2007* | | |
|---|---|---|---|
| | *Commercial loans LL million* | *Other customers loans LL million* | *Total LL million* |
| Balance at 1 January | 102,696 | 5,856 | 108,552 |
| Add (less): | | | |
| - Transfer from general provisions | 474 | 1,301 | 1,775 |
| - Provisions recorded during the year (Note 11) | 7,247 | 2,372 | 9,619 |
| - Provision relating to bad loans transferred to off balance sheet accounts | (38,844) | (3,491) | (42,335) |
| - Provisions used to write off doubtful and bad loans | (6,312) | (455) | (6,767) |
| - Recovery of provisions (Note 11) | (7,011) | (1,033) | (8,044) |
| - Recovery of provisions on bad loans previously transferred to off balance sheet accounts | 757 | 373 | 1,130 |
| - Difference of exchange | 1,760 | - | 1,760 |
| Balance at 31 December | 60,767 | 4,923 | 65,690 |

The fair value of the collateral held against individually impaired loans as at 31 December 2008 amounted to LL 47,932 million (2007: LL 45,413 million):

*General provision for credit losses*

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Provisions accounted for by Byblos Bank SAL on the retail loans portfolio | **21,574** | 20,630 |
| Provisions constituted by Byblos Bank Africa | **12,891** | 9,310 |
| Provisions constituted by Byblos Bank Europe SA | **6,937** | 7,182 |
| Provisions constituted by Byblos Bank Armenia | **562** | 81 |
| | **41,964** | 37,203 |

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

*Movement of general provision during the years ended 31 December*

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Balance at 1 January | **37,203** | 35,010 |
| Add (less): | | |
| - Provisions constituted during the year (note 11) | **4,851** | 3,929 |
| - General provisions recovered during the year (note 11) | **-** | (849) |
| - General provisions brought forward transferred from specific clients during the year | **914** | - |
| - General provisions brought forward allocated to specific clients during the year | **-** | (1,775) |
| - Difference of exchange | **(1,004)** | 888 |
| Balance at 31 December | **41,964** | 37,203 |

*Provision for country risk*

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Balance at 1 January | **4,698** | 4,162 |
| Provision constituted during the year (Note 11) | **696** | 54 |
| Difference of exchange | **(188)** | 482 |
| Balance at 31 December | **5,206** | 4,698 |

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

| | ***Loan amount LL million*** | ***Specific provision LL million*** | ***Unrealized interest LL million*** | ***Net balance LL million*** |
|---|---|---|---|---|
| Balance at 1 January 2008 | **113,690** | **61,361** | **52,329** | **-** |
| Loans settled during the year | **(4,362)** | **(2,435)** | **(1,927)** | **-** |
| Loans written off during the year | **(9,743)** | **(4,706)** | **(5,037)** | **-** |
| Bad loans transferred to off balance sheet during the year | **19,130** | **9,821** | **9,309** | **-** |
| Bad loans transferred upon acquisition of the net assets Unicredit Banca Di Roma SpA - Beirut Branch | **2,947** | **1,319** | **1,628** | **-** |
| Difference of exchange | **(418)** | **(393)** | **(25)** | **-** |
| Balance at 31 December 2008 | **121,244** | **64,967** | **56,277** | **-** |

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

| | *Loan amount LL million* | *Specific provision LL million* | *Unrealized interest LL million* | *Net balance LL million* |
|---|---|---|---|---|
| Balance at 1 January 2007 | 45,423 | 22,201 | 23,222 | - |
| Loans settled during the year | (2,293) | (1,130) | (1,163) | - |
| Loans written off during the year | (2,814) | (2,100) | (714) | - |
| Bad loans transferred to off balance sheet during the year | 73,264 | 42,335 | 30,929 | - |
| Difference of exchange | 110 | 55 | 55 | - |
| Balance at 31 December 2007 | 113,690 | 61,361 | 52,329 | - |

## 23 BANK ACCEPTANCES

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Letters of credit payable by the Group on behalf of its customers: | | |
| - Acceptances discounted by the Group without recourse to the beneficiary | **13,877** | 22,278 |
| - Other acceptances | **270,591** | 243,137 |
| | **284,468** | 265,415 |

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

## 24 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Certificates of deposit | **-** | 54,789 |
| Lebanese treasury bills and other governmental bills | **1,072,398** | 1,729,875 |
| Bonds and financial assets with fixed income | **15,022** | 13,908 |
| Shares, securities and financial assets with variable income | **59,346** | 89,320 |
| Other available-for-sale financial assets | **101,760** | 104,393 |
| Accrued interest receivable | **31,757** | 38,143 |
| | **1,280,283** | 2,030,428 |

## 24 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS (continued)

The portfolio of Lebanese treasury bills and other governmental bills has the following maturities as of 31 December 2008 and 2007:

| ***2008*** | | *2007* | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Between one and three months | **7,366** | Between one and three months | 63,697 |
| Between three months and one year | **22,225** | Between three months and one year | 2,213 |
| Between one and five years | **1,002,123** | Between one and five years | 904,352 |
| More than five years | **44,003** | More than five years | 831,763 |
| Total | **1,075,717** | Total | 1,802,025 |

The portfolio of other available-for-sale financial assets has the following maturities as of 31 December 2008 and 2007:

| ***2008*** | | *2007* | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Between three months and one year | **31,685** | Between three months and one year | 34,659 |
| Between one and five years | **95,940** | Between one and five years | 91,148 |
| More than five years | **6,659** | More than five years | - |
| Total | **134,284** | Total | 125,807 |

## 25 FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

| | ***31 December 2008 LL million*** | *31 December 2007 LL million* |
|---|---|---|
| Certificates of deposits | **2,181,923** | 775,351 |
| Lebanese treasury bills and other governmental bills | **1,907,264** | - |
| Bonds and financial assets with fixed income | **178,775** | - |
| Loans to banks and financial institutions | **222,178** | 135,099 |
| Discounted acceptances | **26,595** | 242,201 |
| Interest received in advance | **(1,630)** | (3,399) |
| Accrued interest receivable | **104,000** | 33,013 |
| | **4,619,105** | 1,182,265 |

The portfolio of certificates of deposit has the following maturities as of 31 December 2008 and 2007:

| ***2008*** | | *2007* | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Between one and three months | **-** | Between one and three months | 135,827 |
| Between three months and one year | **157,017** | Between three months and one year | 15,000 |
| Between one and five years | **1,888,554** | Between one and five years | 505,840 |
| More than five years | **128,526** | More than five years | 100,314 |
| Total | **2,174,097** | Total | 756,981 |

## 25 FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES (continued)

The portfolio of Lebanese Treasury bills and other governmental bills, classified as loans and receivables, has the following maturities as of 31 December 2008 and 31 December 2007:

| ***2008*** | | *2007* | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Between one and three months | **25,000** | Between one and three months | - |
| Between three months and one year | **476,775** | Between three months and one year | - |
| Between one and five years | **557,133** | Between one and five years | - |
| More than five years | **901,955** | More than five years | - |
| Total | **1,960,863** | Total | - |

The portfolio of bonds and financial assets with fixed income, classified as loans and receivables, has the following maturities as of 31 December 2008 and 2007:

| ***2008*** | | *2007* | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Between one and three months | **-** | Between one and three months | - |
| Between three months and one year | **-** | Between three months and one year | - |
| Between one and five years | **5,276** | Between one and five years | - |
| More than five years | **179,693** | More than five years | - |
| Total | **184,969** | Total | - |

## 26 HELD TO MATURITY FINANCIAL INSTRUMENTS

| | ***31 December 2008 LL million*** | *31 December 2007 LL million* |
|---|---|---|
| Lebanese treasury bills and other governmental bills | **1,191,968** | 1,605,761 |
| Bonds and financial assets with fixed income | **71,322** | 611 |
| Accrued interest receivable | **36,356** | 46,504 |
| | **1,299,646** | 1,652,876 |

The portfolio of Lebanese treasury bills and other governmental bills has the following maturities as of 31 December 2008 and 31 December 2007:

| ***2008*** | | *2007* | |
|---|---|---|---|
| ***Maturity*** | ***Nominal Value LL million*** | *Maturity* | *Nominal Value LL million* |
| Within one month | **71,000** | Within one month | - |
| Between one and three months | **153,244** | Between one and three months | - |
| Between three months and one year | **567,349** | Between three months and one year | 593,381 |
| Between one and five years | **287,185** | Between one and five years | 950,993 |
| More than five years | **118,490** | More than five years | 111,707 |
| Total | **1,197,268** | Total | 1,656,081 |

## 26 HELD TO MATURITY FINANCIAL INSTRUMENTS (continued)

The portfolio of bonds and financial assets with fixed income has the following maturities as of 31 December 2008 and 31 December 2007:

| *2008* Maturity | Nominal Value LL million | *2007* Maturity | Nominal Value LL million |
|---|---|---|---|
| Between three months and one year | **14,216** | Between three months and one year | - |
| Between one and five years | **28,733** | Between one and five years | 603 |
| More than five years | **31,356** | More than five years | - |
| Total | **74,305** | Total | 603 |

## 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 and Revaluation: | | | | | | |
| At 1 January 2008 | **172,465** | **3,032** | **96,284** | **422** | **9,841** | **282,044** |
| Additions during the year | **19,209** | **895** | **19,491** | **13** | **19,149** | **58,757** |
| Transfers upon acquisition of net assets of Unicredit Banca Di Roma SpA – Beirut Branch | **8,151** | **-** | **428** | **14** | **-** | **8,593** |
| Transfers | **3,850** | **-** | **615** | **912** | **(5,377)** | **-** |
| Disposal of fixed assets | **-** | **(236)** | **(1,204)** | **(5)** | **-** | **(1,445)** |
| Foreign exchange difference | **388** | **(19)** | **(658)** | **(8)** | **230** | **(67)** |
| At 31 December 2008 | **204,063** | **3,672** | **114,956** | **1,348** | **23,843** | **347,882** |
| Depreciation: | | | | | | |
| At 1 January 2008 | **23,875** | **1,540** | **64,282** | **-** | **-** | **89,697** |
| Depreciation during the year | **4,172** | **493** | **12,332** | **-** | **-** | **16,997** |
| Related to disposals of other fixed assets | **-** | **(150)** | **(1,051)** | **-** | **-** | **(1,201)** |
| Foreign exchange difference | **(75)** | **(13)** | **(845)** | | | **(933)** |
| At 31 December 2008 | **27,972** | **1,870** | **74,718** | **-** | **-** | **104,560** |
| Net carrying value: | | | | | | |
| At 31 December 2008 | **176,091** | **1,802** | **40,238** | **1,348** | **23,843** | **243,322** |

| | *Buildings LL million* | *Motor vehicles LL million* | *Furniture and equipment LL million* | *Deposits LL million* | *Advance payments LL million* | *Total LL million* |
|---|---|---|---|---|---|---|
| Cost and Revaluation: | | | | | | |
| At 1 January 2007 | 125,257 | 2,392 | 76,013 | 392 | 24,444 | 228,498 |
| Additions during the year | 20,247 | 675 | 19,465 | 18 | 9,841 | 50,246 |
| Acquisition of subsidiary | 4,692 | 245 | 556 | - | - | 5,493 |
| Transfers | 22,153 | - | 2,444 | - | (24,597) | - |
| Disposal of fixed assets | (1,214) | (326) | (3,003) | - | - | (4,543) |
| Foreign exchange difference | 1,330 | 46 | 810 | 10 | 153 | 2,349 |
| At 31 December 2007 | 172,465 | 3,032 | 96,285 | 420 | 9,841 | 282,043 |
| Depreciation: | | | | | | |
| At 1 January 2007 | 21,533 | 1,397 | 56,188 | - | - | 79,118 |
| Depreciation during the year | 3,032 | 357 | 10,271 | - | - | 13,660 |
| Related to disposal of fixed assets | (795) | (226) | - | (2,818) | - | (3,839) |
| Foreign exchange difference | 105 | 11 | 640 | - | - | 756 |
| At 31 December 2007 | 23,875 | 1,539 | 64,281 | - | - | 89,695 |
| Net carrying value: | | | | | | |
| At 31 December 2007 | 148,590 | 1,493 | 32,004 | 420 | 9,841 | 192,348 |

**27 PROPERTY AND EQUIPMENT (continued)**

The cost of buildings at 31 December 2008 and 2007 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 are as follows:

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| - Revaluation difference recognized in the complementary shareholders' equity (Tier II) (Note 41) | **1,978** | 1,978 |
| - Revaluation difference of other fixed assets (Note 41) | **3,711** | 3,711 |
| | **5,689** | 5,689 |

**28 INTANGIBLE ASSETS**

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Key money | | |
| Cost: | | |
| At 1 January and 31 December | **1,637** | 1,637 |
| Accumulated amortization: | | |
| At 1 January | **438** | 313 |
| Amortization expense for the year | **125** | 125 |
| At 31 December | **563** | 438 |
| Net book value: | | |
| At 31 December | **1,074** | 1,199 |

## 29 OTHER NON-CURRENT ASSETS HELD FOR SALE

Other non-current assets held for sale represent assets acquired in settlement of bad loans and advances to customers. Movement of other non-current assets held for sale and related impairment during the years 2008 and 2007 is as follows:

| | *2008* *LL million* | *2007* *LL million* |
|---|---|---|
| Cost: | | |
| At 1 January | **56,140** | 40,018 |
| Additions during the year | **5,719** | 19,089 |
| Disposal | **(10,592)** | (2,967) |
| At 31 December | **51,267** | 56,140 |
| Impairment : | | |
| At 1 January | **(4,751)** | - |
| Addition during the year | **(408)** | (4,751) |
| At 31 December | **(5,159)** | (4,751) |
| Net carrying value: | | |
| At 31 December | **46,108** | 51,389 |

Liabilities linked to held-for-sale assets in the amount of LL 1,720 million represent advance payments received in conncection with future sale transactions for the above assets (2007: LL 2,139 million).

## 30 OTHER ASSETS

| | | *2008* *LL million* | *2007* *LL million* |
|---|---|---|---|
| Miscellaneous assets | | **126** | 483 |
| Obligatory financial assets | a | **2,250** | 2,250 |
| Blocked deposit | b | **2,500** | - |
| Regularization accounts | c | **55,943** | 40,935 |
| Doubtful debtor accounts | d | **241** | 8,796 |
| Provision on doubtful debtor accounts | | **(186)** | (8,774) |
| | | **60,874** | 43,690 |

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 is denominated in Lebanese Lira and does not earn any interest.

c) Regularization accounts as of 31 December comprise of the following:

| | *2008* *LL million* | *2007* *LL million* |
|---|---|---|
| Prepaid rent | **2,719** | 1,548 |
| Printings and stationery | **3,307** | 2,564 |
| Cash in the automated teller machines (ATM) | **18,318** | 16,490 |
| Withdrawals due from the automated teller machines (ATM) | **6,418** | 709 |
| Credit card balances due from customers | **5,018** | 3,879 |
| Revaluation variance of structural position | **15** | 15 |
| Deposits for participation in auctions | **-** | 716 |
| Insurance premiums receivable | **2,947** | 2,385 |
| Reinsurers' share of technical reserve of subsidiary insurance company | **9,541** | 6,947 |
| Other debit balances | **7,660** | 5,682 |
| | **55,943** | 40,935 |

**30 OTHER ASSETS (continued)**

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

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***Balance LL million*** | ***Provision LL million*** | *Balance LL million* | *Provision LL million* |
| Balance at 1 January | **8,796** | **8,774** | 8,323 | 8,188 |
| Doubtful accounts | **-** | **-** | 750 | 809 |
| Write off | **(8,555)** | **(8,588)** | (277) | (223) |
| Balance at 31 December | **241** | **186** | 8,796 | 8,774 |

**31 DUE TO CENTRAL BANKS**

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Soft loan from the Bank of Lebanon | **40,000** | 40,000 |
| Less: Difference from valuation at net present value of the soft loan and the treasury bills financed by the soft loan amortised on a straight line basis over the loan period (81 months) in monthly installments of LL 165 million each | **(1,485)** | (3,465) |
| | **38,515** | 36,535 |
| Current account due to Central Bank of Syria | **30,256** | 16,364 |
| Current account due to Central Bank of Sudan | **6,700** | 7,146 |
| Loan due to the Central Bank of Armenia | **8,185** | 905 |
| | **45,141** | 24,415 |
| | **83,656** | 60,950 |

The loan from the Bank of Lebanon is secured by pledged one-year Lebanese treasury bills with a nominal value of LL million 43,080 and an amortized cost of LL 40,474 million (2007: nominal value of LL million 43,090 and an amortized cost of LL 40,458 million) (note 19).

*LL 40 Billion Loan*
This loan represents facilities granted on 15 November 2001 by the Central Committee of the Bank of Lebanon following the Bank’s acquisition of Wedge Bank Middle East SAL. The 8-year loan matures on 15 November 2009.

This loan was originally secured by the pledge of two-year Lebanese treasury bills renewed on each maturity with an interest rate equivalent to 60% of the notional interest on one-year treasury bills acquired in the primary market. Interest is fixed in the first two years after utilization of the loan. Starting from the third year, interest is determined according to the effective yield of one-year treasury bills traded in the primary market less 6.326%, provided that the interest rate does not fall below 60% of the notional interest on one-year Lebanese treasury bills traded in the international markets. Interest is capitalized and paid quarterly till maturity.

## 32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Commercial banks: | | |
| - Current accounts | **373,456** | 194,938 |
| - Time deposits | **602,502** | 535,630 |
| - Medium term loans | **295,924** | 134,559 |
| - Accrued interest payable | **9,886** | 5,384 |
| | **1,281,768** | 870,511 |
| Financial institutions: | | |
| - Current account | **13** | 1,530 |
| - Term loans | **172,485** | 129,502 |
| - Accrued interest payable | **2,937** | 2,899 |
| - Less: Cost to be amortized over the loan period | **(1,317)** | (1,441) |
| | **174,118** | 132,490 |
| Registered exchange companies: | | |
| - Current accounts | **2,955** | 1,574 |
| - Time deposits | **3,290** | 3,579 |
| - Accrued interest Payable | **23** | 8 |
| | **6,268** | 5,161 |
| Brokerage Institutions: | | |
| - Current accounts | **107** | - |
| | **1,462,261** | 1,008,162 |

## 33 CUSTOMERS' DEPOSITS

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Current accounts | **1,528,408** | 1,309,826 |
| Time deposits | **3,317,235** | 2,708,376 |
| Saving accounts: | | |
| - Sight | **387,275** | 324,582 |
| - Term | **7,210,550** | 6,422,948 |
| Blocked deposits | **-** | 57 |
| Accrued interest payable | **56,940** | 59,413 |
| | **12,500,408** | 10,825,202 |

## 34 DEBT ISSUED AND OTHER BORROWED FUNDS

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| *Certificates of deposit issued by the Bank* | | |
| Nominal value: US$ (000) 77,920 (2007: US$ (000) 77,921) | **117,464** | 117,466 |
| Accrued interest payable: US$ (000) 2,558 (2007: US$ (000) 2,553) | **3,856** | 3,849 |
| Issuing cost to be amortized: US$ (000) 49 (2007: US$ (000) 147) | **(74)** | (222) |
| | **121,246** | 121,093 |
| *Index linked notes* | | |
| Issuance value: US$ (000) 49,430 (2007: US$ (000) 49,441) | **74,516** | 74,533 |
| Discount to be amortized over the period of the notes: US$ (000) 4,338 (2007: US$ (000) 4,482) | **(6,540)** | (6,756) |
| Accrued interest payable: US$ (000) nil (2007: US$ (000) 767) | **-** | 1,157 |
| | **67,976** | 68,934 |
| *Equity linked notes* | | |
| Issuance value: US$ (000) 49,414 (2007: US$ (000) 49,410) | **74,491** | 74,486 |
| Accrued interest payable: US$ (000) 1,676 (2007: US$ (000) 1,676) | **2,527** | 2,527 |
| Discount to be amortized over the period of the notes: US$ (000) 4,932 (2007: US$ (000) 3,893) | **(7,435)** | (6,005) |
| | **69,583** | 71,008 |
| *Commodity linked notes* | | |
| Issuance value: US$ (000) 6,371 (2007: US$ (000) 6,367) | **9,604** | 9,599 |
| Discount to be amortized over the period of the notes: US$ (000) 567 (2007: US$ (000) 533) | **(854)** | (804) |
| Accrued Interest payable: US$ (000) nil (2007: US$ (000) 28) | **-** | 42 |
| | **8,750** | 8,837 |
| | **267,555** | 269,872 |
| *Interest and similar expense:* | | |
| - Certificates of deposit: | | |
| - Interest: US$ (000) 5,079 (2007: US$ (000) 5,065) | **7,656** | 7,635 |
| - Add: Amortization of issuing cost: US$ (000) 90 (2007: US$ (000) 98) | **136** | 149 |
| | **7,792** | 7,784 |
| - Index linked notes: | | |
| - Interest: US$ (000) 2,895 (2007: US$ (000) 3,477) | **4,364** | 5,241 |
| - Less: Amortization of Bank's gain resulting from the perfect hedge of the index linked notes: US$ (000) 56 (2007: US$ (000) 813) | **(84)** | (1,226) |
| | **4,280** | 4,015 |
| - Equity linked notes: | | |
| Interest: US$ (000) 3,979 (2007: US$ (000) 3,983) | **5,999** | 6,005 |
| Less: amortization of the Bank's gain resulting from perfect hedge of the equity linked notes: US$ (000) 949 (2007: US$ (000) 888) | **(1,430)** | (1,339) |
| | **4,569** | 4,666 |
| - Commodity linked notes: | | |
| Interest US$ (000) 365 (2007: US$ (000) 519) | **550** | 782 |
| Less: amortization of the Bank's gain resulting from perfect hedge of the commodity linked notes: US$ (000) 27 (2007: US$ (000) 178) | **(40)** | (268) |
| | **510** | 514 |
| | **17,151** | 16,979 |

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

*Certificates of deposit issued by the Bank*

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.

Maturity: 1 July 2009

The cost of issuing the certificates amounted to US$ (000) 490, to be amortized until maturity, of which US$ (000) 90 was amortized during 2008 (2007: US$ (000) 98).

*Index Linked Notes*
The Index Linked Notes issued on 8 October 2004 amounted to US$ 50 million. The Index Linked Notes are subject to the following conditions:

- The notes mature on 9 October 2009,
- The notes benefit during the period of the investment from interest at an annual rate of 7% exempted from taxes and payable every six months during the first four years,
- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of 6 international markets indices.

The Bank perfectly hedged the Index Linked Notes. The cost of the hedge amounted to US$ (000) 1,873 and the cost of issuing the Index Linked Notes amounted to US$ (000) 250. The fair value of the hedging instrument receivable from the issuer and payable to the owners of the Index Linked Notes amounted to LL 5,683 million as at 31 December 2008 (2007: LL 4,869 million) (note 20).

The gain from the perfect hedge transaction amounted to US$ (000) 467 to be amortized with the interest over the period of the notes (5 years). Accordingly, the effective annual interest rate of the Index Linked Notes is 5.83%.

*Equity Linked Notes*
The Equity Linked Notes issued on 1 August 2005 by Byblos Invest Bank SAL amounted to US$ 50 million are subject to the following conditions:

- The notes mature on 4 August 2010,

- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable every six months during the first four years,

- 95% of the initial investment is guaranteed at maturity in addition to an unlimited potential return representing 50% of the positive performance of a portfolio of stocks.

The Bank perfectly hedged the Equity Linked Notes. The cost of the hedge amounted to US$ (000) 1,764 and the cost of issuing the Equity Linked Notes amounted to US$ (000) 169. The fair value of the hedging instrument receivable from the issuer and payable to the owners of the Equity Linked Notes amounted to LL 9,158 million as at 31 December 2008 (2007: LL 9,550 million) (note 20).

The gain from the perfect hedge transaction amounted to US$ (000) 567 to be amortized with the interest over the period of the notes (5 years). Accordingly, the effective annual interest rate of the Equity Linked Notes is 6.67%.

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

*Commodity Linked Notes*
The Commodity Linked Notes issued on 12 September 2006 by the Bank amounted to US$ (000) 6,563. The Commodity Linked Notes are subject to the following conditions:

- The notes mature on 12 September 2009,

- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable quarterly during the first two years starting 12 December 2006,

- 95% of the initial investment is guaranteed at maturity, with an interest rate of 16% for the third year if the performance of the index of five commodities is positive.

The Bank perfectly hedged the Commodity Linked Notes. The cost of the hedge amounted to US$ (000) 299 and the cost of issuing the Commodity Linked Notes amounted to US$ (000) 14. The fair value of the hedging instrument receivable from the issuer and payable to the owners of the Commodity Linked Notes amounted to LL 41 million as of 31 December 2008 (2007: LL 641 million) (note 20).

The gain of the Bank from the perfect hedge transaction amounted to US$ (000) 15 to be amortized with the interest over the period of the notes (3 years). Accordingly, the effective annual interest rate of the Commodity Linked Notes is 5.68%.

## 35 CURRENT TAX LIABILITY

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Taxes payable: | | |
| - Income tax on profit | **22,176** | 18,873 |
| - Tax on services | **385** | 216 |
| - Tax on dividends | **7** | 7 |
| - Tax on salaries and wages | **1,382** | 1,351 |
| - Tax on Board of Directors' attendance fees | **58** | 49 |
| - Tax on interest | **4,126** | 3,740 |
| - Value added tax | **70** | 64 |
| - Other taxes | **1,792** | 1,100 |
| | **29,996** | 25,400 |

## 36 OTHER LIABILITIES

| | | ***2008*** | *2007* |
|---|---|---|---|
| | | ***LL million*** | *LL million* |
| Payables to National Social Security Fund | | **1,355** | 944 |
| Other creditors | a | **92,897** | 75,714 |
| Due to shareholders | | **847** | 516 |
| Margins against documentary letters of credit and acceptances | | **95,960** | 101,910 |
| | | **191,059** | 179,084 |

## 36 OTHER LIABILITIES (continued)

*a) Other Creditors*

| | **2008** **LL million** | 2007 LL million |
|---|---|---|
| Unearned commission and interest | **2,386** | 5,737 |
| Other accrued charges | **25,717** | 20,863 |
| Foreign currencies regularization accounts (financial instruments) | **220** | 220 |
| Cash margin related to companies under establishment | **3,817** | 2,638 |
| Insurance premium received in advance | **18,269** | 9,842 |
| Pending balances with banks | **2,821** | 2,529 |
| Partial payments received on due bills | **10,561** | 7,880 |
| Withdrawals due to Automated Teller Machines (Maestro Cards) | **7,194** | 5,994 |
| Other credit balances transferred upon the acquisition of Unicredit Banca Di Roma Spa – Beirut Branch | **4,762** | - |
| Other creditors | **17,150** | 20,011 |
| | **92,897** | 75,714 |

## 37 PROVISIONS FOR RISKS AND CHARGES

| | **2008** **LL million** | 2007 LL million |
|---|---|---|
| Provision for foreign currency fluctuation | **517** | 454 |
| Technical reserves of insurance company | **26,953** | 17,078 |
| Other provisions | **3,121** | 501 |
| | **30,591** | 18,033 |

*Provision for foreign currency fluctuation*

According to the Bank of Lebanon's main circular No 32, the net trading foreign exchange position should not exceed 1% of the Bank's Tier I capital. In addition, the Bank should set up a provision to cover the potential loss on the net trading position calculated at 5% of the net trading foreign exchange position. The provision set up in 2008 amounted to LL 63 million (2007: LL 14 million).

## 38 END OF SERVICE BENEFITS

| | **2008** **LL million** | 2007 LL million |
|---|---|---|
| Balance at 1 January | **20,575** | 16,578 |
| Add (less): | | |
| Provision constituted during the year (note 13) | **7,252** | 4,888 |
| End of service benefits paid during the year | **(349)** | (891) |
| Balance at 31 December | **27,478** | 20,575 |

## 39 SUBORDINATED NOTES

| | | *2008* | *2007* |
|---|---|---|---|
| | | ***LL million*** | *LL million* |
| Convertible subordinated notes | a | **248,061** | 283,235 |
| Subordinated notes | b | **48,142** | 47,910 |
| Total | | **296,203** | 331,145 |

*a) Convertible subordinated notes*

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

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

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

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

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

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***LL million*** | ***USD (000)*** | *LL million* | *USD (000)* |
| Nominal value of the convertible notes | **260,798** | **173,000** | 301,500 | 200,000 |
| Equity component | **(18,040)** | **(11,967)** | (20,809) | (13,804) |
| Liability component | **242,758** | **161,033** | 280,691 | 186,196 |
| *Add:* | | | | |
| - Accrued interest payable | **1,931** | **1,281** | 2,242 | 1,488 |
| - Amortization of discount | **3,372** | **2,237** | 302 | 200 |
| Amortized cost at 31 December | **248,061** | **164,551** | 283,235 | 187,884 |

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

*Conversion of subordinated notes into shares*

During 2008, convertible notes with a nominal value of USD (000) 27,000 were converted to Byblos Bank SAL ordinary shares at a price of USD 2.25 per share (refer to note 40).

**39 SUBORDINATED NOTES (continued)**

*b) Subordinates notes*
On 1 July 2002, the Bank issued 100,000 notes at US$ 1,000 each maturing on 30 June 2012 with an annual yield not to exceed 15% of the principal amount, detailed as follows:
- Annual yield of 9% computed and paid quarterly, starting 1st July 2002
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and deducting taxes

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.

Accordingly, as of 31 December 2008 and 2007 there was 31,169 notes outstanding totaling to US$ (000) 31,169.

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Interest and similar expense: | | |
| - Interest on subordinated notes | **6,686** | 6,136 |
| - Interest on convertible subordinated notes and amortization of its related discount | **20,969** | 2,533 |
| | **27,655** | 8,669 |

**40 SHARE CAPITAL**

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***No of Shares*** | ***LL million*** | *No of Shares* | *LL million* |
| *Issued shares* | | | | |
| *Common shares:* | | | | |
| Ordinary shares | **217,112,557** | **260,535** | 205,023,723 | 246,028 |
| Priority shares | **206,023,723** | **247,228** | 206,023,723 | 247,228 |
| *Preferred shares* | **3,000,000** | **3,600** | 1,000,000 | 1,200 |
| | **426,136,280** | **511,363** | 412,047,446 | 494,456 |

The capital of the Bank is divided into 426,136,280 shares of LBP 1,200 each fully paid (2007: 412,047,446 shares of LL 1,200 each).

Ordinary shares
During 2008, a subordinated notes holder exercised his option and converted notes amounting to US$ 27 million to 12,088,834 Byblos Bank SAL common shares at a price of US$ 2.25 per share (note 39).

Accordingly, an extraordinary general assembly was held on 24 January 2008 and decided to increase the Bank's capital from LL 494,456 million to LL 508,963 million or an increase of LL 14,507 million through the issuance of 12,088,834 common shares with a nominal value of LL 1,200 per share. The resulting premium on the above conversion of subordinated notes into shares was in the amount of LL 26,425 million, of which LL 23,656 was transferred from the subordinated notes balance, while LL 2,769 million was transferred from the equity component of convertible subordinated notes. On 13 February 2008, the Central Committee of the Bank of Lebanon approved the capital increase.

## 40 SHARE CAPITAL (continued)

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

Preferred shares
On 15 August 2008, and based on the decision of the extraordinary general assembly held on 18 July 2008, the Bank increased its capital from LL 508,963 million to LL 511,363 million, or an increase of LL 2,400 million, through the issuance of 2,000,000 Series 2008 Preferred Shares, each with a nominal value of LL 1,200. The preferred shares have been issued at the price of US$ 100, thus giving rise to an issue premium in the amount of US$ (000) 195,790 (equivalent to LL 295,154 million). The increase in share capital was validated by the extraordinary general assembly of shareholders in its meeting dated 29 August 2008.

The Bank's issued preferred shares carry the following terms:

*Series 2003 Preferred Shares*

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

*Series 2008 Preferred Shares*

| | |
|---|---|
| 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. |

Listing of shares
As of 31 December 2007, all of the Bank's common, preferred and priority 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 in London Stock Exchange.

## 40 SHARE CAPITAL (continued)

Treasury shares
Movement of treasury shares recognized in the balance sheet for the years 2008 and 2007 is as follows:

| | *Ordinary shares* | | | *Priority shares* | | |
|---|---|---|---|---|---|---|
| | *No. of shares* | *Average price US$* | *Amount US$ (000)* | *No. of shares* | *Average price US$* | *Amount US$ (000)* |
| At 1 January 2008 | **139,406** | **1.67** | **233** | **276,328** | **1.43** | **395** |
| Acquisition of treasury shares | **1,181,725** | **2.34** | **2,760** | **657,255** | **2.48** | **1,628** |
| Sale of treasury shares | **(876,383)** | **2.48** | **(2,203)** | **(712,293)** | **2.50** | **(1,783)** |
| At 31 December 2008 | **444,748** | **1.77** | **790** | **221,290** | **1.08** | **240** |
| In LL million | | | **1,192** | | | **362** |
| Total treasury shares (ordinary and priority) in LL million | | | | | | **1,554** |

| | *Ordinary shares* | | | *Priority shares* | | |
|---|---|---|---|---|---|---|
| | *No. of shares* | *Average price US$* | *Amount US$ (000)* | *No. of shares* | *Average price US$* | *Amount US$ (000)* |
| At 1 January 2007 | 85,087 | 2.15 | 183 | 33,937 | 1.77 | 60 |
| Acquisition of treasury shares | 2,274,736 | 1.85 | 4,203 | 2,567,561 | 1.89 | 4,846 |
| Sale of treasury shares | (2,220,417) | 1.87 | (4,153) | (2,325,170) | 1.94 | (4,511) |
| At 31 December 2007 | 139,406 | 1.67 | 233 | 276,328 | 1.43 | 395 |
| In LL million | | | 352 | | | 595 |
| Total treasury shares (ordinary and priority) in LL million | | | | | | 947 |

## 41 REVALUATION RESERVE OF REAL ESTATE

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| *Revaluation reserve recognized in the complementary equity* | | |
| Reserve resulting from the revaluation in 1996 of the Bank's owned real estate according to law 282 dated 30 December 1993 | **2,577** | 2,577 |
| Less: Decrease in the value of the assets revalued in prior years | **(599)** | (599) |
| | **1,978** | 1,978 |
| *Revaluation reserve of other assets* | **3,711** | 3,711 |
| | **5,689** | 5,689 |

## 42 AVAILABLE-FOR-SALE RESERVE

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

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Certificates of deposits held with the Central Bank of Lebanon | **1,999** | (314) |
| Certificates of deposits held with commercial banks | **-** | 126 |
| Treasury bills and other governmental bills | **815** | (48,125) |
| Bonds and financial assets with fixed income | **(14,514)** | (6,715) |
| Shares, securities and financial assets with variable income | **6,159** | 8,507 |
| Unrealized losses on available-for-sale securities reclassified to the loans and receivables portfolio | **(24,736)** | - |
| Less: minority share of cumulative changes in fair values | **(240)** | 277 |
| | **(30,517)** | (46,244) |

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

| | ***2008*** ***LL million*** | *2007* *LL million* |
|---|---|---|
| Balance at 1 January | **(46,244)** | (12,250) |
| Realized during the year | **10,626** | 77 |
| Net changes in fair values during the year | **3,719** | (34,209) |
| Amortization of unrealized losses related to securities transferred to the loans and receivables portfolio | **1,402** | - |
| Difference on exchange | **(20)** | 138 |
| Balance at 31 December | **(30,517)** | (46,244) |

## 43 CAPITAL RESERVES

| | ***2008*** ***Group share*** ***LL million*** | *2007* *Group share* *LL million* |
|---|---|---|
| Legal reserve | **104,646** | 90,124 |
| Reserves appropriated for capital increase | **20,807** | 20,284 |
| General reserve | **117,941** | 108,354 |
| Equity component of convertible subordinated bonds | **18,040** | 20,809 |
| Reserve for general banking risks | **66,886** | 56,916 |
| Other capital reserves | **6,028** | - |
| | **334,348** | 296,487 |

## 43 CAPITAL RESERVES (continued)

*Reserves appropriated for capital increase*

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Reserve equivalent to realized profit on sale of assets acquired in settlement of bad debt, in accordance with BCC circular No 173 | **2,947** | 2,643 |
| Reserve equivalent to provisions recovered, in accordance with BCC circular No 167 | **8,471** | 8,252 |
| Reserve equivalent to profits realized on sale of Solidere Company shares acquired in compensation of leased property in Beirut Central District | **220** | 220 |
| Reserve equivalent to profits realized on liquidation of structural foreign exchange positions, in accordance with BCC circular No 197. | **8,870** | 8,870 |
| Others | **299** | 299 |
| | **20,807** | 20,284 |

*General reserve*

During 2008, the Group appropriated LL 13,558 million from 2007 profits to the general reserve in accordance with the General Assembly of Shareholders' resolutions. In addition, LL 2,453 million of the Group's shares in the general reserve of Byblos Bank Africa was transferred as part of the Group's share in the capital increase of the above bank.

*Reserve for general banking risks*

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

The appropriation in 2008 from the profits of the year 2007 amounted to LL 9,970 million (2007: LL 8,757 million).

*Other capital reserve*

| | | ***2008*** | *2007* |
|---|---|---|---|
| | | ***LL million*** | *LL million* |
| Premium on capital increase of Byblos Bank Armenia CJSC | (a) | **1,263** | - |
| Premium on capital increase of Byblos Bank Africa | (b) | **4,765** | - |
| | | **6,028** | - |

a) During 2008, the capital of Byblos Bank Armenia CJSC, 100% owned subsidiary as of 31 December 2007, was increased through additional subscription by minority shareholders, who obtained 35% stake in Byblos Bank Armenia CJSC. Accordingly, Byblos Bank SAL's share of Byblos Bank Armenia CJSC decreased from 100% as of 31 December 2007 to 65% as of 31 December 2008. The Group share of the premium paid by the minority shareholders in the amount of LL 1,263 million was credited to other capital reserve.

b) During 2008, the capital of Byblos Bank Africa, 65% owned subsidiary as of 31 December 207, was increased through additional subscription by minority and existing shareholders, and transfer of LL 2,453 million from the general reserve. Byblos Bank SAL's share in the above subsidiary decreased to 56.86% as of 31 December 2008. The Group share of the premium paid by the minority shareholders in the amount of LL 4,765 million was credited to other capital reserve.

## 44 OTHER RESERVE

Other reserve represents appropriation against assets acquired in settlement of debt in accordance with the Banking Control Commission's directives. The Group transferred LL 5,538 million to the other reserve in 2008 from 2007 profits in accordance with the resolution of the General Assembly of Shareholders held on 14 May 2008. Appropriations against assets acquired in settlement of debt shall be transferred to the free reserves upon the liquidation of the related asset.

## 45 MINORITY INTERESTS

| | 2008 LL million | 2007 LL million |
|---|---|---|
| - Capital of subsidiary banks and companies | **81,752** | 60,064 |
| - Other reserves and premiums | **13,374** | 8,966 |
| - Net results of the financial period - profit | **11,630** | 6,968 |
| - Accumulated losses | **(2,882)** | (2,375) |
| - Cumulative changes in fair values | **240** | (277) |
| - Sale of subsidiary shares to minority interests | **10,949** | - |
| - Foreign currency translation reserve | **1,144** | 4,276 |
| | **116,207** | 77,622 |

As a result of the capital increase in Byblos Bank Armenia CJSC and Byblos Bank Africa (disclosed in note 43), minority interests share in Byblos Bank Armenia CJSC and Byblos Bank Africa increased by the amount of LL 31,023 million. Meanwhile, the group realized a premium resulting from the above capital increase in the amount of LL 6,028 million which was credited to the other capital reserves account.

## 46 CASH AND CASH EQUIVALENTS

| | 2008 LL million | 2007 LL million |
|---|---|---|
| Cash and balances with central banks | **1,176,842** | 1,181,648 |
| Deposits from banks and financial institutions | **2,423,612** | 2,569,234 |
| | **3,600,454** | 3,750,882 |
| Less: Due to banks and financial institutions | **(949,250)** | (765,911) |
| Cash and cash equivalents at 31 December | **2,651,204** | 2,984,971 |

## 47 RELATED PARTY TRANSACTIONS

The Group enters into transactions with major shareholders, directors, senior management, and their related concerns, and entities controlled, jointly controlled or significantly influenced by such parties in the ordinary course of business at commercial interest and commission rates. All the loans and advances to related parties are performing advances and are free of any provision for possible credit losses.

The balances with related parties included in the balance sheet and income statment are as follows:

| | 2008 Major shareholders LL million | 2007 Major shareholders LL million |
|---|---|---|
| Net loans and advances to related parties | **12,017** | 11,738 |
| Deposits from related parties | **106,472** | 122,906 |
| Shareholders' credit balances | **847** | 516 |
| Interest received in loans and advances to related parties | **841** | 670 |
| Interest paid on related party deposits | **5,783** | 9,073 |

## 47 RELATED PARTY TRANSACTIONS (continued)

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

| | *2008* | | | *2007* | | |
|---|---|---|---|---|---|---|
| | ***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 | **3,660** | **6,262** | **9,922** | 2,644 | 5,352 | 7,996 |
| Bonuses | **4,674** | **2,564** | **7,238** | 3,758 | 1,887 | 5,645 |
| Attendance fees | **592** | **77** | **669** | 375 | 77 | 452 |

## 48 COMMITMENTS AND CONTINGENT LIABILITIES

*Credit-related commitments*

Credit-related commitments include commitments to extend credit, standby letters of credit, guarantees and acceptances that are designed to meet the requirements of the Group's customers.

Commitments to extend credit represent contractual commitments to make loans and revolving credits. Commitments generally have fixed expiration dates, or other termination clauses. Since commitments may expire without being drawn upon, the total contract amounts do not necessarily represent future cash requirements.

Letters of credit, guarantees (including standby letter of credit) and acceptances commit the Group to make payments on behalf of customers contingent upon the failure of the customer to perform under the terms of the contract.

The Group has the following credit-related commitments:

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Financing Commitments given to banks and financial institutions | **862,122** | 819,316 |
| Guarantees given to banks and financial institutions | **267,414** | 126,738 |
| Guarantees given to customers | **793,830** | 767,135 |
| Acceptances (reflected on balance sheet) | **284,468** | 265,415 |
| | **2,207,834** | 1,978,604 |
| Undrawn commitments to lend | **941,822** | 1,219,225 |
| | **3,149,656** | 3,197,829 |

*Operating lease committements*

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

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Within one year | **3,219** | 1,187 |
| After one year but not more than five years | **8,631** | 4,143 |
| More than five years | **7,007** | 4,780 |
| | **18,857** | 10,110 |

## 49 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 geographical operating segments offers products and services through a specific economic environment and are subject to risks and returns that differ from other economic environment and is considered the primary segments.

*a- Primary Segment Information – Geographical Segments*

Geographical segments offer products and services in different economic environments and are thus subject to different risks and returns. The Group divides its operations into two geographic segments based on the markets and the customers' place of residence. The domestic segment encompasses the resident individuals and companies practicing economic activities in Lebanon. The international segment encompasses customers operating in foreign countries as well as companies present in foreign countries.

The table below shows the distribution of the Group's gross income, total assets and capital expenditures by geographical segment. Transactions between segments are carried at market prices and within pure trading conditions.

| | Domestic | | International | | Total | |
|---|---|---|---|---|---|---|
| | ***2008*** | *2007* | ***2008*** | *2007* | ***2008*** | *2007* |
| | ***LL million*** | *LL million* | ***LL million*** | *LL million* | ***LL million*** | *LL million* |
| Net interest income | **247,500** | 165,321 | **108,342** | 112,686 | **355,842** | 278,007 |
| Net fees and commissions income | **52,690** | 40,460 | **54,233** | 41,387 | **106,923** | 81,847 |
| Net trading income | **4,860** | 13,503 | **4,523** | 3,704 | **9,383** | 17,207 |
| Net gain or loss on financial assets | **12,419** | 12,173 | **2,052** | - | **14,471** | 12,173 |
| Other operating income | **16,896** | 1,881 | **623** | 2,004 | **17,519** | 3,885 |
| Credit loss expense | **1,019** | 323 | **(6,453)** | (5,084) | **(5,434)** | (4,761) |
| Impairment losses on financial investments | **-** | - | **(37,700)** | - | **(37,700)** | - |
| Net operating income | **335,384** | 233,661 | **125,620** | 154,697 | **461,004** | 388,358 |
| Personnel expenses | **(99,255)** | (79,556) | **(23,888)** | (18,810) | **(123,143)** | (98,366) |
| Depreciation of property and equipments | **(12,393)** | (11,829) | **(4,604)** | (1,831) | **(16,997)** | (13,660) |
| Amortization of intangible assets | **(125)** | (125) | **-** | - | **(125)** | (125) |
| Other operation expenses | **(74,756)** | (72,423) | **(23,452)** | (14,811) | **(98,208)** | (87,234) |
| Total operating expenses | **(186,529)** | (163,933) | **(51,944)** | (35,452) | **(238,473)** | (199,385) |
| Operating profit | **148,855** | 69,728 | **73,676** | 119,245 | **222,531** | 188,973 |
| Excess of group's interest in fair value of net assets of acquired subsidiary over cost | **-** | - | **-** | 870 | **-** | 870 |
| Impairment loss on assets held for sale | **(408)** | (4,751) | **-** | - | **(408)** | (4,751) |
| Profit before tax | **148,447** | 64,977 | **73,676** | 120,115 | **222,123** | 185,092 |
| Total assets | **11,851,557** | 9,684,237 | **5,077,585** | 4,615,593 | **16,929,142** | 14,299,830 |
| Total liabilities | **11,715,833** | 10,518,104 | **3,594,900** | 2,629,767 | **15,310,733** | 13,147,871 |
| Capital expenditure | **33,258** | 20,399 | **34,092** | 35,340 | **67,350** | 55,739 |

*b- Secondary Segment Information – Business Segments*

The Group operates primarily in two business segments, commercial banking and investment banking and asset management.

The main activity of the commercial business segments is principally to handle individual customers' deposits, and provide consumer loans, overdraft, credit cards facilities and funds transfer facilities. The investment banking activity principally provides investment banking services including corporate finance and specialized financial advice and trading. As to asset management, the bank provides investment products and services to institutional investors and intermediaries.

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Net operating revenues | | |
| Commercial banking | **222,602** | 150,394 |
| Investment banking and asset management | **238,330** | 237,565 |
| | **460,932** | 387,959 |
| Assets | | |
| Commercial banking | **4,586,325** | 3,714,214 |
| Investment banking and asset management | **12,342,817** | 10,585,616 |
| | **16,929,142** | 14,299,830 |

## 50 CONCENTRATION OF ASSETS, LIABITLITIES AND OFF BALANCE SHEET ITEMS

Concentrations arise when a number of counter parties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the Group’s performance to developments affecting a particular industry or geographic location.

The table below indicates the distribution of the Group’s total assets, liabilities and credit commitments by geographic region:

| | ***2008*** | | |
|---|---|---|---|
| | ***Assets LL million*** | ***Liabilities and stockholders equity LL million*** | ***Credit commitments LL million*** |
| Geographical segment: | | | |
| - Lebanon | **11,851,557** | **13,121,677** | **949,951** |
| - Europe | **2,414,937** | **817,066** | **163,951** |
| - Other countries | **2,662,648** | **2,990,399** | **809,464** |
| | **16,929,142** | **16,929,142** | **1,923,366** |

| | *2007* | | |
|---|---|---|---|
| | *Assets LL million* | *Liabilities and stockholders equity LL million* | *Credit commitments LL million* |
| Geographical segment: | | | |
| - Lebanon | 9,684,237 | 11,486,065 | 857,156 |
| - Europe | 2,194,484 | 447,289 | 157,963 |
| - Other countries | 2,421,109 | 2,366,476 | 698,070 |
| | 14,299,830 | 14,299,830 | 1,713,189 |

## 51 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

| | *31 December 2008* | | | | | |
|---|---|---|---|---|---|---|
| | *Held for trading LL million* | *Held to maturity LL million* | *Loans and receivables LL million* | *Available for sale LL million* | *Held at amortized cost LL million* | *Total LL million* |
| Financial assets | | | | | | |
| Cash and balances with the central banks | - | - | - | - | **2,023,979** | **2,023,979** |
| Banks and financial institutions | - | - | - | - | **2,525,830** | **2,525,830** |
| Financial assets given as collateral on securities borrowed and reverse repurchase agreements | - | - | - | **6,550** | **90,297** | **96,847** |
| Derivative financial instruments | **30,117** | - | - | - | - | **30,117** |
| Financial assets held for trading | **210,825** | - | - | - | - | **210,825** |
| Loans and advances to customers | - | - | **4,194,647** | - | - | **4,194,647** |
| Loans and advances to related parties | - | - | **12,017** | - | - | **12,017** |
| Banks acceptances | - | - | **284,468** | - | - | **284,468** |
| Financial assets – available-for-sale | - | - | - | **1,280,283** | - | **1,280,283** |
| Financial assets classified as loans and receivables | - | - | **4,619,105** | - | - | **4,619,105** |
| Financial assets – held to maturity | - | **1,299,646** | - | - | - | **1,299,646** |
| | **240,942** | **1,299,646** | **9,110,237** | **1,286,833** | **4,640,106** | **16,577,764** |
| Financial liabilities | | | | | | |
| Due to central banks | - | - | - | - | **83,656** | **83,656** |
| Due to banks and financial institutions | - | - | - | - | **1,462,261** | **1,462,261** |
| Derivatives financial instruments | **28,866** | - | - | - | - | **28,866** |
| Customers' deposits | - | - | - | - | **12,500,408** | **12,500,408** |
| Related parties deposits | - | - | - | - | **106,472** | **106,472** |
| Debt issued and other borrowed funds | - | - | - | - | **267,555** | **267,555** |
| Engagements by acceptances | - | - | - | - | **284,468** | **284,468** |
| Liabilities related to non-current assets held for sale | - | - | - | - | **1,720** | **1,720** |
| Subordinated loans | - | - | - | - | **296,203** | **296,203** |
| | **28,866** | - | - | - | **15,002,743** | **15,031,609** |

**51 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)**

| | *31 December 2007* | | | | | |
|---|---|---|---|---|---|---|
| | *Held for trading LL million* | *Held to maturity LL million* | *Loans and receivables LL million* | *Available for sale LL million* | *Held at amortized cost LL million* | *Total LL million* |
| Financial assets | | | | | | |
| Cash and balances with the central banks | - | - | - | - | 1,788,544 | 1,788,544 |
| Banks and financial institutions | - | - | - | - | 2,778,817 | 2,778,817 |
| Financial assets given as collateral on securities borrowed and reverse repurchase agreements | - | - | - | - | 90,929 | 90,929 |
| Derivative financial instruments | 19,146 | - | - | - | - | 19,146 |
| Financial assets held for trading | 836,771 | - | - | - | - | 836,771 |
| Loans and advances to customers | - | - | 3,354,275 | - | - | 3,354,275 |
| Loans and advances to related parties | - | - | 11,738 | - | - | 11,738 |
| Banks acceptances | - | - | 265,415 | - | - | 265,415 |
| Financial assets – available-for-sale | - | - | - | 2,030,428 | - | 2,030,428 |
| Financial assets classified as loans and receivables | - | - | 1,182,265 | - | - | 1,182,265 |
| Financial assets – held to maturity | - | 1,652,876 | - | - | - | 1,652,876 |
| | 855,917 | 1,652,876 | 4,813,693 | 2,030,428 | 4,658,290 | 14,011,204 |
| Financial liabilities | | | | | | |
| Due to central banks | - | - | - | - | 60,950 | 60,950 |
| Due to banks and financial institutions | - | - | - | - | 1,008,162 | 1,008,162 |
| Derivatives financial instruments | 18,988 | - | - | - | - | 18,988 |
| Customers' deposits | - | - | - | - | 10,825,202 | 10,825,202 |
| Related parties deposits | - | - | - | - | 106,472 | 106,472 |
| Debt issued and other borrowed funds | - | - | - | - | 269,872 | 269,872 |
| Engagements by acceptances | - | - | - | - | 265,415 | 265,415 |
| Liabilities related to non-current assets held for sale | - | - | - | - | 2,139 | 2,139 |
| Subordinated loans | - | - | - | - | 331,145 | 331,145 |
| | 18,988 | - | - | - | 12,885,791 | 12,904,779 |

## 51 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

**Amendments to IAS 39 and IFRS 7, "Reclassification of financial assets"**

The Group reclassified certain trading assets and financial assets available for sale 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 of the Group.

The following table shows carrying values and fair values of the reclassified assets.

| | | *31 December 2008* | |
|---|---|---|---|
| | *Carrying value at Reclassification date* | *Carrying value* | *Fair value* |
| | *LL million* | *LL million* | *LL million* |
| Trading assets reclassified to loans and receivables | **104,071** | **104,299** | **101,249** |
| Financial assets available-for-sale reclassified to loans and receivables | **1,715,951** | **1,717,353** | **1,567,107** |
| Total financial assets reclassified to loans and receivables | **1,820,022** | **1,821,652** | **1,668,356** |

As of the reclassification date, effective interest rates on reclassified trading assets ranged from 6.79% to 10.29% with expected recoverable cash flows of LL 134,199 million. Effective interest rates on reclassified financial assets available for sale ranged from 4.90% to 11.44% with expected recoverable cash flows of LL 2,730,488 million.

If the reclassification had not been made, the Group's income statement for the year 2008 would have included unrealized fair value losses on the reclassified trading assets of LL 2,759 million, and available-for-sale reserve in shareholders' equity would have included LL 117,995 million of additional unrealized fair value losses on the reclassified financial assets available for sale.

After reclassification, the reclassified financial assets contributed the following amounts to income before income taxes for the year 2008.

| | *LL million* |
|---|---|
| Reclassified trading assets | |
| Net interest income | **1,558** |
| Reclassified financial assets available for sale | |
| Net interest income | **27,213** |

For the period between 1 January 2008 and reclassification date, LL 64 million of unrealized fair value gains on the reclassified trading assets were recognized in the consolidated income statement. For the same period, unrealized fair value losses of LL 24,736 million on reclassified financial assets available-for-sale that were not impaired were recorded directly in shareholders' equity. As of the reclassification date, such unrealized fair value losses recorded directly in shareholders' equity amounted to LL 31,272 million. This amount will be released from this position in shareholders' equity and added to the carrying value of the reclassified financial assets available for sale on an effective interest rate basis.

## 52 FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below sets out the estimated carrying values and fair values of the financial instruments at the date of the balance sheet:

| | *2008* | | | *2007* | | |
|---|---|---|---|---|---|---|
| | *Fair value LL million* | *Book value LL million* | *Unrealised Profits (losses) LL million* | *Fair value LL million* | *Book value LL million* | *Unrealised profits (losses) LL million* |
| FINANCIAL ASSETS | | | | | | |
| Cash and balances with the Central Bankss | **2,025,817** | **2,023,979** | **1,838** | 1,788,544 | 1,788,544 | - |
| Due from banks and financial institutions | **2,527,730** | **2,525,830** | **1,900** | 2,781,305 | 2,778,817 | 2,488 |
| Financial assets given as collateral on securities borrowed and resverse repurchase agreements | **96,847** | **96,847** | **-** | 93,384 | 90,929 | 2,455 |
| Derivative financial instruments | **30,117** | **30,117** | **-** | 19,146 | 19,146 | - |
| Financial assets held for trading | **210,825** | **210,825** | **-** | 836,771 | 836,771 | - |
| Net loans and advances to customers and related parties | **4,219,248** | **4,206,664** | **12,584** | 3,379,227 | 3,366,013 | 13,214 |
| Debtors by acceptances | **284,468** | **284,468** | **-** | 265,415 | 265,415 | - |
| Available for sale financial instruments | **1,280,283** | **1,280,283** | **-** | 2,030,428 | 2,030,428 | - |
| Financial assets classified as loans and receivables | **4,519,426** | **4,619,105** | **(99,679)** | 1,196,630 | 1,182,265 | 14,365 |
| Held to maturity financial instruments | **1,283,737** | **1,299,646** | **(15,909)** | 1,665,028 | 1,652,876 | 12,152 |
| FINANCIAL LIABILITIES | | | | | | |
| Due to central banks | **83,656** | **83,656** | **-** | 61,731 | 60,950 | (781) |
| Derivative financial instruments | **28,866** | **28,866** | **-** | 18,988 | 18,988 | - |
| Due to banks and financial institutions | **1,468,212** | **1,462,261** | **(5,951)** | 1,009,652 | 1,008,162 | (1,490) |
| Deposits from customers and related parties | **12,631,336** | **12,606,880** | **(24,456)** | 10,964,029 | 10,948,108 | (15,921) |
| Debt issued and other borrowed funds | **267,555** | **267,555** | **-** | 265,081 | 269,872 | 4,791 |
| Engagements by acceptances | **284,468** | **284,468** | **-** | 265,415 | 265,415 | - |
| Liabilities linked to unquoted available for sale assets | **1,720** | **1,720** | **-** | 2,139 | 2,139 | - |
| Subordinated notes | **254,521** | **296,203** | **41,682** | 332,474 | 331,145 | (1,329) |
| | | | **(87,991)** | | | 29,944 |

## 53 RISK MANAGEMENT

The Group risk management was established as a function handling the measurement and management of the risks. 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.

The Group risk management has established a risk management charter, which sets out the appropriate organizations structure to manage the Group’s strategic, operational, financial and compliance risk.

*Group risk management organizational chart*
As the Board of Directors is responsible to assess and manage risks, the head of risk management department reports to the Group’s chairman and his main tasks are the following:

1- Portfolio management and credit risk analytics
2- Treasury mid-office and market risk
3- Operational risk
4- Group risk support
5- Compliance
6- Information security

*Risk Governance*
The Bank 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 RMC decisions are all advised to the Management Committee for information and implied endorsement.

## 53 RISK MANAGEMENT (continued)

**Risk Governance (continued)**
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.

## 54 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group manages credit risk by setting limits for individual borrowers, and groups and for geographical and industry segments. The Group also monitors credit exposures and continually assesses the creditworthiness of counter parties. In addition, the Group obtains security where appropriate, enters into master netting agreements and collateral arrangements with counter parties, and limits the duration of exposures. In certain cases the Group may also close out transactions or assign them to counterparties to mitigate credit risk.

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

The Bank 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.

*Risk concentration of the maximum exposure to credit risk*
The below schedule presents the maximum exposure to credit risk before and after taking into account any collateral held or other credit enhancements.

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***Gross maximum exposure LL million*** | ***Net maximum exposure LL million*** | *Gross maximum exposure LL million* | *Net maximum exposure LL million* |
| Cash and balances with the central banks | **1,914,356** | **1,914,356** | 1,690,380 | 1,690,380 |
| Due from banks and financial institutions | **2,525,830** | **2,525,830** | 2,778,817 | 2,778,817 |
| Financial assets given as collateral and reverse repurchase agreements | **96,847** | **96,847** | 90,929 | 90,929 |
| Derivative financial instruments | **30,117** | **30,117** | 19,146 | 19,146 |
| Financial assets held for trading | **210,825** | **210,825** | 836,771 | 836,771 |
| Net loans and advances to customers and related parties | **4,206,664** | **3,260,993** | 3,366,013 | 2,592,070 |
| Debtors by acceptances | **284,468** | **284,468** | 265,415 | 265,415 |
| Available for sale financial instruments | **1,280,283** | **1,280,283** | 2,030,428 | 2,030,428 |
| Financial asset classified as loans & receivables | **4,619,105** | **4,619,105** | 1,182,265 | 1,182,265 |
| Held to maturity financial instruments | **1,299,646** | **1,299,646** | 1,652,876 | 1,652,876 |
| Other assets | **37,451** | **37,451** | 27,423 | 27,423 |
| | **16,505,592** | **15,559,921** | 13,940,463 | 13,166,520 |
| Commitments and contingencies | **1,923,366** | **1,923,366** | 1,713,189 | 1,713,189 |
| Undrawn commitments to lend | **941,822** | **941,822** | 1,219,225 | 1,219,225 |
| Total financial commitments | **2,865,188** | **2,865,188** | 2,932,414 | 2,932,414 |
| Total credit risk exposure | **19,370,780** | **18,425,109** | 16,872,877 | 16,098,934 |

## 54 CREDIT RISK (continued)

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

| | 2008 | | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | |
| | High-grade LL million | Standard grade LL million | Past due but not impaired LL million | Past due and / or impaired LL million | Total LL million |
| Cash and balances with central banks | **2,023,979** | **-** | **-** | **-** | **2,023,979** |
| Due from banks and financial institutions | **2,379,874** | **145,956** | **-** | **4,766** | **2,530,596** |
| Financial assets given as collateral and reverse repurchase agreements | **96,847** | **-** | **-** | **-** | **96,847** |
| Derivative financial instruments | **30,117** | **-** | **-** | **-** | **30,117** |
| Financial assets held for trading | **210,825** | **-** | **-** | **-** | **210,825** |
| Loans and advances to customers and related parties | | | | | |
| - Commercial loans | **3,034,416** | **217,646** | **35,892** | **169,192** | **3,457,146** |
| - Other customer loans | **828,949** | **8,257** | **91,494** | **8,461** | **937,161** |
| Debtors by acceptances | **284,468** | **-** | **-** | **-** | **284,468** |
| Available-for-sale financial instruments | **1,240,455** | **-** | **-** | **39,828** | **1,280,283** |
| Held to maturity financial instruments | **1,299,646** | **-** | **-** | **-** | **1,299,646** |
| Financial assets classified as loans and receivables | **4,594,905** | **24,200** | **-** | **-** | **4,619,105** |
| | **16,024,481** | **396,059** | **127,386** | **222,247** | **16,770,173** |

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Neither past due nor impaired | | | | |
| | High-grade LL million | Standard grade LL million | Past due but not impaired LL million | Past due and / or impaired LL million | Total LL million |
| Cash and balances with central banks | 1,788,544 | - | - | - | 1,788,544 |
| Due from banks and financial institutions | 2,301,389 | 477,428 | - | 12,916 | 2,791,733 |
| Derivative financial instruments | 19,146 | - | - | - | 19,146 |
| Financial assets held for trading | 836,771 | - | - | - | 836,771 |
| Financial assets given as collateral and reverse repurchase agreements | 90,929 | - | - | - | 90,929 |
| Loans and advances to customers and related parties | | | | | |
| - Commercial loans | 2,362,000 | 252,140 | 26,774 | 195,984 | 2,836,898 |
| - Other customer loans | 630,224 | 17,242 | 68,876 | 7,486 | 723,828 |
| Debtors by acceptances | 265,415 | - | - | - | 265,415 |
| Available-for-sale financial instruments | 2,030,428 | - | - | - | 2,030,428 |
| Financial assets classified as loans and receivables | 1,182,265 | - | - | - | 1,182,265 |
| Held to maturity financial instruments | 1,652,876 | - | - | - | 1,652,876 |
| | 13,159,987 | 746,810 | 95,650 | 216,386 | 14,218,833 |

Standards & Poors agency rated the Lebanese Government risks “B$^-$” as at 31 December 2008 and 2007.

## 54 CREDIT RISK (continued)

*Maximum credit risk concentration exposure*

| | ***2008*** | | | |
|---|---|---|---|---|
| | ***Lebanon LL million*** | ***Europe LL million*** | ***Other countries LL million*** | ***Total LL million*** |
| Cash and balances with Central Banks | **1,667,274** | **24,023** | **223,059** | **1,914,356** |
| Due from banks and financial institutions | **73,920** | **1,587,644** | **864,266** | **2,525,830** |
| Financial assets given as collateral and reverse repurchase agreements | **40,474** | **56,373** | **-** | **96,847** |
| Derivative financial instruments | **4,880** | **16,113** | **9,124** | **30,117** |
| Financial assets held for trading | **197,567** | **7,759** | **5,499** | **210,825** |
| Net loans and advances to curstomers and related parties | **2,886,897** | **274,884** | **1,044,883** | **4,206,664** |
| Debtors by acceptances | **85,822** | **20,686** | **177,960** | **284,468** |
| Available-for-sale financial instruments | **1,095,403** | **90,110** | **94,770** | **1,280,283** |
| Financial assets classified as loans and receivables | **4,330,999** | **207,228** | **80,878** | **4,619,105** |
| Held to maturity financial instruments | **1,146,454** | **-** | **153,192** | **1,299,646** |
| Other assets | **37,451** | **-** | **-** | **37,451** |
| Total | **11,567,141** | **2,284,820** | **2,653,631** | **16,505,592** |
| Commitments and contingencies | **949,951** | **163,951** | **809,464** | **1,923,366** |
| Undrawn commitments to lend | **716,693** | **113,927** | **111,202** | **941,822** |
| Total financial commitments | **1,666,644** | **277,878** | **920,666** | **2,865,188** |
| Total credit risk exposure | **13,233,785** | **2,562,698** | **3,574,297** | **19,370,780** |

| | *2007* | | | |
|---|---|---|---|---|
| | *Lebanon LL million* | *Europe LL million* | *Other countries LL million* | *Total LL million* |
| Cash and balances with the central banks | 1,570,208 | 28,740 | 91,432 | 1,690,380 |
| Due from banks and financial institutions | 176,655 | 1,552,223 | 1,049,939 | 2,778,817 |
| Financial assets given as collateral and reverse repurchase agreements | 40,458 | 50,471 | - | 90,929 |
| Derivative financial instruments | 4,086 | 5,510 | 9,550 | 19,146 |
| Financial assets held for trading | 836,771 | - | - | 836,771 |
| Net loans and advances to curstomers and related parties | 2,357,210 | 204,555 | 804,248 | 3,366,013 |
| Debtors by acceptances | 100,554 | 47,908 | 116,953 | 265,415 |
| Available-for-sale financial instruments | 1,778,873 | 29,230 | 222,325 | 2,030,428 |
| Financial assets classified as loans and receivables | 904,581 | 261,752 | 15,932 | 1,182,265 |
| Held to maturity financial instruments | 1,652,262 | 614 | - | 1,652,876 |
| Other assets | 18,613 | 8,187 | 623 | 27,423 |
| Total | 9,440,271 | 2,189,190 | 2,311,002 | 13,940,463 |
| Commitments and contingencies | 857,156 | 157,963 | 698,070 | 1,713,189 |
| Undrawn commitments to lend | 846,617 | 106,861 | 265,747 | 1,219,225 |
| Total financial commitments | 1,703,773 | 264,824 | 963,817 | 2,932,414 |
| Total credit risk exposure | 11,144,044 | 2,454,014 | 3,274,819 | 16,872,877 |

## 54 CREDIT RISK (continued)

*Maximum credit risk concentration exposure (continued)*

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

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| *Industry Sector:* | | |
| Commercial | **1,422,039** | 1,262,665 |
| Industrial | **821,679** | 604,523 |
| Agriculture | **85,524** | 79,019 |
| Services | **737,423** | 492,619 |
| Banks and other financial institutions | **3,236,808** | 3,486,868 |
| Construction | **472,650** | 390,855 |
| Retail | **931,742** | 696,854 |
| Government | **8,673,533** | 6,779,684 |
| Other | **124,194** | 147,376 |
| | **16,505,592** | 13,940,463 |

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

| | ***2008*** | | | | | |
|---|---|---|---|---|---|---|
| | ***Less than 90 days LL million*** | ***91 to 180 days LL million*** | ***181 to 365 days LL million*** | ***366 to 720 days LL million*** | ***More than 720 days LL million*** | ***Total LL million*** |
| Loans and advances to customers and related parites | | | | | | |
| - Commercial loans | **31,368** | **2,017** | **1,855** | **652** | **-** | **35,892** |
| - Other customer loans | **67,051** | **6,969** | **3,865** | **4,309** | **9,300** | **91,494** |
| Total | **98,419** | **8,986** | **5,720** | **4,961** | **9,300** | **127,386** |

| | *2007* | | | | | |
|---|---|---|---|---|---|---|
| | *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 parites | | | | | | |
| - Commercial loans | 17,047 | 9,027 | 700 | - | - | 26,774 |
| - Other customer loans | 45,352 | 6,364 | 4,117 | 5,710 | 7,333 | 68,876 |
| Total | 62,399 | 15,391 | 4,817 | 5,710 | 7,333 | 95,650 |

The fair value of the collateral held against past due but not impaired facilities as at 31 December 2008 amounted to LL 70,454 million (2007: LL 36,126 million).

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

| | ***2008 LL million*** | *2007 LL million* |
|---|---|---|
| Loans and advances to customers | **18,289** | 31,458 |

## 55 LIQUIDITY RISK

Liquidity risk is the risk that the Group will be unable to meet its liabilities when they fall due. Liquidity risk can be caused by market disruptions or credit downgrades which may cause certain sources of funding to dry up immediately. To limit this risk, management has arranged diversified funding sources, manages assets with liquidity in mind, and maintains a healthy balance of cash and cash equivalents, and readily marketable securities.

*Analysis of financial liabilities by remaining contractual maturities*
The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 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.

| | ***2008*** | | | | | |
|---|---|---|---|---|---|---|
| | ***Up to 1 month LL million*** | ***1 to 3 months LL million*** | ***3 months to 1 year LL million*** | ***1 to 5 years LL million*** | ***More than 5 years LL million*** | ***Total LL million*** |
| Due to central banks | **33,004** | **3** | **51,261** | **1,602** | **-** | **85,870** |
| Due to banks and financial institutions | **637,625** | **230,851** | **209,426** | **177,305** | **334,636** | **1,589,843** |
| Derivative financial instruments | **13,984** | **-** | **5,724** | **-** | **9,158** | **28,866** |
| Customers' deposits | **8,788,556** | **1,653,748** | **1,827,135** | **380,565** | **74,882** | **12,724,886** |
| Debt issued and other borrowed funds | **-** | **207,815** | **74,259** | **-** | **-** | **282,074** |
| Engagements by acceptances | **67,691** | **156,507** | **59,222** | **1,048** | **-** | **284,468** |
| Liabilities related to non-current assets held for sale | **1,720** | **-** | **-** | **-** | **-** | **1,720** |
| Subordinated loans | **-** | **-** | **21,181** | **357,630** | **-** | **378,811** |
| Total undiscounted financial liabilities | **9,542,580** | **2,248,924** | **2,248,208** | **918,150** | **418,676** | **15,376,538** |

| | *2007* | | | | | |
|---|---|---|---|---|---|---|
| | *Up to 1 month LL million* | *1 to 3 months LL million* | *3 months to 1 year LL million* | *1 to 5 years LL million* | *More than 5 years LL million* | *Total LL million* |
| Due to central banks | 23,511 | 438 | 1,333 | 42,412 | - | 67,694 |
| Due to banks and financial institutions | 493,384 | 233,884 | 46,417 | 116,139 | 178,109 | 1,067,933 |
| Derivative financial instruments | 3,928 | - | - | 15,060 | - | 18,988 |
| Customers' deposits | 8,331,714 | 1,221,439 | 1,267,391 | 265,352 | 7,590 | 11,093,486 |
| Debt issued and other borrowed funds | 3,877 | 3,256 | 13,639 | 286,631 | - | 307,403 |
| Engagements by acceptances | 95,820 | 128,918 | 40,186 | 491 | - | 265,415 |
| Liabilities related to non-current assets held for sale | 2,139 | - | - | - | - | 2,139 |
| Subordinated notes | - | 13,206 | 14,773 | 462,050 | - | 490,029 |
| Total undiscounted financial liabilities | 8,954,373 | 1,601,141 | 1,383,739 | 1,188,135 | 185,699 | 13,313,087 |

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

| | ***2008*** | | | | | |
|---|---|---|---|---|---|---|
| | ***On demand LL million*** | ***Less than 3 months LL million*** | ***3 to 12 months LL million*** | ***1 to 5 years LL million*** | ***More than 5 years LL million*** | ***Total LL million*** |
| Commitments and contingencies | **86,052** | **543,896** | **766,838** | **575,704** | **876** | **1,923,366** |
| Undrawn commitments to lend | **941,822** | **-** | **-** | **-** | **-** | **941,822** |
| | **1,027,874** | **543,896** | **766,838** | **525,704** | **876** | **2,865,188** |

## 55 LIQUIDITY RISK (continued)

*Analysis of financial liabilities by remaining contractual maturities (continued)*

| | 2007 | | | | | |
|---|---|---|---|---|---|---|
| | *On demand LL million* | *Less than 3 months LL million* | *3 to 12 months LL million* | *1 to 5 years LL million* | *More than 5 years LL million* | *Total LL million* |
| Commitments and contingencies | 207,959 | 442,178 | 722,243 | 334,481 | 6,328 | 1,713,189 |
| Undrawn commitments to lend | 1,103,864 | 45,348 | 70,013 | - | - | 1,219,225 |
| | 1,311,823 | 487,526 | 792,256 | 334,481 | 6,328 | 2,932,414 |

The Group expects that not all the commitments and contingencies will be demanded before maturity.

*Maturity analysis of assets and liabilities*

The table below summarises the maturity profile of the Group's assets and liabilities based on contractual repayment arrangements. The contractual maturities of assets and liabilities have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date and do not take account of the effective maturities as indicated by the Group's deposit retention history and the availability of liquid funds. The maturity profile is monitored by management to ensure adequate liquidity is maintained.

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

| | **2008** | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in LL million)* | ***Up to 1 month*** | ***1 to 3 months*** | ***3 months to 1 year*** | ***1 to 5 years*** | ***Over 5 years*** | ***Total*** |
| ASSETS | | | | | | |
| Cash and balances with central banks | **1,011,036** | **166,031** | **2,575** | **774,698** | **69,639** | **2,023,979** |
| Due from banks and financial institutions | **1,851,330** | **486,801** | **167,971** | **15,311** | **4,417** | **2,525,830** |
| Financial assets given as collateral and reverse repurchase agreements | **56,373** | **-** | **40,474** | **-** | **-** | **96,847** |
| Derivative financial instruments | **15,235** | **-** | **5,724** | **-** | **9,158** | **30,117** |
| Financial assets held for trading | **1,169** | **6,278** | **79,829** | **64,715** | **58,834** | **210,825** |
| Net loans and advances to customers and related parties | **1,711,733** | **311,168** | **527,026** | **1,026,880** | **629,857** | **4,206,664** |
| Debtors by acceptances | **67,691** | **156,507** | **59,222** | **1,048** | **-** | **284,468** |
| Available-for-sale financial instruments | **13,109** | **14,633** | **56,229** | **1,095,692** | **100,620** | **1,280,283** |
| Financial assets classified as loans and receivables | **46,571** | **88,730** | **827,632** | **2,467,478** | **1,188,694** | **4,619,105** |
| Held to maturity financial instruments | **74,453** | **169,352** | **600,284** | **310,184** | **145,373** | **1,299,646** |
| Property and equipment | **-** | **-** | **-** | **-** | **243,322** | **243,322** |
| Intangible assets | **-** | **-** | **-** | **-** | **1,074** | **1,074** |
| Non-current assets held for sale | **-** | **-** | **-** | **-** | **46,108** | **46,108** |
| Other assets | **39,459** | **2,303** | **16,186** | **659** | **2,267** | **60,874** |
| Total assets | **4,888,159** | **1,401,803** | **2,383,152** | **5,756,665** | **2,499,363** | **16,929,142** |
| LIABILITIES | | | | | | |
| Due to central banks | **33,004** | **3** | **49,047** | **1,602** | **-** | **83,656** |
| Derivative financial instruments | **13,984** | **-** | **5,724** | **-** | **9,158** | **28,866** |
| Due to banks and financial institutions | **637,402** | **230,584** | **207,969** | **150,503** | **235,803** | **1,462,261** |
| Deposits from customers and related parties | **8,781,435** | **1,647,919** | **1,762,893** | **343,257** | **71,376** | **12,606,880** |
| Debt issued and other borrowed funds | **-** | **203,872** | **63,683** | **-** | **-** | **267,555** |
| Currenct tax liability | **22,864** | **2,745** | **4,387** | **-** | **-** | **29,996** |
| Engagements by acceptances | **67,691** | **156,507** | **59,222** | **1,048** | **-** | **284,468** |
| Other liabilities | **21,255** | **5,579** | **145,959** | **18,262** | **40** | **191,059** |
| Liabilities linked to held for sale assets | **-** | **-** | **-** | **-** | **1,720** | **1,720** |
| Provision for risks and charges | **26,778** | **-** | **1,348** | **-** | **2,465** | **30,591** |
| End of Service benefits | **387** | **-** | **-** | **-** | **27,091** | **27,478** |
| Subordinated notes | **-** | **-** | **3,227** | **292,976** | **-** | **296,203** |
| Total liabilities | **9,604,800** | **2,247,209** | **2,303,459** | **807,612** | **347,653** | **15,310,733** |
| Net liquidity gap | **(4,716,641)** | **(845,406)** | **79,693** | **4,949,053** | **2,151,710** | **1,618,409** |

## 55 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2007 were as follows:

| | *2007* | | | | | |
|---|---|---|---|---|---|---|
| *(Amounts in LL million)* | *Up to 1 month* | *1 to 3 months* | *3 months to 1 year* | *1 to 5 years* | *Over 5 years* | *Total* |
| ASSETS | | | | | | |
| Cash and balances with central banks | 1,008,427 | 63,318 | 11,601 | 705,198 | - | 1,788,544 |
| Due from banks and financial institutions | 2,239,283 | 477,145 | 62,389 | - | - | 2,778,817 |
| Financial assets given as collateral and reverse repurchase agreements | 50,478 | - | 40,451 | - | - | 90,929 |
| Derivative financial instruments | 4,086 | - | - | 15,060 | - | 19,146 |
| Financial assets held for trading | 32,475 | 291,058 | 24,147 | 343,806 | 145,285 | 836,771 |
| Net loans and advances to customers and related parties | 1,506,342 | 330,022 | 419,180 | 965,629 | 144,840 | 3,366,013 |
| Debtors by acceptances | 95,819 | 99,614 | 69,490 | 492 | - | 265,415 |
| Available for sale financial instruments | 139,108 | 56,258 | 63,162 | 993,877 | 778,023 | 2,030,428 |
| Held to maturity financial instruments | 22,312 | 3,452 | 538,594 | 979,871 | 108,647 | 1,652,876 |
| Financial assets classified as loans and receivables | 206,480 | 154,725 | 58,783 | 560,359 | 201,918 | 1,182,265 |
| Property and equipment | - | - | - | - | 192,348 | 192,348 |
| Intangible assets | - | - | - | - | 1,199 | 1,199 |
| Non-current assets held for sale | - | - | - | - | 51,389 | 51,389 |
| Other assets | - | - | - | - | 43,690 | 43,690 |
| Total assets | 5,304,810 | 1,475,592 | 1,287,797 | 4,564,292 | 1,667,339 | 14,299,830 |
| LIABILITIES | | | | | | |
| Due to central banks | 23,516 | 2 | 15 | 37,417 | - | 60,950 |
| Derivative financial instruments | 3,928 | - | - | 15,060 | - | 18,988 |
| Due to banks and financial institutions | 504,710 | 239,600 | 46,114 | 100,113 | 117,625 | 1,008,162 |
| Deposits from customers and related parties | 8,134,555 | 1,226,831 | 1,242,934 | 269,571 | 74,217 | 10,948,108 |
| Debt issued and other borrowed funds | - | - | - | 269,872 | - | 269,872 |
| Current tax liability | 25,400 | - | - | - | - | 25,400 |
| Engagement by acceptances | 125,123 | 99,614 | 40,186 | 492 | - | 265,415 |
| Other liabilities | 118,443 | 12,270 | 48,371 | - | - | 179,084 |
| Liabilities linked to held for sale assets | 2,139 | - | - | - | - | 2,139 |
| Provision for risks and charges | 18,033 | - | - | - | - | 18,033 |
| End of Service benefits | - | - | - | - | 20,575 | 20,575 |
| Subordinated notes | 1,135 | - | 2,166 | 327,844 | - | 331,145 |
| Total liabilities | 8,956,892 | 1,578,317 | 1,379,786 | 1,020,369 | 212,417 | 13,147,871 |
| Net liquidity gap | (3,652,172) | (102,725) | (91,989) | 3,543,923 | 1,454,922 | 1,151,959 |

## 56 INTEREST RATE RISK AND MARKET RISK

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.

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

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008, 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 31 December 2008 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.

| | | ***2008*** | | *2007* | |
|---|---|---|---|---|---|
| ***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%** | **(11,550)** | **(10,230)** | (6,455) | (2,565) |
| Other currencies | **+0.5%** | **(7,105)** | **(1,292)** | (8,555) | (18,463) |
| | | **(18,655)** | **(11,522)** | (15,010) | (21,028) |

*Effective interest rates on financial instruments*
The effective interest rate (effective yield) of a monetary financial instrument is the rate that, when used in a present value calculation, results in the carrying amount of the instrument. The rate is a historical rate for a fixed rate instrument carried at amortised cost and a current market rate for a floating rate instrument or an instrument carried at fair value.

The effective interest rates of the financial instruments denominated in Lebanese Lira and foreign currencies, primarily US Dollars, are as follows:

| | ***2008*** | | *2007* | |
|---|---|---|---|---|
| | ***Foreign currencies %*** | ***LL %*** | *Foreign currencies %* | *LL %* |
| ASSETS | | | | |
| Cash and balances with central banks | **2.84%** | **1.43%** | 4.63% | 1.24% |
| Due from banks and financial institutions | **3.43%** | **2.99%** | 4.87% | 1.48% |
| Financial assets held for trading | **7.40%** | **10.27%** | 7.48% | 9.71% |
| Net loans and advances to customers and related parties | **8.31%** | **8.37%** | 8.69% | 8.16% |
| Available-for-sale financial instruments | **8.65%** | **10.06%** | 8.43% | 4.76% |
| Financial assets classified as loans and receivables | **7.17%** | **9.25%** | 8.26% | 12.38% |
| Held to maturity financial instruments | **8.40%** | **9.28%** | 8.33% | 9.27% |
| LIABILITIES | | | | |
| Due to Central Banks | **0.18%** | **9.51%** | - | 9.29% |
| Due to banks and financial institutions | **4.43%** | **8.50%** | 5.24% | 6.60% |
| - Weighted average rate, including: | | | | |
| - Deposits | **3.48%** | **8.50%** | 4.69% | 6.60% |
| - Loans | **6.39%** | **-** | 7.22% | - |
| Customers' deposits | **3.92%** | **7.32%** | 4.90% | 7.72% |
| Debt issued and other borrowed funds | **6.42%** | **-** | 6.28% | - |
| Subordinated notes | **9.00%** | **-** | 8.88% | - |

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

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2008 was as follows:

| | | | | *2008* | | | |
|---|---|---|---|---|---|---|---|
| *(Amounts in LL million)* | *Up to 1 month* | *1 to 3 months* | *3 months to 1 year* | *1 to 5 years* | *Over 5 years* | *Non interest bearing items* | *Total* |
| ASSETS | | | | | | | |
| Cash and balances with the central banks | **803,386** | **165,971** | **2,558** | **768,825** | **2,416** | **280,823** | **2,023,979** |
| Due from banks and financial institutions | **1,986,510** | **410,500** | **92,010** | **15,075** | **4,417** | **17,318** | **2,525,830** |
| Financial assets given as collateral and reverse repurchase agreements | **6,550** | **-** | **-** | **-** | **-** | **90,297** | **96,847** |
| Derivative financial instruments | **10,389** | **-** | **-** | **-** | **-** | **19,728** | **30,117** |
| Financial assets held for trading | **266** | **5,499** | **91,861** | **50,057** | **59,222** | **3,920** | **210,825** |
| Net loans and advances to customers and related parties | **1,669,296** | **493,120** | **750,780** | **845,398** | **428,448** | **19,622** | **4,206,664** |
| Debtors by acceptances | **-** | **1,808** | **-** | **-** | **-** | **282,660** | **284,468** |
| Available for sale financial instruments | **2,203** | **-** | **46,827** | **1,095,964** | **44,251** | **91,038** | **1,280,283** |
| Financial assets classified as loans and receivables | **98,895** | **116,219** | **692,057** | **2,425,235** | **1,179,780** | **106,919** | **4,619,105** |
| Held to maturity financial instruments | **71,000** | **153,244** | **583,717** | **310,553** | **145,373** | **35,759** | **1,299,646** |
| Property and equipment | **-** | **-** | **-** | **-** | **-** | **243,322** | **243,322** |
| Intangible assets | **-** | **-** | **-** | **-** | **-** | **1,074** | **1,074** |
| Non-current assets held for sale | **-** | **-** | **-** | **-** | **-** | **46,108** | **46,108** |
| Other assets | **-** | **-** | **-** | **-** | | **60,874** | **60,874** |
| Total assets | **4,648,495** | **1,346,361** | **2,259,810** | **5,511,107** | **1,863,907** | **1,299,462** | **16,929,142** |
| LIABILITIES | | | | | | | |
| Due to central banks | **16,715** | **3** | **40,017** | **1,602** | **-** | **25,319** | **83,656** |
| Derivative financial instruments | **13,984** | **-** | **-** | **-** | **-** | **14,882** | **28,866** |
| Due to banks and financial institutions | **618,579** | **213,923** | **60,348** | **168,566** | **226,558** | **174,287** | **1,462,261** |
| Deposits from customers and related parties | **8,743,199** | **1,777,902** | **1,666,074** | **221,484** | **37,824** | **160,397** | **12,606,880** |
| Det issued and other borrowed funds | **-** | **202,936** | **-** | **65,705** | **-** | **(1,086)** | **267,555** |
| Current tax liability | **5** | **2,420** | **-** | **-** | **-** | **27,571** | **29,996** |
| Engagement by acceptances | **-** | **1,808** | **-** | **-** | **-** | **282,660** | **284,468** |
| Other liabilities | **233** | **102** | **1** | **4** | **18,262** | **172,457** | **191,059** |
| Liabilities linked to held for sale assets | **-** | **-** | **-** | **-** | **-** | **1,720** | **1,720** |
| Provision for risks and charges | **-** | **-** | **-** | **-** | **-** | **30,591** | **30,591** |
| End of Service benefits | **-** | **-** | **-** | **-** | **-** | **27,478** | **27,478** |
| Subordinated notes | **-** | **-** | **-** | **293,117** | **-** | **3,086** | **296,203** |
| Total equity | **-** | **-** | **-** | **-** | **-** | **1,618,409** | **1,618,409** |
| Total liabilities and equity | **9,392,715** | **2,199,094** | **1,766,440** | **750,478** | **282,644** | **2,537,771** | **16,929,142** |
| Total interest rate sensitivity gap | **(4,744,220)** | **(852,733)** | **493,370** | **4,760,629** | **1,581,263** | **(1,238,309)** | |
| Cumulative interest rate sensitivity gap | **(4,744,220)** | **(5,596,953)** | **(5,103,583)** | **(342,954)** | **1,238,309** | **-** | |

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

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2007 was as follows:

| | 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(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 | 779,417 | 63,318 | 11,601 | 705,198 | - | 229,010 | 1,788,544 |
| Due from banks and financial institutions | 2,239,283 | 473,605 | 51,176 | - | - | 14,753 | 2,778,817 |
| Financial assets given as collateral and reverse repurchase agreements | 50,478 | - | 40,451 | - | - | - | 90,929 |
| Derivative financial instruments | - | - | - | - | - | 19,146 | 19,146 |
| Financial assets held for trading | - | 290,018 | 17,644 | 343,806 | 145,285 | 40,018 | 836,771 |
| Net loans and advances to customers and related parties | 1,503,238 | 310,883 | 692,932 | 683,741 | 168,701 | 6,518 | 3,366,013 |
| Debtors by acceptances | 95,819 | 99,614 | 40,186 | 492 | - | 29,304 | 265,415 |
| Available for sale financial instruments | 14,703 | 48,871 | 34,659 | 990,898 | 813,108 | 128,189 | 2,030,428 |
| Financial assets classified as loans and receivables | 203,246 | 151,294 | 36,552 | 538,247 | 197,504 | 55,422 | 1,182,265 |
| Held to maturity financial instruments | - | - | 532,472 | 979,871 | 108,647 | 31,886 | 1,652,876 |
| Property and equipment | - | - | - | - | - | 192,348 | 192,348 |
| Intangible assets | - | - | - | - | - | 1,199 | 1,199 |
| Non-current assets held for sale | - | - | - | - | - | 51,389 | 51,389 |
| Other assets | - | - | - | - | - | 43,690 | 43,690 |
| Total assets | 4,886,184 | 1,437,603 | 1,457,673 | 4,242,253 | 1,433,245 | 842,872 | 14,299,830 |
| LIABILITIES AND EQUITY | | | | | | | |
| Due to central banks | 23,511 | 2 | 15 | 37,417 | - | 5 | 60,950 |
| Derivative financial instruments | - | - | - | - | - | 18,988 | 18,988 |
| Due to banks and financial institutions | 483,477 | 230,613 | 44,448 | 98,651 | 117,625 | 33,348 | 1,008,162 |
| Customers' deposits and deposits from related parties | 8,052,772 | 1,194,919 | 1,216,358 | 223,555 | 4,746 | 255,758 | 10,948,108 |
| Debt issued and other borrowed funds | - | - | - | 269,872 | - | - | 269,872 |
| Engagements by acceptances | 125,123 | 99,614 | 40,186 | 492 | - | - | 265,415 |
| Current tax liability | - | - | - | - | - | 25,400 | 25,400 |
| Other liabilities | 20,445 | 12,270 | 48,371 | - | - | 97,998 | 179,084 |
| Liabilities linked to held for sale assets | - | - | - | - | - | 2,139 | 2,139 |
| Provision for risks and charges | - | - | - | - | - | 18,033 | 18,033 |
| End of services benefits | - | - | - | - | - | 20,575 | 20,575 |
| Subordinated notes | - | - | 2,166 | 327,844 | - | 1,135 | 331,145 |
| Total equity | 82,300 | - | - | - | - | 1,069,659 | 1,151,959 |
| Total liabilities and equity | 8,787,628 | 1,537,418 | 1,351,544 | 957,831 | 122,371 | 1,543,038 | 14,299,830 |
| Total interest rate sensitivity gap | (3,901,444) | (99,815) | 106,129 | 3,284,422 | 1,310,874 | (700,166) | |
| Cumulative interest rate sensitivity gap | (3,901,444) | (4,001,259) | (3,895,130) | (610,708) | 700,166 | - | |

## 57 CURRENCY RISK

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

*Group's sensitivity to currency exchange rates*

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

| | | ***2008*** | | *2007* | |
|---|---|---|---|---|---|
| ***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** | **(17,712)** | **13,514** | (4,654) | 73,481 |
| Euro | **+5** | **(2,283)** | **2,399** | (560) | 1,418 |
| GBP | **+5** | **12** | **-** | (116) | - |
| Other currencies | **+5** | **5,862** | **1,952** | 6,400 | 1,117 |
| | | **(14,121)** | **17,865** | 1,070 | 76,016 |

## 57 CURRENCY RISK (continued)

The following consolidated balance sheet as of 31 December 2008, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

| *(Amounts in LL million)* | *2008* | | | |
|---|---|---|---|---|
| | | *Foreign currencies* | | *Total* |
| | *LL million* | *USD (000)* | *C/V LL million* | *LL million* |
| ASSETS | | | | |
| Cash and balances with central banks | **476,622** | **1,026,439** | **1,547,357** | **2,023,979** |
| Due from banks and financial institutions | **93,014** | **1,613,808** | **2,432,816** | **2,525,830** |
| Financial assets given as collateral and reverse repurchase agreements | **40,474** | **37,395** | **56,373** | **96,847** |
| Derivative financial instruments | **5,087** | **16,604** | **25,030** | **30,117** |
| Financial assets held for trading | **74,511** | **90,424** | **136,314** | **210,825** |
| Net loans and advances to customers | **453,356** | **2,481,785** | **3,741,291** | **4,194,647** |
| Net loans and advances to related parties | **-** | **7,971** | **12,017** | **12,017** |
| Debtors by acceptances | **-** | **188,702** | **284,468** | **284,468** |
| Available-for-sale financial instruments | **1,006,434** | **181,658** | **273,849** | **1,280,283** |
| Financial assets classified as loans and receivables | **2,048,876** | **1,704,961** | **2,570,229** | **4,619,105** |
| Held to maturity financial instruments | **889,256** | **272,232** | **410,390** | **1,299,646** |
| Property and equipment | **151,134** | **61,153** | **92,188** | **243,322** |
| Intangible assets | **1,074** | **-** | **-** | **1,074** |
| Non-current assets held for sale | **(11,643)** | **38,309** | **57,751** | **46,108** |
| Other assets | **29,314** | **20,935** | **31,560** | **60,874** |
| Total assets | **5,257,509** | **7,742,376** | **11,671,633** | **16,929,142** |
| LIABILITIES AND EQUITY | | | | |
| Due to central banks | **38,515** | **29,944** | **45,141** | **83,656** |
| Derivative financial instruments | **3,886** | **16,570** | **24,980** | **28,866** |
| Due to banks and financial institutions | **61,150** | **929,427** | **1,401,111** | **1,462,261** |
| Customers' deposits | **4,335,968** | **5,415,881** | **8,164,440** | **12,500,408** |
| Deposits from related parties | **28,100** | **51,988** | **78,372** | **106,472** |
| Debt issued and other borrowed funds | **-** | **177,483** | **267,555** | **267,555** |
| Engagement by acceptances | **18,879** | **7,374** | **11,117** | **29,996** |
| Current tax liability | **325** | **188,486** | **284,143** | **284,468** |
| Other liabilities | **44,735** | **97,064** | **146,324** | **191,059** |
| Liabilities linked to held for sale assets | **-** | **1,141** | **1,720** | **1,720** |
| Provision for risks and charges | **27,355** | **2,147** | **3,236** | **30,591** |
| End of service benefits | **27,054** | **281** | **424** | **27,478** |
| Subordinated notes | **-** | **196,486** | **296,203** | **296,203** |
| | **4,585,967** | **7,114,272** | **10,724,766** | **15,310,733** |
| Share Capital | **511,363** | **-** | **-** | **511,363** |
| Issue Premium | **-** | **312,523** | **471,129** | **471,129** |
| Capital Reserves | **250,941** | **55,328** | **83,407** | **334,348** |
| Treasury shares | **(1,554)** | **-** | **-** | **(1,554)** |
| Retained earnings | **16,903** | **(1,052)** | **(1,586)** | **15,317** |
| Revaluation reserve of real estate | **5,689** | **-** | **-** | **5,689** |
| Available-for-sale reserve | **7,614** | **(25,294)** | **(38,131)** | **(30,517)** |
| Net results of the financial period – profit | **146,394** | **17,175** | **25,891** | **172,285** |
| Foreign currency translation reseve | **-** | **12,341** | **18,604** | **18,604** |
| Other reserve | **5,538** | **-** | **-** | **5,538** |
| Minority Interest | **-** | **77,086** | **116,207** | **116,207** |
| Total equity | **942,888** | **448,107** | **675,521** | **1,618,409** |
| Total liabilities and equity | **5,528,855** | **7,562,379** | **11,400,287** | **16,929,142** |

## 57 CURRENCY RISK (continued)

| *(Amounts in LL million)* | *2007* | | | |
|---|---|---|---|---|
| | | *Foreign currencies* | | *Total* |
| | *LL million* | *USD (000)* | *C/V LL million* | *LL million* |
| ASSETS | | | | |
| Cash and balances with central banks | 332,375 | 965,950 | 1,456,169 | 1,788,544 |
| Due from banks and financial institutions | 41,229 | 1,815,979 | 2,737,588 | 2,778,817 |
| Financial assets given as collateral and reverse repurchase agreements | 40,458 | 33,480 | 50,471 | 90,929 |
| Derivative financial instruments | 4,462 | 9,741 | 14,684 | 19,146 |
| Financial assets held for trading | 527,983 | 204,834 | 308,788 | 836,771 |
| Net loans and advances to customers | 393,306 | 1,957,494 | 3,344,228 | 3,344,228 |
| Net loans and advances to related parties | - | 14,451 | 21,785 | 21,785 |
| Debtors by acceptances | - | 176,063 | 265,415 | 265,415 |
| Available-for-sale financial instruments | 234,535 | 1,191,305 | 1,795,893 | 2,030,428 |
| Financial assets classified as loans and receivables | 379,579 | 532,462 | 802,686 | 1,182,265 |
| Held to maturity financial instruments | - | 1,096,435 | 1,652,876 | 1,652,876 |
| Property and equipment | 130,046 | 41,328 | 62,302 | 192,348 |
| Intangible assets | 1,199 | - | - | 1,199 |
| Non-current assets held for sale | (19,392) | 46,953 | 70,781 | 51,389 |
| Other assets | 38,665 | 3,333 | 5,025 | 43,690 |
| Total assets | 2,104,445 | 8,089,808 | 12,195,385 | 14,299,830 |
| LIABILITIES AND EQUITY | | | | |
| Due to central banks | 36,535 | 16,196 | 24,415 | 60,950 |
| Derivative financial instruments | 3,919 | 9,996 | 15,069 | 18,988 |
| Due to banks and financial institutions | 13,741 | 659,649 | 994,421 | 1,008,162 |
| Customers' deposits | 2,759,083 | 5,350,659 | 8,066,119 | 10,825,202 |
| Deposits from related parties | 7,704 | 76,419 | 115,202 | 122,906 |
| Debt issued and other borrowed funds | - | 179,020 | 269,872 | 269,872 |
| Engagement by acceptances | 15,287 | 6,708 | 10,113 | 25,400 |
| Current tax liability | 80 | 176,010 | 265,335 | 265,415 |
| Other liabilities | 49,719 | 85,814 | 129,365 | 179,084 |
| Liabilities linked to held for sale assets | - | 1,419 | 2,139 | 2,139 |
| Provision for risks and charges | 17,787 | 163 | 246 | 18,033 |
| End of service benefits | 20,293 | 187 | 282 | 20,575 |
| Subordinated notes | - | 219,665 | 331,145 | 331,145 |
| | 2,924,148 | 6,781,905 | 10,223,723 | 13,147,871 |
| Share Capital | 494,456 | - | - | 494,456 |
| Issue Premium | - | 99,204 | 149,550 | 149,550 |
| Capital Reserves | 225,006 | 47,417 | 71,481 | 296,487 |
| Treasury shares | (947) | - | - | (947) |
| Retained earnings | 7,393 | 2,477 | 3,734 | 11,127 |
| Revaluation reserve of real estate | 5,689 | - | - | 5,689 |
| Available-for-sale reserve | 9,716 | (37,121) | (55,960) | (46,244) |
| Net results of the financial period – profit | 135,302 | 4,808 | 7,248 | 142,550 |
| Foreign currency translation reseve | - | 14,374 | 21,669 | 21,669 |
| Minority Interest | - | 51,491 | 77,622 | 77,622 |
| Total equity | 876,615 | 182,650 | 275,344 | 1,151,959 |
| Total liabilities and equity | 3,800,763 | 6,964,555 | 10,499,067 | 14,299,830 |

## 58 EQUITY PRICE RISK

Equity price risk is the risk that the fair value of equities decrease as a result of a variation in the levels of equity indices and the value of individual stocks. The non-trading equity price risk exposure arises from the Group's investment portfolio.

The effect on equity (as a result of a change in the fair value of equity instruments held as available-for-sale at 31 December 2008) due to a reasonable possible change in equity indices, with all other variables held consistent, is as follows:

| Market indices | ***Change in equity price %*** | ***2008 Effect on equity LL million*** | *2007 Effect on equity LL million* |
|---|---|---|---|
| Jordan stock exchange | **+5** | **1,908** | 3,630 |

## 59 OPERATIONAL RISK

Operational risk is the risk of loss arising form 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 cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

## 60 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.

## 61 CAPITAL MANAGEMENT

The primary objectives of capital management are to ensure compliance with externally imposed capital requirements and that maintaining strong credit ratings and healthy capital ratios in order to support business and to maximize shareholders' value.

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

**61 CAPITAL MANAGEMENT (continued)**

Capital consists of the following as of 31 December 2008 and 2007:

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| Tier 1 Capital | **1,332,157** | 951,620 |
| Tier 2 Capital | **267,664** | 286,879 |
| Total Capital | **1,599,821** | 1,238,499 |

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.

**62 LEGAL CLAIMS**

Litigation is a common occurrence in the banking industry due to the nature of the business. The Group has an established protocol for dealing with such legal claims. Once professional advice has been obtained and the amount of damages reasonably estimated, the Group makes adjustments to account for any adverse effects which the claims may have on its financial standing. Management, after review with its legal counsel of all pending actions and proceedings, considers that the aggregate liability or loss, if any, resulting from an adverse determination would not have a material effect on the financial position of the Group.

**63 DIVIDENDS PAID AND PROPOSED**

| | ***2008*** | *2007* |
|---|---|---|
| | ***LL million*** | *LL million* |
| *Declared and paid during the year* | | |
| Equity dividends on ordinary shares: | | |
| Dividends for 2007: LL 157.9 (2006: LL 157.9) | **32,373** | 32,373 |
| Equity dividends on priority shares: | | |
| Dividends for 2007: LL 157.9 (2006: LL 157.9) | **32,531** | 32,531 |
| Distributions to preferred shares – 2003 series: | | |
| Distributions for 2007: USD 12.00 (2006: USD 12.00) | **18,168** | 18,168 |
| Distributions to priority shares | | |
| Interest paid at 4% of share’s nominal value: LL 48 for 2007 (2006: LL 48) | **9,889** | 9,890 |
| | **92,961** | 92,962 |
| *Proposed for approval at annual general meeting (not recognized as a liability as at 31 December)* | | |
| Equity dividends on ordinary shares: | | |
| Dividends for 2008: LL 157.9 (2007: LL 157.9) | **34,281** | 32,373 |
| Equity dividends on priority shares: | | |
| Dividends for 2008: LL 157.9 (2007: LL 157.9) | **32,531** | 32,531 |
| Distributions to preferred shares – 2003 series: | | |
| Distributions for 2008: USD 12.00 (2007: USD 12.00) | **18,168** | 18,168 |
| Distributions to preferred shares – 2008 series: | | |
| Distributions for 2008: USD 3.35 (2007: nil) | **10,144** | - |
| Distributions to priority shares: | | |
| Interest paid at 4% of share’s nominal value: LL 48 for 2008 (2007: LL 48) | **9,889** | 9,889 |
| | **105,013** | 92,961 |

**64 COMPARATIVE INFORMATION**

Balance sheet and income statement captions have been reclassified in accordance with the requirements of the Bank of Lebanon’s intermediary circular number 158 issued on 28 March 2008.