

Annual Report 2010



Banque de l'Industrie et du Travail s.a.l.

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Dear shareholders and stakeholders,

In the year 2010, the Lebanese Economy continued to perform well. Growth has been driven, as last year, by construction, tourism and financial services, which benefited from increased confidence due to the relative stability of the political environment. The public finances have slightly improved due to slowing public debt growth and lower budget deficit. Inflows of non-resident deposits in conjunction with deposit dedollarization allowed the Central Bank of Lebanon to increase its foreign reserves. However, the key challenges to promote a stable and long-lasting economic expansion remain the high debt to GDP ratio estimated at 134%, the high exposure of the banking system to the sovereign debt and the delay in strengthening the economic institutions and implementing appropriate reforms.

Backboned by a solid regulatory environment, the Lebanese Banking Sector has confirmed for years its strength and stability and maintained its outstanding performance and expansion strategies. Banking activities continued to grow and to diversify and a tight competition is steadily increasing between the peer group banks.

Chairman Letter

Within this backdrop, BIT Bank has realized a noteworthy improvement in its overall financial results and has followed closely the growth of the whole sector. Thus, the consolidated balance sheet has registered a 10.8% growth in year 2010, compared to a growth of 11.9% in the Lebanese Banking Sector, and Customer Deposits have grown by 9.54%, compared to a growth of 11.94% in the Lebanese Banking Sector. BIT Bank operated, as usually, in a relatively high level of both capital adequacy ratio of 13.24% (Basel II) and liquidity ratio of 83.15%, and pursued its conservative lending policy to preserve its high asset quality loan portfolio. Also, for many years, and in order to strengthen its provisions and net worth, the Bank continued to allocate a big portion of the yearly profits to provisions account.

BIT Bank is constantly committed towards fulfilling its clients' financial needs through offering them a high quality of banking services. The Bank pursued as well its objective of investing in human capital through continuous trainings and recruitment of professional, qualified and dynamic people.

Looking to the future with confidence, I would like to take this opportunity to express my sincere thanks to everyone who allowed BIT BANK to sustain a steady growth in the context of challenging environment. I thank our Board members for the continuous efforts they exerted in supporting the Bank's performance, our clients for their confidence and loyalty, and our staff for their commitment to our mission and their dedication to promote strong expansion of the Bank.

Sincerely,



Fouad Jamil El Khazen
Chairman & General Manager

Board of Directors

Mrs. Laura E. Bustani	Honorary Chairman
Sheikh Fouad J. El Khazen	Chairman & General Manager
Mrs. Myrna E. Bustani	Vice-Chairman
Mr. Nabil N. Khairallah	Executive Director & General Manager
* H.E. Mr. Amine M. El Bizri	Member
* H.E. Mr. George W. Skaff	Member
Dr. Aziz M. Bassoul	Member
Shammas Economic Institute sal	Member, Represented by Mr. Issam S. Shammas
Mr. Nizam S. Shammas	Member
Sheikh Jamil F. El Khazen	Member
Me. Alexandre R. Najjar	Member - Legal Advisor
* Mr. Abdelhafeez M. Mansour	Member
Mrs. Laura El Khazen Lahoud	Member
Mrs. Carole Abou Chedid Ibrahim	Secretary

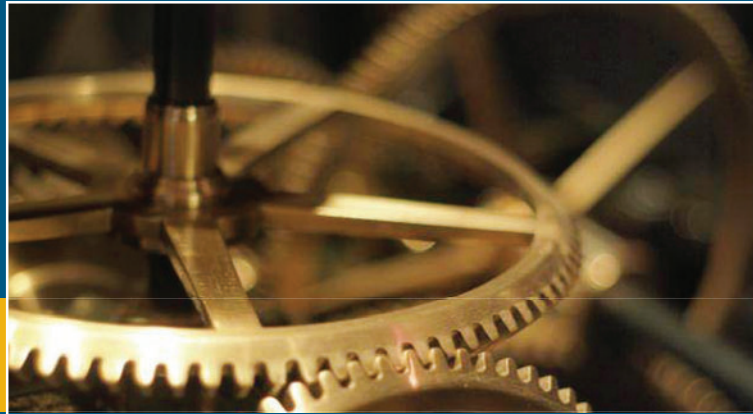
* N.B.: **H.E. Mr. Amine M. El Bizri** deceased on 09/02/2010
H.E. Mr. George W. Skaff exited on 16/06/2010
Mr. Abdelhafeez M. Mansour resigned on 21/05/2010

General Management

Sheikh Fouad J. El Khazen	Chairman - General Manager
Mr. Nabil N. Khairallah	Executive Director - General Manager
Mr. Georges Najib Zouein	Assistant General Manager - Treasury / Capital Markets, International Relations & Private Banking
Mr. Samir J. Moubarak	Assistant General Manager, Credit Risk Management Appointed on 15/3/2010
Mr. Sarkis M. Aboudib	Senior Manager Customers' Relations & Recovery
Mr. Samir F. Gebara	Senior Manager Internal Audit
* Mr. Raymond W. Tebchrani	Senior Manager Human Resources
Mr. Ghassan A. Abou Adal	Senior Manager Branches & Business Development Appointed on 15/3/2010
Mr. Aad N. Hatem	Capital Markets & Treasury
Mr. Sami Y. Slim	Accounting
Mr. Raymond W. Azzi	Retail Banking
Mr. Michel J. Khadra	Information Technology - Systems & Development
Mrs. Jocelyne A. Haddad	Information Technology - Operations
Mr. Elie N. Naim	Operations Department
Mrs. Ghada Noujeim Chahrouri	Communication & Public Relations
Ms. Lauraine K. Hatem	Risk Management - Procedures
Mrs. Claudette Abdallah El-Khoury	Compliance
Mrs. Nicole Achkar Bejjani	Economic Studies

* N.B.: **Mr. Raymond W. Tebchrani** retired on 30/4/2011





Economic & Monetary Indicators

The strong performance of the Lebanese Economy witnessed in 2008 and 2009, has continued in 2010 but at a slower pace. A sustained expansion has been registered in the main economic sectors, such as financial services, real estate, construction and tourism. Consequently, the real growth of the Gross Domestic Product (GDP) is estimated at 7.5% compared to 8.5% registered in the previous year, according to the IMF.

- External Trade
- Balance of Payments and Central Bank Reserves
- Budget Deficit and Public Debt
- Exchange and Money Markets
- Banking Sector

External Trade

The exports registered an increase of 22.1% in 2010 compared to 2009 reaching US\$4,253 Million. The Imports increased by 10.6% for the same period, reaching US\$17,964 Million. Consequently, the Trade Balance deficit increased by 7.5% and reached the amount of US\$13,711 Million.

Balance of Payments and Central Bank Reserves

The Balance of Payments registered a surplus for 2010 amounting to US\$3,324.5 Million, compared with an exceptional surplus for 2009 amounting to US\$7,899 Million, explained by the important level of capital inflows into the country as a result of the effects of the global financial crisis in the neighboring countries.

This surplus has been reflected on the Central Bank Gross Reserves in foreign currencies, which amounted to US\$31,163.3 Million at December 31, 2010 against US\$28,744.5 Million at December 31, 2009, and on total foreign assets, including gold, which reached US\$44,173.3 Million against US\$38,806.5 Million end of 2009.

Budget Deficit and Public Debt

The Budget Deficit amounted to LBP4,405 Billion (US\$2,922 Mio) in 2010 against LBP4,462 Billion (US\$2,960 Mio) in 2009, outlining a decrease of 1.3%. This regression resulted from a decrease of 0.45% in total public expenditures during this period and a decrease of 0.17% in total public revenues. The Budget Deficit represented 25.8% of Total Budget (26% in 2009) and 34.7% of total revenues (35.1% in 2009).

On the other hand, **the Gross Public Debt** reached the equivalent of US\$52.6 Billion end of 2010 against US\$51.1 Billion end of 2009 registering an increase of 2.8%:

The Gross Domestic Debt increased by 7.3% in 2010 compared to 2009, reaching LBP48,268 Billion. The Central Bank contribution in the Domestic Debt increased from 23% in year 2009 to 27.2% in year 2010. In figures, it amounted to LBP13,130 Billion end of 2010 against LBP10,334 Billion end of 2009. And the contribution of the Commercial Banks went down for the same period, from 60.7% to 56.4%. In figures, it decreased from LBP27,286 Billion end of 2009 to LBP27,235 Billion end of 2010.

The foreign-currency denominated Public Debt decreased by 3.5% and registered US\$20,570 Million end of 2010. It represented 39.1% of the Gross Public Debt in year 2010 (41.7% in year 2009). Out of this FC Public Debt, 86.2% is financed by Euro Bonds. The contribution of the Commercial Banks in these Euro Bonds is 65.9% by the end of 2010.

We can notice the key role of the Lebanese Banks in financing the Public Debt.

Public Debt Service rose by 2.15%, from LBP6,087 Billion (US\$4,038 Mio) at 2009 year-end to LBP6,218 Billion (US\$4,125 Mio) at 2010 year-end. It represented 36.4% of total public expenditures (35.5% for year 2009) and 49% of total public revenues for the year 2010 (47.9% for year 2009).

Exchange and Money Markets

The Lebanese Pound remained stable vis-à-vis the US Dollar during the year, with an exchange rate of LBP1,507.5 per US\$ at end of 2010 and 2009.

As for Bank Interest Rates, they followed a downward trend during the last three years. Thus, the average LBP lending rate went down from 9.04% in December 2009 to 7.91% in December 2010, and the average LBP deposit rate declined from 6.75% to 5.68% for the same period. On the other hand, the Interest Rates on all categories of Treasury Bills declined continuously during the last years. Yields on the three-month, six-month, one-year, two-year, three-year and five-year Treasury Bills went down from 4.55%, 5.72%, 5.73%, 6.32%, 7.10% and 7.74% as at end of 2009 to 3.93%, 4.52%, 4.81%, 5.34%, 5.94% and 6.18% respectively, at end of 2010.

Banking Sector

The Banks' consolidated balance sheet noted a growth of 11.9% end of 2010 (22.3% end of 2009), standing at LBP194,355 Billion or US\$128.9 Billion (US\$115.3 Billion end of 2009).

The Volume of **Deposits of Private Sector** in the Banking System (including non-resident deposits) reported a net growth of 11.94% relative to 2009 (23.1% in year 2009). They amounted to LBP161,609 Billion equivalent to US\$107.2 Billion at the end of 2010 (US\$95.8 Billion at end of 2009).

Deposits in Lebanese Pounds increased by 15.8% end of 2010 (they increased by 43.8% end of 2009). They went up from LBP51,310 Billion at end of December 2009 to LBP59,411 Billion at end of December 2010. They represented 36.76% of total bank deposits against 35.54% in year 2009.

While **Deposits in Foreign Currencies** rose by 9.8% in year 2010 (14.1% in year 2009). They increased from US\$61,729 Million at end of December 2009 to US\$67,794 Million at end of December 2010.

Loans and Advances to Private Sector (including loans to non-resident) increased by 23.1% in year 2010 (and by 13.3% in year 2009), reaching LBP52,656 Billion or US\$34.9 Billion (US\$28.4 Billion in year 2009).

Loans in Lebanese Pounds rose by 51.8% (by 34.9% in year 2009). They went up from LBP6,838 Billion at end of December 2009 to LBP10,382 Billion at end of December 2010, and their share of total bank credits reached 19.7% (16% in the previous year).

While **Loans in Foreign Currencies** increased by 17.6% (by 10% in the previous year). They went up from US\$23,838 Million at end of December 2009 to US\$28,042 Million at end of December 2010.

The Loans-to-Deposits ratio stood at 32.6% at 2010 year-end, reflecting a high liquidity of the Lebanese Banks.





Financial Review of the Bank

I - Compliance with new and revised standards

II - Overview

III - Sources of Funds

IV - Application of Funds

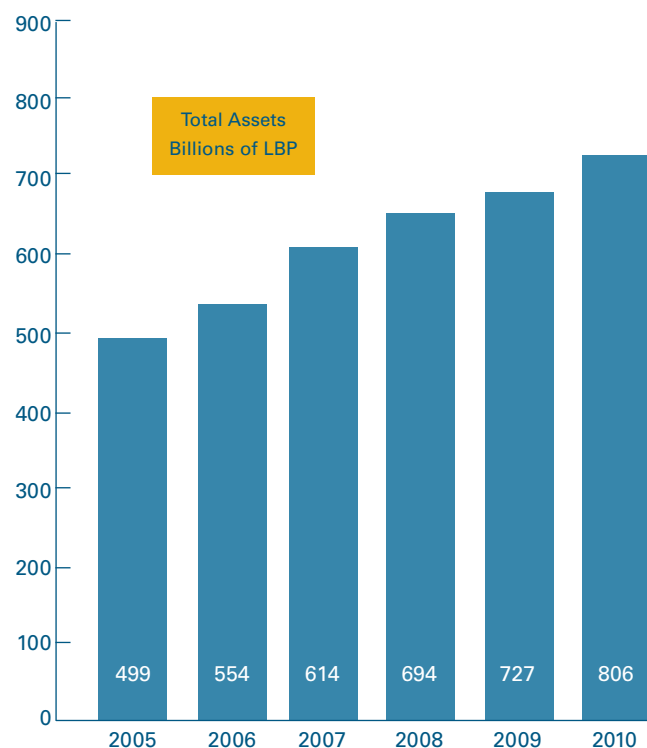
V - Operating Results

I – COMPLIANCE WITH NEW AND REVISED STANDARDS

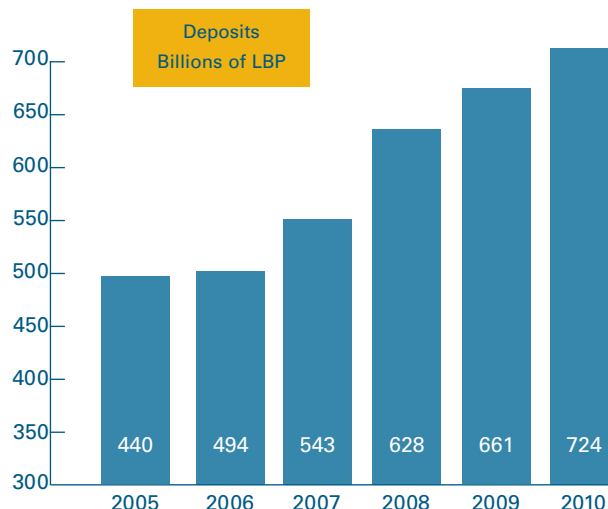
Starting from January 1, 2007, BIT Bank has complied with the IFRS 7 Financial Instruments and the amendments to IAS 1 (presentation of financial statements) issued by the International Financial Reporting Committee. The impact of this process was the expansion of the disclosures in the financial statements regarding the Bank's financial instruments and management of capital.

II - OVERVIEW

The total consolidated balance sheet of BIT Bank registered a 10.8% growth at the end of 2010, compared to a growth of 11.9% in the Lebanese Banking Sector. It went up from LBP727.06 Billion (US\$482.30 Million) at the end of 2009 to LBP805.74 Billion (US\$534.49 Million) at the end of 2010.



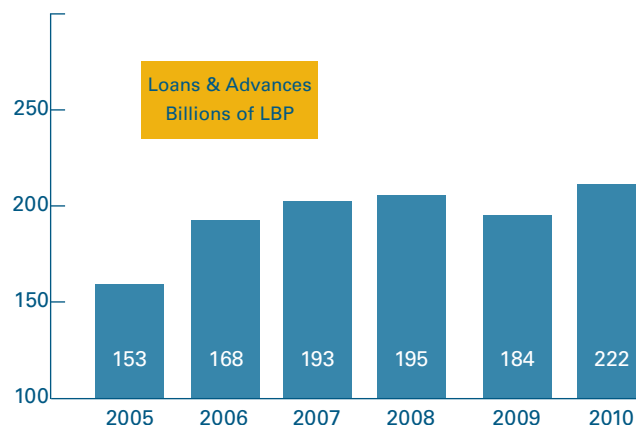
BIT Bank has recorded a growth of 61.5% over the past five years, compared to an 88.1% growth in the Lebanese Banking Sector for the same period.



Customers' Deposits went up from LBP660.61 Billion (US\$438.21 Million) at the end of 2009 to LBP723.62 Billion (US\$480.01 Million) at the end of 2010.

They progressed by 9.54% following the same trend as Total Assets (in parallel, Deposits in the Lebanese Banking Sector grew by 11.94%).

BIT Bank's Customer Deposits has registered a growth of 64.5% over the past five years, compared to an 88.1% growth of Customer Deposits in the Lebanese Banking Sector for the same period.



At the end of 2010, total Loans and Advances to customers increased by 20.7% (compared to a 23.1% growth in the Lebanese Banking Sector). They varied from LBP183.80 Billion (US\$121.92 Million) to LBP221.89 Billion (US\$147.19 Million).

Loans and Advances to Customers continued to evolve at a slow pace. They grew by 45.1% over the past five years, compared to a 124.9% growth of Loans and Advances to Customers in the Lebanese Banking Sector for the same period.

Loans to Deposits ratio in Foreign Currencies increased from 37.85% in 2009 to 43.42% in 2010 year-end. And the Loans to Deposits ratio in LBP went down from 6.5% in 2009 to 6.3% in 2010 year-end.

The liquidity of the Bank has been maintained on a high level to secure a better and more sound assets readiness.

The liquidity ratio (cash, C.B., banks-net, T/Bs in LBP and US Dollar and available-for-sale securities over deposits net of cash collateral) is maintained at a high level and is composed of the following:

Net liquidity ratio	2010	2009
LBP	98.81%	96.04%
Foreign Currencies	73.35%	72.72%
Compounded ratio	83.15%	80.87%

The net liquidity ratio in US\$ which excludes TBs in Foreign Currencies and the compulsory reserve deposit at the BDL according to circular N°236 of the Banking Control Commission stood at 16.87% as at December 2010 (minimum required by said circular being 10%).

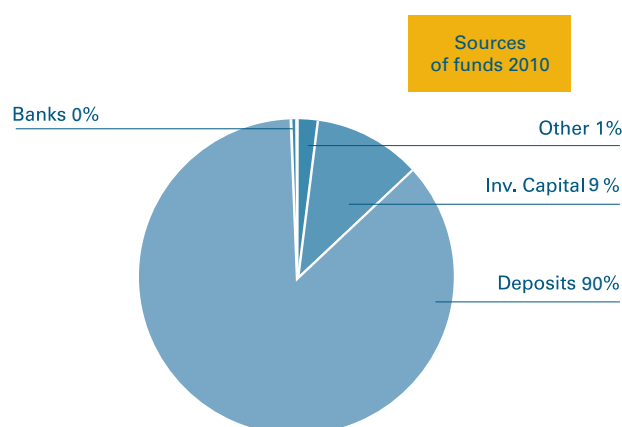
III - SOURCES OF FUNDS

The main components of BIT's sources of funds are as follow:

Millions of LBP	2010	2009
Banks	3,909	5,551
Deposits	723,622	660,609
Other financial accounts	6,643	5,388
Equity	71,567	55,514

BIT has a solid funding base. Customer deposits provide most of the funding of the Bank (90%).

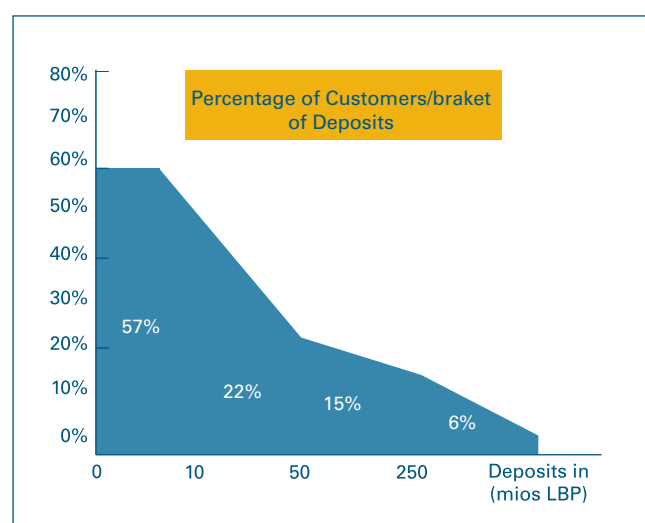
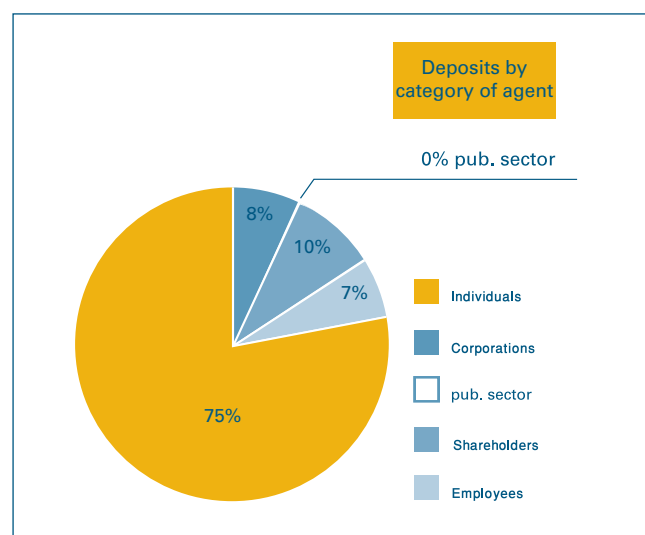
And 9% of BIT's funding is from Investment Capital. The share of Banks and Financial Institutions is insignificant (0.5%).



a - Deposits:

Following the tendency of the whole sector, the share of Deposits in Foreign Currency continued to decrease during the year. It went down from 68.0% at December 31, 2009 to 65.6% at December 31, 2010, while the share of Deposits in Lebanese Pound progressed from 32.0% to 34.4% (in the Lebanese Banking Sector, the repartition is as follow at December 31, 2010: 63.2% Deposits in F.C. and 36.8% Deposits in Lebanese Pound).

Within the customer accounts, the majority (80.67%) are in the form of term deposits.



b - Equity

The Bank continued to enforce its capital base in the form of cash contribution to Capital. For that, between 1992 and 1997, the shareholders made a non-refundable and interest free capital injection of US\$9.725 Million. In 2006 and 2010, they increased these contributions by US\$4.5 Million and US\$10 Million respectively. Thus, the Shareholders' cash contribution amounted to US\$24.225 Million as at December 31, 2010. Further, the Bank is undertaking a new consolidation of its Tier one capital through inviting new shareholders to inject USD 30 Million in the year 2011. This increase is subject to the normal authorization process at the Central Bank of Lebanon. The Bank is expecting this approval to realize the contemplated increase at the latest by the end of 2011. These amounts will support the Group in developing its activities. They are booked and maintained in foreign currency thus providing a hedge against national currency fluctuation.

Further, the Bank has conducted a partial revaluation of assets originally booked at long-out-of-date acquisition prices, revalued in 1996 to take advantage of tax laws allowing a concessionary tax rate of only 1.5% on such revaluations. Another advantage of the revaluation is a 10% saving on dividend withholding taxes to the extent dividends do not exceed the amount of the revaluation surplus. The Central Bank of Lebanon has given its approval on this revaluation on 18.07.1997.

The Bank's net worth amounted to LBP71,567 Million or US\$47.5 Million at December 31, 2010 (LBP55,514 Million or US\$36.8 Million in 2009).

The following figures outline the Bank's capital base components and development:

	2010	2009
	Millions of LBP	
Capital/Reserves/Net Income for the year/Retained Earnings	14,047	13,069
Cash contribution to Capital (in US\$)	36,519	21,444
a- Tier I Capital	50,566	34,513
Capital gain on assets	21,001	21,001
b- Tier II Capital	21,001	21,001
Shareholders' Equity (a + b)	71,567	55,514

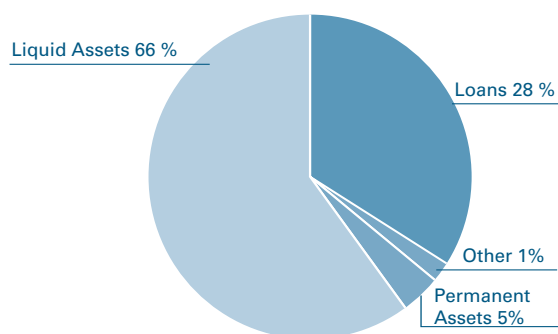
The ratios indicated here under are an indication of the financial strength of the Bank in respect of its level of capitalization.

	2010	2009
Ratio Equity to Assets	8.88%	7.63%
Capital Adequacy Ratio (Basel II)	13.24%	11.13%
Deposits to Equity	10.11	11.90

IV - APPLICATION OF FUNDS

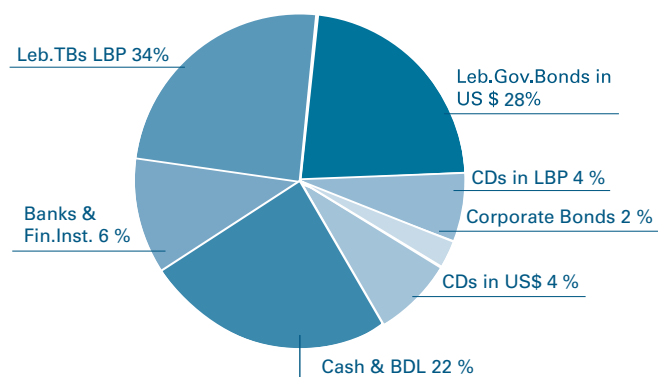
Millions of LBP	2010	2009
Liquid Assets	534,269	491,835
Loans and Advances	221,889	183,802
Other financial accounts	8,285	7,465
Permanent assets	41,298	43,960

Application of funds 2010



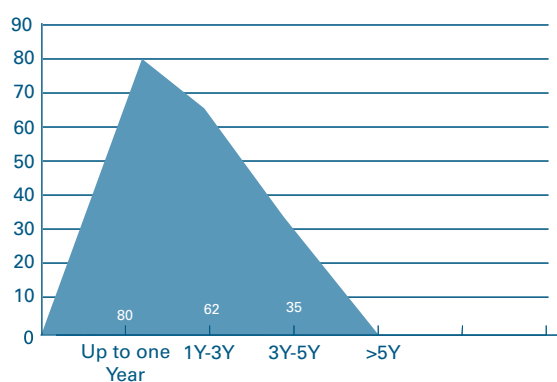
a - Liquid Assets:

Breakdown of Liquid Assets

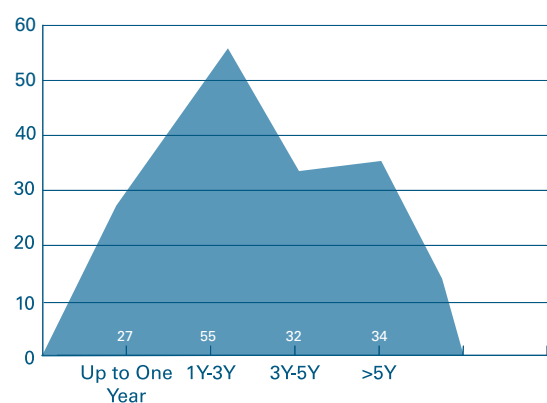


The share of Loans increased from 25% in 2009 to 28% in 2010.

Lebanese TBs in LBP
Billions of LBP

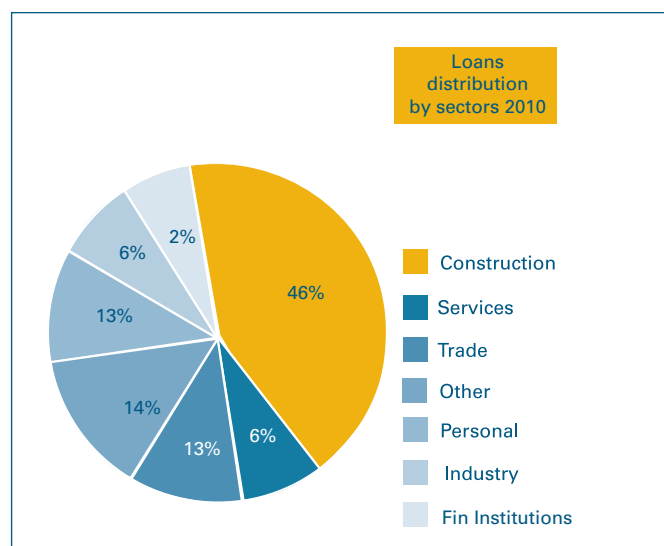
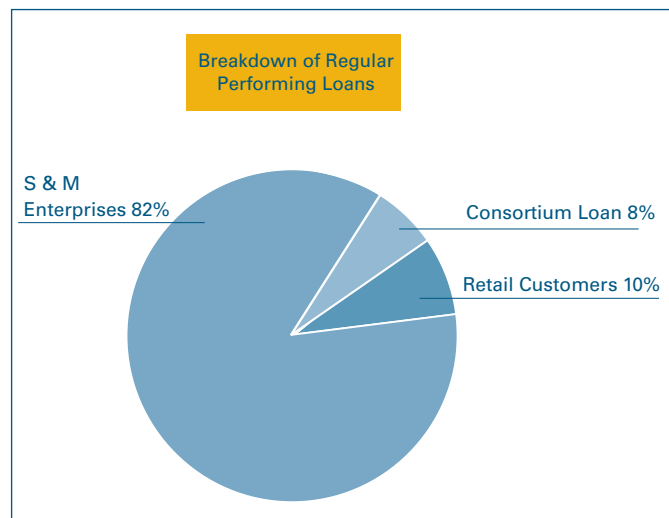


Lebanese Gov. Bonds
Billions of LBP



b - Loans and Advances:

They are allocated at December 31, 2010 for 93% loans in Foreign Currency, and for only 7% loans in Lebanese Pound. In the Lebanese Banking Sector, Loans to Private Sector are allocated for 80.3% loans in Foreign Currency against 19.7% loans in Lebanese Pound.



The provisions for bad debts are set up against specific accounts to offset the losses that may result there from. These provisions are determined on the basis of an assessment of credit risks updated regularly. This credit loss assessment is made by three different parties:

1. The Internal Audit department of the Bank which is a dependent party and performs its credit risk assessment regularly every 3 months.
2. The external Auditors Messrs. Deloitte & Touche who perform their credit risk assessment while conducting their annual audit of the Bank's accounts. And,
3. The Banking Control Commission which is an independent institution acting as a regulatory and as a control body on behalf of the Central Bank of Lebanon.

The Bank has complied with the risk assessment of all above parties and maintains therefore adequate provisions covering 100% the required provisions by these parties.

The credit loss assessment is made based on objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is based on the value of real guarantees supporting the debt, discounted to 60% of its estimated value. Any impairment loss being assessed based on the difference between the asset carrying value and the recoverable amount estimated as indicated above is provided for and included in the determination of the results of operations. Starting fiscal year 2001 and in conformity with International Accounting Standard #39, the impairment loss indicated above would be assessed based on the difference between the asset carrying value and the present value of future anticipated cash flows, taking into consideration the liquidation value of the guarantee in hand. There was no impact resulting from the application of this principle on the December 31, 2010 financial statements of the Bank.

The Asset Quality ratios are the following:

	2010	2009
Provision coverage=Provisions/ Total doubtful loans	64.21%	75.37%
Share of net doubtful loans to Total loans	4.74%	3.45%
Net doubtful loans/ Total equity	14.70%	11.43%

V - OPERATING RESULTS

BIT Bank's operating policy is a very conservative one. Keeping at December 31, 2010 a risk based capital ratio of 13.24% and a liquidity ratio of 83.15% reduces in fact the profitability of the Bank.

In Thousands of US\$	2010	2009
Net interest income	11,451	8,241
Net financial revenues before allowance for impairment of financial assets	12,345	9,278
Net income before allowance for impairment of financial assets	1,325	1,418

Therefore, the main profitability ratios of the Bank are as follow:

	2010	2009
R.O.A.A.	0.26%	0.30%
Return on average paid up capital	6.06%	8.40%
Net Margin	10.73%	15.28%
Overhead to revenue	33.36%	35.75%
Cost of resources to revenue	64.13%	70.65%

It is the Bank's policy that a big portion of the yearly profits be allocated to provisions for impairment of financial assets. In this respect, a net amount of US\$541,241 relating to year 2010 was transferred from related year profits to the provisions account (US\$356,225 in year 2009).

The allocation of profits between provisions for impairment of financial assets and net income is to a large extent driven to strengthen the bank's provisions.





Consolidated Financial
Statements and
Auditor's Report
year ended
December 31, 2010

• **Independent Auditor's Report**

Consolidated Financial Statements:

- **Consolidated Statement of Financial Position**
- **Consolidated Income Statement**
- **Consolidated Statement of Comprehensive Income**
- **Consolidated Statement of Changes in Equity**
- **Consolidated Statement of Cash Flows**
- **Notes to the Consolidated Financial Statements**



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INDEPENDENT AUDITOR'S REPORT

To the Shareholders
Banque de l'Industrie et du Travail S.A.L.
Beirut, Lebanon

We have audited the accompanying consolidated financial statements of Banque de l'Industrie et du Travail S.A.L. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2010, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements, within the framework of the existing banking laws in Lebanon. The procedures selected depend on our 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, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Banque de l'Industrie et du Travail S.A.L. and its subsidiaries as of December 31, 2010, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Beirut, Lebanon
June 13, 2011


Deloitte & Touche

Consolidated Statement of Financial Position

D e c e m b e r 3 1 ,

ASSETS	Notes	2010 LBP'000	2009 LBP'000
Cash and Central Bank	5	117,853,917	104,784,955
Deposits with banks and financial institutions	6	28,767,006	74,427,296
Loans and advances to customers	7	221,888,430	183,801,727
Available-for-sale investment securities	8	40,120,683	8,879,322
Held-to-maturity investment securities	8	351,635,114	307,943,564
Customers' liability under acceptances	9	528,366	355,037
Assets acquired in satisfaction of loans	10	19,645,029	21,829,475
Property and equipment	11	21,653,294	22,130,277
Intangible assets	12	277,452	159,175
Other assets	13	3,371,471	2,751,239
Total Assets		805,740,762	727,062,067

FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:

Documentary and commercial letters of credit	30	186,429	107,016
Guarantees and standby letters of credit	30	10,479,702	29,214,273
FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT	31	47,229,828	52,820,396

THE ACCOMPANYING NOTES 1 TO 37 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Financial Position

D e c e m b e r 3 1 ,

LIABILITIES	Notes	2010 LBP'000	2009 LBP'000
Deposits and borrowings from banks	14	3,908,745	5,551,301
Customers' deposits and credit balances	15	652,717,585	586,344,960
Related parties' deposits and credit balances	16	70,904,268	74,263,851
Customers' acceptance liability	9	528,366	355,037
Other liabilities	17	3,556,127	2,864,154
Provisions	18	2,559,105	2,168,891
Total liabilities		734,174,196	671,548,194
EQUITY			
Share capital	19	4,000,000	4,000,000
Shareholders' cash contribution to capital	20	36,519,188	21,444,188
Reserves	21	6,161,885	5,644,438
Owned buildings revaluation surplus	22	21,000,197	21,000,457
Cumulative change in fair value of investment securities	23	2,764,179	2,907,603
Profit for the year		1,121,117	517,187
Total equity		71,566,566	55,513,873
Total liabilities and equity		805,740,762	727,062,067

THE ACCOMPANYING NOTES 1 TO 37 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Income Statement

	Notes	Year Ended December 31,	
		2010 LBP'000	2009 LBP'000
Interest income	24	48,125,781	42,336,459
Interest expense	25	(30,863,155)	(29,913,226)
Net interest income		17,262,626	12,423,233
Fee and commission income	26	1,581,484	1,535,333
Fee and commission expense	27	(617,453)	(252,683)
Net fee and commission income		964,031	1,282,650
Other operating income	28	383,223	281,069
Net financial revenues		18,609,880	13,986,952
Allowance for impairment of loans and advances	7	(726,701)	(537,009)
Allowance for impairment of investment securities	8	(89,220)	-
Net financial revenues after allowance for impairment of financial assets		17,793,959	13,449,943
Staff costs	29	(10,015,511)	(9,529,246)
Administrative expenses		(4,726,594)	(4,404,957)
Depreciation and amortization	11, 12	(1,314,058)	(1,201,286)
Gain on sale of property and equipment and assets acquired in satisfaction of loans		28,420	2,671,377
Other income		213,516	346,406
Profit before income tax		1,979,732	1,332,237
Income tax expense	17	(858,615)	(815,050)
Profit for the year		1,121,117	517,187

THE ACCOMPANYING NOTES 1 TO 37 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Comprehensive Income

	Notes	Year Ended December 31,	
		2010	2009
		LBP'000	LBP'000
Profit for the year		1,121,117	517,187
Other comprehensive income:			
Unrealized (loss)/gain on available-for-sale investments		(143,424)	430,844
Total comprehensive income for the year		977,693	948,031

THE ACCOMPANYING NOTES 1 TO 37 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Changes in Equity

	Shareholders'			Owned	Cumulative	Retained	Profit	Total
	Share	Cash	Reserves	Buildings	Change in Fair			
	Capital	Contribution		Revaluation	Value of Investment	Earnings	for the Year	
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance at January 1, 2009	4,000,000	21,444,188	5,205,923	21,000,457	2,411,845	498,320	-	54,560,733
Total comprehensive income for the year	-	-	-	-	430,844	-	517,187	948,031
Other movements	-	-	-	-	64,914	(59,805)	-	5,109
Transfer to reserves	-	-	438,515	-	-	(438,515)	-	-
Balance at December 31, 2009	4,000,000	21,444,188	5,644,438	21,000,457	2,907,603	-	517,187	55,513,873
Total comprehensive income for the year	-	-	-	-	(143,424)	-	1,121,117	977,693
Transfer to reserves	-	-	517,447	(260)	-	-	(517,187)	-
Shareholders' cash contribution to capital - Note 20	-	15,075,000	-	-	-	-	-	15,075,000
Balance at December 31, 2010	4,000,000	36,519,188	6,161,885	21,000,197	2,764,179	-	1,121,117	71,566,566

THE ACCOMPANYING NOTES 1 TO 37 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Statement of Cash Flows

Year Ended December 31,

Notes	2010	2009
	LBP'000	LBP'000
Cash flows from operating activities:		
Profit for the year before tax	1,979,732	1,332,237
Adjustments for:		
Interest income	(48,125,781)	(42,336,459)
Interest expense	30,863,155	29,913,226
Allowance for impairment of loans and advances	7 726,701	537,009
Allowance for impairment of investment securities	89,220	-
Depreciation and amortization	11, 12 1,314,058	1,201,286
Provision for employee's end-for-service indemnity set up during the year	18 416,721	666,314
Loss on sale of property and equipment	11 223	-
Gain on sale of assets acquired in settlement of loans	(28,643)	(2,671,377)
	(12,764,614)	(11,357,764)
Net (increase)/decrease in loans and advances to customers	(38,480,695)	3,312,418
Net (increase)/decrease in compulsory reserve and term placements with Central Bank of Lebanon and other banks	(13,574,666)	36,647,617
Net (increase) in other assets	33 (620,232)	(235,597)
Net increase/(decrease) in other liabilities	691,973	(2,656,576)
Net increase in customers' deposits and credit balances	66,068,612	18,833,540
Net (decrease)/increase in related parties' deposits and credit balances	(3,372,046)	13,720,961
Provisions settled during the year	18 (26,507)	(209,391)
	(2,078,175)	58,055,208
Interest received	47,575,444	42,175,726
Interest paid	(30,548,094)	(29,807,702)
Income tax paid	(858,615)	(815,050)
Net cash generated by operating activities	14,090,560	69,608,182
Cash flows from investing activities:		
Purchase of property and equipment	11 (777,409)	(432,663)
Proceeds from sale of property and equipment	497	2,323
Increase in intangible assets	12 (178,663)	(77,602)
Proceeds from sale of assets acquired in satisfaction of loans	2,213,089	8,878,094
Net increase in investment securities	33 (75,165,555)	(57,996,464)
Net cash used in investing activities	(73,908,041)	(49,626,312)
Cash flows from financing activities:		
Shareholders' cash contribution to capital	33 15,075,000	-
Net cash generated by financing activities	15,075,000	-
Net (decrease)/increase in cash and cash equivalents	(44,742,481)	19,981,870
Cash and cash equivalents at the beginning of the year	76,714,401	56,732,531
Cash and cash equivalents at the end of the year	33 31,971,920	76,714,401

THE ACCOMPANYING NOTES 1 TO 37 FORM AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Banque de l'Industrie et du Travail S.A.L. (the "Bank") was established in 1960 and registered in the Lebanese Commercial Register under No. 9849 and in the list of banks published by the Central Bank of Lebanon under No. 48. The Bank is owned to the extent of 52.22% by Al Bustania S.A.L. and provides banking services through a network of twelve branches in the different regions of Lebanon. The Bank's headquarters are located in Beirut Central District.

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

2.1 Standards and Interpretations effective for the current period with no effect on the financial statements

The following new and revised standards, interpretations have been adopted in the current period with no material impact on the disclosures and amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements:

Amendments to IFRS 2 <i>Share-based Payment - Group Cash-settled Share-based Payment Transactions</i> .	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate (or individual) financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
IFRS 3 (revised) <i>Business Combinations</i> and consequential amendments to IAS 27 (revised) <i>Consolidated and Separate Financial Statements</i> , IAS 28 (revised) <i>Investments in Associates</i> and IAS 31 (revised) <i>Interests in Joint Ventures</i> .	IFRS 3 (revised) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interest either at fair value or at the non-controlling interest's share of recognized identifiable net assets of the acquiree. Contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognized in profit or loss. All acquisition-related costs are expensed. IAS 27 (revised in 2008) requires that transactions with non-controlling interests to be recognized within equity, with no impact on goodwill or profit or loss.
Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement - Eligible Hedged Items</i> .	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 <i>Distributions of Non-cash Assets to Owners</i>	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.

IFRIC 18 Transfers of Assets from Customers

The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 *Revenue*.

Improvements to IFRSs issued in 2009 (those that are mandatory for the first time for the financial year beginning January 1, 2010)

- Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* – Disclosures of non-current assets (or disposal groups) classified as held for sale or discontinued operations.
- Amendments to IFRS 8 *Operating Segments* - Disclosure of information about segment assets.
- Amendments to IAS 1 *Presentation of Financial Statements*- Current/non-current classification of convertible instruments.
- Amendments to IAS 7 *Statement of Cash Flows* - Classification of expenditures on unrecognized assets.
- Amendments to IAS 17 *Leases* - Classification of leases of land and buildings.
- Amendments to IAS 36 *Impairment of Assets* - Unit of accounting for goodwill impairment test.
- Amendments to IAS 38 *Intangible Assets* - Additional consequential amendments arising from revised IFRS 3. Measuring the fair value of an intangible asset acquired in a business combination.
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* - Treating loan prepayment penalties as closely related embedded derivatives. Scope exemption for business combination contracts. Cash flow hedge accounting.
- IFRIC 9 *Reassessment of Embedded Derivatives* - Scope of IFRIC 9 and revised IFRS 3.
- IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* - Amendment to the restriction on the entity that can hold hedging instruments.

2.2 Standards and Interpretations in issue but not yet effective

The Group has not applied the following new standards, amendments and interpretations that have been issued but not yet effective:

Effective for Annual Periods Beginning on or After

- Amendments to IFRS 1 Limited Exemption from Comparative IFRS 7 *Disclosures* for First-time Adopters. July 1, 2010
- Amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. Currently, the Group has not entered into such transactions. July 1, 2011
- IFRS 9 *Financial Instruments* issued in November 2009 and amended in October 2010 introduces new requirements for the classification and measurement of financial assets and financial liabilities and for derecognition. IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt investments and equity investments are measured at their fair values. At initial recognition, an entity may make an irrevocable election to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument that is not held for trading. The gain or loss that is presented in other comprehensive income includes any related foreign exchange component. Dividends on such investments are recognized in profit or loss in accordance with IAS 18 *Revenue* unless the dividend clearly represents a recovery of part of the cost of the investment. Amounts presented in other comprehensive income shall not be subsequently transferred to profit or loss. However, the entity may transfer the cumulative gain or loss within equity. Early adoption decided by the Group effective

The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of the issuer. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of the issuer is recognized in other comprehensive income, unless the recognition of the effects of changes in the liability's credit

Notes to the Consolidated Financial Statements

risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss.

The directors anticipate that IFRS 9 will be early adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2011 and that its application will have an impact on amounts reported in respect of the Group's financial assets as summarized under section 2.3 below.

- IAS 24 *Related Party Disclosures* (as revised in 2009) modifies the definition of a related party and simplifies disclosures for government-related entities. The disclosure exemptions introduced in IAS 24 (as revised in 2009) do not affect the Group because it is not a government-related entity. However, disclosures regarding related party transactions and balances in these financial statements may be affected when the revised version of the Standard is applied in future accounting periods because some counterparties that did not previously meet the definition of a related party may come within the scope of the Standard. January 1, 2011
- The amendments to IAS 32 titled *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability. To date, the Group has not entered into any arrangements that would fall within the scope of the amendments. February 1, 2010
- Amendment to IFRIC 14 - *Prepayments of a Minimum Funding Requirement*. The amendments correct an unintended consequence of IFRIC 14 *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. January 1, 2011
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements will be measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued will be recognized in profit or loss. To date, the Group has not entered into transactions of this nature. July 1, 2010

Improvements to IFRSs issued in 2010 - Amendments to: IFRS 3; IFRS 7; IAS1; IAS 27; IAS34; IFRIC 13.

Most of the amendments are effective for annual periods beginning on or after January 1, 2011

2.3 Impact of the adoption of IFRS 9 effective 1 January 2011 on the amounts reported

As discussed in section 2.2 above, the directors anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning January 1, 2011. Management preliminary assessment of the impact of the application of IFRS 9 is summarized as follows:

- In accordance with the provisions of IFRS 9, adoption by the Group in 2011 will be applied retrospectively and comparative amounts will not be restated as permitted by IFRS 9.
- Effective January 1, 2011 debt securities classified as available-for-sale under IAS 39 will be classified as amortized cost. Accordingly it is expected that the cumulative fair value gains in relation to these available-for-sale financial assets amounting to LBP21million will be offset against those financial assets which will be classified as amortized cost.
- Effective January 1, 2011, equity securities classified as available-for-sale under IAS39 will be classified as financial assets at fair value through other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES

A. Statement of Compliance:

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

B. Basis of Measurement:

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

- Land and buildings acquired in years prior to 1993 are measured at their revalued amounts based on market prices prevailing during 1996, and adjusted in 2006 for the Group's headquarters.

- Available-for-sale financial assets are measured at fair value.

Assets and liabilities are grouped according to their nature and are presented in an approximate order that reflects their relative liquidity.

The principal accounting policies are set out below:

C. Basis of Consolidation:

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated subsidiaries consist of:

	Country of Incorporation	Year of Acquisition	Percentage of Ownership %	Business Activity
Société Immobilière Pour La Construction S.A.L. ("SIPC")	Lebanon	1996	100	Real Estate
United Group Brokers S.A.L. ("UGB")	Lebanon	2008	100	Insurance Broker

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting

policies into line with those used by other entities of the Group.

All intra-group transactions balances, income and expenses are eliminated in full on consolidation.

D. Foreign Currencies:

The consolidated financial statements are presented in Lebanese Pound which is the Group's reporting currency. However, the primary currency of the economic environment in which the Group operates (functional currency) is the U.S. Dollar.

Transactions in currencies other than the Group's reporting currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognized in profit or loss in the period in which they arise.

E. Financial assets and Liabilities:

Recognition and Derecognition:

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

A financial asset (or a part of a financial asset, or a part of a group of similar financial assets) is derecognized, when the contractual rights to the cash flows from the financial asset expires.

Debt securities exchanged against securities with longer maturities with similar risks, and issued by the same issuer, are not derecognized because they do not meet the conditions for derecognition. Premiums and dis-

counts derived from the exchange of said securities are deferred to be amortized as a yield enhancement on a time proportionate basis, over the period of the extended maturities.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

Offsetting:

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

Fair Value Measurement:

The fair values of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices;
- the fair value of other financial assets and financial liabilities and those traded in inactive markets (excluding derivative instruments) are determined either based on quoted prices adjusted downward for factors related to illiquidity or in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions, as applicable; and
- the fair value of derivative instruments, are calculated using quoted prices. Where such prices are not available, use is made of discounted cash flow analysis using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.

Impairment of Financial Assets:

Financial assets are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the asset, the estimated future cash flows of the investment have been impacted.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial assets and the present value of estimated future cash flows discounted at the original effective interest rate. Losses are recognized in profit or loss and reduce the carrying amount of the asset to its estimated recoverable amount. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of available-for-sale investment securities, the previously accumulated changes in fair value under equity are recognized in profit or loss in case of impairment losses substantiated by a prolonged decline in fair value of the investment securities. Any increase in fair value subsequent to an impairment loss is not recognized in profit or loss for available-for-sale equity securities. Any increase in fair value subsequent to an impairment loss is recognized in profit or loss for available-for-sale debt securities.

F. Investment Securities:

Investment securities are initially measured at fair value plus incremental direct transaction costs, and subsequently accounted for depending on their classification as either held-to-maturity or available-for-sale.

Held-to-Maturity Investment Securities:

Held-to-maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale.

Held-to-maturity investments are carried at amortized cost using the straight line method where results approximate those resulting from the effective interest method. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Available-for-Sale Investment Securities:

Available-for-sale (AFS) investments are non-derivative investments that are not designated as another category of financial assets. Available-for-sale securities are stated at fair value, except for unquoted equity securities whose fair value cannot be reliably measured are carried at cost. Fair value is determined in the manner described in note 3(E). Gains and losses arising from changes in fair value are recognized directly in other comprehensive income and are accumulated in the "change in fair value of available-for-sale securities" under equity with the exception of impairment losses, interest and foreign exchange gains and losses on monetary assets, which are recognized directly in profit or loss. Where the investment is disposed of or is determined to be impaired, accumulated gains or losses previously recognized in the "change in fair value of available-for-sale securities" are included in profit or loss for the period.

The change in fair value on available-for-sale debt secu-

rities reclassified to held-to-maturity is segregated from the change in fair value of available-for-sale debt securities under equity and is amortized over the remaining term to maturity of the debt security as a yield adjustment.

G. Loans and Advances:

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are measured at amortized cost less any impairment.

Bad and doubtful debts are carried on a cash basis because of doubts and the probability of non-collection of principal and/or interest.

Funds pledged by the shareholders to cover shortfall in provision for credit losses are deducted from the loans and advances portfolio in the financial statements.

H. Financial Liabilities and Equity Instruments Issued by the Group:

Classification as debt or equity:

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Equity instruments:

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

Financial guarantee contract liabilities:

Financial guarantees contracts are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails

to make payment when due in accordance with the terms of a debt instrument. These contracts can have various judicial forms (guarantees, letters of credit, credit-insurance contracts).

Financial guarantee contract liabilities are measured initially at their fair values and are subsequently measured at the higher of:

- the amount of the obligation under the contract, as determined in accordance with IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*; and
- the amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies set out above.

Other financial liabilities:

Other financial liabilities are measured subsequent to initial recognition at amortized cost.

I. Property and Equipment:

Property and equipment except for buildings acquired prior to 1993 are stated at historical cost, less accumulated depreciation and impairment loss, if any. Buildings acquired prior to 1993 are stated at their revalued amounts, based on market prices prevailing during 1996, adjusted in 2006 for the Group's headquarters, less accumulated depreciation and impairment loss, if any. Resulting revaluation surplus is reflected under "Equity".

Depreciation of property and equipment, other than land and advance payments on capital expenditures is calculated systematically using the straight-line method over the estimated useful lives of the related assets using the following annual rates:

Buildings	2½%
Office improvements and installations	20%
Furniture, equipment and machines	9%
Computer equipment	20%
Vehicles	15%

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized under "Other operating income" in the consolidated income statement in the year the asset is derecognized.

J. Intangible Assets:

Intangible assets consisting of computer software are stated at cost and are amortized over a period of 5 years and are subject to impairment testing. Subsequent expenditure on software assets is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditures are expensed as incurred.

K. Assets acquired in satisfaction of loans:

Real estate property acquired through the enforcement of security over loans and advances are measured at cost less any accumulated impairment losses. The acquisition of such assets is regulated by the local banking authorities who require the liquidation of these assets within two years from acquisition. In case of default of liquidation, the regulating authorities require an appropriation of a special reserve from the yearly net income that is reflected under equity.

L. Impairment of Tangible and Intangible Assets:

At each reporting date, the carrying amounts of tangible and intangible assets are reviewed to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount is estimated in order to determine the extent of impairment provision required, if any.

Recoverable amount is defined as the higher of:

- Fair value that reflects market conditions at the reporting date, less cost to sell, if any. To determine fair value the Group adopts the market comparability approach using as indicators the current prices for similar assets in the same location and condition.
- Value in use: the present value of estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life, only applicable to assets with cash generation units.

In this connection, the recoverable amount of the Group's owned properties and of properties acquired in satisfaction of loans, is the estimated market value, as determined by real estate appraisers on the basis of market comparability by comparing with similar transactions in the same geographical area and on the basis of the expected value of a current sale between a willing buyer and a willing seller, that is, other than in a forced or liquidation sale.

The impairment loss is charged to the consolidated income statement.

M. Employees' End-of-Service Indemnities:

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

N. Provisions:

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provision is measured at the best estimate of the consideration required to settle the obligation at the reporting date.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

O. Revenue and Expense Recognition:

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

Interest income and expense presented in the income statement include:

- Interest on financial assets and liabilities at amortized cost.
- Interest on available-for-sale investment securities.

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

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

Dividend income is recognized when the right to receive payment is established.

P. Income Tax:

Income tax expense represents the sum of the tax currently payable and deferred tax. Income tax is recognized in the consolidated income statement except to

the extent that it relates to items recognized directly in other comprehensive income, in which case it is recognized in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using rates enacted at the reporting date. Income tax payable is reflected in the consolidated statement of financial position net of taxes previously settled in the form of withholding tax. The excess of tax previously settled in the form of withholding tax over current tax is not refundable and income tax expense would represent the total amount of tax previously settled.

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

Q. Fiduciary Deposits:

All fiduciary deposits are held on a non-discretionary basis and related risks and rewards belong to the account holders. Accordingly, they are reflected as off-balance sheet accounts.

R. Operating lease agreements:

Lease agreements which do not transfer substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. Operating lease payments are recorded in the consolidated income statement on a straight line basis over the lease term.

S. Cash and Cash Equivalents:

Cash and cash equivalents comprise balances with maturities of a period of three months from initiation, including: cash and balances with the Central Bank, deposits with Banks and financial institutions, less deposits due to banks and financial institutions.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

A. Critical accounting judgments in applying the Group's accounting policies:

Classification of Financial Assets:

The Group's accounting policies provide scope for investment securities to be designated on inception into different categories in certain circumstances based on specific conditions. In classifying investment securities as held-to-maturity, the Group has determined that it has both the positive intent and ability to hold these assets until their maturity as required by in accounting policy under Note 3(F).

B. Key Sources of Estimation Uncertainty:

The following are 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.

Allowances for Credit Losses:

Specific impairment for credit losses is determined by assessing each case individually. This method applies to classified loans and advances and the factors taken into consideration when estimating the allowance for credit losses include the counterparty's credit limit, the counterparty's ability to generate cash flows sufficient to settle its obligations and the value of collateral and potential repossession.

Determining Fair Values:

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

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

Notes to the Consolidated Financial Statements

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

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

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

Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. However, the fair value measurement objective should remain the same; that is, an exit price

from the perspective of a market participant that holds the asset or owes the liability. Unobservable inputs are developed based on the best information available in the circumstances, which may include the reporting entity's own data. Where practical, the discount rate used in the mark to model approach included observable data collected from market participants, including risk free interest rates and credit default swap rates for pricing of credit risk (both own and counter party), and a liquidity risk factor which is added to the applied discount rate. Changes in assumptions about any of these factors could affect the reported fair value of the Lebanese Government debt securities and Central Bank certificates of deposit.

5. CASH AND CENTRAL BANK

This caption consists of the following:

	D e c e m b e r 3 1 ,	
	2010	2009
	LBP'000	LBP'000
Cash on hand	3,533,047	3,901,552
Current accounts with Central Bank of Lebanon	36,842,032	33,218,578
Term placements with Central Bank of Lebanon	77,176,088	67,586,915
Accrued interest receivable	302,750	77,910
	117,853,917	104,784,955

Current accounts with Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pounds totaling LBP33.2billion as of December 31, 2010 (LBP29.2billion in 2009) computed on the basis of 25% and 15% of the average weekly sight and term customers' and related parties' deposits in Lebanese Pounds in accordance with the local banking regulations.

The term placements with Central Bank of Lebanon include the equivalent in foreign currencies of LBP72billion as of December 31, 2010 (LBP67billion in 2009) deposited in accordance with local banking regulations which require banks to maintain interest earning placements in foreign currency to the extent of 15% of customers' and related parties' deposits in foreign currencies, certificates of deposit and loans acquired from non-resident financial institutions.

Compulsory deposits with Central Bank of Lebanon are not available for use in the Group's day-to-day operations and are reflected at amortized cost.

Notes to the Consolidated Financial Statements

Term placements with Central Bank of Lebanon bear the following maturities:

D e c e m b e r 3 1 , 2 0 1 0

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount	Average Interest Rate	Counter Value of Amount in LBP	Average Interest Rate
	LBP'000	%	LBP'000	%
2011	4,850,000	2.88	25,966,690	0.84
2012	-	-	10,552,500	1.14
2013	-	-	20,351,250	1.19
2015	-	-	15,455,648	1.29
	4,850,000		72,326,088	

D e c e m b e r 3 1 , 2 0 0 9

Maturity	LBP Base Accounts		F/Cy Base Accounts	
	Amount	Average Interest Rate	Counter Value of Amount in LBP	Average Interest Rate
	LBP'000	%	LBP'000	%
2010	600,000	3.15	26,284,415	0.41
2011	-	-	8,291,250	0.78
2012	-	-	12,060,000	1.12
2013	-	-	20,351,250	1.17
	600,000		66,986,915	

6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

D e c e m b e r 3 1 ,

	2010	2009
	LBP'000	LBP'000
Checks in course of collection	-	6,925
Current accounts with banks and financial institutions	11,219,764	7,913,729
Term placements with banks and financial institutions	17,470,665	66,474,062
Pledged deposits with banks and financial institutions	74,128	22,919
Accrued interest receivable	2,449	9,661
	28,767,006	74,427,296

Pledged deposits are blocked against banking facilities to finance documentary credit transactions.

Term placements and pledged deposits as of December 31, 2010 and 2009 are mostly denominated in foreign currencies, carry an average interest rate of 0.3% per annum (0.2% per annum during 2009) and mature within one year or less.

Notes to the Consolidated Financial Statements

7. LOANS AND ADVANCES TO CUSTOMERS

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

	D e c e m b e r 3 1 , 2 0 1 0				D e c e m b e r 3 1 , 2 0 0 9			
	Gross Amount Net of Unrealized Interest	Impairment Allowance	Pledged Guarantee Funds	Carrying Amount	Gross Amount Net of Unrealized Interest	Impairment Allowance	Pledged Guarantee Fund	Carrying Amount
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Regular retail customers:								
- Mortgage loans	5,350,295	-	-	5,350,295	6,062,205	-	-	6,062,205
- Personal loans	11,224,873	-	-	11,224,873	10,967,154	-	-	10,967,154
- Overdrafts	1,182,919	-	-	1,182,919	715,659	-	-	715,659
- Other	2,317,267	-	-	2,317,267	2,514,007	-	-	2,514,007
	20,075,354	-	-	20,075,354	20,259,025	-	-	20,259,025
Regular corporate customers:								
- Consortium loan	17,126,704	-	-	17,126,704	-	-	-	-
- Small and medium enterprises	167,253,524	-	(1,035,540)	166,217,985	149,393,084	-	(1,507,490)	147,885,594
	184,380,228	-	(1,035,540)	183,344,689	149,393,084	-	(1,507,490)	147,885,594
Classified corporate customers:								
- Restructured loans	4,949,030	-	-	4,949,030	6,171,666	-	(477,655)	5,694,011
- Substandard loans	4,395,482	-	(256,270)	4,139,212	2,529,995	(701,768)	-	1,828,227
- Doubtful and bad loans	24,995,322	(6,496,514)	(11,084,008)	7,414,800	23,235,742	(6,342,836)	(10,390,673)	6,502,233
	34,339,834	(6,496,514)	(11,340,278)	16,503,042	31,937,403	(7,044,604)	(10,868,328)	14,024,471
Accrued interest receivable	1,965,346	-	-	1,965,346	1,632,637	-	-	1,632,637
	240,760,762	(6,496,514)	(12,375,818)	221,888,430	203,222,149	(7,044,604)	(12,375,818)	183,801,727

Notes to the Consolidated Financial Statements

The carrying value of loans and advances to customers include accidentally temporary debtors with carrying value amounting to LBP555million as of December 31, 2010 (LBP597million in 2009).

The carrying value of loans and advances to customers include loans to related parties in the aggregate of LBP2.5billion as of December 31, 2010 (LBP2.6billion in 2009) that are secured by pledged funds in the aggregate amount of LBP2.1billion as at December 31, 2010 (LBP1.9billion in 2009).

Restructured loans represent classified loans with renegotiated terms.

The movement of unrealized interest on non-performing loans during 2010 and 2009 is summarized as follows:

	2 0 1 0		
	Unrealized Interest on:		
	Doubtful and Bad Loans LBP'000	Substandard Loans LBP'000	Total LBP'000
Balance at January 1	106,627,831	4,159,322	110,787,153
Additions	918,195	237,674	1,155,869
Write-offs	(1,668,296)	(3,256,882)	(4,925,178)
Recoveries	(1,033,027)	(8,480)	(1,041,507)
Transfer to/from doubtful and bad loans	808,984	(808,984)	-
Effect of exchange rates changes	(7,831)	-	(7,831)
Balance at December 31	105,645,856	322,650	105,968,506

	2 0 0 9		
	Unrealized Interest on:		
	Doubtful and Bad Loans LBP'000	Substandard Loans LBP'000	Total LBP'000
Balance at January 1	104,231,242	4,290,062	108,521,304
Additions	5,068,386	51,029	5,119,415
Write-off	(1,788,810)	(181,757)	(1,970,567)
Recoveries	(877,934)	-	(877,934)
Effect of exchange rates changes	(5,273)	(12)	(5,285)
Transfers from off-balance sheet	220	-	220
Balance at December 31	106,627,831	4,159,322	110,787,153

Notes to the Consolidated Financial Statements

The movement of the allowance for impairment of loans and advances to customers and pledged guarantee funds during 2010 and 2009 is as follows:

2010		
	Allowance for Impairment	Pledged Guarantee Funds
	LBP'000	LBP'000
Balance January 1	7,044,604	12,375,818
Additions	787,091	-
Write-offs	(1,271,320)	-
Recoveries	(60,390)	-
Effect of exchange rates changes	(3,471)	-
Balance December 31	6,496,514	12,375,818

2009		
	Allowance for Impairment	Pledged Guarantee Funds
	LBP'000	LBP'000
Balance January 1	6,880,702	12,373,721
Additions	1,619,938	-
Write-offs	(400,177)	-
Recoveries	(1,082,929)	-
Transfers from off balance sheet	28,041	-
Effect of exchange rates changes	(971)	2,097
Balance December 31	7,044,604	12,375,818

The majority of bad and doubtful loans has been delinquent for many years and is subject to various lawsuits pending before the courts and there is reasonable doubt regarding their collection.

Pledged guarantee funds amounting to LBP12billion as at December 31, 2010 (LBP12billion in 2009) were deposited by the shareholders of the Bank in order to cover any shortfall in the amount of provisions set up for bad and doubtful loans.

Notes to the Consolidated Financial Statements

8. INVESTMENT SECURITIES

This caption consists of the following:

December 31, 2010

	Available-for-Sale			Held-to-Maturity		
	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000
Equity securities	4,107,945	-	4,107,945	-	-	-
Lebanese treasury bills	3,276,921	-	3,276,921	174,087,458	-	174,087,458
Lebanese government bonds	-	24,315,900	24,315,900	-	123,906,437	123,906,437
Corporate bonds	-	7,463,934	7,463,934	-	3,520,433	3,520,433
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	21,000,000	22,470,536	43,470,536
	7,384,866	31,779,834	39,164,700	195,087,458	149,897,406	344,984,864
Accrued interest receivable	438,350	517,633	955,983	3,794,611	2,855,639	6,650,250
	7,823,216	32,297,467	40,120,683	198,882,069	152,753,045	351,635,114

December 31, 2009

	Available-for-Sale			Held-to-Maturity		
	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000	LBP LBP'000	C/V of F/Cy LBP'000	Total LBP'000
Equity securities	4,107,945	91,832	4,199,777	-	-	-
Lebanese treasury bills	-	-	-	159,190,232	-	159,190,232
Lebanese Government bonds	-	4,590,857	4,590,857	-	105,050,135	105,050,135
Corporate bonds	-	-	-	-	4,428,046	4,428,046
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	10,973,513	22,424,395	33,397,908
	4,107,945	4,682,689	8,790,634	170,163,745	131,902,576	302,066,321
Accrued interest receivable	-	88,688	88,688	3,427,435	2,449,808	5,877,243
	4,107,945	4,771,377	8,879,322	173,591,180	134,352,384	307,943,564

Notes to the Consolidated Financial Statements

The movement of available-for-sale and held-to-maturity investment securities is summarized as follows:

2 0 1 0

	Available-for-Sale			Held-to-Maturity		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	4,107,945	4,682,689	8,790,634	170,163,745	131,902,576	302,066,321
Additions	3,269,245	41,711,147	44,980,392	64,695,000	43,471,414	108,166,414
Redemption and sale	-	(14,450,247)	(14,450,247)	(39,815,730)	(25,036,260)	(64,851,990)
Change in fair value	40,431	(183,855)	(143,424)	-	-	-
Effect of discount/premium amortization	(32,755)	20,100	(12,655)	44,443	(440,324)	(395,881)
Balance December 31	7,384,866	31,779,834	39,164,700	195,087,458	149,897,406	344,984,864

2 0 0 9

	Available-for-Sale			Held-to-Maturity		
	LBP	C/V of F/Cy	Total	LBP	C/V of F/Cy	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Balance January 1	4,107,945	4,228,763	8,336,708	134,396,386	109,691,442	244,087,828
Additions	-	2,982	2,982	57,632,000	36,454,068	94,086,068
Redemption and sale	-	-	-	(22,000,000)	(14,321,250)	(36,321,250)
Change in fair value	-	430,844	430,844	-	-	-
Effect of discount/premium amortization	-	20,100	20,100	135,359	78,316	213,675
Balance December 31	4,107,945	4,682,689	8,790,634	170,163,745	131,902,576	302,066,321

A. Available-for-sale investment securities:

December 31, 2010

	LBP			C/V in LBP of F/Cy		
	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	895,722	4,107,945	3,212,223	-	-	-
Lebanese treasury bills	3,236,490	3,276,921	40,431	-	-	-
Lebanese government bonds	-	-	-	24,304,232	24,315,900	11,668
Corporate bonds	-	-	-	7,537,500	7,463,934	(73,566)
	4,132,212	7,384,866	3,252,654	31,841,732	31,779,834	(61,898)

December 31, 2009

	LBP			C/V in LBP of F/Cy		
	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value	Amortized Cost	Carrying Fair Value	Cumulative Change in Fair Value
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unquoted equity securities	895,722	4,107,945	3,212,223	91,832	91,832	-
Lebanese Government bonds	-	-	-	4,468,900	4,590,857	121,957
	895,722	4,107,945	3,212,223	4,560,732	4,682,689	121,957

During 2010, equity securities in the amount of LBP89million (Nil in 2009) were impaired and written off to the consolidated income statement.

Notes to the Consolidated Financial Statements

Available-for-sale debt securities are segregated over the remaining periods to maturity as follows:

December 31, 2010

	LBP				Counter Value of F/Cy			
	Nominal	Amortized	Carrying	Yield	Nominal	Amortized	Carrying	Yield
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:								
- Up to 1 year	-	-	-	-	1,507,500	1,550,765	1,548,956	7.50
- From 1 to 3 years	-	-	-	-	15,527,250	16,693,318	16,737,095	8.13
- Beyond 3 years	-	-	-	-	6,060,150	6,060,149	6,029,849	5.15
	-	-	-		23,094,900	24,304,232	24,315,900	
Corporate bonds:								
- From 1 to 3 years	-	-	-		4,522,500	4,522,500	4,522,500	4.50
- From 3 to 5 years	-	-	-		3,015,000	3,015,000	2,941,434	2.40
	-	-	-		7,537,500	7,537,500	7,463,934	
Lebanese treasury bills:								
- From 1 to 3 years	1,000,000	1,113,823	1,122,166	8.74	-	-	-	-
- From 3 to 5 years	2,000,000	2,122,667	2,154,755	7.44	-	-	-	-
	3,000,000	3,236,490	3,276,921		-	-	-	
	3,000,000	3,236,490	3,276,921		30,632,400	31,841,732	31,779,834	

December 31, 2009

Remaining Period to Maturity	Counter Value of F/Cy			
	Nominal	Amortized	Carrying	Yield
	Value	Cost	Fair Value	%
	LBP'000	LBP'000	LBP'000	%
Lebanese Government bonds:				
- 3 years to 5 years	3,015,000	2,961,400	2,978,435	7.56
- Beyond 5 years	1,507,500	1,507,500	1,612,422	8.25
	4,522,500	4,468,900	4,590,857	

Notes to the Consolidated Financial Statements

B. Held-to-maturity investment securities:

Held-to-maturity investments are segregated over remaining period to maturity as follows:

D e c e m b e r 3 1 , 2 0 1 0

Remaining Period to Maturity	LBP				Counter Value of F/Cy			
	Redemption Value	Carrying Value	Fair Value	Yield	Redemption Value	Carrying Value	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese treasury bills:								
- Up to 1 year	79,750,000	79,614,770	125,156,125	9.17	-	-	-	-
- 1 year to 3 years	61,154,000	61,253,023	87,699,324	7.83	-	-	-	-
- 3 years to 5 years	33,207,000	33,219,665	41,413,942	6.89	-	-	-	-
	174,111,000	174,087,458	254,269,391		-	-	-	
Lebanese Government bonds:								
- Up to 1 year	-	-	-	-	25,273,239	25,263,854	25,406,485	7.72
- 1 year to 3 years	-	-	-	-	37,973,925	38,687,921	38,925,660	7.94
- 3 years to 5 years	-	-	-	-	26,309,528	26,308,045	27,098,124	7.57
- Beyond 5 years	-	-	-	-	33,748,403	33,646,617	37,920,910	8.68
	-	-	-		123,305,095	123,906,437	129,351,179	
Certificates of deposit issued by Central Bank of Lebanon:								
- 3 years to 5 years	12,000,000	12,000,000	16,084,740	8.31	-	-	-	-
- 5 years to 10 years	9,000,000	9,000,000	8,876,272	7.03	22,763,250	22,470,536	25,715,810	10.00
	21,000,000	21,000,000	24,961,012		22,763,250	22,470,536	25,715,810	
Corporate bonds:								
- 1 year to 3 years	-	-	-	-	-	-	-	-
- 3 years to 5 years	-	-	-	-	3,504,940	3,520,433	3,520,433	5.38
	-	-	-		3,504,940	3,520,433	3,520,433	
Grand total	195,111,000	195,087,458	279,230,403		149,573,285	149,897,406	158,587,422	

D e c e m b e r 3 1 , 2 0 0 9

Remaining Period to Maturity	LBP				Counter Value of F/Cy			
	Redemption Value	Carrying Value	Fair Value	Yield	Redemption Value	Carrying Value	Fair Value	Yield
	LBP'000	LBP'000	LBP'000	%	LBP'000	LBP'000	LBP'000	%
Lebanese treasury bills:								
- Up to 1 year	32,815,730	32,776,987	34,206,004	9.82	-	-	-	-
- 1 year to 3 years	119,634,000	119,622,234	127,263,334	8.90	-	-	-	-
- 3 years to 5 years	6,782,000	6,791,011	7,162,730	8.44	-	-	-	-
	159,231,730	159,190,232	168,632,068		-	-	-	
Lebanese Government bonds:								
- Up to 1 year	-	-	-	-	5,276,250	5,275,710	5,148,902	7.15
- 1 year to 3 years	-	-	-	-	32,742,900	32,430,562	31,710,478	7.88
- 3 years to 5 years	-	-	-	-	27,210,375	27,162,346	26,066,589	8.29
- Beyond 5 years	-	-	-	-	40,296,983	40,181,517	40,771,178	8.25
	-	-	-		105,526,508	105,050,135	103,697,147	
Certificates of deposit issued by Central Bank of Lebanon:								
- 3 years to 5 years	8,000,000	7,973,513	8,399,850	8.86	-	-	-	-
- 5 years to 10 years	3,000,000	3,000,000	2,782,503	7.00	22,763,250	22,424,395	25,394,682	10.30
	11,000,000	10,973,513	11,182,353		22,763,250	22,424,395	25,394,682	
Corporate Bonds:								
- 1 year to 3 years	-	-	-	-	753,750	764,301	754,881	7.42
- 3 years to 5 years	-	-	-	-	3,667,450	3,663,745	3,562,216	5.33
	-	-	-		4,421,200	4,428,046	4,317,097	
Grand total	170,231,730	170,163,745	179,814,421		132,710,958	131,902,576	133,408,92	

Held-to-maturity certificates of deposit in foreign currency issued by the Central Bank of Lebanon represent certificates of deposit with maturity 2015 and carry a put option to be exercised at a redemption value of 91.63% of par in year 2012. The management intention is to hold these financial assets until final maturity in 2015.

9. CUSTOMERS' LIABILITY UNDER ACCEPTANCES

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

10. ASSETS ACQUIRED IN SATISFACTION OF LOANS

Assets acquired in satisfaction of loans represent real estate acquired through enforcement of security over loans and advances to customers.

The movement of assets acquired in satisfaction of loans during 2010 and 2009 was as follows:

	LBP'000
Cost:	
Balance at January 1, 2009	17,674,305
Additions	7,597,321
Transfer from other assets	2,764,566
Disposals	<u>(6,206,717)</u>
Balance at December 31, 2009	21,829,475
Transfer to off-Balance sheet against fiduciary accounts	(1,470,905)
Disposals	<u>(713,541)</u>
Balance at December 31, 2010	<u>19,645,029</u>

The acquisition of assets in settlement of loans in Lebanon is regulated by the banking regulatory authorities and these should be liquidated within 2 years. In case of default of liquidation, a regulatory reserve should be appropriated from the yearly net profits over a period of 5 years. This reserve is reduced to 5% of the gross cost when certain conditions linked to the restructuring of non performing loans portfolio are met. This regulatory reserve is reflected under reserves under equity (Note 21).

Notes to the Consolidated Financial Statements

11. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2010 and 2009 was as follows:

	Land and Buildings	Furniture and Fixtures	Computer Equipment	Vehicles	Installations and Improvement	Office Equipment	Electrical and Industrial Equipment	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Cost/Revaluation:								
Balance at January 1, 2009	23,036,061	609,297	2,274,190	129,624	3,494,562	1,052,687	595,738	31,192,159
Additions	-	20,913	166,563	45,753	80,856	105,048	13,530	432,663
Disposals	-	(230)	(180)	(49,865)	-	(35,232)	-	(85,507)
Balance at December 31, 2009	23,036,061	629,980	2,440,573	125,512	3,575,418	1,122,503	609,268	31,539,315
Additions	-	40,091	313,100	-	187,039	237,179	-	777,409
Disposals	-	-	(464,969)	-	-	(8,963)	-	(473,932)
Balance at December 31, 2010	23,036,061	670,071	2,288,704	125,512	3,762,457	1,350,719	609,268	31,842,792
Accumulated depreciation:								
Balance at January 1, 2009	(2,765,015)	(234,732)	(1,946,973)	(112,473)	(2,182,337)	(668,233)	(430,326)	(8,340,089)
Depreciation	(497,518)	(52,480)	(115,804)	-	(382,467)	(79,947)	(23,917)	(1,152,133)
Eliminated upon disposals	-	-	-	48,054	-	35,130	-	83,184
Balance at December 31, 2009	(3,262,533)	(287,212)	(2,062,777)	(64,419)	(2,564,804)	(713,050)	(454,243)	(9,409,038)
Depreciation	(492,455)	(53,500)	(149,266)	(22,755)	(399,963)	(95,238)	(40,495)	(1,253,672)
Eliminated upon disposals	-	-	465,537	-	-	7,675	-	473,212
Balance at December 31, 2010	(3,754,988)	(340,712)	(1,746,506)	(87,174)	(2,964,767)	(800,613)	(494,738)	(10,189,498)
Carrying amount:								
At December 31, 2010	19,281,073	329,359	542,198	38,338	797,690	550,106	114,530	21,653,294
At December 31, 2009	19,773,528	342,768	377,796	61,093	1,010,614	409,453	155,025	22,130,277

Notes to the Consolidated Financial Statements

12. INTANGIBLE ASSETS

The movement of intangible assets during 2010 and 2009 was as follows:

	Purchased Software LBP'000
Cost	
Balance at January 1, 2009	258,774
Acquisitions	77,602
Balance at December 31, 2009	336,376
Acquisitions	178,663
Balance at December 31, 2010	515,039
Amortization:	
Balance at January 1, 2009	(128,048)
Amortization	(49,153)
Balance at December 31, 2009	(177,201)
Amortization	(60,386)
Balance at December 31, 2010	(237,587)
Carrying Amounts:	
December 31, 2010	277,452
December 31, 2009	159,175

13. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2010	2009
	LBP'000	LBP'000
Assets in process of acquisition in settlement of loans	1,747,072	1,201,749
Deferred charges	29,547	30,603
Accrued income	960	621
Prepayments	219,908	321,824
Sundry accounts receivable	1,373,984	1,196,442
Doubtful receivables	-	5,138,355
Pledged guarantee funds	-	(5,138,355)
	3,371,471	2,751,239

Notes to the Consolidated Financial Statements

Assets in process of acquisition in settlement of loans represent the value of loans written-off against enforcement of real estate security held and will be reallocated to "Assets acquired in satisfaction of loans" once the registration in the name of the Bank is completed.

During 2010, doubtful receivables in the amount of LBP5.1 billion were written off against pledged guarantee funds deposited by the shareholders of the Group.

14. DEPOSITS AND BORROWINGS FROM BANKS

Deposits and borrowings from banks are reflected at amortized cost and consist of the following:

	December 31,	
	2010	2009
	LBP'000	LBP'000
Current deposits	25,580	34,339
Money market deposits	3,882,672	5,515,054
Accrued interest payable	493	1,908
	3,908,745	5,551,301

Money market deposits represent the counter value of CHF2,420,000 as of December 31, 2010 (CHF3,800,000 in 2009), and are subject to interest at the rate of 0.4% per annum (0.5% per annum in 2009) with maturity January 2011 (January 2010, for the deposits outstanding as at December 31, 2009).

Notes to the Consolidated Financial Statements

15. CUSTOMERS' DEPOSITS AND CREDIT BALANCES

Customers' deposits and credit balances are reflected at amortized cost and consist of the following:

	D e c e m b e r 3 1 , 2 0 1 0			D e c e m b e r 3 1 , 2 0 0 9		
	LBP		Total	Counter Value in LBP of F/Cy		
	Interest Bearing	Non-Interest Bearing		Interest Bearing	Non-Interest Bearing	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Deposits from customers:						
- Current / demand deposits	10,756,675	31,470,657	42,227,332	3,050,788	26,499,931	29,550,719
- Term deposits	522,336,825	-	522,336,825	492,817,026	-	492,817,026
- Collateral against loans and advances	83,308,467	-	83,308,467	58,887,630	-	58,887,630
	616,401,967	31,470,657	647,872,624	554,755,444	26,499,931	581,255,375
Margin and other accounts:						
- Margins for irrevocable import letters of credit	-	90,974	90,974	-	434,474	434,474
- Margins on letters of guarantee	-	1,814,942	1,814,942	-	1,493,841	1,493,841
- Other margins	-	703,556	703,556	-	1,229,794	1,229,794
	-	2,609,472	2,609,472	-	3,158,109	3,158,109
Accrued interest payable	2,235,489	-	2,235,489	1,931,476	-	1,931,476
Total	618,637,456	34,080,129	652,717,585	556,686,920	29,658,040	586,344,960

Notes to the Consolidated Financial Statements

Deposits from customers (excluding accrued interest payable) at amortized cost are allocated by brackets of deposits as follows:

D e c e m b e r 3 1 , 2 0 1 0

	Total Deposits	% of Total Deposits	No. of Customers
	LBP'000	%	
Less than LBP250million	192,261,252	29	7,539
From LBP250million to LBP750million	130,622,821	20	313
From LBP750 million to LBP1.5billion	82,378,841	13	80
More than LBP1.5billion	245,219,182	38	59
	650,482,096	100	7,991

D e c e m b e r 3 1 , 2 0 0 9

	Total Deposits	% of Total Deposits	No. of Customers
	LBP'000	%	
Less than LBP250million	188,354,782	33	7,520
From LBP250million to LBP750million	113,141,965	19	283
From LBP750million to LBP1.5billion	72,751,745	12	73
More than LBP1.5billion	210,164,992	36	54
	584,413,484	100	7,930

Deposits from customers and related parties include at December 31, 2010 coded deposit accounts in the aggregate of LBP6billion (LBP11.2billion in 2009). These accounts are subject to the provisions of Article 3 of the Banking Secrecy Law dated September 3, 1956 which provides that the Group's management, in the normal course of business, cannot reveal the identities of these depositors to third parties, including its independent public accountants.

The average balance of deposits and related cost of funds over the last 3 years were as follows:

Year	LBP Base Accounts		F/Cy Base Accounts		
	Average Balance of Deposits	Average Interest Rate	Average Balance of Deposits	Average Interest Rate	Cost of Funds
	LBP'000	%	LBP'000	%	LBP'000
2010	229,333,403	6.40	392,296,343	3.46	28,245,258
2009	192,415,888	7.14	378,844,395	3.62	27,465,219
2008	146,041,708	7.66	454,018,713	4.37	27,324,418

Notes to the Consolidated Financial Statements

16. RELATED PARTIES' DEPOSITS AND CREDIT BALANCES

Related parties' deposits and credit balances are reflected at amortized cost and consist of the following:

	D e c e m b e r 3 1 , 2 0 1 0			D e c e m b e r 3 1 , 2 0 0 9		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Deposits from customers:						
- Current / demand deposits	23,744	6,642,103	6,665,847	19,631	4,678,198	4,697,829
- Term deposits	61,417,183	-	61,417,183	68,801,244	-	68,801,244
- Collateral against loans and advances	2,452,330	-	2,452,330	435,461	-	435,461
	63,893,257	6,642,103	70,535,360	69,256,336	4,678,198	73,934,534
Margin and other accounts:						
- Margins on letters of guarantee	-	74,831	74,831	-	47,703	47,703
Accrued interest payable	294,077	-	294,077	281,614	-	281,614
Total	64,187,334	6,716,934	70,904,268	69,537,950	4,725,901	74,263,851

17. OTHER LIABILITIES

This caption consists of the following:

	D e c e m b e r 3 1 ,	
	2010	2009
	LBP'000	LBP'000
Income tax payable	64,650	59,900
Deferred tax liability - Note 23	426,577	426,577
Other taxes payable	432,525	365,071
Due to the Social Security National Fund	138,182	129,514
Unearned revenue	19,472	18,905
Checks and incoming payment orders in course of settlement	191,143	274,709
Accrued expenses	987,795	729,889
Fair value of financial guarantees issued	65,791	180,279
Sundry accounts payable	1,118,946	679,310
Fair value of derivatives	111,046	-
	3,556,127	2,864,154

Notes to the Consolidated Financial Statements

The regrouping of reconciliations between average effective tax rate and enacted tax rates is summarized as follows:

	2010	2009
	LBP'000	LBP'000
Profit before tax (bank)	2,187,203	1,541,740
Non deductible expenses	149,674	873,346
Non taxable income	(184,454)	(149,500)
Taxable income	2,152,423	2,265,586
Income tax based on enacted rate (15%)	322,863	339,838
Excess tax paid on interest (5%) (Non-refundable)	471,102	415,312
	793,965	755,150
Lump sum tax (subsidiary)	13,650	9,900
Real estate tax (subsidiary)	51,000	50,000
Total income tax expense	858,615	815,050
Tax paid during the year	(793,965)	(755,150)
Tax payable as at December 31	64,650	59,900

Deferred tax liability is attributable to the change in fair value of available-for-sale investments.

The Bank's social security declarations are still subject to review by the National Social Security Fund since 1997.

The Bank's tax returns for the years 2006 to 2010 remain subject to examination and final assessment by the tax authorities.

18. PROVISIONS

Provisions consist of the following:

	D e c e m b e r 3 1 ,	
	2010	2009
	LBP'000	LBP'000
Provision for employees' end-of-service indemnity	2,548,199	2,162,594
Provision for contingencies	2,771	2,771
Provision for loss on foreign currency position	8,135	3,526
	2,559,105	2,168,891

The movement of the provision for employees' end-of-service indemnity is as follows:

	D e c e m b e r 3 1 ,	
	2010	2009
	LBP'000	LBP'000
Balance at January 1	2,162,594	1,705,011
Additions	438,230	670,741
Write-backs	(21,509)	(3,767)
Settlements	(31,116)	(209,391)
Balance at December 31	2,548,199	2,162,594

Provision for loss on foreign currency position represents the provision set up by the Group for foreign currency fluctuation on the exchange position at year end in conformity with Banking Control Commission Circular No. 197.

19. SHARE CAPITAL

At December 31, 2010 and 2009, the authorized ordinary share capital of the Bank was LBP4billion consisting of 4,000,000 fully paid shares (4,000,000 shares in 2009) of LBP1,000 par value each.

20. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP36.5billion (USD24,225,000) as at December 31, 2010 (LBP21.4billion (USD14,225,000) as of 2009 year end). These contributions are interest free and are made by the major shareholders to support the Group in developing its activities. This sort of equity instrument has the advantage of being booked and maintained in foreign currency thus providing hedging against the national currency fluctuation. According to local banking laws and regulations, shareholders' cash contribution to capital is considered as Tier I capital for the purpose of computation of the risk-based capital ratio.

In its meeting held on September 15, 2010, the extraordinary general assembly decided to increase these contributions to USD24,225,000 by an immediate increase of USD10million settled by the shareholders during 2010.

21. RESERVES

Reserves consist of the following as at December 31, 2010 and 2009:

	D e c e m b e r 3 1 ,	
	2010	2009
	LBP'000	LBP'000
Reserve for general banking risks	4,495,281	4,056,652
Legal reserve	842,818	764,259
General reserve	592,203	585,916
Regulatory reserve for assets acquired in satisfaction of loans - Note 10	231,583	237,611
	6,161,885	5,644,438

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

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

22. OWNED BUILDINGS REVALUATION SURPLUS

Revaluation surplus resulted from the revaluation at current net realizable value of the Group's premises and subsidiary owned properties.

	D e c e m b e r 3 1 ,	
	2010	2009
	LBP'000	LBP'000
Bank premises	6,287,200	6,287,200
Subsidiary owned properties (SIPC)	14,712,997	14,712,997
Assets acquired in satisfaction of loans	-	260
	21,000,197	21,000,457

According to local banking regulations the revaluation surplus of owned premises is eligible to be incorporated in Tier II capital for the purpose of computation of the risk based capital ratio.

23. CUMULATIVE CHANGE IN FAIR VALUE OF INVESTMENT SECURITIES

The cumulative change in fair value of available-for-sale securities consists of the following:

	2010	2009
	LBP'000	LBP'000
Unrealized gain/(loss) on:		
Lebanese government bonds	11,668	121,957
Lebanese treasury bills	40,431	-
Foreign corporate bonds	(73,566)	-
Unquoted equity securities	3,212,223	3,212,223
	3,190,756	3,334,180
Deferred tax	(426,577)	(426,577)
	2,764,179	2,907,603

Notes to the Consolidated Financial Statements

24. INTEREST INCOME

This caption consists of the following:

	2010	2009
	LBP'000	LBP'000
Interest income from:		
Free deposits with Central Bank of Lebanon	856,222	1,262,739
Deposits with banks and financial institutions	95,353	738,460
Available-for-sale investment securities	1,272,109	352,378
Held-to-maturity investment securities	28,339,012	24,773,226
Loans and advances to customers	16,442,790	14,249,613
Loans and advances to related parties	78,788	82,109
Interest realized on impaired loans and advances to customers	1,041,507	877,934
	48,125,781	42,336,459

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

25. INTEREST EXPENSE

This caption consists of the following:

	2010	2009
	LBP'000	LBP'000
Interest expense on:		
Deposits and borrowings from banks	24,537	39,654
Customers' accounts at amortized cost	28,245,258	27,465,219
Related parties' accounts at amortized cost	2,593,360	2,408,353
	30,863,155	29,913,226

26. FEE AND COMMISSION INCOME

This caption consists of the following:

	2010	2009
	LBP'000	LBP'000
Commission on documentary credits	23,101	25,906
Commission on letters of guarantee	330,438	314,778
Service fees on customers' transactions	968,490	894,897
Brokerage fees	129,305	190,305
Commission on transactions with banks	2,274	2,100
Asset management fees	127,876	107,347
	1,581,484	1,535,333

27. FEE AND COMMISSION EXPENSE

This caption consists of commission on transactions with banks in the amount of LBP617million and LBP253million for the year ended December 31, 2010 and 2009, respectively.

28. OTHER OPERATING INCOME

This caption consists of the following:

	2010 LBP'000	2009 LBP'000
Dividends on available for-sale securities	128,982	97,114
Net foreign exchange gains	254,241	183,955
	383,223	281,069

29. STAFF COSTS

This caption consists of the following:

	2010 LBP'000	2009 LBP'000
Salaries, bonuses and other benefits	8,584,785	7,873,388
Social Security contributions	933,848	884,878
Provision for employees' end-of-service indemnities	416,721	666,974
Board of Directors' remuneration fees	80,157	104,006
	10,015,511	9,529,246

30. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS

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

31. FIDUCIARY ASSETS AND ASSETS UNDER MANAGEMENT

December 31, 2010

	Customers' Base Accounts		Total
	Resident	Non-Resident	
	LBP'000	LBP'000	LBP'000
Shares	18,225,765	11,076,506	29,302,271
Back-to-back lending	7,754,793	10,172,764	17,927,557
	25,980,558	21,249,270	47,229,828

December 31, 2009

	Customers' Base Accounts		Total
	Resident	Non-Resident	
	LBP'000	LBP'000	LBP'000
Shares	22,848,359	9,390,360	32,238,719
Back-to-back lending	7,854,996	12,726,681	20,581,677
	30,703,355	22,117,041	52,820,396

Back-to-back lending is subject to interest differential of 0.5% to 2% representing a fee income. The Group's participation in the credit risk of the above debtors amounts to LBP5.4billion (USD3.6million) as of December 31, 2010 (LBP5.4billion the equivalent of USD3.6million in 2009).

32. BALANCES / TRANSACTIONS WITH RELATED PARTIES

In the ordinary course of its activities, the Group conducts transactions with related parties including shareholders, directors, and related companies. Balances with related parties consist of the following:

December 31,

	2010	2009
	LBP'000	LBP'000
Shareholders, directors and other key management personnel and close family members:		
Direct facilities and credit balances:		
- Unsecured loans and advances	2,918	2,918
- Deposits	50,583,102	50,329,654
Indirect facilities:		
- Letters of guarantee	4,773	117,180
Associated companies:		
Direct facilities and credit balances:		
- Unsecured loans and advances	460,633	805,440
- Loans and advances against cash collateral	2,068,926	1,773,520
- Deposits	20,321,166	23,934,197
Indirect facilities:		
Letters of guarantee	338,743	338,743

Notes to the Consolidated Financial Statements

Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP2.5billion in 2010 (LBP0.4billion in 2009).

Interest expense on related parties' deposits amounted to LBP2.6billion during 2010 (LBP2.4billion during 2009).

The remuneration of executive management and Board of Directors amounted to LBP1.3billion during 2010 (LBP1.3billion during 2009).

The Group rented from "El-Bustan Hotel S.A.L." a building for the period from June 1, 2010 until May 31, 2011 against an annual fee of LBP10million (LBP2million in 2009).

The Group rented from "CAT Liban S.A.L." a building for the years 2010 to 2012 against an annual fee of LBP145million.

Consultancy fees paid to Finserve limited amounted to LBP264million during 2010 (LBP158million during 2009).

33. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2010 LBP'000	2009 LBP'000
Cash	3,533,047	3,901,552
Current accounts with Central Bank of Lebanon (excluding Compulsory reserves)	3,656,696	3,967,526
Term placements with banks and financial institutions	17,470,665	66,474,062
Current accounts with banks and financial institutions	11,219,764	7,913,729
Checks in course of collection	-	6,925
Deposits and borrowings from banks	(3,908,252)	(5,549,393)
	31,971,920	76,714,401

Time deposits with and from Central Bank of Lebanon and banks and financial institutions represent inter-bank placements and borrowings with an original term of 90 days or less.

The following activities that represent non-cash items were excluded from the statement of cash flows:

1- Change in fair value of available-for-sale securities in the amount of LBP143million during 2010 (LBP431million during 2009) against available-for-sale investment securities.

2 - Increase in assets acquired in satisfaction of loans in the amount of LBP7.6billion during 2009 against loans and advances in addition to transfers of LBP2.8billion from others assets.

34. CAPITAL MANAGEMENT

The Group manages its capital to comply with the capital adequacy requirements set by the Central Bank of Lebanon.

The Central Bank of Lebanon requires each bank or banking group to hold a minimum level of regulatory capital of LBP10billion for the head office and LBP500million for each local branch and LBP1.5billion for each foreign branch. Furthermore, the minimum capital adequacy ratio set by the regulator is 8% (Basel II).

The Bank's capital is split as follows:

- Tier I capital:** Comprises share capital, shareholders' cash contribution to capital, reserves from appropriation of profits, retained earnings (exclusive of current year's net profit).
- Tier II capital:** Comprises cumulative change in fair value of available-for-sale securities and revaluation surplus of owned properties.

Various limits are applied to the elements of capital base: Qualifying Tier II capital cannot exceed Tier I capital.

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

The Group's capital adequacy ratio (Basel II) was as follows:

	December 31,	
	2010 LBP'000	2009 LBP'000
Total regulatory capital	64,901,000	50,225,000
Credit risk	459,505,000	424,400,000
Market risk	179,296	440,004
Operational risk	30,323,125	26,251,875
Risk-weighted assets and risk-weighted off-balance sheet items	490,007,421	451,091,879
Capital adequacy ratio	13.24%	11.13%

35. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The risk management framework is briefly outlined as follows:

The Board of Directors

The Board of Directors, through the Management Committee is responsible for establishing the Group's goals and objectives and overseeing the establishment, implementation and review of the Group's risk management system.

The Chairman of the Board and the Managing Director are responsible for the efficient functioning of the corporate governance structure and for developing the Group's risk strategies that direct the Group's ongoing activities to achieve goals and objectives.

The Risk Management Unit

The Risk Management Unit is responsible for drawing a risk management strategy that addresses identified risks such as credit risk on a portfolio level, liquidity risk and interest rate risk in the banking book and operational risk. It cooperates with the Group's managers at all levels across the organization namely, the Credit Risk Management Department, the Capital Market, the Treasury Department, the Internal Audit Department and the Information Technology Department.

A. Credit Risk

Credit risk is the risk of financial loss to the Group if counterparty to a financial instrument fails to discharge an obligation. Financial assets that are mainly exposed to credit risk are deposits with banks, loans and advances to customers and other banks and investment securities. Credit risk also arises from off-balance sheet financial instruments such as letters of credit and letters of guarantee.

Concentration of credit risk arises when a number of counterparties are engaged in similar business activities, or activities in the same geographical 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 affecting a particular industry or geographical location.

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

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

Notes to the Consolidated Financial Statements

In accordance with the Central Bank of Lebanon directives, the Group's customers are categorized into 5 classifications as described below:

Classification	Description	
1	Standard monitoring	Indicates that borrowers are able to honor their commitments and there is no reason to doubt their ability to repay principal and interest in full and in a timely manner. Some of the indicators related to this category are: continuous cash inflows, timely submission of financial statements and/or sufficient collateral.
2	Special monitoring (Watch list)	Indicates that borrowers are able to honor their current commitments, although repayment may be adversely affected by specific factors. Such borrowers are subject to special monitoring. Major characteristics of this category are: inadequate loan information such as annual financial statements availability, condition of and control over collateral held is questionable and / or declining profitability.
3	Substandard	Indicates that borrowers' ability to serve their commitments is in question. In this context, borrowers cannot depend on their normal business revenues to pay back principal and interest, i.e. losses may occur. The main characteristics of this category are severe decline in profitability and in cash inflows. In this case, the Group considers interests and commissions as unrealized but does not establish an allowance for impairment.
4	Doubtful	Indicates that borrowers cannot honor their commitments in full and on time. Significant losses will be incurred even collateral held is invoked due to payment overdues. The net realizable value of collateral held is insufficient to cover payment of principal and interest. In this case, the Group considers interests and commissions as unrealized and established an allowance for impairment accordingly.
5	Bad	Indicates that commitments cannot be covered even after taking all possible measures and resorting to necessary legal procedures. Some signals of this category would be inexistence of collateral low value of collateral and / or, losing contact with the borrower. In this case, the bank considers interests and commissions as unrealized, ceases their accumulation, and provides the whole amount of the exposure's balance.

Financial assets with credit risk exposure and related concentrations

The tables below reflect the Group's exposure to credit risk by counterparty for the different categories of financial assets:

- (a) Exposure to credit risk and concentration by counterparty:
 - (a.1) Deposits with banks and financial institutions (excluding checks in course of collection and accrued interest receivable)

Notes to the Consolidated Financial Statements

D e c e m b e r 3 1 , 2 0 1 0

	LBP	Counter Value of F/Cy	Total	% to Total	No. of Customers
	LBP'000	LBP'000	LBP'000	%	
Less than LBP5billion	60,262	9,431,879	9,492,141	33	14
Between LBP5billion and LBP15billion	-	19,272,416	19,272,416	67	2
	60,262	28,704,295	28,764,557	100	16

D e c e m b e r 3 1 , 2 0 0 9

	LBP	Counter Value of F/Cy	Total	% to Total	No. of Customers
	LBP'000	LBP'000	LBP'000	%	
Less than LBP5billion	30,974	14,345,797	14,376,771	20	20
Between LBP5billion and LBP15billion	-	25,648,106	25,648,106	34	3
Between LBP15billion and LBP30billion	-	34,385,833	34,385,833	46	1
	30,974	74,379,736	74,410,710	100	24

(a.2) Loans and advances to customers (excluding accrued interest receivable):

D e c e m b e r 3 1 , 2 0 1 0

Bracket	LBP	Counter Value of F/Cy	Total	% to Total	No. of Customers
	LBP'000	LBP'000	LBP'000	%	
Less than LBP1.5billion	15,615,663	27,872,407	43,488,070	20	871
From LBP1.5billion to LBP5billion	-	55,505,999	55,505,999	25	20
From LBP10billion to LBP15billion	-	23,169,923	23,169,923	11	2
More than LBP15billion	-	97,759,092	97,759,092	44	4
	15,615,663	204,307,421	219,923,084	100	899

D e c e m b e r 3 1 , 2 0 0 9

Bracket	LBP	Total Deposits Counter Value of F/Cy	Total	% to Total	No. of Customers
	LBP'000	LBP'000	LBP'000	%	
Less than LBP1.5billion	12,780,151	17,777,514	30,557,665	16	1,082
From LBP1.5billion to LBP5billion	-	39,349,156	39,349,156	22	13
From LBP5billion to LBP10billion	-	5,739,732	5,739,732	3	1
From LBP10billion to LBP15billion	-	35,622,856	35,622,856	20	3
More than LBP15billion	-	70,899,681	70,899,681	39	3
	12,780,151	169,388,939	182,169,090	100	1,102

Notes to the Consolidated Financial Statements

(b) Concentration of financial assets by industry or sector:

December 31, 2010

	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individuals	Other	Total	Accrued Interest	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'00	LBP'00	LBP'00
Cash and Central Bank	117,551,167	-	-	-	-	-	117,551,167	302,750	117,853,917
Deposits with banks and financial institutions	-	28,764,557	-	-	-	-	28,764,557	2,449	28,767,006
Loans and advances to customers	-	-	122,516,860	88,265,615	2,054,132	7,086,477	219,923,084	1,965,346	221,888,430
Available-for-sale investment securities	27,592,821	11,571,879	-	-	-	-	39,164,700	955,983	40,120,683
Held-to-maturity investment securities	341,464,431	3,520,433	-	-	-	-	344,984,864	6,650,250	351,635,114
Other financial assets	-	-	-	-	-	1,373,984	1,373,984	-	1,373,984
	486,608,419	43,856,869	122,516,860	88,265,615	2,054,132	8,460,461	751,762,356	9,876,778	761,639,134

December 31, 2009

	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individuals	Other	Total	Accrued Interest	Grand Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'00	LBP'00	LBP'00
Cash and Central Bank	104,707,045	-	-	-	-	-	104,707,045	77,910	104,784,955
Deposits with banks and financial institutions	-	74,417,635	-	-	-	-	74,417,635	9,661	74,427,296
Loans and advances to customers	-	-	96,583,029	79,222,877	1,484,699	4,878,486	182,169,091	1,632,636	183,801,727
Available-for-sale investment securities	4,590,857	4,199,777	-	-	-	-	8,790,634	88,688	8,879,322
Held-to-maturity investment securities	302,066,321	-	-	-	-	-	302,066,321	5,877,243	307,943,564
Other financial assets	-	-	-	-	-	1,196,442	1,196,442	-	1,196,442
	411,364,223	78,617,412	96,583,029	79,222,877	1,484,699	6,074,928	673,347,168	7,686,138	681,033,306

Notes to the Consolidated Financial Statements

(c) Concentration of financial assets by geographical area:

December 31, 2010

	Lebanon	Overseas	Total
	LBP'000	LBP'000	LBP'000
Financial Assets			
Cash and Central Bank	117,853,917	-	117,853,917
Deposits with banks and financial institutions	3,665,615	25,101,391	28,767,006
Loans and advances to customers	205,006,783	16,881,647	221,888,430
Available-for-sale investment securities	37,081,386	3,039,297	40,120,683
Held-to-maturity investment securities	348,106,399	3,528,715	351,635,114
Other financial assets	1,373,984	-	1,373,984
	713,088,084	48,551,050	761,639,134

December 31, 2009

	Lebanon	Overseas	Total
	LBP'000	LBP'000	LBP'000
Financial Assets			
Cash and Central Bank	104,784,955	-	104,784,955
Deposits with banks and financial institutions	13,940,569	60,486,727	74,427,296
Loans and advances to customers	166,353,861	17,447,866	183,801,727
Available-for-sale investment securities	8,705,453	173,869	8,879,322
Held-to-maturity investment securities	303,515,518	4,428,046	307,943,564
Other financial assets	1,196,442	-	1,196,442
	598,496,798	82,536,508	681,033,306

B. Liquidity Risk

Liquidity risk is the risk that the Group will be unable to meet its net funding requirements. Liquidity risk can be caused by market disruptions or credit downgrades, which may cause certain sources of funding to dry up immediately.

The Group manages the liquidity risk through a well defined policy and procedure set by the Assets and Liabilities Management Committee (ALCO). The objective is to monitor the maturity profile of Group's financial assets and liabilities and enable management to ensure that the liquidity ratio is in compliance with the required limit set by the regulatory authorities. Management follows up on liquidity by reviewing, on weekly basis, the amount of obligatory reserve and the expected liquidity situation for the week. Moreover, on a monthly basis the liquidity ratio is calculated in accordance with circular No. 236 of the Banking Control Commission and No. 16 of Central Bank of Lebanon.

Notes to the Consolidated Financial Statements

Residual contractual maturities of financial assets and liabilities:

The tables below show the Group's financial assets and liabilities segregated by maturity:

December 31, 2010

	Not Subject to Maturity	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets						
Cash and Central Bank	40,677,829	30,816,690	30,903,750	15,455,648	-	117,853,917
Deposits with banks and financial institutions	11,222,213	17,544,793	-	-	-	28,767,006
Loans and advances to customers	11,554,012	158,497,926	30,755,325	9,251,277	11,829,890	221,888,430
Available for sale investment securities	5,063,928	1,548,956	22,381,760	5,096,189	6,029,850	40,120,683
Held-to-maturity investment securities	6,650,250	104,878,623	99,940,945	75,048,143	65,117,153	351,635,114
Other financial assets	1,373,984	-	-	-	-	1,373,984
	76,542,216	313,286,988	183,981,780	104,851,257	82,976,893	761,639,134
Financial Liabilities						
Deposits and borrowings from banks	493	3,908,252	-	-	-	3,908,745
Customers' deposits and credit balances	34,080,129	618,637,456	-	-	-	652,717,585
Related parties' deposits and credit balances	6,716,934	64,187,334	-	-	-	70,904,268
Other financial liabilities	3,556,127	-	-	-	-	3,556,127
	44,353,683	686,733,042	-	-	-	731,086,725
Maturity Gap	32,188,533	(373,446,054)	183,981,780	104,851,257	82,976,893	30,552,409

December 31, 2009

	Not Subject to Maturity	Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets						
Cash and Central Bank	37,198,040	26,884,415	20,351,250	20,351,250	-	104,784,955
Deposits with banks and financial institutions	3,682,786	70,744,510	-	-	-	74,427,296
Loans and advances to customers	9,975,699	126,610,651	21,703,919	14,480,288	11,031,170	183,801,727
Available-for-sale investment securities	4,288,465	-	-	2,978,435	1,612,422	8,879,322
Held-to-maturity investment securities	5,877,243	38,052,697	152,817,097	45,590,615	65,605,912	307,943,564
Other financial assets	1,196,442	-	-	-	-	1,196,442
	62,218,675	262,292,273	194,872,266	83,400,588	78,249,504	681,033,306
Financial Liabilities						
Deposits and borrowings from banks	1,908	5,549,393	-	-	-	5,551,301
Customers' deposits and credit balances	29,658,040	556,686,920	-	-	-	586,344,960
Related parties' deposits and credit balances	4,725,901	69,537,950	-	-	-	74,263,851
Other financial liabilities	695,935	-	-	-	-	695,935
	35,081,784	631,774,263	-	-	-	666,856,047
Maturity Gap	27,136,891	(369,481,990)	194,872,266	83,400,588	78,249,504	14,177,259

C. Market Risk

The market risk is the risk that the fair value or future cash flows of a financial instrument will be affected because of changes in market prices such as interest rate, equity prices, foreign exchange and credit spreads.

The non availability of assets for trading in the banking book renders the market risk limited to the foreign exchange risk and interest rate risk. The Group covers the exchange risk that might affect its financial position and its profitability. In this respect, the exchange position limits are set and authorized by the ALCO. Furthermore, the Group hedges its capital against currency fluctuation by maintaining a fixed position in foreign currency in line with the regulatory authorized limits.

Foreign Exchange risk

Below is the carrying value of financial assets and liabilities segregated by major currencies to reflect the Group's exposure to foreign currency exchange risk at year end:

December 31, 2010

	LBP	USD	Euro	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets					
Cash and Central Bank	39,963,523	71,962,784	5,906,646	20,964	117,853,917
Deposits with banks and financial institutions	60,262	15,011,762	9,387,131	4,307,851	28,767,006
Loans and advances to customers	15,615,663	154,437,183	20,219,958	31,615,626	221,888,430
Available for sale investment securities	7,823,216	32,297,467	-	-	40,120,683
Held-to-maturity investment securities	198,882,069	152,753,045	-	-	351,635,114
Other financial assets	1,223,189	150,795	-	-	1,373,984
	263,567,922	426,613,036	35,513,735	35,944,441	761,639,134
Financial Liabilities					
Deposits and borrowings from banks	25,580	-	-	3,883,165	3,908,745
Customers' deposits and credit balances	243,849,308	345,582,083	37,589,003	25,697,191	652,717,585
Related parties' deposits and credit balances	4,758,007	60,036,580	3,952,790	2,156,891	70,904,268
Other financial liabilities	2,602,226	953,901	-	-	3,556,127
	251,235,121	406,572,564	41,541,793	31,737,247	731,086,725
Net exchange position	12,332,801	20,040,472	(6,028,058)	4,207,194	30,552,409

Notes to the Consolidated Financial Statements

December 31, 2009

	LBP	USD	Euro	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets					
Cash and Central Bank	31,466,043	68,909,210	4,379,199	30,503	104,784,955
Deposits with banks and financial institutions	38,293	55,516,418	13,715,663	5,156,922	74,427,296
Loans and advances to customers	13,747,639	131,341,791	20,286,823	18,425,474	183,801,727
Available for sale investment securities	4,107,945	4,771,377	-	-	8,879,322
Held-to-maturity investment securities	170,404,746	135,118,705	-	2,420,113	307,943,564
Other financial assets	788,516	407,926	-	-	1,196,442
	220,553,182	396,065,427	38,381,685	26,033,012	681,033,306
Financial Liabilities					
Deposits and borrowings from banks	34,339	-	-	5,516,962	5,551,301
Customers' deposits and credit balances	206,527,838	327,575,245	36,788,377	15,453,500	586,344,960
Related parties' deposits and credit balances	4,822,564	63,091,690	4,132,126	2,217,471	74,263,851
Other financial liabilities	72,417	595,846	-	27,672	695,935
	211,457,158	391,262,781	40,920,503	23,215,605	666,856,047
Net exchange position	9,096,024	4,802,646	(2,538,818)	2,817,407	14,177,259

Interest rate risk

Below is a summary of the Group's interest rate gap position on financial assets and liabilities reflected at carrying amounts at year end segregated between floating and fixed interest rate earning or bearing.

Notes to the Consolidated Financial Statements

D e c e m b e r 3 1 , 2 0 1 0

	Non-Interest Earning	Floating Interest Rate			Fixed Interest Rate			Grand Total		
		Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Up to 1 Year	1 to 3 Years		3 to 5 Years	Over 5 Years
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets										
Cash and Central Bank	40,677,829	30,816,690	30,903,750	15,455,648	-	77,176,088	-	-	-	117,853,917
Deposits with banks and financial institutions	11,222,213	17,544,793	-	-	-	17,544,793	-	-	-	28,767,006
Loans and advances to customers	11,554,012	157,727,318	29,288,627	8,025,907	9,284,440	204,326,292	770,608	1,466,698	1,225,370	2,545,450
Available-for-sale investment securities	5,063,928	-	-	-	-	-	1,548,956	22,381,760	5,096,189	6,029,850
Held-to-maturity investment securities	6,650,250	-	-	-	4,000,000	4,000,000	104,878,623	99,940,945	75,048,143	61,117,153
Other financial assets	1,373,984	-	-	-	-	-	-	-	-	1,373,984
	76,542,216	206,088,801	60,192,377	23,481,555	13,284,440	303,047,173	107,198,187	123,789,403	81,369,702	69,692,453
										382,049,745
										761,639,134
Financial Liabilities										
Deposits and borrowings from banks	493	3,908,252	-	-	-	3,908,252	-	-	-	-
Customers' deposits and credit balances	34,080,129	618,637,456	-	-	-	618,637,456	-	-	-	652,717,585
Related parties' deposits and credit balances	6,716,934	64,187,334	-	-	-	64,187,334	-	-	-	70,904,268
Other financial liabilities	3,556,127	-	-	-	-	-	-	-	-	3,556,127
	44,353,683	686,733,042	-	-	-	686,733,042	-	-	-	731,086,725
Interest rate gap position	32,188,533	(480,644,241)	60,192,377	23,481,555	13,284,440	(383,685,869)	107,198,187	123,789,403	81,369,702	69,692,453
										382,049,745
										30,552,409

Notes to the Consolidated Financial Statements

D e c e m b e r 3 1 , 2 0 0 9

	Non-Interest Earning	Floating Interest Rate			Fixed Interest Rate			Grand Total		
		Up to 1 Year	1 to 3 Years	3 to 5 Years	Over 5 Years	Up to 1 Year	1 to 3 Years		3 to 5 Years	Over 5 Years
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets										
Cash and Central Bank	37,198,040	26,884,415	20,351,250	20,351,250	-	67,586,915	-	-	-	104,784,955
Deposits with banks and financial Institutions	3,682,786	70,744,510	-	-	-	70,744,510	-	-	-	74,427,296
Loans and advances to customers	7,745,824	102,217,685	17,439,089	12,350,953	7,681,582	139,689,309	26,622,842	4,264,830	2,129,335	36,366,595
Available for sale investment securities	4,288,465	-	-	-	-	-	-	-	2,978,435	4,590,857
Held-to-maturity investment securities	5,877,243	-	-	-	-	-	38,052,697	152,817,097	45,590,615	307,943,564
Other financial assets	1,196,442	-	-	-	-	-	-	-	-	1,196,442
	59,988,800	199,846,610	37,790,339	32,702,203	7,681,582	278,020,734	64,675,539	157,081,927	50,698,385	681,033,307
Financial Liabilities										
Deposits and borrowings from banks	1,908	5,549,393	-	-	-	5,549,393	-	-	-	5,551,301
Customers' deposits and credit balances	29,658,040	556,686,920	-	-	-	556,686,920	-	-	-	586,344,960
Related parties' deposits and credit balances	4,725,901	69,537,950	-	-	-	69,537,950	-	-	-	74,263,851
Other financial liabilities	695,935	-	-	-	-	-	-	-	-	695,935
	35,081,784	631,774,263	-	-	-	631,774,263	-	-	-	666,856,047
Interest rate gap position	24,907,016	(431,927,653)	37,790,339	32,702,203	7,681,582	(353,753,529)	64,675,539	157,081,927	50,698,385	343,023,773
										14,177,260

36. FAIR VALUE OF FINANCIAL INSTRUMENTS

Except as detailed in Note 8, management considers that the carrying amounts of financial assets and financial liabilities recognized at amortized cost in the consolidated financial statements approximate their fair values.

Fair value hierarchy :

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

December 31, 2010

	Level 1	Level 2	Level 3	At Cost	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Financial Assets					
Available-for-sale investment securities:					
Lebanese treasury bills	-	-	3,276,921	-	3,276,921
Lebanese government bonds	-	24,315,900	-	-	24,315,900
Lebanese corporate bonds	-	-	-	4,522,500	4,522,500
Foreign corporate bonds - Listed	2,941,434	-	-	-	2,941,434
Equity securities - Unlisted	-	-	-	4,107,945	4,107,945
	2,941,434	24,315,900	3,276,921	8,630,445	39,164,700

December 31, 2009

	Level 2	At Cost	Total
	LBP'000	LBP'000	LBP'000
Financial Assets			
Available-for-sale investment securities:			
Lebanese government bonds	4,679,545	-	4,679,545
Equity securities - Unquoted	-	4,199,777	4,199,777
	4,679,545	4,199,777	8,879,322

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on June 11, 2011.

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