

Ladies & Gentlemen,

In year 2009, the global economy has faced hard challenges in the aftershocks of the recent international financial crisis. The Lebanese Economy, on the other hand, has pursued a vigorous performance, avoiding largely the direct repercussions of the world economic recession. Main sectors have continued to thrive in spite of the unfavorable operating environment and have registered a positive growth, particularly construction and tourism. However, a sustainable economic expansion is seriously hindered by the burden of the public debt and the high debt to GDP ratio of 156%.

The Lebanese Banking Sector has proven steadily growing during the past years, in prosperous and in difficult periods. This is the fruit of the prudent and stringent regulations of the Central Bank and the expertise and the wise policies of the Lebanese banks. While most of the regional and international banks suffered sharp slowdown in activities in 2008 and 2009, the Lebanese banks continued to attract deposits, which strengthened the Central Bank's foreign reserves.

In this context, BIT Bank's consolidated balance sheet has grown by 4.74% and Customer' Deposits by 5.2%. During the year, the Bank has realized a satisfying improvement in its overall financial performance and has maintained a relatively high level of risk based capital ratio of 23.8% and liquidity ratio of 81%. 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.

In 2009, we continued our development strategy. We have consolidated our capital market practice and our central credit operations. We have reinforced our Management team executives in order to grow the Bank's activities. We focused on improving our customer service, providing the best quality of banking services. We provided our staff members with professional guidance and practical training in order to meet our goal.

The Bank has implemented MasterCard Un-embossed debit cards directly linked to the cardholder's bank accounts. Furthermore, and in compliance with the Banks Control Commission requirements, we have implemented in 2010 a Management Information System with a full fledged Data Warehouse for Risk Management. Such a solution will enable the Bank's management to have adequate reporting, simulation and stress tests in a timely manner that will help decision makers in their analysis and study.

The challenges of the tight competition in the local Banking Sector urge us to further efforts. We have to, constantly, grow our footholds in the market and to enhance the scope of our activities. I remain confident that all together, Board members and BIT Bank's management team, will ensure successfully all these targets to the benefit of our Bank.

Sincerely,



Fouad Jamil El Khazen  
Chairman & General Manager

## Board of Directors

<b>Mrs. Laura E. Bustani</b>	Honorary Chairman
<b>Sheikh Fouad J. El Khazen</b>	Chairman & General Manager
<b>Mrs. Myrna E. Bustani</b>	Vice-Chairman
<b>Mr. Nabil N. Khairallah</b>	Executive Director & General Manager
<b>* H.E. Mr. Amine M. El Bizri</b>	Member
<b>* H.E. Mr. George W. Skaff</b>	Member
<b>Dr. Aziz M. Bassoul</b>	Member
<b>Shammas Economic Institute sal</b>	Member, Represented by Mr. Issam S. Shammas
<b>Mr. Nizam S. Shammas</b>	Member
<b>Sheikh Jamil F. El Khazen</b>	Member
<b>Me. Alexandre R. Najjar</b>	Member - Legal Advisor
<b>* Mr. Abdelhafeez M. Mansour</b>	Member
<b>Mrs. Carole Abou Chedid Ibrahim</b>	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  
**Mrs. Laura El Khazen Lahoud** appointed on 16/06/2010  
**Mr. Peter Wodtke** appointed on 16/06/2010

## General Management

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

## Economic & Monetary Indicators

The Lebanese Economy has pursued in 2009 a strong expansion, driven by the good performance of the main economic sectors, already started in 2008. Consequently, the real growth of the Gross Domestic Product (GDP) has recorded an estimated rate of 9%, the same rate reached in the previous year and, robust growth should continue in 2010, according to the IMF, while several countries across the region and the world were affected by the global economic turmoil.

- **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 0.2% in 2009 compared to 2008 reaching US\$3,484 Million. They were affected by the international financial crisis. The Imports increased by 0.7% for the same period, reaching US\$16,242 Million. Consequently, the Trade Balance deficit increased by 0.8% and reached the amount of US\$12,758 Million.

### Balance of Payments and Central Bank Reserves

The Balance of Payments registered an important surplus for 2009 amounting to US\$7,899 Million, a record not reached in the past two decades, as a result of the considerable capital inflows, compared with a surplus for 2008 amounting to US\$3,461.5 Million.

This surplus has been reflected on the Central Bank Gross Reserves in foreign currencies, which amounted to US\$28,744.5 Million at December 31, 2009 against US\$20,181.8 Million at December 31, 2008, and on total foreign assets, including gold, which reached US\$38,806.5 Million against US\$28,213.5 Million end of 2008.

### Budget Deficit and Public Debt

**The Budget Deficit** amounted to LBP4,462 Billion (US\$2,960 Mio) in 2009 against LBP4,404 Billion (US\$2,921 Mio) in 2008, outlining an increase of 1.3%. This increase resulted from an increase of 14.8% in total public expenditures during this period and an increase of 20.4% in total public revenues. The Budget Deficit represented 26% of Total Budget (29.4% in 2008) and 35.1% of total revenues (41.7% in 2008).

On the other hand, **Public Debt Service** rose by 14.8%, from LBP5,304 Billion (US\$3,518 Mio) at 2008 year-end to LBP6,087 Billion (US\$4,038 Mio) at 2009 year-end. It represented 35.5% of total public expenditures (35.5% for year 2008) and 47.9% of total public revenues for the year 2009 (50.3% for year 2008).

**The Gross Public Debt** reached the equivalent of US\$51.1 Billion end of 2009 against US\$47 Billion end of 2008 registering an increase of 8.66%:

**The Gross Domestic Debt** increased by 15.3% in 2009 compared to 2008, reaching LBP44,976 Billion. The Central Bank contribution in the Domestic Debt increased from 22.5% in year 2008 to 23% in year 2009. In figures, it amounted to LBP10,334 Billion end of 2009 against LBP8,781 Billion end of 2008. And the contribution of the Commercial Banks went down for the same period, from 62.3% to 60.7%. In figures, it rose from LBP24,320 Billion end of 2008 to LBP27,289 Billion end of 2009.

**The foreign-currency denominated Public Debt** increased by 0.5% and registered US\$21,259 Million end of 2009. It represented 41.6% of the Gross Public Debt for year 2009 (45% for year 2008). Of this FC Public Debt, 84.7% is financed by Euro Bonds. The contribution of the Commercial Banks in these Euro Bonds is 64.2% by the end of 2009.

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

### Exchange and Money Markets

Since many years, the Central Bank of Lebanon maintained a stable exchange rate of the Lebanese Pound versus the US Dollar on the domestic market. Thus, the average exchange rate of the US Dollar remained LBP1507.5 at end of 2009 and 2008.

As for Bank Interest Rates, the average LBP lending rate went down from 9.95% in December 2008 to 9.04% in December 2009, and the average LBP deposit rate declined from 7.22% to 6.75% for the same period.

On the other hand, the Interest Rates on all categories of Treasury Bills declined during 2009. Yields on the three-month, six-month, one-year, two-year and three-year Treasury Bills went down from 5.10%, 7.10%, 7.58%, 8.26% and 9.00% as at end of 2008 to 4.55%, 5.72%, 5.73%, 6.32% and 7.10% respectively, at end of 2009. The interest rate on the five-year Treasury Bills stood at 7.74% as at end of December 2009.

### Banking Sector

The Banks' consolidated balance sheet noted a growth of 22.3% end of 2009 (14.6% end of 2008), standing at LBP173,740 Billion or US\$115.3 Billion (US\$94.3 Billion end of 2008).

The Volume of **Deposits of Private Sector** in the Banking System (including non-resident deposits) reported a net growth of 23.1% relative to 2008 (15.6% in year 2008). They amounted to LBP144,367 Billion equivalent to US\$95.8 Billion at the end of 2009 (US\$77.8 Billion at end of 2008).

**Deposits in Lebanese Pounds** increased by 43.8% end of 2009 (they increased by 55.2% end of 2008). They went up from LBP35,676 Billion at end of December 2008 to LBP51,310 Billion at end of December 2009. They represented 35.54% of total bank deposits against 30.43% in year 2008.

While **Deposits in Foreign Currencies** rose by 14.1% in year 2009 (4% in year 2008). They increased from US\$54,114 Million at end of December 2008 to US\$61,729 Million at end of December 2009.

**Loans and Advances** to Private Sector (including loans to non-resident) increased by 13.3% in year 2009 (and by 22.6% in year 2008), reaching LBP42,774 Billion or US\$28.4 Billion (US\$25 Billion in year 2008).

**Loans in Lebanese Pounds** rose by 34.9% (by 20.95% in year 2008). They went up from LBP5,068 Billion at end of December 2008 to LBP6,838 Billion at end of December 2009, and their share of total bank credits reached 16% (13.4% in the previous year).

While **Loans in Foreign Currencies** increased by 10% (by 22.85% in the previous year). They went up from US\$21,678 Million at end of December 2008 to US\$23,838 Million at end of December 2009.

The Loans-to-Deposits ratio stood at 29.6% at 2009 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**

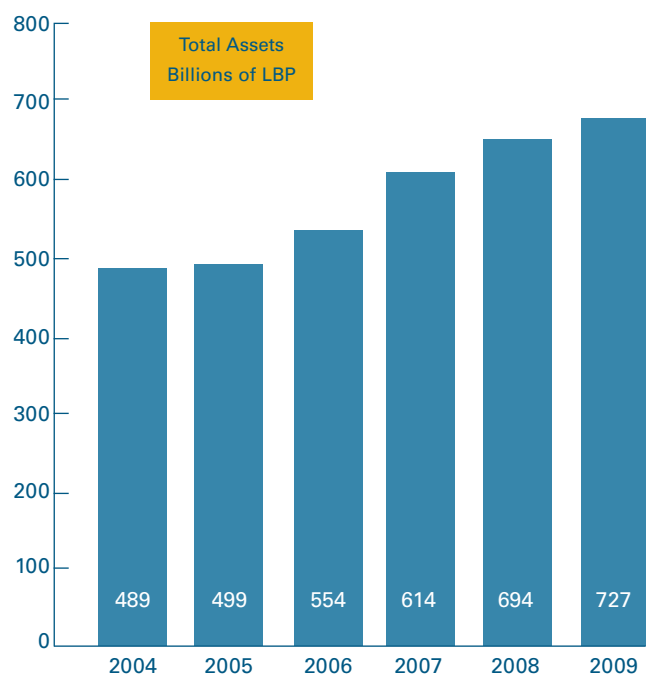
**V - Operating Results**

## I – COMPLIANCE WITH NEW AND REVISED STANDARDS

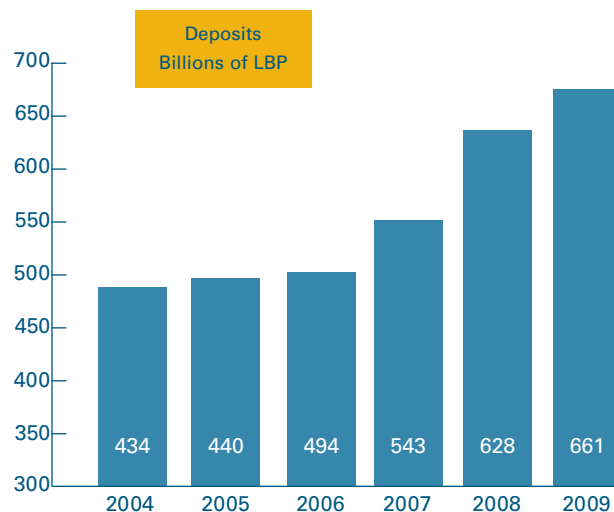
Starting from January 1, 2007, BIT Bank has complied with the IFRS 7 Financial Instruments and the amendments to IAS 1 (presentation of financial statements) issued by the International Financial Reporting Committee. The impact of this process was the expansion of the disclosures in the financial statements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

## II - OVERVIEW

The total consolidated balance sheet of BIT Bank registered a 4.74% growth at the end of 2009, compared to a significant growth of 22.27% in the Lebanese Banking Sector. It went up from LBP694.13 Billion (US\$460.45 Million) at the end of 2008 to LBP727.06 Billion (US\$482.30 Million) at the end of 2009.



BIT Bank has recorded a growth of 48.64% (almost 50%) over the past five years, compared to a 70% growth in the Lebanese Banking Sector.



Customers' Deposits went up from LBP627.93 Billion (US\$416.54 Million) at the end of 2008 to LBP660.61 Billion (US\$438.21 Million) at the end of 2009.

They progressed by 5.20% following the same trend as Total Assets (in parallel, Deposits in the Lebanese Banking Sector grew by 23.12%).

BIT Bank's Customer Deposits has registered a growth of 52.25% over the past five years, compared to a 74.60% growth of Customer Deposits in the Lebanese Banking Sector.



At the end of 2009, total Loans and Advances to customers decreased by 5.7% (compared to a 13.3% growth in the Lebanese Banking Sector). They varied from LBP194.94 Billion (US\$129.31 Million) at the end of 2008 to LBP183.80 Billion (US\$121.92 Million).

Loans and Advances to Customers continued to evolve at a slow pace. They grew by 15.28% only over the past five years, compared to a 68.64% growth of Loans and Advances to Customers in the Lebanese Banking Sector.

Loans to Deposits ratio in Foreign Currencies declined from 39.8% in 2008 to 37.85% in 2009 year-end. And the Loans to Deposits ratio in LBP went down from 9.3% in 2008 to 6.5% in 2009 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	2009	2008
LBP	96.04%	96.24%
Foreign Currencies	72.72%	71.58%
Compounded ratio	80.87%	79.52%

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 27.04% as at December 2009 (minimum required by said circular being 10%).

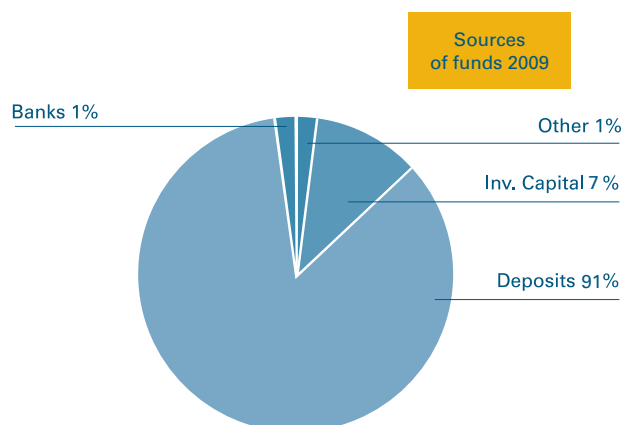
### III - SOURCES OF FUNDS

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

Millions of LBP	2009	2008
Banks	5,551	3,985
Deposits	660,609	627,932
Other financial accounts	5,388	7,653
Equity	55,514	54,561

BIT has a solid funding base. Customer deposits provide most of the funding of the Bank (90.86%).

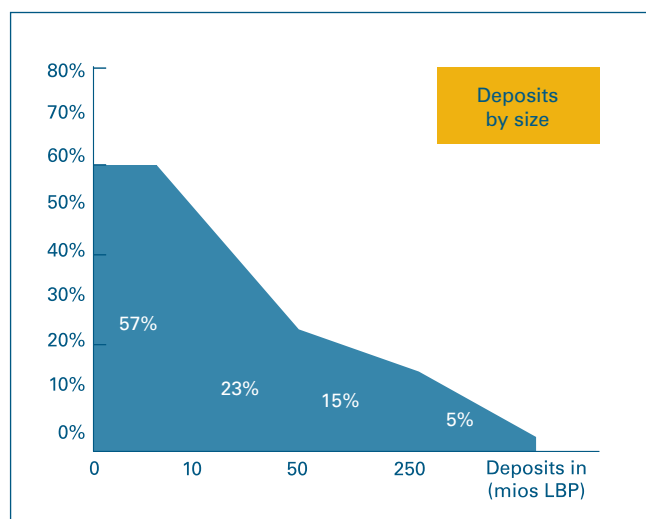
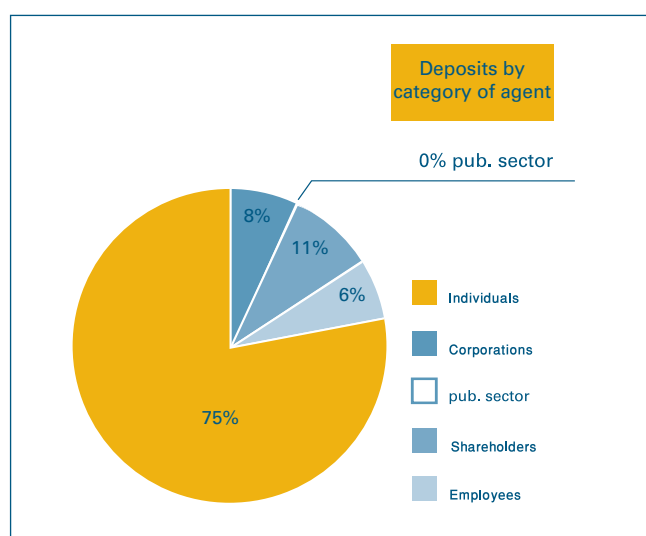
And 7.64% of BIT's funding is from Investment Capital. The share of Banks and Financial Institutions is insignificant (0.76%).



### 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 71.2% at December 31, 2008 to 68.0% at December 31, 2009, while the share of Deposits in Lebanese Pound progressed from 28.8% to 32.0% (in the Lebanese Banking Sector, the repartition is as follow at December 31, 2009: 64.5% Deposits in F.C. and 35.5% Deposits in Lebanese Pound).

Within the customer accounts, the majority (85%) 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 August 2005, the extraordinary general assembly decided to increase these contributions to US\$39.225 Million by an immediate increase of US\$4.5 Million settled by current shareholders during 2006 and an increase of US\$25 Million not yet settled. The Bank's shareholders equity would become around US\$60 Million and will enhance its corporate and commercial activities. These amounts are booked and maintained in foreign currency thus providing a hedge against national currency fluctuation. The Central Bank of Lebanon considers shareholders' cash contribution to capital to be Tier I Capital.

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.

Consequently, the Bank's net worth amounted to LBP55,514 Million or US\$36.8 Million at December 31, 2009 (LBP54,561 Million or US\$36.2 Million in 2008).

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

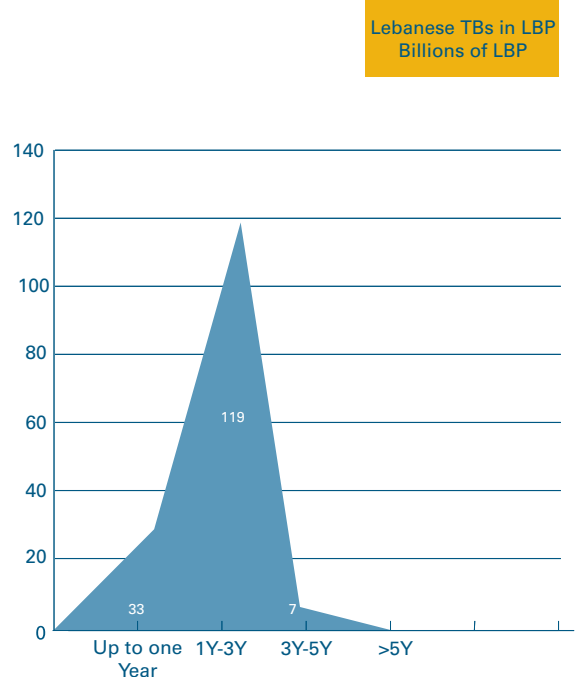
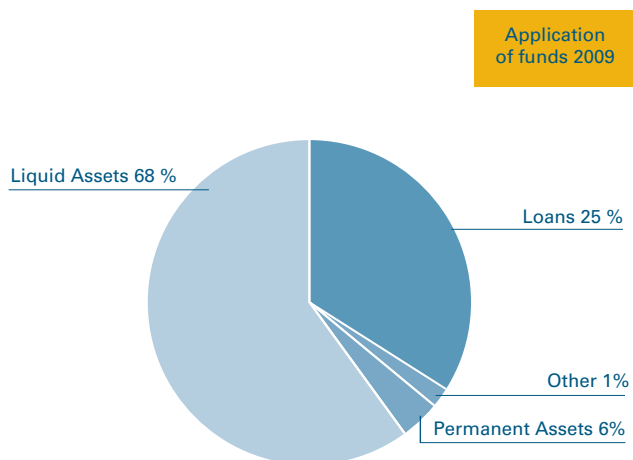
	2009	2008
	<b>Millions of LBP</b>	
Capital/Reserves/Net Income for the year/Retained Earnings	13,069	12,116
Cash contribution to Capital (in US\$)	21,444	21,444
<b>a- Tier I Capital</b>	<b>34,513</b>	<b>33,560</b>
Capital gain on assets	21,001	21,001
<b>b- Tier II Capital</b>	<b>21,001</b>	<b>21,001</b>
<b>Shareholders' Equity (a + b)</b>	<b>55,514</b>	<b>54,561</b>

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

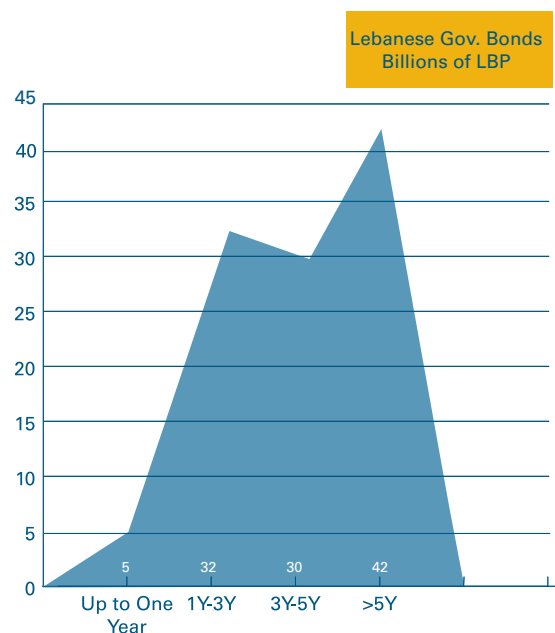
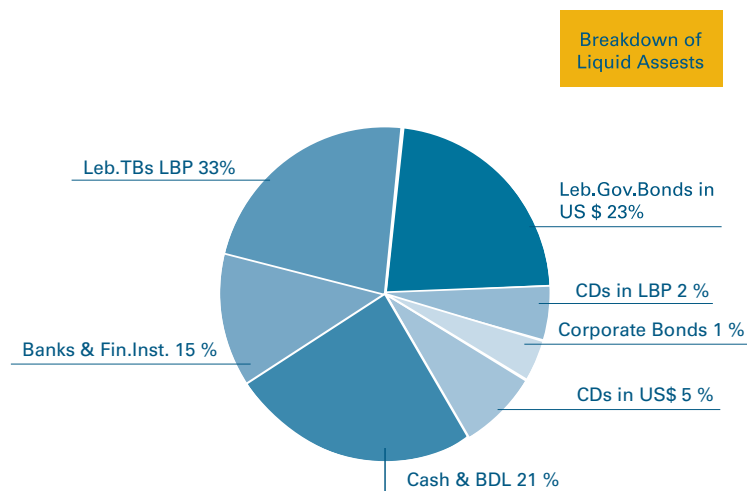
	2009	2008
Ratio Equity to Assets	7.63%	7.86%
Capital Adequacy Ratio	23.81%	22.42%
Deposits to Equity	11.90	11.51

## IV - APPLICATION OF FUNDS

Millions of LBP	2009	2008
Liquid Assets	491,835	448,639
Loans and Advances	183,802	194,938
Other financial accounts	7,465	10,028
Permanent assets	43,960	40,526

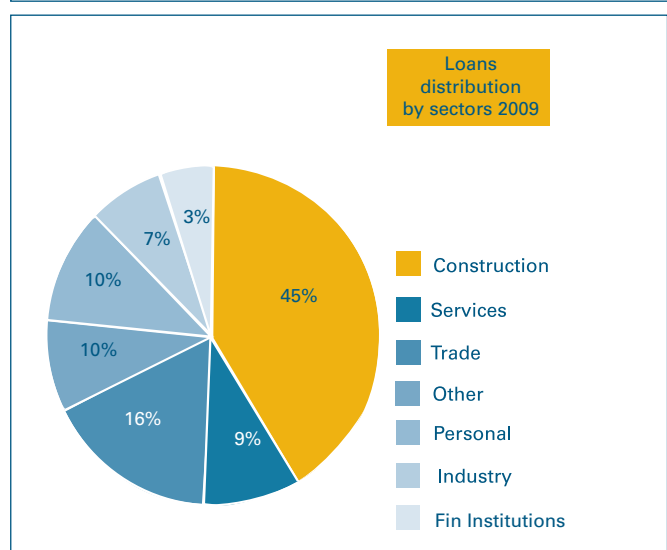
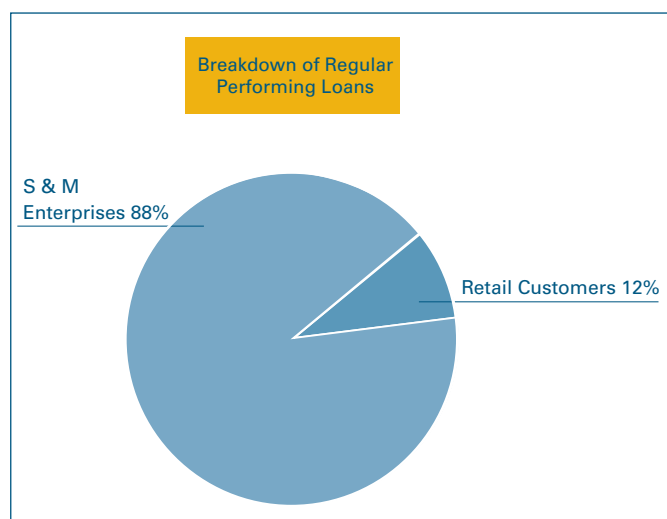


### a - Liquid Assets:



## b - Loans and Advances:

They are allocated at December 31, 2009 for 92.5% loans in Foreign Currency, and for only 7.5% loans in Lebanese Pound. In the Lebanese Banking Sector, Loans to Private Sector are allocated for 84% loans in Foreign Currency against 16% loans in Lebanese Pound.



The Asset Quality ratios are the following:

	2009	2008
Provision coverage=Provisions/ Total doubtful loans	75.37%	57.59%
Share of net doubtful loans to Total loans	3.45%	7.27%
Net doubtful loans/ Total equity	11.43%	26.00%

All the ratios have improved as a result of the decrease of doubtful loans.

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, 2009 financial statements of the Bank.

## V - OPERATING RESULTS

BIT Bank's operating policy is a very conservative one. Keeping at December 31, 2009 a risk based capital ratio of 23.8% and a liquidity ratio of 81% reduces in fact the profitability of the Bank.

In Thousands of US\$	2009	2008
Net interest income	8,241	8,410
Net financial revenues before provision for doubtful debts	9,278	9,584
Net income before provision for doubtful debts	1,418	518

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

	2009	2008
R.O.A.	0.30%	0.12%
Return on paid up capital	8.40%	3.07%
Net Margin	15.28%	5.40%
Overhead to revenue	35.75%	32.38%
Cost of resources to revenue	70.65%	70.50%

It is the Bank's policy that a big portion of the yearly profits be allocated to provisions for credit losses. In this respect, a net amount of US\$356,225 relating to year 2009 was transferred from related year profits to the provisions account (US\$230,660 in year 2008).

The allocation of profits between provisions for credit losses and net income is to a large extent driven to strengthen the bank's provisions. It should be noted that the provisions for credit losses are charged to P & L in order to release by the same amount, the shareholders' account held to cover the probable shortfall in the provision for credit losses. Accordingly, the released provisions come to add up to the existing shareholders' equity at the end of each respective year.

**Consolidated Financial  
Statements and  
Auditor's Report  
year ended  
December 31, 2009**

**• Independant 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**



BT 4803/DTT

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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 subsidiary (the "Group"), which comprise the consolidated statement of financial position as at December 31, 2009, 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 notes.

***Management's Responsibility for the Financial Statements***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on these consolidated 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 consolidated 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 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 Group as of December 31, 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards..

Beirut, Lebanon  
May 4, 2010

  
Deloitte & Touche

# Consolidated Statement of Financial Position

D e c e m b e r 3 1 ,

ASSETS	Notes	2009 LBP'000	2008 LBP'000
Cash and Central Bank	5	104,784,955	138,329,184
Deposits with banks and financial institutions	6	74,427,296	56,459,339
Loans and advances to customers	7	183,801,727	194,938,445
Available-for-sale investment securities	8	8,879,322	8,425,394
Held-to-maturity investment securities	8	307,943,564	249,621,507
Customers' liability under acceptances	9	355,037	419,837
Assets acquired in satisfaction of loans	10	21,829,475	17,674,305
Property and equipment	11	22,130,277	22,852,071
Intangible assets	12	159,175	130,726
Other assets	13	2,751,239	5,280,208
<b>Total Assets</b>		<b>727,062,067</b>	<b>694,131,016</b>

#### FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISKS:

Documentary and commercial letters of credit	30	107,016	555,088
Guarantees and standby letters of credit	30	29,214,273	35,871,080
Assets under management		32,238,719	22,953,668
<b>Fiduciary assets</b>	31	<b>20,581,677</b>	<b>24,997,209</b>

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	2009 LBP'000	2008 LBP'000
Deposits and borrowings from banks	14	5,551,301	3,985,470
Customers' deposits and credit balances	15	586,344,960	567,581,967
Related parties' deposits and credit balances	16	74,263,851	60,350,311
Customers' acceptance liability	9	355,037	419,837
Other liabilities	17	2,864,154	5,520,730
Provisions	18	2,168,891	1,711,968
<b>Total liabilities</b>		<b>671,548,194</b>	<b>639,570,283</b>
<b>EQUITY</b>			
Share capital	19	4,000,000	4,000,000
Shareholders' cash contribution to capital	20	21,444,188	21,444,188
Reserves	21	5,644,438	5,205,923
Owned buildings revaluation surplus	22	21,000,457	21,000,457
Cumulative change in fair value of investment securities	23	2,907,603	2,411,845
Retained earnings		-	498,320
Profit for the year		517,187	-
<b>Total equity</b>		<b>55,513,873</b>	<b>54,560,733</b>
<b>Total liabilities and equity</b>		<b>727,062,067</b>	<b>694,131,016</b>

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

## Consolidated Income Statement

	Notes	Year Ended December 31,	
		2009 LBP'000	2008 LBP'000
Interest income	24	42,336,459	42,976,632
Interest expense	25	(29,913,226)	(30,298,772)
<b>Net interest income</b>		<b>12,423,233</b>	<b>12,677,860</b>
Fee and commission income	26	1,535,333	1,642,843
Fee and commission expense	27	(252,683)	(207,162)
<b>Net fee and commission income</b>		<b>1,282,650</b>	<b>1,435,681</b>
<b>Other operating income</b>	<b>28</b>	<b>281,069</b>	<b>334,619</b>
<b>Net financial revenues</b>		<b>13,986,952</b>	<b>14,448,160</b>
Allowance for impairment of loans and advances	7	(537,009)	(347,718)
<b>Net financial revenues after allowance for impairment of loans and advances</b>		<b>13,449,943</b>	<b>14,100,442</b>
Staff costs	29	(9,529,246)	(9,092,052)
Administrative expenses		(4,404,957)	(3,580,459)
Depreciation and amortization	11 & 12	(1,201,286)	(1,244,207)
Gain on sale of assets acquired in satisfaction of loans		2,671,377	264,781
Other income		346,406	193,550
<b>Profit before income tax</b>		<b>1,332,237</b>	<b>642,055</b>
Income tax expense	17	(815,050)	(642,055)
<b>Profit for the year</b>		<b>517,187</b>	<b>-</b>

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

## Consolidated Statement of Comprehensive Income

	Notes	2009 LBP'000	2008 LBP'000
Profit for the year		517,187	-
Other comprehensive income:			
Unrealized gain/(loss) on available-for-sale investments	23	430,844	(5,427)
		430,844	(5,427)
<b>Total comprehensive income/(loss) for the year</b>		<b>948,031</b>	<b>(5,427)</b>

## Consolidated Statement of Changes in Equity

	Shareholders' Cash			Owned Buildings	Cumulative Change in Fair Value of Investment Securities	Retained Earnings	Profit for the Year	Total
	Share Capital	Contribution to Capital	Reserves	Revaluation Surplus				
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<b>Balance at January 1, 2008</b>	4,000,000	21,444,188	4,304,986	21,000,457	2,417,272	811,740	432,006	54,410,649
Total comprehensive loss for the year	-	-	-	-	(5,427)	-	-	(5,427)
Transfer from retained earnings	-	-	215,000	-	-	(215,000)	-	-
Acquisition of a subsidiary - Note 3(c)	-	-	-	-	-	155,511	-	155,511
Allocation of 2007 profit	-	-	432,006	-	-	-	(432,006)	-
Transfer to reserves	-	-	253,931	-	-	(253,931)	-	-
<b>Balance at December 31, 2008</b>	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)	-	-
<b>Balance at December 31, 2009</b>	4,000,000	21,444,188	5,644,438	21,000,457	2,907,603	-	517,187	55,513,873

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	2009 LBP'000	2008 LBP'000
<b>Cash flows from operating activities:</b>			
Profit for the year before tax		1,332,237	642,055
Interest income		(42,336,459)	(42,976,632)
Interest expense		29,913,226	30,298,772
Allowance for impairment of loans and advances	7	537,009	347,718
Depreciation and amortization	11&12	1,201,286	1,244,207
Provisions set up during the year	18	666,314	581,461
Gain on sale of property and equipment	11	-	(193,550)
Gain on sale of assets acquired in settlement of loans		(2,671,377)	(264,781)
		<b>(11,357,764)</b>	<b>(10,320,750)</b>
Net decrease/(increase) in loans and advances to customers		3,312,418	(2,951,698)
Net decrease/(increase) in compulsory reserve and term placements with Central Bank of Lebanon and other banks		36,647,617	(40,017,203)
Net increase in other assets	33	(235,597)	(418,437)
Net (decrease)/increase in other liabilities		(2,656,576)	2,554,273
Net increase in customers' deposits and credit balances	33	18,833,540	71,586,885
Net increase in related parties' deposits and credit balances		13,720,961	8,853,252
Provisions settled during the year	18	(209,391)	(141,864)
Interest received		42,175,726	41,077,650
Interest paid		(29,807,702)	(30,851,923)
Income tax paid		(815,050)	(642,055)
Net cash generated by operating activities		<b>69,608,182</b>	<b>38,728,130</b>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	11	(432,663)	(1,294,154)
Proceeds from sale of property and equipment		2,323	228,526
Increase in intangible assets	12	(77,602)	(75,305)
Proceeds from sale of assets acquired in satisfaction of loans		8,878,094	1,386,828
Net increase in investment securities	33	(57,996,464)	(60,189,217)
Net cash used in investing activities		<b>(49,626,312)</b>	<b>(59,943,322)</b>
<b>Cash flows from financing activities:</b>			
Increase in shareholders' accounts	33	-	1,517,196
Net cash generated by financing activities		-	1,517,196
Net increase/(decrease) in cash and cash equivalents		19,981,870	(19,697,996)
Cash and cash equivalents at the beginning of the year		56,732,531	76,430,527
Cash and cash equivalent at the end of the year	<b>33</b>	<b>76,714,401</b>	<b>56,732,531</b>

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 STANDARDS

### 2.1 Standards affecting presentation and disclosure

The following revised Standards have been adopted in the current period in these consolidated financial statements. Details of other Standards and Interpretations adopted but that have had no effect on the financial statements are set out in section 2.2.

- |  |  |
|--|--|
| * IAS 1 (as revised in 2007)<br><i>Presentation of Financial Statements</i>  | IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements. |
| * <i>Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)</i> | The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk.   |

### 2.2 Standards and Interpretations adopted with no effect on the financial statements

The following new and revised Standards and Interpretations have also been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements.

- |  |  |
|--|--|
| * IFRS 8 <i>Operating Segments</i>   | IFRS 8 is a disclosure Standard that requires re-designation of the Company's reportable segments based on the segments used by the Chief Operating Decision Maker to allocate resources and assess performance. |
| * <i>Amendments to IFRS 2 Share-based Payment - Vesting Conditions and Cancellations</i> | The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of 'non-vesting' conditions, and clarify the accounting treatment for cancellations.               |
| * IAS 23 (as revised in 2007)<br><i>Borrowing Costs</i>                                  | The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred.   |
| * <i>Amendments to IAS 32 Financial Instruments:</i>                                     | The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments)                                    |

# Notes to the Consolidated Financial Statements

*Presentation and IAS 1 that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.*  
*Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

- \* IFRIC 13 *Customer Loyalty Programmes* The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.
- \* IFRIC 15 *Agreements for the Construction of Real Estate* The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognized.
- \* IFRIC 16 *Hedges of a Net Investment in a Foreign Operation* The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
- \* IFRIC 18 *Transfers of Assets from Customers* (adopted in advance of effective date of transfers of assets from customers received on or after 1 July 2009) 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 recognize the asset at its fair value on the date of the transfer, with the credit recognized as revenue in accordance with IAS 18 *Revenue*.
- \* Improvements to IFRSs (2008) Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from the May and October 2008 *Annual Improvements to IFRSs* majority of which are effective for annual periods beginning on or after 1 January 2009.

## 2.3 Standards and Interpretations in issue not yet effective

At the date of authorization of these financial statements, the following new and revised Standards and Interpretations were in issue but not yet effective:

### New Standards and amendments to Standards:

**Effective for  
annual periods  
beginning on or after**

- \* IFRS 1 (revised) *First time Adoption of IFRS* and IAS 27 (revised) *Consolidated and Separate Financial Statements* – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate

1 July 2009

## Notes to the Consolidated Financial Statements

* IFRS 3 (revised) <i>Business Combinations</i> – Comprehensive revision on applying the acquisition method 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>	1 July 2009
* IAS 39 (revised) <i>Financial Instruments: Recognition and Measurement</i> – Amendments relating to Eligible Hedged Items (such as hedging Inflation risk and Hedging with options)	1 July 2009
* IFRS 1 (revised) <i>First time Adoption of IFRS</i> – Amendment on additional exemptions for First-time Adopters	1 January 2010
* IFRS 2 (revised) <i>Share-based payment</i> – Amendment relating to Company cash-settled Share-based payments	1 January 2010
* IAS 32 (revised) <i>Financial Instruments: Presentation</i> – Amendments relating to classification of Rights Issue	1 February 2010
* IAS 24 <i>Related Party Disclosures</i> – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	1 January 2011
* IFRS 9 <i>Financial Instruments: Classification and Measurement</i> (intended as complete replacement for IAS 39 and IFRS 7)	1 January 2013
* Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 <i>Annual Improvements to IFRSs</i> .	Majority effective for annual periods beginning on or after 1 January 2010

### **New Interpretations and amendments to Interpretations:**

### **Effective for annual periods beginning on or after**

* IFRS 17: <i>Distributions of Non-cash Assets to Owners</i>	1 July 2009
* IFRIC 19: <i>Extinguishing Financial Liabilities with Equity Instruments</i>	1 July 2010
* Amendment to IFRIC 14: <i>IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction</i>	1 January 2011
* Amendment to IFRIC 16: <i>Hedges of a Net Investment in a Foreign Operation</i>	1 July 2009
* Amendment to IFRIC 9 (revised): <i>Reassessment of Embedded Derivatives</i> relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category	1 July 2009

The directors anticipate that the adoption of all of the above Standards and Interpretations will have no material impact on the financial statements of the Group in the period of initial application, except for IFRS 9 for which directors have not yet had an opportunity to consider the potential impact of the adoption / early adoption of this new standard.

## 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 Bank'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 Bank 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 Banking

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 discounts 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 securities 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.

Interest income is recognized by applying the effective interest method.

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, including customers' deposits, money market and borrowings, are initially measured at

fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortized cost, with interest expense recognized on an effective yield basis.

## 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 compatibility 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 income.

## **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 monthly average of the last 12 months remunerations 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 discount or premium.

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 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.

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 ,	
	2009	2008
	LBP'000	LBP'000
Cash on hand	3,901,552	4,350,235
Current accounts with Central Bank of Lebanon	33,218,578	32,821,356
Term placements with Central Bank of Lebanon	67,586,915	100,674,504
Accrued interest receivable	77,910	483,089
	<b>104,784,955</b>	<b>138,329,184</b>

Current accounts with Central Bank of Lebanon include non-interest earning cash compulsory reserves in Lebanese Pounds totaling LBP29.2billion as of December 31, 2009 (LBP27.8billion in 2008) 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 LBP67billion as of December 31, 2009 (LBP95billion in 2008) 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 deposits 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 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
	<b>600,000</b>		<b>66,986,915</b>	

**D e c e m b e r 3 1 , 2 0 0 8**

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	%
2009	5,500,000	3.80	55,979,504	2.61
2011	-	-	8,291,250	4.41
2012	-	-	10,552,500	3.37
2013	-	-	20,351,250	3.74
	<b>5,500,000</b>		<b>95,174,504</b>	

## 6. DEPOSITS WITH BANKS AND FINANCIAL INSTITUTIONS

This caption consists of the following:

**D e c e m b e r 3 1 ,**

	2009	2008
	LBP'000	LBP'000
Checks in course of collection	6,925	566,646
Current accounts with banks and financial institutions	7,913,729	3,060,071
Term placements with banks and financial institutions	66,474,062	51,453,901
Pledged deposits with banks and financial institutions	22,919	1,281,375
Accrued interest receivable	9,661	97,346
	<b>74,427,296</b>	<b>56,459,339</b>

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

Term placements and pledged deposits as of December 31, 2009 and 2008 are mostly denominated in foreign currencies, and carry an average interest rate of 0.2% per annum (2.12% per annum during 2008) with maturity of less than one year.

## 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 0 9				D e c e m b e r 3 1 , 2 0 0 8			
	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
<b>Regular retail customers:</b>								
- Mortgage loans	6,062,205	-	-	6,062,205	6,216,000	-	-	6,216,000
- Personal loans	10,967,154	-	-	10,967,154	11,853,969	-	-	11,853,969
- Overdrafts	715,659	-	-	715,659	774,947	-	-	774,947
- Other	2,514,007	-	-	2,514,007	3,447,671	-	-	3,447,671
	<b>20,259,025</b>	-	-	<b>20,259,025</b>	<b>22,292,587</b>	-	-	<b>22,292,587</b>
<b>Regular corporate customers:</b>								
- Small and medium enterprises	149,393,084	-	(1,507,490)	147,885,594	151,545,257	(774,357)	(1,779,945)	148,990,955
	<b>149,393,084</b>	-	<b>(1,507,490)</b>	<b>147,885,594</b>	<b>151,545,257</b>	<b>(774,357)</b>	<b>(1,779,945)</b>	<b>148,990,955</b>
<b>Classified corporate customers:</b>								
- Restructured loans	6,171,666	-	(477,655)	5,694,011	5,597,913	-	(477,655)	5,120,258
- Substandard loans	2,529,995	(701,768)	-	1,828,227	9,534,655	-	-	9,534,655
- Doubtful and bad loans	23,235,742	(6,342,836)	(10,390,673)	6,502,233	23,899,850	(6,106,345)	(10,116,121)	7,677,384
	<b>31,937,403</b>	<b>(7,044,604)</b>	<b>(10,868,328)</b>	<b>14,024,471</b>	<b>39,032,418</b>	<b>(6,106,345)</b>	<b>(10,593,776)</b>	<b>22,332,297</b>
Accrued interest receivable	1,632,637	-	-	1,632,637	1,322,606	-	-	1,322,606
	<b>203,222,149</b>	<b>(7,044,604)</b>	<b>(12,375,818)</b>	<b>183,801,727</b>	<b>214,192,868</b>	<b>(6,880,702)</b>	<b>(12,373,721)</b>	<b>194,938,445</b>

## Notes to the Consolidated Financial Statements

The carrying value of loans and advances to customers include accidentally temporary debtors with carrying value amounting to LBP0.6billion as of December 31, 2009 (LBP2.4billion in 2008).

The carrying value of loans and advances to customers include loans to related parties in the aggregate of LBP2.6billion as of December 31, 2009 (LBP2.2billion in 2008) that are secured by pledged funds in the aggregate amount of LBP1.9billion as at December 31, 2009 (LBP1.9billion in 2008).

Restructured loans represent classified loans with renegotiated terms.

The movement of unrealized interest on non-performing loans during 2009 and 2008 is summarized as follows:

	<b>2 0 0 9</b>		
	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
<b>Balance at December 31</b>	<b>106,627,831</b>	<b>4,159,322</b>	<b>110,787,153</b>

	<b>2 0 0 8</b>		
	Unrealized Interest on:		
	Doubtful and Bad Loans LBP'000	Substandard Loans LBP'000	Total LBP'000
Balance at January 1	89,766,045	4,399,266	94,165,311
Additions	17,521,797	7,502,071	25,023,868
Write-off	(2,227,607)	(7,256,802)	(9,484,409)
Recoveries	(828,993)	(352,785)	(1,181,778)
Effect of exchange rates changes	-	(1,688)	(1,688)
<b>Balance at December 31</b>	<b>104,231,242</b>	<b>4,290,062</b>	<b>108,521,304</b>

## Notes to the Consolidated Financial Statements

The movement of the allowance for impairment of loans and advances to customers and pledged guarantee funds during 2009 and 2008 is as follows:

### 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	<b>7,044,604</b>	<b>12,375,818</b>

### 2008

	Allowance for Impairment	Pledged Guarantee Funds
	LBP'000	LBP'000
Balance at January 1	6,577,187	12,383,418
Additions	780,432	-
Write-offs	(49,815)	-
Recoveries	(432,714)	-
Transfer to/(from) shareholders' account	7,600	(7,600)
Effect of exchange rates changes	(1,988)	(2,097)
Balance at December 31	<b>6,880,702</b>	<b>12,373,721</b>

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

Pledged guarantee funds amounting to LBP12billion as at December 31, 2009 (LBP12billion in 2008) 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.

## 8. INVESTMENT SECURITIES

This caption consists of the following:

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
	<b>4,107,945</b>	<b>4,682,689</b>	<b>8,790,634</b>	<b>170,163,745</b>	<b>131,902,576</b>	<b>302,066,321</b>
Accrued interest receivable	-	88,688	88,688	3,427,435	2,449,808	5,877,243
	<b>4,107,945</b>	<b>4,771,377</b>	<b>8,879,322</b>	<b>173,591,180</b>	<b>134,352,384</b>	<b>307,943,564</b>

December 31, 2008

	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	88,851	4,196,796	-	-	-
Lebanese treasury bills	-	-	-	127,529,113	-	127,529,113
Lebanese Government bonds	-	4,139,912	4,139,912	-	87,509,404	87,509,404
Certificates of deposit issued by Central Bank of Lebanon	-	-	-	6,867,273	22,182,038	29,049,311
	<b>4,107,945</b>	<b>4,228,763</b>	<b>8,336,708</b>	<b>134,396,386</b>	<b>109,691,442</b>	<b>244,087,828</b>
Accrued interest receivable	-	88,686	88,686	3,608,647	1,925,032	5,533,679
	<b>4,107,945</b>	<b>4,317,449</b>	<b>8,425,394</b>	<b>138,005,033</b>	<b>111,616,474</b>	<b>249,621,507</b>

# Notes to the Consolidated Financial Statements

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

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
<b>Balance December 31</b>	<b>4,107,945</b>	<b>4,682,689</b>	<b>8,790,634</b>	<b>170,163,745</b>	<b>131,902,576</b>	<b>302,066,321</b>

2 0 0 8

	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	2,800,391	6,908,336	81,654,960	103,677,451	185,332,411
Additions	-	1,507,500	1,507,500	77,750,000	15,075,000	92,825,000
Redemption and sale	-	-	-	(25,120,000)	(9,045,000)	(34,165,000)
Change in fair value	-	(5,427)	(5,427)	-	-	-
Effect of discount/premium amortization	-	(73,701)	(73,701)	111,426	(16,009)	95,417
<b>Balance December 31</b>	<b>4,107,945</b>	<b>4,228,763</b>	<b>8,336,708</b>	<b>134,396,386</b>	<b>109,691,442</b>	<b>244,087,828</b>

## A. Available-for-sale investment securities:

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
	<b>895,722</b>	<b>4,107,945</b>	<b>3,212,223</b>	<b>4,560,732</b>	<b>4,682,689</b>	<b>121,957</b>

December 31, 2008

	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	153,765	88,851	(64,914)
Lebanese Government bonds	-	-	-	4,448,800	4,139,912	(308,887)
	<b>895,722</b>	<b>4,107,945</b>	<b>3,212,223</b>	<b>4,602,565</b>	<b>4,228,763</b>	<b>(373,801)</b>

## Notes to the Consolidated Financial Statements

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

**December 31, 2009**

Remaining Period to Maturity	Nominal Value	Counter Value of F/Cy		Yield
		Amortized Cost	Carrying Fair Value	
	LBP'000	LBP'000	LBP'000	%
<b>Lebanese Government bonds:</b>				
- 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
	<b>4,522,500</b>	<b>4,468,900</b>	<b>4,590,857</b>	

**December 31, 2008**

Remaining Period to Maturity	Nominal Value	Counter Value of F/Cy		Yield
		Amortized Cost	Carrying Fair Value	
	LBP'000	LBP'000	LBP'000	%
<b>Lebanese Government bonds:</b>				
- 3 years to 5 years	3,015,000	2,941,300	2,748,590	7.56
- Beyond 5 years	1,507,500	1,507,500	1,391,322	8.25
	<b>4,522,500</b>	<b>4,448,800</b>	<b>4,139,912</b>	

# 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 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	-	-	-	-
	<b>159,231,730</b>	<b>159,190,232</b>	<b>168,632,068</b>	-	-	-	-	-
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
	-	-	-	-	<b>105,526,508</b>	<b>105,050,135</b>	<b>103,697,147</b>	
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
	<b>11,000,000</b>	<b>10,973,513</b>	<b>11,182,353</b>		<b>22,763,250</b>	<b>22,424,395</b>	<b>25,394,682</b>	
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
	-	-	-	-	<b>4,421,200</b>	<b>4,428,046</b>	<b>4,317,097</b>	
<b>Grand total</b>	<b>170,231,730</b>	<b>170,163,745</b>	<b>179,814,421</b>		<b>132,710,958</b>	<b>131,902,576</b>	<b>133,408,92</b>	

**D e c e m b e r 3 1 , 2 0 0 8**

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	15,000,000	14,999,259	15,550,779	9.34	-	-	-	-
- 1 year to 3 years	112,599,730	112,529,854	117,427,661	9.45	-	-	-	-
	<b>127,599,730</b>	<b>127,529,113</b>	<b>132,978,440</b>		-	-	-	
Lebanese Government bonds:								
- Up to 1 year	-	-	-	-	14,321,250	14,347,520	14,188,410	8.27
- 1 year to 3 years	-	-	-	-	18,843,750	18,709,780	18,240,514	7.64
- 3 years to 5 years	-	-	-	-	19,597,500	19,337,906	18,830,892	8.31
- Beyond 5 years	-	-	-	-	35,203,140	35,114,198	33,147,481	8.23
	-	-	-	-	<b>87,965,640</b>	<b>87,509,404</b>	<b>84,407,297</b>	
Certificates of deposit issued by Central Bank of Lebanon:								
- 1 year to 3 years	7,000,000	6,867,273	7,485,877	11.30	-	-	-	-
- 5 years to 10 years	-	-	-	-	22,612,500	22,182,038	23,336,799	10.31
	<b>7,000,000</b>	<b>6,867,273</b>	<b>7,485,877</b>		<b>22,612,500</b>	<b>22,182,038</b>	<b>23,336,799</b>	
<b>Grand total</b>	<b>134,599,730</b>	<b>134,396,386</b>	<b>140,464,317</b>		<b>110,578,140</b>	<b>109,691,442</b>	<b>107,744,096</b>	

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 2009 and 2008 was as follows:

	<b>LBP'000</b>
<b>Cost:</b>	
Balance at January 1, 2008	15,315,847
Additions	1,337,164
Transfer from other assets - Note 13	2,143,341
Disposals	<u>(1,122,047)</u>
Balance at December 31, 2008	17,674,305
Additions	7,597,321
Transfer from other assets - Note 13	2,764,566
Disposals	<u>(6,206,717)</u>
Balance at December 31, 2009	<u>21,829,475</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).

## 11. PROPERTY AND EQUIPMENT

The movement of property and equipment during 2009 and 2008 was as follows:

	Land and Buildings	Furniture and Fixtures	Computer Equipment	Vehicles	Installations and Improvement	Office Equipment	Electrical and Industrial Equipment	Advances on Fixed Assets	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<b>Cost/Revaluation:</b>									
Balance at January 1, 2008	23,036,061	510,450	2,073,660	129,624	2,839,508	886,343	437,802	32,219	29,945,667
Additions	-	98,847	203,543	-	655,054	178,774	157,936	-	1,294,154
Disposal	-	-	(3,013)	-	-	(12,430)	-	(32,219)	(47,662)
Balance at December 31, 2008	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
Disposal	-	(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
<b>Accumulated depreciation:</b>									
Balance at January 1, 2008	(2,272,560)	(186,865)	(1,809,402)	(38,205)	(1,805,728)	(606,583)	(428,511)	-	(7,147,854)
Depreciation	(492,455)	(47,867)	(140,583)	(74,268)	(376,609)	(71,323)	(1,815)	-	(1,204,920)
Eliminated upon disposals	-	-	3,013	-	-	9,673	-	-	12,686
Balance at December 31, 2008	(2,765,015)	(234,732)	(1,946,972)	(112,473)	(2,182,337)	(668,233)	(430,326)	-	(8,340,088)
Depreciation	(497,518)	(52,480)	(115,805)	-	(382,467)	(79,947)	(23,917)	-	(1,152,134)
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)
<b>Carrying amount:</b>									
December 31, 2009	19,773,528	342,768	377,796	61,093	1,010,614	409,453	155,025	-	22,130,277
December 31, 2008	20,271,046	374,565	327,218	17,151	1,312,225	384,454	165,412	-	22,852,071

## 12. INTANGIBLE ASSETS

The movement of intangible assets during 2009 and 2008 was as follows:

	Purchased Software LBP'000
<b>Cost/Revaluation:</b>	
<b>Balance at January 1, 2008</b>	<b>183,469</b>
Acquisitions	75,305
<b>Balance at December 31, 2008</b>	<b>258,774</b>
Acquisitions	77,602
<b>Balance at December 31, 2009</b>	<b>336,376</b>
<b>Accumulated Amortization:</b>	
<b>Balance at January 1, 2008</b>	<b>(88,761)</b>
Amortization	(39,287)
<b>Balance at December 31, 2008</b>	<b>(128,048)</b>
Amortization	(49,153)
<b>Balance at December 31, 2009</b>	<b>(177,201)</b>
<b>Carrying Amounts:</b>	
<b>December 31, 2009</b>	<b>159,175</b>
<b>December 31, 2008</b>	<b>130,726</b>

## 13. OTHER ASSETS

This caption consists of the following:

	December 31,	
	2009	2008
	LBP'000	LBP'000
Assets in process of acquisition in settlement of loans	1,201,749	3,649,740
Deferred charges	30,603	31,658
Accrued income	621	7,799
Prepayments	321,824	253,875
Sundry accounts receivable	1,196,442	1,337,136
Doubtful receivables	5,138,355	5,140,451
Pledged guarantee funds	(5,138,355)	(5,140,451)
	<b>2,751,239</b>	<b>5,280,208</b>

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 Group is completed (Note 10).

Pledged guarantee funds amounting to LBP5.1billion as of December 31, 2009 and 2008 were deposited by the shareholders of the Group in order to cover dubious receivable balances originated from unauthorized transactions.

### 14. DEPOSITS AND BORROWINGS FROM BANKS

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

	December 31,	
	2009	2008
	LBP'000	LBP'000
Current deposits of banks and financial institutions	34,339	25,498
Money market deposits	5,515,054	3,941,556
Accrued interest payable	1,908	18,416
	<b>5,551,301</b>	<b>3,985,470</b>

The money market deposits represent the counter value of CHF3,800,000 as of December 31, 2009 (CHF2,760,000 in 2008), and are subject to interest at the rate of 0.5% per annum (2.90% per annum in 2008) with maturity January 2010 (January 2009, for the deposit outstanding as at December 31, 2008).

## 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 0 9			D e c e m b e r 3 1 , 2 0 0 8		
	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
<b>Deposits from customers:</b>						
- Current / demand deposits	3,050,788	26,499,931	29,550,719	3,724,453	29,631,821	33,356,274
- Term deposits	492,817,026	-	492,817,026	462,422,347	-	462,422,347
- Collateral against loans and advances	58,887,630	-	58,887,630	66,905,119	-	66,905,119
	<b>554,755,444</b>	<b>26,499,931</b>	<b>581,255,375</b>	<b>533,051,919</b>	<b>29,631,821</b>	<b>562,683,740</b>
<b>Margin and other accounts:</b>						
- Margins for irrevocable import letters of credit	-	434,474	434,474	-	1,082,010	1,082,010
- Margins on letters of guarantee	-	1,493,841	1,493,841	-	1,122,047	1,122,047
- Other margins	-	1,229,794	1,229,794	-	692,147	692,147
	-	<b>3,158,109</b>	<b>3,158,109</b>	-	<b>2,896,204</b>	<b>2,896,204</b>
Accrued interest payable	1,931,476	-	1,931,476	2,002,023	-	2,002,023
<b>Total</b>	<b>556,686,920</b>	<b>29,658,040</b>	<b>586,344,960</b>	<b>535,053,942</b>	<b>32,528,025</b>	<b>567,581,967</b>

## 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 0 9**

	Total Deposits	% of Total Deposits	No. of Customers
	LBP'000	%	
- Less than LBP1.5billion	374,248,464	64	7,877
- From LBP1.5billion to LBP5billion	126,541,481	22	45
- From LBP5billion to LBP10billion	40,427,757	7	5
- From LBP10billion to LBP15billion	25,826,096	5	2
- More than LBP15billion	17,369,686	2	1
	<b>584,413,484</b>	<b>100</b>	<b>7,930</b>

**D e c e m b e r 3 1 , 2 0 0 8**

	Total Deposits	% of Total Deposits	No. of Customers
	LBP'000	%	
-Less than LBP1.5billion	362,837,913	64	8,261
-From LBP1.5billion to LBP5billion	101,829,592	18	40
-From LBP5billion to LBP10billion	47,990,511	8	6
-From LBP10billion to LBP15billion	14,707,610	3	1
-More than LBP15billion	38,214,318	7	2
	<b>565,579,944</b>	<b>100</b>	<b>8,310</b>

Deposits from customers include at December 31, 2009 coded deposit accounts in the aggregate of LBP11.2billion (LBP7.8billion in 2008). 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
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
2007	119,350,090	7.81	350,008,237	5.01	26,851,618

## 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 0 9			D e c e m b e r 3 1 , 2 0 0 8		
	Interest Bearing	Non-Interest Bearing	Total	Interest Bearing	Non-Interest Bearing	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<b>Deposits from customers:</b>						
- Current / demand deposits	19,631	4,678,198	4,697,829	54,576	5,865,168	5,919,744
- Term deposits	68,801,244	-	68,801,244	52,431,087	-	52,431,087
- Collateral against loans and advances	435,461	-	435,461	1,852,093	-	1,852,093
	<b>69,256,336</b>	<b>4,678,198</b>	<b>73,934,534</b>	<b>54,337,756</b>	<b>5,865,168</b>	<b>60,202,924</b>
<b>Margin and other accounts:</b>						
- Margins on letters of guarantee	-	47,703	47,703	58,352	-	58,352
Accrued interest payable	281,614	-	281,614	89,035	-	89,035
<b>Total</b>	<b>69,537,950</b>	<b>4,725,901</b>	<b>74,263,851</b>	<b>54,485,143</b>	<b>5,865,168</b>	<b>60,350,311</b>

Deposits from related parties at amortized cost are allocated by brackets of deposits as follows:

	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 LBP1.5billion	8,903,540	12	84
- From LBP1.5billion to LBP5billion	33,802,530	46	14
- From LBP5billion to LBP10billion	19,169,283	26	3
- More than LBP10billion	12,106,884	16	1
	<b>73,982,237</b>	<b>100</b>	<b>102</b>

	D e c e m b e r 3 1 , 2 0 0 8		
	Total Deposits	% of Total Deposits	No. of Customers
	LBP'000	%	
- Less than LBP1.5billion	16,973,373	28	90
- From LBP1.5billion to LBP5billion	34,668,478	58	13
- From LBP5billion to LBP10billion	8,619,425	14	1
	<b>60,261,276</b>	<b>100</b>	<b>104</b>

## 17. OTHER LIABILITIES

This caption consists of the following:

	D e c e m b e r 3 1 ,	
	2009	2009
	LBP'000	LBP'000
Income tax payable	59,900	60,500
Deferred tax liability - Note 23	426,577	426,577
Other taxes payable	365,071	324,921
Due to the National Social Security Fund	126,990	146,659
Unearned revenue	18,905	18,354
Checks and incoming payment orders in course of settlement	274,709	188,780
Accrued expenses	715,788	853,059
Fair value of financial guarantees issued	180,279	144,741
Sundry accounts payable	695,935	3,357,139
	<b>2,864,154</b>	<b>5,520,730</b>

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

	2009	2008
	LBP'000	LBP'000
Income tax based on enacted rate (15%)	339,838	187,840
Excess tax paid on certain income (Non-refundable)	415,312	393,715
	<b>755,150</b>	<b>581,555</b>
Lump sum tax (subsidiary)	9,900	11,000
Real estate tax (subsidiary)	50,000	49,500
<b>Total income tax expense</b>	<b>815,050</b>	<b>642,055</b>
Tax paid during the year	(755,150)	(581,555)
<b>Tax payable as at December 31</b>	<b>59,900</b>	<b>60,500</b>

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 2009 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 ,	
	2009	2008
	LBP'000	LBP'000
Provision for staff end-of-service indemnity	2,162,594	1,705,011
Provision for contingencies	2,771	2,771
Provision for loss foreign currency position	3,526	4,186
	<b>2,168,891</b>	<b>1,711,968</b>

The movement of the provision for staff termination indemnity is as follows:

	D e c e m b e r 3 1 ,	
	2009	2008
	LBP'000	LBP'000
Balance at January 1	1,705,011	1,266,539
Additions	670,741	580,336
Write-backs	(3,767)	-
Settlements	(209,391)	(141,864)
<b>Balance at December 31</b>	<b>2,162,594</b>	<b>1,705,011</b>

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, 2009 and 2008, the authorized ordinary share capital of the Group was LBP4billion consisting of 4,000,000 fully paid shares (4,000,000 shares in 2008) of LBP1,000 par value each.

## 20. SHAREHOLDERS' CASH CONTRIBUTION TO CAPITAL

The shareholders' cash contribution to capital is for a total amount of LBP21billion (USD14,225,000) as at December 31, 2009 and 2008. These contributions are interest free and are made by the major shareholders to support the Group in developing its activities. This sort of equity financial instrument has the advantage of being booked and maintained in foreign currency thus providing a 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.

The extraordinary general assembly held on August 20, 2005 decided to increase these contributions to USD39,225,000 by an immediate increase of USD4,500,000 settled by current shareholders during 2006 and an increase of USD25,000,000 not yet settled as at the date of the issuance of these financial statements.

## 21. RESERVES

Reserves consist of the following as at December 31, 2009 and 2008:

	D e c e m b e r 3 1 ,	
	2009	2008
	LBP'000	LBP'000
Reserve for general banking risks	4,056,652	3,679,051
Legal reserve	764,259	703,345
General reserves	585,916	585,916
Regulatory reserve for assets acquired in satisfaction of loans (Note 10)	237,611	237,611
	<b>5,644,438</b>	<b>5,205,923</b>

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 ,	
	2009	2008
	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	260
	<b>21,000,457</b>	<b>21,000,457</b>

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:

	December 31, 2009			December 31, 2008		
	Cumulative Change in Fair Value	Deferred Tax	Net	Cumulative Change in Fair Value	Deferred Tax	Net
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
Unrealized gain/(loss) on Lebanese Government bonds	121,957	18,294	103,663	(308,887)	(46,333)	(262,554)
Unrealized gain on unquoted equity securities	3,212,223	408,283	2,803,940	3,147,309	472,910	2,674,399
	<b>3,334,180</b>	<b>426,577</b>	<b>2,907,603</b>	<b>2,838,422</b>	<b>426,577</b>	<b>2,411,845</b>

The movement of the cumulative change in fair value of available-for-sale investment securities is as follows:

	2009	2008
	LBP'000	LBP'000
<b>Balance - January 1 (Before deferred tax)</b>	<b>2,838,422</b>	<b>2,843,849</b>
Unrealized gain/(loss) on Lebanese Government bonds	430,844	(5,427)
Other adjustments	64,914	-
	<b>3,334,180</b>	<b>2,838,422</b>
Deferred tax liability (Note 17)	(426,577)	(426,577)
<b>Balance - December 31</b>	<b>2,907,603</b>	<b>2,411,845</b>

### 24. INTEREST INCOME

This caption consists of the following:

	2009	2008
	LBP'000	LBP'000
Free deposits with Central Bank	1,262,739	3,067,274
Deposits with banks and financial institutions	738,460	2,686,414
Available-for-sale investment securities	352,378	272,357
Held-to-maturity investment securities	24,773,226	19,666,095
Loans and advances to customers	14,249,613	15,964,084
Loans and advances to related parties	82,109	138,630
Interest realized on impaired loans and advances to customers	877,934	1,181,778
	<b>42,336,459</b>	<b>42,976,632</b>

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:

	2009	2009
	LBP'000	LBP'000
Deposits and borrowings from banks and financial institutions	39,654	194,181
Customers' accounts at amortized cost	27,465,219	27,324,418
Related parties' accounts at amortized cost	2,408,353	2,780,173
	<b>29,913,226</b>	<b>30,298,772</b>

## 26. FEE AND COMMISSION INCOME

This caption consists of the following:

	2009	2008
	LBP'000	LBP'000
Commission on documentary credits	25,906	25,576
Commission on letters of guarantee	314,778	508,738
Service fees on customers' transactions	894,897	827,927
Brokerage fees	190,305	165,380
Commission on transactions with banks	2,100	1,297
Asset management fees	107,347	113,925
	<b>1,535,333</b>	<b>1,642,843</b>

## 27. FEE AND COMMISSION EXPENSE

This caption consists of commission on transactions with banks in the amount of LBP253million and LBP207million for the year ended December 31, 2009 and 2008, respectively.

## 28. OTHER OPERATING INCOME

This caption consists of the following:

	2009	2008
	LBP'000	LBP'000
Dividends on available for-sale securities	97,114	77,906
Net foreign exchange gains	183,955	256,713
	<b>281,069</b>	<b>334,619</b>

## 29. STAFF COSTS

This caption consists of the following:

	2009	2008
	LBP'000	LBP'000
Salaries, bonuses and other benefits	7,873,388	7,590,374
Social Security contributions	884,878	820,294
Provision for employees' end-of-service indemnities	666,974	580,336
Board of Directors' remuneration fees	104,006	101,048
	<b>9,529,246</b>	<b>9,092,052</b>

## 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 ACCOUNTS

Fiduciary accounts consist of the following:

**December 31, 2009**

	Customers' Base Accounts		Total
	Resident	Non-Resident	
	LBP'000	LBP'000	LBP'000
Back to back lending	7,854,996	12,726,681	20,581,677

**December 31, 2008**

	Customers' Base Accounts		Total
	Resident	Non-Resident	
	LBP'000	LBP'000	LBP'000
Fiduciary deposits with banks	3,389,949	-	3,389,949
Back to back lending	7,384,113	14,223,147	21,607,260
	<b>10,774,062</b>	<b>14,223,147</b>	<b>24,997,209</b>

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, 2009 (LBP4.8billion the equivalent of USD3.2million in 2008).

## 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:

	<b>December 31,</b>	
	<b>2009</b>	<b>2008</b>
	<b>LBP'000</b>	<b>LBP'000</b>
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	50,329,654	34,618,696
Indirect facilities:		
- Letters of guarantee	117,180	17,303
Related companies:		
Direct facilities and credit balances:		
- Unsecured loans and advances	805,440	396,251
- Loans and advances against cash collateral	1,773,520	1,774,741
- Deposits	23,934,197	25,731,615
Indirect facilities:		
- Letters of guarantee	338,743	106,618

Interest rates charged on balances outstanding are the same rates that would be charged in an arm's length transaction. Secured loans and advances are covered by pledged deposits of the respective borrowers to the extent of LBP1.9billion in 2009 (LBP1.9billion in 2008).

Interest expense on related parties' deposits amounted to LBP2.4billion during 2009 (LBP2.8billion during 2008).

The remunerations of executive management and Board of Directors amounted to LBP1.3billion during 2009 (LBP1.1billion during 2008).

The Group rented from "Al-Bustan Hotel S.A.L." a building for the period from June 1, 2009 till May 31, 2010 against an annual fee of LBP2million (LBP2million in 2008).

### 33. CASH AND CASH EQUIVALENTS

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

	December 31,	
	2009 LBP'000	2008 LBP'000
Cash on hand	3,901,552	4,350,235
Current accounts with Central Bank of Lebanon (excluding compulsory reserves)	3,967,526	5,054,546
Term placements with banks and financial institutions	66,474,062	47,668,087
Current accounts with banks and financial institutions	7,913,729	3,060,071
Checks in course of collection	6,925	566,646
Deposits and borrowings from banks	(5,549,393)	(3,967,054)
	<b>76,714,401</b>	<b>56,732,531</b>

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 LBP431million during 2009 (LBP5million during 2008).
2. Assets acquired in satisfaction of loans in the amount of LBP7.6billion during 2009 (LBP1.3billion during 2008)
3. An aggregate amount of LBP5.1billion transferred from shareholders' accounts to customers' deposits during 2008.

### 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 12% (Basel I).

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 was as follows:

	December 31,	
	2009 LBP'000	2008 LBP'000
Total regulatory capital	52,002,000	51,650,000
Risk-weighted assets	201,881,000	210,606,000
Risk weighted off-balance sheet items	16,519,000	19,801,000
	<b>218,400,000</b>	<b>230,407,000</b>
Capital adequacy ratio	23.81%	22.42%

## 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 Department*

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 overdues 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.

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

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	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
	<b>30,974</b>	<b>74,379,736</b>	<b>74,410,710</b>	<b>100</b>	<b>24</b>

D e c e m b e r 3 1 , 2 0 0 8

	LBP	Total Deposits Counter Value of F/Cy	Total	% to Total	No. of Customers
	LBP'000	LBP'000	LBP'000	%	
Less than LBP5billion	126,290	12,201,016	12,327,306	22	23
Between LBP5billion and LBP15billion	-	19,378,071	19,378,071	35	2
Between LBP15billion and LBP30billion	-	24,089,970	24,089,970	43	1
	<b>126,290</b>	<b>55,669,057</b>	<b>55,795,347</b>	<b>100</b>	<b>26</b>

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

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

Bracket	LBP	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
	<b>12,780,151</b>	<b>169,388,939</b>	<b>182,169,090</b>	<b>100</b>	<b>1,102</b>

D e c e m b e r 3 1 , 2 0 0 8

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	14,746,453	35,746,374	50,492,827	26	1,051
From LBP1.5billion to LBP5billion	5,446	36,996,718	37,002,164	19	13
From LBP5billion to LBP10billion	15,287	21,063,221	21,078,508	11	3
From LBP10billion to LBP15billion	-	22,165,171	22,165,171	11	2
More than LBP15billion	-	62,877,169	62,877,169	33	3
	<b>14,767,186</b>	<b>178,848,653</b>	<b>193,615,839</b>	<b>100</b>	<b>1,072</b>

## Notes to the Consolidated Financial Statements

(b) Fair value of collateral received against loans and advances to customers:

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	Gross Exposure Net of Unrealized Interest		Pledged Guarantee Fund	Net Exposure	Fair Value of Collateral Received		
	Allowance for Impairment				Pledged Funds	First Degree Mortgage on Property	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<b>Regular loans and advances</b>	<b>171,284,746</b>	<b>-</b>	<b>(1,507,490)</b>	<b>169,777,256</b>	<b>58,837,630</b>	<b>62,119,057</b>	<b>120,956,687</b>
Individually impaired:							
Restructured	6,171,666	-	(477,655)	5,694,011	-	1,075,037	1,075,037
Substandard	2,529,995	(701,768)	-	1,828,227	-	1,390,859	1,390,859
Doubtful	23,235,742	(6,342,836)	(10,390,673)	6,502,233	50,000	6,570,743	6,620,473
	<b>31,937,403</b>	<b>(7,044,604)</b>	<b>(10,868,328)</b>	<b>14,024,471</b>	<b>50,000</b>	<b>9,036,639</b>	<b>9,086,639</b>
	<b>203,222,149</b>	<b>(7,044,604)</b>	<b>(12,375,818)</b>	<b>183,801,727</b>	<b>58,887,630</b>	<b>71,155,696</b>	<b>130,043,326</b>

D e c e m b e r 3 1 , 2 0 0 8

	Gross Exposure Net of Unrealized Interest		Pledged Guarantee Fund	Net Exposure	Fair Value of Collateral Received		
	Allowance for Impairment				Pledged Funds	First Degree Mortgage on Property	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<b>Regular loans and advances</b>	<b>175,160,450</b>	<b>(774,357)</b>	<b>(1,779,945)</b>	<b>172,606,148</b>	<b>65,900,325</b>	<b>47,130,520</b>	<b>113,030,845</b>
Individually impaired:							
Restructured	5,597,913	-	(477,655)	5,120,258	-	1,164,434	1,164,434
Substandard	9,534,655	-	-	9,534,655	244,800	8,536,483	8,781,283
Doubtful	23,899,850	(6,106,345)	(10,116,121)	7,677,384	759,994	8,028,572	8,788,566
	<b>39,032,418</b>	<b>(6,106,345)</b>	<b>(10,593,776)</b>	<b>22,332,297</b>	<b>1,004,794</b>	<b>17,729,489</b>	<b>18,734,283</b>
	<b>214,192,868</b>	<b>(6,880,702)</b>	<b>(12,373,721)</b>	<b>194,938,445</b>	<b>66,905,119</b>	<b>64,860,009</b>	<b>131,765,128</b>

# Notes to the Consolidated Financial Statements

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

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

	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individual	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	-	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
	<b>411,364,223</b>	<b>78,617,412</b>	<b>96,583,029</b>	<b>79,222,877</b>	<b>1,484,699</b>	<b>6,074,928</b>	<b>673,347,168</b>	<b>7,686,138</b>	<b>681,033,306</b>

**D e c e m b e r 3 1 , 2 0 0 8**

	Sovereign	Financial Services	Real Estate Development and Trading	Consumer Goods Trading and Services	Private Individual	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	137,846,095	-	-	-	-	-	137,846,095	483,089	138,329,184
Deposits with banks and financial	-	56,361,993	-	-	-	-	56,361,993	97,346	56,459,339
Loans and advances to customers	-	-	93,493,499	88,062,936	2,135,419	9,923,985	193,615,839	1,322,606	194,938,445
Available-for-sale investment securities	4,139,913	4,196,796	-	-	-	-	8,336,709	88,685	8,425,394
Held-to-maturity investment securities	244,087,828	-	-	-	-	-	244,087,828	5,533,679	249,621,507
Other financial assets	-	-	-	-	-	1,337,136	1,337,136	-	1,337,136
	<b>386,073,836</b>	<b>60,558,789</b>	<b>93,493,499</b>	<b>88,062,936</b>	<b>2,135,419</b>	<b>11,261,121</b>	<b>641,585,600</b>	<b>7,525,405</b>	<b>649,111,005</b>

(d) Concentration of financial assets by geographical area:

**December 31, 2009**

	<b>Resident</b>	<b>Non-Resident</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Financial Assets</b>			
Cash and Central Bank	104,784,955	-	104,784,955
Deposits with banks and financial	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
	<b>598,496,798</b>	<b>82,536,508</b>	<b>681,033,306</b>

**December 31, 2008**

	<b>Resident</b>	<b>Non-Resident</b>	<b>Total</b>
	<b>LBP'000</b>	<b>LBP'000</b>	<b>LBP'000</b>
<b>Financial Assets</b>			
Cash and Central Bank	138,329,184	-	138,329,184
Deposits with banks and financial	2,278,262	54,181,077	56,459,339
Loans and advances to customers	177,664,408	17,274,037	194,938,445
Available-for-sale investment securities	8,251,362	174,032	8,425,394
Held-to-maturity investment securities	249,621,507	-	249,621,507
Other financial assets	1,337,136	-	1,337,136
	<b>577,481,859</b>	<b>71,629,146</b>	<b>649,111,005</b>

## 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 Bank's financial assets and liabilities segregated by maturity:

**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
<b>Financial Assets</b>						
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
	<b>62,218,675</b>	<b>262,292,273</b>	<b>194,872,266</b>	<b>83,400,588</b>	<b>78,249,504</b>	<b>681,033,306</b>
<b>Financial Liabilities</b>						
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
	<b>35,081,784</b>	<b>631,774,263</b>	-	-	-	<b>666,856,047</b>
<b>Maturity Gap</b>	<b>27,136,891</b>	<b>(369,481,990)</b>	<b>194,872,266</b>	<b>83,400,588</b>	<b>78,249,504</b>	<b>14,177,259</b>

**December 31, 2008**

	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
<b>Financial Assets</b>						
Cash and Central Bank	37,654,680	61,479,504	8,291,250	30,903,750	-	138,329,184
Deposits with banks and financial institutions	3,724,064	52,735,275	-	-	-	56,459,339
Loans and advances to customers	21,154,854	134,182,309	21,501,333	12,042,523	6,057,427	194,938,445
Available-for-sale investment securities	4,285,481	-	-	2,748,590	1,391,323	8,425,394
Held-to-maturity investment securities	5,533,679	29,346,779	138,106,907	19,337,906	57,296,236	249,621,507
Other financial assets	1,337,136	-	-	-	-	1,337,136
	<b>73,689,893</b>	<b>277,743,867</b>	<b>167,899,490</b>	<b>65,032,769</b>	<b>64,744,986</b>	<b>649,111,005</b>
<b>Financial Liabilities</b>						
Deposits and borrowings from banks	18,416	3,967,054	-	-	-	3,985,470
Customers' deposits and credit balances	32,528,025	535,053,942	-	-	-	567,581,967
Related parties' deposits and credit balances	5,865,168	54,485,143	-	-	-	60,350,311
Other financial liabilities	3,357,139	-	-	-	-	3,357,139
	<b>41,768,748</b>	<b>593,506,139</b>	-	-	-	<b>635,274,887</b>
<b>Maturity Gap</b>	<b>31,921,145</b>	<b>(315,762,272)</b>	<b>167,899,490</b>	<b>65,032,769</b>	<b>64,744,986</b>	<b>13,836,118</b>

## 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, 2009

	LBP	USD	Euro	Other	Total
	LBP'000	LBP'000	LBP'000	LBP'000	LBP'000
<b>Financial Assets</b>					
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
	<b>220,553,182</b>	<b>396,065,427</b>	<b>38,381,685</b>	<b>26,033,012</b>	<b>681,033,306</b>
<b>Financial Liabilities</b>					
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
	<b>211,457,158</b>	<b>391,262,781</b>	<b>40,920,503</b>	<b>23,215,605</b>	<b>666,856,047</b>
<b>Net exchange position</b>	<b>9,096,024</b>	<b>4,802,646</b>	<b>(2,538,818)</b>	<b>2,817,407</b>	<b>14,177,259</b>

## Notes to the Consolidated Financial Statements

December 31, 2008

	LBP LBP'000	USD LBP'000	Euro LBP'000	Other LBP'000	Total LBP'000
<b>Financial Assets</b>					
Cash and Central Bank	35,072,291	100,526,299	2,688,536	42,058	138,329,184
Deposits with banks and financial Institutions	137,282	31,630,776	18,529,766	6,161,515	56,459,339
Loans and advances to customers	16,882,736	140,411,912	22,806,710	14,837,087	194,938,445
Available-for-sale investment securities	4,107,945	4,317,449	-	-	8,425,394
Held-to-maturity investment securities	138,005,033	111,616,474	-	-	249,621,507
Other financial assets	1,933,129	(645,799)	49,806	-	1,337,136
	<b>196,138,416</b>	<b>387,857,111</b>	<b>44,074,818</b>	<b>21,040,660</b>	<b>649,111,005</b>
<b>Financial Liabilities</b>					
Deposits and borrowings from banks	25,498	-	-	3,959,972	3,985,470
Customers' deposits and credit balances	174,690,715	337,535,054	41,276,731	14,079,467	567,581,967
Related parties' deposits and credit balances	6,270,910	48,518,588	2,803,597	2,757,216	60,350,311
other financial liabilities	364,056	2,761,452	222,310	9,321	3,357,139
	<b>181,351,179</b>	<b>388,815,094</b>	<b>44,302,638</b>	<b>20,805,976</b>	<b>635,274,887</b>
<b>Net exchange position</b>	<b>14,787,237</b>	<b>(957,983)</b>	<b>(227,820)</b>	<b>234,684</b>	<b>13,836,118</b>

### *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.

**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	
	LBP'000	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
<b>Financial Assets</b>										
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	-	-	74,427,296
Loans and advances to customers	7,745,824	102,217,685	17,439,089	12,350,953	7,681,582	147,435,133	26,622,842	4,264,830	3,349,588	36,366,595
Available for sale investment securities	4,288,465	-	-	-	-	4,288,465	-	-	2,978,435	1,612,422
Held-to-maturity investment securities	5,877,243	-	-	-	-	5,877,243	38,052,697	152,817,097	65,605,912	302,066,321
Other financial assets	1,196,442	-	-	-	-	1,196,442	-	-	-	1,196,442
	<b>59,988,800</b>	<b>199,846,610</b>	<b>37,790,339</b>	<b>32,702,203</b>	<b>7,681,582</b>	<b>338,009,534</b>	<b>64,675,539</b>	<b>157,081,927</b>	<b>50,698,385</b>	<b>70,567,922</b>
										<b>343,023,773</b>
<b>Financial Liabilities</b>										
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	-	-	-	586,344,960
Related parties' deposits and credit balances	4,725,901	69,537,950	-	-	-	74,263,851	-	-	-	74,263,851
Shareholders' accounts	-	-	-	-	-	-	-	-	-	-
Other financial liabilities	695,935	-	-	-	-	695,935	-	-	-	-
	<b>35,081,784</b>	<b>631,774,263</b>	-	-	-	<b>666,856,047</b>	-	-	-	<b>666,856,047</b>
<b>Interest rate gap position</b>	<b>24,907,016</b>	<b>(431,927,653)</b>	<b>37,790,339</b>	<b>32,702,203</b>	<b>7,681,582</b>	<b>(328,846,513)</b>	<b>64,675,539</b>	<b>157,081,927</b>	<b>50,698,385</b>	<b>70,567,922</b>
										<b>343,023,773</b>
										<b>14,177,260</b>

**D e c e m b e r 3 1 , 2 0 0 8**

	Non-Interest Earning		Floating Interest Rate			Fixed Interest Rate			Grand Total		
	LBP'000	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		
<b>Financial Assets</b>											
Cash and Central Bank	37,654,680	61,479,504	8,291,250	30,903,750	-	138,329,184	-	-	138,329,184		
Deposits with banks and financial institutions	3,724,064	52,735,275	-	-	-	56,459,339	-	-	56,459,339		
Loans and advances to customers	17,212,038	148,444,914	5,466,602	1,324,766	2,638,852	175,087,172	15,434,625	2,498,601	19,851,273		
Available-for-sale investment securities	4,285,481	-	-	-	-	4,285,481	-	2,748,590	1,391,323		
Held-to-maturity investment securities	5,533,679	-	-	-	-	5,533,679	29,346,779	138,106,907	19,337,906		
Other financial assets	1,337,136	-	-	-	-	1,337,136	-	-	-		
	<b>69,747,078</b>	<b>262,659,693</b>	<b>13,757,852</b>	<b>32,228,516</b>	<b>2,638,852</b>	<b>381,031,991</b>	<b>44,781,404</b>	<b>140,605,508</b>	<b>60,108,698</b>	<b>268,079,014</b>	<b>649,111,005</b>
<b>Financial Liabilities</b>											
Deposits and borrowings from banks	18,416	3,967,054	-	-	-	3,985,470	-	-	-	3,985,470	
Customers' deposits and credit balances	32,528,025	535,053,942	-	-	-	567,581,967	-	-	-	567,581,967	
Related parties' deposits and credit balances	5,865,168	54,485,143	-	-	-	60,350,311	-	-	-	60,350,311	
Other financial liabilities	3,357,139	-	-	-	-	3,357,139	-	-	-	3,357,139	
	<b>41,768,748</b>	<b>593,506,139</b>	-	-	-	<b>635,274,887</b>	-	-	-	<b>635,274,887</b>	
<b>Interest rate gap position</b>	<b>27,978,330</b>	<b>(330,846,446)</b>	<b>13,757,852</b>	<b>32,228,516</b>	<b>2,638,852</b>	<b>(254,242,896)</b>	<b>44,781,404</b>	<b>140,605,508</b>	<b>60,108,698</b>	<b>268,079,014</b>	<b>13,836,118</b>

### 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 shows an analysis of financial instruments at fair value as of December 31, 2009 by level of the fair value hierarchy:

	Level 3	At Cost	Total
	LBP'000	LBP'000	LBP'000
<b>Financial Assets</b>			
Available-for-sale investment securities:			
Lebanese Government bonds	4,679,545	-	4,679,545
Unquoted equity securities	-	4,199,777	4,199,777
	<b>4,679,545</b>	<b>4,199,777</b>	<b>8,879,322</b>

### 37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors and authorized for issue on May 4, 2010.

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- **DENMARK - COPENHAGEN**  
Danske Bank Aktieselskab
- **ENGLAND - LONDON**  
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Blom Bank France SA
- **GERMANY - FRANKFURT**  
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