BYBLOS BANK S.A.L.

(incorporated in the Lebanese Republic with limited liability)
List of Banks N°39. Commercial Registry: Beirut 14150

BYBLOS BANK S.A.L.
U.S.$100,000,000
(subject to increase to a maximum of U.S.$200,000,000)
Tier I Non-Cumulative
Redeemable Series 2009 Preferred Shares

Issue Price: U.S.$96.00 per share

Byblos Bank S.A.L., a bank incorporated in the Lebanese Republic (the "*Lebanese Republic*" or "*Lebanon*") with limited liability (the "*Bank*" or the "*Issuer*"), is offering 1,000,000 (subject to increase) shares of its Tier I Non-Cumulative Redeemable Series 2009 Preferred Shares, each with a nominal value of LBP 1,210 (the "*Series 2009 Preferred Shares*"), for sale to Eligible Investors (*as defined below*) in offshore transactions outside the United States.

Annual distributions, if any, in respect of the Series 2009 Preferred Shares ("*Distributions*") shall be payable, in U.S. Dollars, on the terms and subject to the conditions described herein. See "*Description of the Share Capital of Byblos Bank S.A.L.—Description of the Series 2009 Preferred Shares—Distributions*". It is the intention of the Board of Directors to recommend to the Bank's shareholders that they approve annual Distributions in respect of the Series 2009 Preferred Shares out of Unconsolidated Distributable Net Income (*as defined below*) of the Bank for the relevant year. Distributions, when declared, will be payable on the date determined by a resolution of the General Meeting of Shareholders (or such other shareholders' meeting) and is expected to be approximately one week after the date of such General Meeting (or other meeting).

In the event of any dissolution, liquidation or winding-up of the Bank, the holders of the Series 2009 Preferred Shares shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders, before any payment shall be made on the Common Shares (*as defined below*) of the Bank, an amount per share equal to the sum of (i) the Lebanese Pound equivalent of U.S.$100.00 per Series 2009 Preferred Share, plus (ii) all declared but unpaid Distributions in respect of the Series 2009 Preferred Shares (the "*Liquidation Preference*"). The Liquidation Preference will be subject to adjustment to reflect the occurrence of an Adjustment Event (*as defined below*).

The Series 2009 Preferred Shares are expected to be issued on or about September 4, 2009 (the "*Issue Date*") and will be of perpetual existence, provided that the Bank may, at its option, redeem and cancel all or any part (but not less than 25% of the initial aggregate amount) of the Series 2009 Preferred Shares at the time outstanding (i) at any time after the Issue Date, if a Regulatory Event (*as defined below*) shall occur and (ii) within 60 days after the date of the Ordinary General Meeting of Shareholders of the Bank (or such other shareholders' meeting) held to approve the annual accounts of the Bank for fiscal year 2014 and for each subsequent year thereafter, in its sole discretion, in each case, at a redemption price equal to U.S.$100.00 per share (subject to adjustment to reflect the occurrence of a stock split or combination affecting the Series 2009 Preferred Shares), plus any declared but unpaid Distributions in respect of the Series 2009 Preferred Shares, provided that no Distributions shall be payable in respect of any Series 2009 Preferred Shares for the year in which such Series 2009 Preferred Shares are redeemed and cancelled. In the case of redemption and cancellation of a part only of the Series 2009 Preferred Shares at the time outstanding, such redemption and cancellation will be on a *pro rata* basis.

Issuance of the Series 2009 Preferred Shares is subject to approval by the Extraordinary General Meeting of Shareholders of the Bank and *Banque du Liban,* the Central Bank of Lebanon ("*Banque du Liban*"), acting through its Central Council.

See "Certain Investment Considerations" for a discussion of certain factors to be considered in connection with an investment in the Series 2009 Preferred Shares.

Capitalized terms used herein without otherwise being defined shall have the meanings set forth in **"***Glossary of Defined Terms***"** *attached as Exhibit A.*

The date of this Offering Circular is July 13, 2009.

IMPORTANT NOTICE

This offering circular (the "*Offering Circular*") contains information provided by the Bank in connection with the offering of the Series 2009 Preferred Shares. The Bank confirms that all information regarding the Bank and the Series 2009 Preferred Shares contained in this Offering Circular is true and accurate in all material respects as of the date of this Offering Circular (or, if different, the date as of which such information is stated herein to be supplied) and does not omit any material facts the omission of which would make any statements of fact or opinion relating thereto and contained herein misleading.

No person has been authorized to give any information or to make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized.

This Offering Circular (i) is not intended to provide the sole basis of any credit or other evaluation and (ii) should not be considered as a recommendation by the Bank, or any of its officers, employees, agents or affiliates, that any recipient of this Offering Circular should purchase Series 2009 Preferred Shares. Each prospective purchaser of Series 2009 Preferred Shares shall be solely responsible for making its own independent appraisal of the Bank, the terms of the Series 2009 Preferred Shares and the offering thereof, including the risks and merits involved, and all such other matters (including those described below under "*Certain Investment Considerations*" and all other information set forth in this Offering Circular) as such prospective purchaser deems appropriate in determining whether to purchase Series 2009 Preferred Shares and, when purchasing any Series 2009 Preferred Shares, each purchaser shall be required to represent and warrant that (x) it is a sophisticated investor with sufficient knowledge and experience in business and financial matters in general, and regarding the political and economic conditions prevailing in Lebanon in particular, and is capable of independently investigating and evaluating the risks involved in purchasing and owning investments such as the Series 2009 Preferred Shares and (y) it is purchasing Series 2009 Preferred Shares solely on the basis of its own independent appraisal of the economic, political and social conditions prevailing in Lebanon and in the Middle East region, the financial condition and results of operations of the Bank and the terms and conditions of the Series 2009 Preferred Shares (as set forth in the term sheet dated May 26, 2009 (the "*Term Sheet*") and in this Offering Circular), as well as all such other information and matters as it deems appropriate in determining whether to purchase Series 2009 Preferred Shares, without relying upon any representation or warranty, express or implied, made to it by the Bank or any other person with respect thereto.

Applicants are advised that the purchase of Series 2009 Preferred Shares is suitable only for, and should be made only by, Eligible Investors who can bear the risks of limited liquidity and who understand and can bear the financial and other risks of an investment in the Series 2009 Preferred Shares for an indefinite period of time. Each prospective purchaser is advised to consult its own counsel, accountant or business advisor regarding legal, tax and related matters concerning the purchase, holding and sale of Series 2009 Preferred Shares by it.

Neither the delivery of this Offering Circular nor the issue, offer, sale or delivery of any Series 2009 Preferred Shares shall imply that any information contained in this Offering Circular is correct as of any time subsequent to the date hereof or such other date as of which such information is stated to be given herein.

This Offering Circular does not constitute an offer to sell or the solicitation of an offer to buy any Series 2009 Preferred Shares in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Offering Circular and the offer or sale of Series 2009 Preferred Shares may be restricted by law in certain jurisdictions. No action has been taken by the Bank or any other person which would permit a public offering of any Series 2009 Preferred Shares or distribution of this document in any jurisdiction where action for that purpose is required. Accordingly, no Series 2009 Preferred Shares may be offered or sold, directly or indirectly, and neither this Offering Circular nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable securities laws and regulations.

In particular, applicants should note that the Series 2009 Preferred Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "*Securities Act*"), nor with any regulatory authority in the United States, and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. Person (as such terms are defined in Regulation S under the Securities Act), and will only be sold to Eligible Investors outside of the United States in offshore transactions in reliance upon Regulation S. An "*Eligible Investor*" is any person, other than a U.S. Person and the Directors and General Managers of the Bank, any member of their immediate families or any other person acting on behalf of any such person.

For a further description of certain restrictions on offers and sales of Series 2009 Preferred Shares and on distribution of this Offering Circular, see "*Placement of the Series 2009 Preferred Shares*".

***BANQUE DU LIBAN* HAS NOT PASSED UPON AND TAKES NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS OFFERING CIRCULAR OR FOR THE MERITS OF ANY OFFERING OF SERIES 2009 PREFERRED SHARES HEREUNDER.**

The Series 2009 Preferred Shares are being offered for sale directly by the Bank to Eligible Investors in offshore transactions outside the United States, on a when, as and if issued basis, subject to prior sale or withdrawal, cancellation or modification. An Eligible Investor is required to sign a Purchase Application, substantially in the form of Exhibit B hereto or an earlier version thereof as may have been previously made available to it by the Bank, as a condition to making an investment in the Series 2009 Preferred Shares.

In accordance with applicable regulations, the Bank intends to list all of the Series 2009 Preferred Shares on the Beirut Stock Exchange (the "*BSE*"). It is expected, however, that such listing will not be effected until some time after the Issue Date. The Series 2009 Preferred Shares will not be listed on any international stock exchange.

The Series 2009 Preferred Shares will be issued in registered form, registered in the respective names of the purchasers thereof in the share registry maintained by Midclear in respect of the Bank's share capital. Interests in the Series 2009 Preferred Shares will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear and its participants, including the Bank. Series 2009 Preferred Shares in definitive form will not be issued.

The Series 2009 Preferred Shares will initially be delivered, upon issuance, to Eligible Investors by deposit to the Midclear account of the Bank and interests in the Series 2009 Preferred Shares will be shown only on the book-entry system maintained by Midclear. At any time after the Issue Date, a holder of Series 2009 Preferred Shares may request that the Bank arrange for the transfer of the custody of such Series 2009 Preferred Shares to another participant or sub-custodian with Midclear. Transfers of Series 2009 Preferred Shares may be effected (subject as provided herein) only through the book-entry system maintained by Midclear and its participants, including the Bank.

NOTICE TO UK AND EEA INVESTORS

This Offering Circular and the offering are only addressed to and directed at persons in member states (each, a "*Member State*") of the European Economic Area ("*EEA*"), who are "qualified investors" within the meaning of Article 2(1)(e) of the Prospectus Directive ("*Qualified Investors*"). In addition, in the United Kingdom, this Offering Circular is only being distributed to and is only directed at (1) Qualified Investors who are investment professionals falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "*Order*") or high net worth entities falling within Article 49(2)(a) to (d) of the Order or (2) persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). The Series 2009 Preferred Shares are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such securities will be engaged in only with, (i) in the United Kingdom, relevant persons and (ii) in any Member State other than the United Kingdom, Qualified Investors. This Offering Circular and its contents should not be acted upon or relied upon (a) in the United Kingdom, by persons who are not relevant persons or (b) in any Member State other than the United Kingdom, by persons who are not Qualified Investors.

This Offering Circular has been prepared on the basis that all offers of Series 2009 Preferred Shares will be made pursuant to an exemption under the Prospectus Directive, as implemented in the Member States of the EEA, from the requirement to produce a prospectus for offers of Series 2009 Preferred Shares. Accordingly, any person making or intending to make any offer within the EEA of Series 2009 Preferred Shares should only do so in circumstances in which no obligation arises for the Bank to produce a prospectus for such offer. The Bank has not authorized nor does it authorize the making of any offer of Series 2009 Preferred Shares through any financial intermediary, other than offers made by the Bank that constitute the final placement of Series 2009 Preferred Shares contemplated in this Offering Circular.

Each person in a Member State of the EEA that has implemented the Prospectus Directive (each, a "*Relevant Member State*") who receives any communication in respect of, or who acquires, any Series 2009 Preferred Shares to whom any offer is made under the offering of Series 2009 Preferred Shares will be deemed to have represented, acknowledged and agreed that it is a Qualified Investor; and in the case of any Series 2009 Preferred Shares acquired by it as a financial intermediary as that term is used in Article 3(2) of the Prospectus Directive, such financial intermediary will also be deemed to have represented, acknowledged and agreed that the Series 2009 Preferred Shares acquired by it in the offering of Series 2009 Preferred Shares have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Relevant Member State other than Qualified Investors, or in circumstances in which the prior consent of the Bank has been given to the offer or resale; or where Series 2009 Preferred Shares have been acquired by it on behalf of persons in any Relevant Member State other than Qualified Investors, the offer of those Series 2009 Preferred Shares to it is not treated under the Prospective Directive as having been made to such persons. The Bank and its affiliates and others will rely (and the Bank acknowledges that its affiliates and others will rely) upon the truth and accuracy of the foregoing representations, acknowledgements and agreements. Notwithstanding the above, a person who is not a Qualified Investor, and who has notified the Bank of such fact in writing, may, with the consent of the Bank, be permitted to purchase Series 2009 Preferred Shares.

The Bank may rely on the truth and accuracy of the foregoing representations, acknowledgements and agreements and will not be responsible for any loss occasioned by such reliance.

For the purposes of this provision, the expression an "offer of Series 2009 Preferred Shares to the public" in relation to any Series 2009 Preferred Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offering of the Series 2009 Preferred Shares and the Series 2009 Preferred Shares to be offered so as to enable an investor to decide to purchase or otherwise acquire the Series 2009 Preferred Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

PRESENTATION OF FINANCIAL INFORMATION

All references in this document to "*Lebanese Pounds*" and "*LBP*" are to the currency of the Lebanese Republic; to "*U.S. Dollars*" and "*U.S.$*" are to the currency of the United States of America; and to "*Euros*" or "*€*" are to the currency introduced at the start of the third stage of the European economic and monetary union pursuant to the Treaty establishing the European Community, as amended by the Treaty on European Union.

For ease of presentation, certain financial information relating to the Bank included herein is presented as translated into U.S. Dollars. No such translation should be construed, however, as a representation that the relevant Lebanese Pound amount actually represents such U.S. Dollar amount or could be converted into U.S. Dollars at the rate indicated or at any other rate. On the date of this Offering Circular, the closing U.S. Dollar/Lebanese Pound rate of exchange as reported by *Banque du Liban* was LBP 1507.5 = U.S.$1.00. Other currency translations are calculated at the relevant rate of exchange published by *Banque du* Liban as at December 31, 2008 or for 2008.

The financial statements and the books and records of the Bank have been prepared in accordance with International Financial Reporting Standards (IFRS). Unless otherwise specified, all figures relating to the Bank are given on a consolidated basis. The Bank's consolidated financial statements contained in this Offering Circular also include the results of the Bank's other consolidated subsidiaries: Byblos Bank Europe S.A., Byblos Bank Africa Ltd., Byblos Bank Syria S.A., Byblos Bank Armenia CJSC, Byblos Invest Bank S.A.L., Adonis Insurance & Reinsurance Co. (ADIR) S.A.L., Adonis Insurance & Reinsurance (ADIR) Syria, Adonis Brokerage House S.A.L. and Byblos Management S.A.L. (Holding). The Bank's newest subsidiary, Byblos Ventures S.A.L. (Holding)], which was formed on February 13, 2009, is not consolidated in the Bank's historical information, but will be consolidated going forward.

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SUMMARY

The following is a summary of certain information pertaining to the offering of the Series 2009 Preferred Shares, including the principal terms thereof. This summary is indicative only, does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Offering Circular, as well as by reference to the proposed resolutions of the shareholders authorizing the increase in the Bank's share capital and the issuance of the Series 2009 Preferred Shares, a copy of which is available, in Arabic, for review by applicants at the Head Office of the Bank located at the address indicated on the back cover to this Offering Circular.

The Offering....................................	Pursuant to the offering described herein, the Bank is offering 1,000,000 (subject to increase) Series 2009 Preferred Shares for sale to Eligible Investors in offshore transactions outside the United States.
Issuer..	Byblos Bank S.A.L.
Type	Tier I Non-Cumulative Redeemable Series 2009 Preferred Shares, par value LBP 1,210 per share.
Issue Size..	Minimum U.S.$100,000,000 (subject to increase to a maximum of U.S.$200,000,000).
Issue Price..	U.S.$96.00 per share (the "*Issue Price*"), of which the equivalent of LBP 1,210 shall represent the par value of each share, with the balance, which the Bank intends to maintain in U.S. Dollars, consisting of issue premium (the "*Issue Premium*"). It is intended that the full amount of the Series 2009 Preferred Shares will constitute Tier I Capital of the Issuer, provided that such amount of the Series 2009 Preferred Shares or any part thereof, when added to the amount of the U.S.$8.00 Non-Cumulative Redeemable Preferred Shares issued in 2008 (the "*Series 2008 Preferred Shares*"), does not exceed the cap imposed by *Banque du Liban* on the total Tier I Capital of the Issuer, with any excess thereof to be re-allocated as Tier I Capital on a priority basis. It is expected that the Aggregate Issue Price, consisting of the par value and the Issue Premium in excess thereof, will constitute Tier I Capital on the Issue Date.
Use of Proceeds	The net proceeds of the issue of the Series 2009 Preferred Shares will be used for general funding purposes, including, but not limited to, strengthening of the Bank's capital structure and external growth. See "*Use of Proceeds*".
Issue Date	September 4, 2009. Issuance of the Series 2009 Preferred Shares is subject to approval by the Extraordinary General Meeting of Shareholders of the Bank and *Banque du Liban*, acting through its Central Council.
Maturity/Tenor	Perpetual, subject to call option. See "*—Call Option*".
Distribution Rate	Subject to the conditions set out below (see "*—Distribution Payments*"), Distributions in the amount equal to the Lebanese-Pound equivalent of U.S.$8.00 per share shall be payable annually to the holders of Series 2009 Preferred Shares; provided that, for the year 2009, Distributions will be payable on a *pro rata* basis approximately reflecting the remaining period from the Issue Date to year-end 2009.

Distributions will be subject to adjustment to reflect the occurrence of a stock split or a reverse stock split affecting the Series 2009 Preferred Shares (an "*Adjustment Event*"), but will not be adjusted to reflect any other event.

In any case, the actual amount distributable in respect of the Series 2009 Preferred Shares for any year shall be determined by, and otherwise be subject to the approval of, the Bank's shareholders at the Ordinary General Meeting of Shareholders (or such other shareholders' meeting) at which the relevant annual accounts of the Bank are approved.

In the event that the Bank exercises the call option as provided below, no Distributions shall be payable in respect of any Series 2009 Preferred Shares for the year in which such Series 2009 Preferred Shares are redeemed and cancelled.

Distributions to holders of Series 2009 Preferred Shares are subject to withholding tax in the Lebanese Republic, currently at the rate of 5%.

Distributions Not Cumulative......... The right to the payment of Distributions on the Series 2009 Preferred Shares shall not be cumulative. If Distributions are not declared and paid for any reason, holders of the Series 2009 Preferred Shares will not be entitled to receive such Distributions whether or not funds are or subsequently become available.

Distribution Payments..................... Distributions, when declared, shall be paid annually after the relevant Ordinary General Meeting of Shareholders (or such other shareholders' meeting) at which the annual accounts of the Bank for the relevant year are approved and at which the amount and payment of such Distributions are approved.

It is the intention of the Board of Directors of the Bank to recommend to the Bank's shareholders that they approve annual Distributions out of Unconsolidated Distributable Net Income of the Bank for the relevant year. All payments of Distributions, however, are subject to:

- the availability of sufficient Unconsolidated Distributable Net Income of the Bank for the relevant year to cover such Distributions and distributions in respect of the Bank's Series 2008 Preferred Shares and any other preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 2009 Preferred Shares;

- the Bank's continued compliance with all applicable *Banque du Liban* and Banking Control Commission ratios and regulations at the time imposed with respect to payments related to the net profits of the Bank and to verification of such compliance by the Banking Control Commission; and

- the approval of the payment of such Distributions out of Unconsolidated Distributable Net Income for the relevant year by the Ordinary General Meeting of Shareholders of the Bank;

it being understood that, in each year, the Bank's General Meeting is obligated to approve the distribution of Unconsolidated Distributable Net Income for the relevant year, if available, except when the Bank would be prevented from making such distribution by virtue of law or regulations of mandatory application.

The actual date on which a Distribution shall be made shall be determined by a resolution of the Ordinary General Meeting of Shareholders (or such other shareholders' meeting), and is expected to be approximately one week after the date of such Ordinary General Meeting (or other meeting). The date of a Distribution will be made public no later than three days prior to such Distribution through publication in local newspapers of general circulation.

In the event, however, that Unconsolidated Distributable Net Income for the relevant year is insufficient to pay Series 2008 Distributions and Series 2009 Distributions (and distributions in respect of any future series of preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 2009 Preferred Shares) at their respective stated annual rate, such amounts of Distributions shall be decreased in proportion to the available net profits, if any. In any event, the amount of Distributions payable to holders of Series 2008 Preferred Shares and holders of Series 2009 Preferred Shares may not exceed Unconsolidated Distributable Net Income for the Year.

Unless otherwise provided under applicable laws, holders of Series 2009 Preferred Shares have no right to participate in any distribution in respect of the Bank's capital other than annual Distributions, as and when declared and approved, and, upon liquidation, the Liquidation Preference. See "*—Liquidation Preference*".

Restrictions on Payment of Dividends upon Common Shares ... So long as any Series 2009 Preferred Shares shall be outstanding, the Bank shall not declare or pay any dividend upon its Common Shares or Priority Shares during any fiscal year unless and until full Distributions in respect of the Series 2009 Preferred Shares (and distributions in respect of the Series 2008 Preferred Shares and any future series of preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 2009 Preferred Shares) shall have been paid or declared and set apart.

Voting Rights .... Except in the limited circumstances described below and reflecting applicable Lebanese law, the holders of Series 2009 Preferred Shares shall not have voting rights.

Holders of Series 2009 Preferred Shares shall have the right to participate in discussions regarding, and to vote (on a *pro rata* basis with all holders of shares of the Bank, irrespective of the class thereof, including Common Shares, Priority Shares and Series 2008 Preferred Shares, as well as any future series of preferred shares of the Bank at the time outstanding, determined on the basis of the par values of the respective classes of shares) in respect of, the following:

- amendments to the object or legal form of the Bank;
- a capital increase by way of a contribution in kind of assets; and
- the dissolution, liquidation or winding-up of the Bank or a merger or acquisition scheme in which the Bank is a party.

In addition, pursuant to applicable Lebanese law, including, in particular, Law No. 308 of the Lebanese Republic, dated April 3, 2001, relating to the issuance by banks of shares and dealings therein, the issuance by banks of bonds and the ownership by banks of real property ("*Law No. 308*"), holders of Series 2009 Preferred Shares shall have the right to participate in discussions regarding, and to vote on a *pro rata* basis with all holders of shares of the Bank, irrespective of the class thereof, including, without limitation, Common Shares, Priority Shares and Series 2008 Preferred Shares, as well as any future series of preferred shares of the Bank at the time outstanding, determined on the basis of the par values of the respective classes of shares (provided that, in compliance with article 117 of the Lebanese Code of Commerce, holders shall have the right to two votes per share in respect of any shares owned by them for two years or longer), on all matters that come before the shareholders of the Bank in the event that (i) Distributions are not paid in full for three consecutive financial years or (ii) the Bank shall be in default in the provision of any rights or benefits attaching to the Series 2009 Preferred Shares. Such voting rights shall continue in effect until the end of the financial year in which all accrued and unpaid Distributions are paid in full for the current financial year and for all the preceding financial years and any default with respect to other rights or benefits attaching to the Series 2009 Preferred Shares is cured.

Law No. 308 further provides for the automatic establishment of an assembly of holders of Series 2009 Preferred Shares to protect the interests of such holders, which may designate a representative that may attend shareholder meetings, but not participate in discussions regarding, or vote in respect of, matters presented to the shareholders, except under the limited circumstances described above.

Liquidation Preference....................

In the event of any dissolution, liquidation or winding-up of the Bank, the holders of the Series 2009 Preferred Shares shall be entitled, on a *pro rata* basis with the Series 2008 Preferred Shares and any future series of preferred shares of the Issuer that may at the time be outstanding, determined on the basis of the par values of the respective classes of shares, to be paid out of the assets of the Bank available for distribution to its shareholders, before any payment shall be made on the Common Shares or the Priority Shares of the Bank, an amount per share equal to the sum of (i) the Lebanese Pound equivalent of U.S.$100.00 per Series 2009 Preferred Share, plus (ii) all declared but unpaid Distributions in respect of the Series 2009 Preferred Shares.

The Liquidation Preference will be subject to adjustment to reflect the occurrence of an Adjustment Event, but will not be adjusted to reflect any other event.

Following payment of the Liquidation Preference, holders of Series 2009 Preferred Shares will not be entitled to any further participation or claim in any remaining distributable assets of the Bank; provided, however, that, if the Bank is liquidated, the surplus, if any, remaining, after (i) payment of the Bank’s debts, liquidation expenses (including liquidation preferences in respect of all series of preferred shares of the Bank at the time outstanding) and all of the Bank’s other remaining obligations and (ii) distribution in full of the par value of the Common Shares, will be distributed *pro rata* among all holders of shares of the Bank, irrespective of the class thereof.

Ranking .... The Series 2009 Preferred Shares shall rank *pari passu* with the Series 2008 Preferred Shares and any future series of preferred shares of the Issuer that may at the time be outstanding and that, by their terms, rank *pari passu* with the Series 2009 Preferred Shares, in respect of:

(x) the right to receive distributions (other than as to the amounts thereof);

(y) the right to receive payments out of the assets of the Issuer upon dissolution, liquidation or winding-up of the Issuer (other than as to the amounts thereof); and

(z) the right to subscribe to newly issued preferred shares of the Issuer, if any.

In the event the assets of the Bank available for distribution to its shareholders upon any dissolution, liquidation or winding-up of the Bank are insufficient to cover the Liquidation Preference and the liquidation preferences payable to the holders of Series 2008 Preferred Shares or any future series of preferred shares of the Bank that may at the time be outstanding and rank *pari passu* with the Series 2009 Preferred Shares, the amounts payable to such holders will be reduced on a *pro rata* basis.

Notwithstanding the foregoing, the Series 2008 Preferred Shares and the Series 2009 Preferred Shares shall be separately governed by their respective specific terms in respect of distributions, liquidation preferences and otherwise.

The Series 2009 Preferred Shares shall rank senior to the Bank's Common Shares and Priority Shares in respect of the right to receive Distributions and the right to receive the Liquidation Preference and any other payments out of the net profits, if any, of the Bank or otherwise out of the assets of the Bank upon any dissolution, liquidation or winding-up of the Bank, but will rank junior to debt and other similar obligations of the Bank such that, in the event of the dissolution, liquidation or winding-up of the Bank, the holders of debt and other similar obligations of the Bank would be entitled to be repaid prior to the payment of any amounts to holders of Series 2009 Preferred Shares.

The Series 2009 Preferred Shares are not secured, nor covered by any guarantee from the Bank or any related party, and do not benefit from any other arrangement that legally or economically enhances the preference or seniority of their claims.

Priority Subscription Rights........... Holders of the Bank's Series 2008 Preferred Shares will have the right to subscribe, on a first priority basis and *pari passu* among themselves, to the issue of the Series 2009 Preferred Shares, *pro rata* to their nominal holdings of Series 2008 Preferred Shares, at a rate that is in the same proportion as the ratio of the aggregate nominal amount of the Series 2008 Preferred Shares to the aggregate nominal amount of the Series 2009 Preferred Shares (which shall, assuming an issue size of the Series 2009 Preferred Shares of U.S. $100,000,000, be at a rate of one (1) Series 2009 Preferred Share for each two (2) Series 2008 Preferred Shares held by the relevant applicant). Any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares exercising their first priority subscription rights will be further allocated, on a second priority basis, among holders of Series 2008 Preferred Shares wishing to subscribe to additional Series 2009 Preferred Shares, while remaining Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares (on either a first or second priority basis) will only then be allocated to Eligible Investors in the sole discretion of the Bank.

In order to exercise priority subscription rights, a holder of Series 2008 Preferred Shares must submit a duly completed Purchase Application to the Bank, together with an indication that such holder is exercising its priority subscription rights and confirmation of the number of Series 2008 Preferred Shares held by it, no later than the expiration of the Official Subscription Period (*as defined below*) that will be set by the Bank. **Holders of Series 2008 Preferred Shares who fail to notify the Bank on a timely basis, no later than the expiration of the Official Subscription Period, of their intention to exercise their priority subscription rights to purchase Series 2009 Preferred Shares will be deemed to have waived such rights.**

Holders of Series 2009 Preferred Shares will also have the right to subscribe, on a priority basis, but *pro rata* with holders of other preferred shares of the Issuer that may at the time be outstanding, including the Series 2008 Preferred Shares, to newly issued preferred shares of the Bank, but not Common Shares. Newly issued preferred shares purchased pursuant to an exercise of such priority subscription rights will be allocated on the basis of the respective par values of all shares carrying such rights.

Absence of Pre-emptive Rights on Common Shares..............................

Pursuant to Law No. 308, holders of Common Shares do not have pre-emptive rights with respect to the issuance of preferred shares, such as the Series 2009 Preferred Shares.

Call Option......................................

Subject to compliance with applicable *Banque du Liban* and Banking Control Commission ratios and regulations, including the availability of free reserves for the purpose, and to verification of such compliance by the Banking Control Commission, the Bank may, at its option, redeem and cancel all or any part (but not less than 25%, each time, of the original issue size or, if less, 100% of the Series 2009 Preferred Shares then remaining outstanding) of the Series 2009 Preferred Shares at the time outstanding (i) at any time after the Issue Date, if a Regulatory Event shall occur and (ii) within 60 days following the date of the Ordinary General Meeting of Shareholders (or such other shareholders' meeting) held to approve the annual accounts of the Bank for the year 2014 and for each subsequent year thereafter, in its sole discretion, in each case, at a price equal to U.S.$100.00 per share (subject to adjustment to reflect the occurrence of an Adjustment Event, but not any other event), plus any declared but unpaid Distributions in respect of the Series 2009 Preferred Shares, provided that no Distributions shall be payable in respect of any Series 2009 Preferred Shares for the year in which such Series 2009 Preferred Shares are redeemed and cancelled.

Certain matters relating to the redemption of the Series 2009 Preferred Shares may require *Banque du Liban* approval.

In the case of redemption and cancellation of a part only of the Series 2009 Preferred Shares at the time outstanding, such redemption and cancellation will be on a *pro rata* basis.

Upon any redemption of Series 2009 Preferred Shares, such Series 2009 Preferred Shares shall be cancelled and all required actions shall be taken in order to reflect such cancellation, including the adjustment of the par value of each of the remaining shares then constituting the outstanding share capital of the Bank, irrespective of the class thereof, or the distribution of free Common Shares to holders of the remaining shares of the Bank, so that the Bank's total capital shall remain unchanged.

A "*Regulatory Event*" means a change in applicable law or regulation (including regulations published by *Banque du Liban* or the Banking Control Commission), or in the official interpretation or application thereof, which, in the opinion of the Bank, would be reasonably likely to result (i) in the Aggregate Issue Price for the Series 2009 Preferred Shares not being included in the Bank's Tier I Capital or (ii) in the Bank not being permitted to maintain the Issue Premium in U.S. Dollars.

Holders of Series 2009 Preferred Shares do not have the benefit of any put option or other right to require the Bank to repurchase Series 2009 Preferred Shares and, although the Bank has the right to redeem and cancel the Series 2009 Preferred Shares as described herein, it has no obligation to do so and its ability to do so may be restricted by applicable ratios and regulations of *Banque du Liban* and the Banking Control Commission.

Form .... The Series 2009 Preferred Shares will be issued in registered form, registered in the respective names of the purchasers thereof in the share registry maintained by Midclear in respect of the Bank's share capital. Interests in the Series 2009 Preferred Shares will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear and its participants, including the Bank. Series 2009 Preferred Shares in definitive form will not be issued.

Settlement & Clearing..................... The Series 2009 Preferred Shares will initially be delivered, upon issuance, to Eligible Investors by deposit to the Midclear account of the Bank and interests in the Series 2009 Preferred Shares will be shown only on the book-entry system maintained by Midclear. At any time after the Issue Date, a holder of Series 2009 Preferred Shares may request that the Bank arrange for the transfer of the custody of such Series 2009 Preferred Shares to another participant or sub-custodian with Midclear. Transfers of Series 2009 Preferred Shares may be effected (subject as provided herein) only through the book-entry system maintained by Midclear and its participants, including the Bank.

Eligible Investors .... The Series 2009 Preferred Shares will be sold to Eligible Investors in offshore transactions outside the United States. An "*Eligible Investor*" is any person, other than a U.S. person and the Directors and General Managers of the Bank, their immediate family and any person acting on their behalf.

Listing.. In accordance with applicable regulations, the Bank intends to list all of the Series 2009 Preferred Shares on the BSE. It is expected, however, that such listing will be effected only some time after the Issue Date. The Series 2009 Preferred Shares will not be listed on any international stock exchange.

Restrictions on Transfer .... There are no restrictions imposed by *Banque du Liban* on the transfer of Series 2009 Preferred Shares.

SUBSCRIPTION TIMETABLE AND PROCEDURES

Timetable and Authorizations

The following is a summary timetable and schedule of authorizations relating to the offering of the Series 2009 Preferred Shares. Prospective purchasers should note that this timetable is tentative and subject to change. Nevertheless, subject only to the right of certain applicants to rescind their Purchase Application by giving written notice to the Bank within three business days following the date of publication by the Bank in two widely-distributed Lebanese newspapers to the effect that this Offering Circular has been made available at the Bank's Head Office and its branches (as set out in the relevant Purchase Applications), and to acceptance by, or on behalf of, the Bank (which acceptance, in the case of a Purchase Application submitted by a holder of the Series 2008 Preferred Shares exercising its first priority subscription rights, shall be automatic absent any manifest error or defect), each Purchase Application is final and irrevocable under all circumstances, regardless of delays in the closing of the transaction.

March 24, 2009	Letter was sent by the Bank to the Governor of *Banque du Liban* seeking approval in principle to issue the Series 2009 Preferred Shares.
April 18, 2009	A meeting of the Board of Directors of the Bank was held to convene an Extraordinary General Meeting of Shareholders for the purpose of considering the increase in the Bank's capital through the issuance of the Series 2009 Preferred Shares.
April 18, 2009	A letter was received from the Governor of *Banque du Liban* addressed to the Bank approving in principle the issuance of the Series 2009 Preferred Shares.
July 17, 2009	This Offering Circular is expected to be made available to prospective purchasers at the Bank's Head Office and branches.
July 20, 2009	Publication is expected to be made by the Bank in two widely-distributed Lebanese newspapers to the effect that this Offering Circular has been made available at the Bank's Head Office and branches.
August 1, 2009	An Extraordinary General Meeting of Shareholders is scheduled to be held to authorize the issuance of the Series 2009 Preferred Shares and determine the size of the issue, to approve the terms and conditions of the issuance of the Series 2009 Preferred Shares and to make consequential amendments to the By-laws.
August 3, 2009	A letter is expected to be sent by the Bank to the Governor of *Banque du Liban*, attaching a copy of the minutes of the Extraordinary General Meeting of Shareholders held to authorize the issuance of the Series 2009 Preferred Shares and seeking final approval to issue the Series 2009 Preferred Shares.
August 4, 2009	A meeting of the Board of Directors of the Bank is scheduled to be held, *inter alia*, to set the Official Subscription Period, subject to the prior approval by *Banque du Liban* of the issuance of the Series 2009 Preferred Shares and the making of consequential amendments to the Bank's By-laws, and to convene the Confirmation EGM.
August 12, 2009	*Banque du Liban*, acting through its Central Council, is expected to approve the issuance of the Series 2009 Preferred Shares and to make consequential amendments to the Bank's By-laws.
August 20, 2009	A notice is expected to be published in the *Official Gazette* and in an economic newspaper and a daily local newspaper in accordance with

	Articles 81 and 206 of the Lebanese Code of Commerce, *inter alia*, to advise as to the dates of the Official Subscription Period.
August 21, 2009 to 1:00 p.m., Beirut time, August 31, 2009	**Official Subscription Period**: Prospective Eligible Investors wishing to subscribe for Series 2009 Preferred Shares, including holders of Series 2008 Preferred Shares exercising their priority subscription rights, must submit duly completed Purchase Applications to the Issuer in accordance with the instructions contained therein no later than 1:00 p.m., Beirut time, on the last day of the Official Subscription Period (*i.e.*, August 31, 2009).
September 1, 2009	**Final Allotment Date**: The final allotments of the Series 2009 Preferred Shares are expected to be made by the Bank. The Bank is expected to notify applicants of its acceptance or rejection, in whole or in part, of their Purchase Applications and allotments, if applicable. Funds held by the Bank, as Escrow Agent, will be irrevocably transferred to the relevant subscription account at *Banque du Liban* in respect of accepted Purchase Applications (or parts thereof) and returned to applicants in respect of rejected Purchase Applications (or parts thereof). Interest (if any) on escrowed funds will be paid to applicants as set out in the Purchase Applications. A meeting of the Board of Directors of the Bank is expected to be held to confirm acceptance of new shareholders.
September 4, 2009	Confirmation EGM is scheduled to be held. **Issue Date**: The Series 2009 Preferred Shares are expected to be issued. A meeting of the Board of Directors is scheduled to be held to convene the first meeting of the association of holders of Series 2009 Preferred Shares.
September 16, 2009	First meeting of the association of holders of Series 2009 Preferred Shares is scheduled to be held.

Procedures for Subscription

Applications for Subscription; Acceptance by the Bank

Prospective Eligible Investors wishing to subscribe for Series 2009 Preferred Shares must submit a signed Purchase Application, substantially in the form of Exhibit B hereto or an earlier version thereof as may have been previously made available to it by the Bank. Copies of this Offering Circular and the form of Purchase Application are also available at the Head Office of the Bank located at the address indicated on the back cover of this Offering Circular and at the Bank's branch offices.

A Purchase Application must be duly completed in full in accordance with the instructions contained therein, signed by the prospective purchaser and submitted to the Bank in triplicate. A Purchase Application submitted by a corporation must be signed by a duly authorized representative in accordance with the constitutive documents of such corporation. A Purchase Application shall be deemed accepted only upon execution by the prospective purchaser, payment of the Aggregate Issue Price and acceptance by the Bank, such acceptance to be evidenced by the return of an executed copy of the Purchase Application to the applicant; provided that, in the case of a Purchase Application submitted by a holder of the Series 2008 Preferred Shares exercising its first priority subscription rights, such Purchase Application shall be automatically accepted absent any manifest error or defect. Except for the holders of Series 2008 Preferred Shares exercising their priority subscription rights, the Bank may, in its sole discretion, reject any Purchase Application in whole or in part or terminate the offering of the Series 2009 Preferred Shares at any time and for any reason whatsoever. In either such event, no person shall have any right to purchase Series 2009 Preferred Shares from the Bank at any time.

Purchase Applications may be accepted only from Eligible Investors and only if submitted together with full payment of the relevant Aggregate Issue Price.

Priority Subscription Rights; Official Subscription Period

Pursuant to Law No. 308, holders of Common Shares do not have pre-emptive rights with respect to the issuance of preferred shares, such as the Series 2009 Preferred Shares. However, holders of the Bank's Series 2008 Preferred Shares will have the right to subscribe, on a first priority basis and *pari passu* among themselves, to the issue of the Series 2009 Preferred Shares, *pro rata* to their nominal holdings of Series 2008 Preferred Shares, at a rate that is in the same proportion as the ratio of the aggregate nominal amount of the Series 2008 Preferred Shares to the aggregate nominal amount of the Series 2009 Preferred Shares (which shall, assuming an issue size of the Series 2009 Preferred Shares of U.S. $100,000,000, be at a rate of one (1) Series 2009 Preferred Share for each two (2) Series 2008 Preferred Shares held by the relevant applicant). Any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares exercising their first priority subscription rights will be further allocated, on a second priority basis, among holders of Series 2008 Preferred Shares wishing to subscribe to additional Series 2009 Preferred Shares, while remaining Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares (on either a first or second priority basis) will only then be allocated to other applicants in the sole discretion of the Bank. See "—*Allotment*", below.

In order to exercise priority subscription rights, a holder of Series 2008 Preferred Shares must submit a duly completed and signed Purchase Application to the Bank, together with an indication that such holder is exercising its priority subscription rights and confirmation of the number of Series 2008 Preferred Shares held by it, no later than the expiration of the Official Subscription Period. Holders of Series 2008 Preferred Shares who fail to notify the Bank on a timely basis of their intention to exercise their priority subscription rights to purchase Series 2009 Preferred Shares will be deemed to have waived such rights.

Right of Rescission

The form of Purchase Application provides that applicants are entitled to rescind their Purchase Applications by giving written notice to the Bank within three business days following the date of publication by the Bank in two widely-distributed Lebanese newspapers, which publication is expected to be made approximately one week prior to the Issue Date, to the effect that this Offering Circular has been made available at the Bank's Head Office and its branches, if (but only if) the final terms of the Series 2009 Preferred Shares as described in this Offering Circular are substantially and adversely different from the terms described in the Term Sheet. An applicant, whether or not an existing holder of Series 2008 Preferred Shares, which has previously submitted a Purchase Application (including an earlier version thereof), together with payment of the relevant Aggregate Issue Price, may exercise its rescission right by delivering written notice to the Bank no later than July 27, 2009 of its election to rescind. If written notice of rescission is not received from an applicant by the Bank prior to such date, such applicant will be deemed to have confirmed its offer to purchase as set forth in the relevant Purchase Application and, upon acceptance thereof by the Bank, in whole or in part, the funds previously transferred by such applicant in respect of the Aggregate Issue Price for the Series 2009 Preferred Shares covered thereby and credited to the Subscription Escrow Account, to the extent the relevant Purchase Application has been accepted, will be irrevocably transferred to the subscription account at *Banque du Liban* in accordance with Law No. 308 and the other formalities relating to the issuance of the Series 2009 Preferred Shares will be effected.

Payment of Aggregate Issue Price

Upon submission of a Purchase Application, a prospective Eligible Investor is required to transfer funds, in U.S. Dollars, to the Escrow Agent for credit to the Subscription Escrow Account, in an amount equal to the Aggregate Issue Price (*i.e.*, the product of the number of Series 2009 Preferred Shares being subscribed for times the Issue Price per share (*i.e.*, U.S.$96.00)). Bank charges and other related fees, if any, incurred in connection with the payment amounts in respect of the Aggregate Issue Price will be for the account of the relevant Eligible Investor.

In the event that the offering of the Series 2009 Preferred Shares is terminated or if a Purchase Application is rejected, in whole or in part, the Aggregate Issue Price received by the Escrow Agent from the relevant applicant (or a corresponding portion thereof) will be promptly refunded to the relevant applicant, together with interest, if any, earned thereon. At the end of the Official Subscription Period, the Escrow Agent shall convert that portion of the funds received by it in respect of the Aggregate Issue Price for the Series 2009 Preferred Shares, which corresponds to the par value of the Series 2009 Preferred Shares (*i.e.,* the U.S. Dollar-equivalent of LBP 1,210 per Series 2009 Preferred Share), into Lebanese Pounds at the then applicable U.S. Dollar / Lebanese Pound spot rate of exchange, and thereafter irrevocably transfer the Lebanese Pounds so obtained, together with the balance, in U.S. Dollars, of the subscription funds received by it to the relevant subscription account at *Banque du Liban* for application to subscribe for Series 2009 Preferred Shares on the Issue Date, on behalf of the respective Eligible Investors whose Purchase Applications have been accepted. The Lebanese Pound amount transferred to *Banque du Liban* shall be credited to the Bank's share capital account, while the U.S. Dollar balance of the subscription funds shall be applied to the Bank's issue premium account.

Whether its Purchase Application is accepted or rejected, each applicant shall be entitled to receive interest, if any, earned on the amount of the Aggregate Issue Price deposited by such applicant into the Subscription Escrow Account from and including the value date as of which such amount is so deposited to but excluding, in the case of each Eligible Investor whose Purchase Application has been accepted, the Issue Date (or such earlier date on which funds shall be returned to the relevant applicant in the event the Purchase Application is rejected, in whole or in part, or the offering is terminated) promptly following the Issue Date (or such earlier date, as the case may be). It is expected that the Escrow Agent will invest the funds received by it hereunder in respect of the Aggregate Issue Price for the Series 2009 Preferred Shares in overnight U.S. Dollar deposits at standard call rates paid by the Escrow Agent for such deposits for the benefit of the applicants to subscribe for Series 2009 Preferred Shares.

Allotment

The Series 2009 Preferred Shares will be allotted first on a first priority basis to existing holders of Series 2008 Preferred Shares on a *pro rata* basis to the extent of their entitlements, at a rate that is in the same proportion as the ratio of the aggregate nominal amount of the Series 2008 Preferred Shares to the aggregate nominal amount of the Series 2009 Preferred Shares (which shall, assuming an issue size of the Series 2009 Preferred Shares of U.S. $100,000,000, be at a rate of one (1) Series 2009 Preferred Share for each two (2) Series 2008 Preferred Shares held by the relevant applicant). Any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares exercising their first priority subscription rights will be further allocated, on a second priority basis, among holders of Series 2008 Preferred Shares wishing to subscribe to additional Series 2009 Preferred Shares, while remaining Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares (on either a first or second priority basis) will only then be allocated to Eligible Investors, who have submitted a valid Purchase Application that has been accepted by the Bank. Applicants who are not holders of Series 2008 Preferred Shares exercising their priority subscription rights will not receive any allocation of Series 2009 Preferred Shares unless and until all applications submitted by holders of Series 2008 Preferred Shares (whether exercising their first or second priority subscription rights) have been filled, and, thereafter, any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares (whether exercising their first or second priority subscription rights) will be allocated to applicants only in the sole discretion of the Issuer. It is expected that all allotments of Series 2009 Preferred Shares will be made on or about September 1, 2009.

If the aggregate amount of Series 2009 Preferred Shares subscribed for by similarly situated applicants (*i.e.*, applicants exercising or not exercising first or second (as the case may be) priority subscription rights, as the case may be) to purchase Series 2009 Preferred Shares exceeds the maximum aggregate amount of Series 2009 Preferred Shares being offered, the Series 2009 Preferred Shares will be allocated among such applicants in the sole discretion of the Issuer prior to the Issue Date.

The Bank will send notices of allotments to applicants promptly following the end of the Official Subscription Period once the final allotments have been made. Until such time, no applicant shall have any right or interest in any Series 2009 Preferred Shares.

Powers of Attorney and Authorizations

Pursuant to its Purchase Application, each prospective purchaser will be required to grant each of Messrs. Moussa Maksoud and Alain Wanna, and each other person whom shall be appointed by either of them at the relevant time, each acting singly, a power of attorney to complete, execute and deliver, on behalf of such purchaser, any and all applications, subscription forms and other documents necessary or appropriate for the acceptance of such purchaser by *Banque du Liban,* and the registration of such purchaser, as a shareholder of the Bank.

By purchasing Series 2009 Preferred Shares, each Eligible Investor will also be deemed to grant each of Messrs. Moussa Maksoud and Alain Wanna, and each other person who shall be appointed by either of them at the relevant time, each acting singly, a separate power of attorney (x) to attend and vote in any General Meeting of the Shareholders of the Issuer (whether Ordinary or Extraordinary), as well as any meeting of the association of holders of Series 2009 Preferred Shares; and (y) to complete, execute and deliver, on behalf of such investor, any and all documents and other instruments, and to take all such actions, as shall be necessary or appropriate in connection with any redemption of Series 2009 Preferred Shares held by such Eligible Investor.

In addition, the resolutions to be adopted by the Bank's shareholders at the Extraordinary General Meeting of Shareholders held to authorize the issuance of the Series 2009 Preferred Shares and the by-laws of the association of holders of Series 2009 Preferred Shares are expected to grant authorization to the Bank to the effect that, upon exercise of the call option, in whole or in part, the Bank shall be authorized to take any and all action necessary to effect the redemption of the Series 2009 Preferred Shares, which are the subject of such exercise, and to cancel such Series 2009 Preferred Shares, including directing and authorizing Midclear to effect such redemption and cancellation. Midclear shall be entitled to rely exclusively on the Bank's instructions to effect such redemption and cancellation. As between the Bank and each holder, the redemption shall be effective upon cash payment to such holder of the amount payable to it upon exercise of the call, as determined by the Bank, pursuant to instructions received from the holder (or, failing receipt of such instructions, pursuant to the instructions in effect for the payment to such holder of the last Distribution made by the Bank in respect of the Series 2009 Preferred Shares).

Delivery of the Series 2009 Preferred Shares

The Series 2009 Preferred Shares will be issued in registered form, registered in the respective names of the purchasers thereof in the share registry maintained by Midclear in respect of the Bank's share capital. The Series 2009 Preferred Shares will be delivered, upon issuance, by deposit to the Midclear account of the Bank (Account No. 39/20) and the Bank will hold the Series 2009 Preferred Shares in custody for the benefit of the respective purchaser in accordance with its standard custody arrangements. Series 2009 Preferred Shares in definitive form will not be issued. Interests in the Series 2009 Preferred Shares will be shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear. Neither the Bank nor the Placement Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of interests in the Series 2009 Preferred Shares or for maintaining, supervising or reviewing any records relating to ownership of Series 2009 Preferred Shares. At any time after the Issue Date, a holder of Series 2009 Preferred Shares may request that the Bank arrange for the transfer of the custody of such Series 2009 Preferred Shares to another participant or sub-custodian with Midclear.

Each Eligible Investor's purchase and ownership of Series 2009 Preferred Shares shall constitute its authorization and direction to Midclear and its participants, including the Bank, to disclose such Eligible Investor's ownership of Series 2009 Preferred Shares, together with the number of Series 2009 Preferred Shares held by such Eligible Investor and such other relevant information concerning the Eligible Investor and its interest in the Series 2009 Preferred Shares as may be necessary in connection with any exercise by the Bank of its call option in respect of the Series 2009 Preferred Shares held by such Eligible Investor.

CERTAIN INVESTMENT CONSIDERATIONS

The purchase of Series 2009 Preferred Shares involves risks and is suitable only for, and should be made only by, Eligible Investors that are fully familiar with the Lebanese Republic in general and with the Lebanese banking industry and that have such other knowledge and experience in financial and business matters as may enable them to evaluate the risks and merits of an investment in the Series 2009 Preferred Shares. The following section does not describe all of the risks of an investment in the Series 2009 Preferred Shares. Prior to making an investment decision, prospective purchasers should consider carefully, in light of their own financial circumstances and investment objectives, all the information set forth herein and, in particular, the investment considerations set forth below. Prospective purchasers of Series 2009 Preferred Shares should make such inquiries as they think appropriate regarding the Series 2009 Preferred Shares, the Bank, the Lebanese Republic and the Lebanese banking industry, without relying on the Bank or any other person.

Considerations relating to the Lebanese Republic

The Bank operates in the Lebanese Republic and, accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in the Lebanese Republic, which, in turn, is tied to the geo-political situation in the region.

Political and Military Considerations

Lebanon's financial environment is related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the absence of military conflict in Lebanon and among its neighbors and continued internal stability.

A combination of internal and external factors led to a heavily militarized conflict, which lasted from April 1975 until October 1990. Successive rounds of fighting took place, aggravated by two Israeli military invasions in 1978 and 1982. The conflict resulted in significant human losses, a substantial decline in GDP and reduction of economic activity, a significant reduction of Lebanon's Government (the "*Government*") authority, substantial physical and infrastructure damage, and a large public sector deficit and capital outflows. The post-conflict era has been characterized by large reconstruction and institution-building efforts, which resulted in large public sector deficits and setbacks in the implementation of political and economic reforms due, among other matters, to differences in views between political leaders and disagreements within the executive branch of the Government.

The Lebanese Republic witnessed a series of significant events during the last four years, including the assassination of the former Prime Minister, Rafik Hariri, a campaign of assassinations and attempted assassinations of other political leaders and public figures, the adoption of a series of United Nations Security Council Resolutions, including Resolution 1757, which established the Special Tribunal for Lebanon to prosecute persons responsible for the bombing that killed former Prime Minister Hariri, the withdrawal of Syrian army troops from Lebanon, the military conflict in July and August 2006 (the "*July 2006 War*") and its effects on the Lebanese Republic's population, economy and infrastructure, the resignation of six ministers representing the opposition from the Government, followed by the opposition's sit-in in downtown Beirut, as well as the failure of Parliament to convene during an 18-month period, the Lebanese Security Forces taking over control of Nahr El-Bared camp after clashes with a terrorist organization from May to September 2007, the armed clashes that took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains in May 2008, and the six-month vacancy in the office of the President of the Lebanese Republic, which ended with the election of General Michel Sleiman as President on May 25, 2008.

The assassination of former Prime Minister Rafik Hariri and other political figures and journalists, and continuous tensions between supporters of the Future Movement, the Progressive Socialist Party, the Lebanese Forces and members of the former Qornet Shahwan Gathering (collectively, the "March 14 Coalition") on the one hand, and supporters of Hizbollah, the Amal Movement, the Free Patriotic Movement and their allies (collectively, the "March 8 Forces"), on the other hand, may have a continued impact on the political stability and economic outlook of the Lebanese Republic.

The composition of the current Government gives "the opposition" the power to block certain significant decisions, which require the approval of two-thirds of the ministers pursuant to Article 65 of the Lebanese Constitution. These decisions include the amendment of the Constitution, the declaration of a state of emergency and its termination, the declaration of war, the general mobilization of forces, the execution of international agreements and treaties, the adoption of the annual budget, the approval of comprehensive and long-term development projects, the appointment of certain high-level Government employees, the dissolution of Parliament, the amendment of electoral laws, nationality and personal status laws and the dismissal of ministers. As of June 20, 2009, following the Parliamentary elections held to elect all 128 members of Parliament, and pending the formation of a new government, the outgoing Government's activities will be limited to caretaker functions.

Parliamentary elections took place on June 7, 2009, resulting in success for the March 14 Coalition, which won 71 seats in Parliament, with the March 8 Forces winning the remaining 57 seats. A new Prime Minister is expected to be appointed following mandatory Parliamentary consultations; his primary task will be the formation of a new government. Due to repeated disagreements among political factions, the formation of a new government has been subject to delays in the past; there can be no assurance that this will not be the case this time.

Regional and International Considerations

The Lebanese Republic is located in a region which has been subject to ongoing political and security concerns, especially in recent years. Political instability in the Middle East has increased since the terrorist attacks of September 11, 2001 and the U.S. intervention in Iraq. Current disputes between the U.S. and Iran also have an impact on the economic and political situation in the Lebanese Republic.

The impact, if any, on Lebanon and, accordingly, the Bank of the military actions and political uncertainties affecting Iraq, Iran, Syria and the surrounding region cannot be determined at this time.

Prices and Inflation

Depreciation of the Lebanese Pound has created pressure on the domestic price system that generated high rates of inflation reaching 120% in 1992 prior to the first Hariri Government. Since 1993, inflation is estimated to have declined gradually to approximately 7.8% in 1997, 4.5% in 1998, 0.2% in 1999 and (0.4)% in each of 2000 and 2001. Since 2001, estimated inflation has fluctuated slightly, increasing to 1.8% in 2002 and decreasing to 1.3% in 2003, before increasing back to 3.0% in 2004 and decreasing to (0.7)% in 2005. However, inflation in 2006 stood at 5.6%, mainly due to shortages of supply and consequent price increases as a result of the July 2006 War. CAS has estimated the 2007 inflation figure at 9.3% on an end-of-period basis and the IMF, based on data from *Banque du Liban*, has estimated the 2007 inflation at 6.0% on an end-of-period basis and 4.1% on a period average basis. The increase in inflation in 2007, as compared to 2006 and previous recent years, was due to, *inter alia*, the appreciation of the Euro against the Lebanese Pound (the Euro is the currency of the principal trading partners of the Lebanese Republic) and the worldwide increase in oil and other commodity prices. CAS estimated inflation for 2008 at 5.5% on an end-of-period basis, while the IMF's preliminary inflation estimates were at 6.4% on an end-of-period basis and at 10.8% on a period average basis. The increase in inflation in 2008 was due to the same factors as in 2007, but was tempered by the global financial crisis.

There is no assurance that inflation rates will not rise further in the future. Significant inflation could have a material adverse effect on the Lebanese economy and, in turn, materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

Failure to Implement Privatization Program

The Government has developed, and has begun implementing, an economic reform program of which privatization is an essential component. In May 2000, Parliament adopted a privatization law, which sets the framework for the privatization of state-owned enterprises. The privatization law established a Higher Council for Privatization and provides that the proceeds from privatization will be applied towards debt repayment. Plans for privatization include, *inter alia*, the electricity, water and telecommunications sectors; however, due to political interference and disagreements within the executive branch of the Government and the July 2006 War, the Lebanese Republic's privatization program has as yet not been successfully implemented.

While the Government has relaunched the privatization program, and reactivated the Higher Council for Privatization, there can be no assurance that the privatization program will not be further delayed or that it will be ultimately successful.

Budget Deficit and Macroeconomic Instability

The Bank's performance and the quality and growth of its assets are necessarily dependent on the health of the overall Lebanese economy.

Any continuation or worsening of economic conditions in Lebanon, including any significant increases in the budget deficit, could materially adversely affect the Bank's borrowers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

In recent years, the Government has incurred significant internal and external debt, principally for the purpose of financing the budget deficits. Expenditures during this period, mainly consisting of payments for wages and salaries, reconstruction and expansion projects, other current expenditures and debt service, have exceeded revenues. Net outstanding public debt as a percentage of estimated GDP increased from approximately 46.0% in 1992 to approximately 167% as at December 31, 2006 before decreasing to 156% as at December 31, 2007 and 142% as at December 31, 2008. As a result, the Lebanese Republic is suffering from a large budget deficit. The debt burden of the Lebanese Government is significant, accounting for the largest part of expenditures in recent years. In 2008, debt service represented approximately 35.3% of total expenditures and 50.0% of total revenues.

The Government currently owns *Electricité du Liban* ("*EDL*"), which supplies virtually all electricity in the Lebanese Republic. EDL's significant continuing losses, which are due in large part to increases in oil prices and collection difficulties, are funded through the Treasury. This has adversely affected the Lebanese Republic's expenditures and increased the Lebanese Republic's budget deficit. Transfers to EDL from the Treasury amounted to approximately U.S.$910 million, U.S.$981 million and U.S.$1,612 million in 2006, 2007 and 2008, respectively.

The Government's ability to maintain macroeconomic stability through traditional economic policy tools may be limited. Lebanon's economy is substantially dollarised. This dollarisation may limit *Banque du Liban*'s ability to achieve monetary policy targets, including foreign exchange stability. *Banque du Liban* data indicate that the proportion of foreign currency deposits as a share of total deposits was 76.0% as at December 31, 2007. Due to the intervention of *Banque du Liban* in the currency markets, foreign exchange reserves declined significantly in 2001, but have improved since November 2002 as a result of the receipt of approximately U.S.$3.6 billion in long-term, low-interest financing extended by participants of the Paris II Conference and U.S.$7.6 billion in long-term, low-interest financing extended by participants of the Paris III Conference. As at December 31, 2004, gross foreign currency assets (excluding gold reserves) at *Banque du Liban* were approximately U.S.$9.5 billion, as compared to U.S.$10.2 billion as at December 31, 2003. The period following the assassination of Mr. Hariri has been marked by significant capital outflows and a decline in foreign currency deposits due to the intervention of *Banque du Liban* on the foreign exchange markets. Foreign currency reserves (excluding gold reserves) at *Banque du Liban* were approximately U.S.$9.8 billion as at December 31, 2005. As at December 31, 2008, gross foreign currency reserves (excluding gold reserves) at *Banque du Liban* were approximately U.S.$17,1 billion as compared to U.S.$9.8 billion as at December 31, 2007 and U.S.$10.2 billion as at December 31, 2006, respectively.

Sovereign Debt Ratings

As at the date of this Offering Circular, the foreign currency obligations of Lebanon were rated as follows:

Rating Agency	**Tenor**	**Rating**	**Outlook**
Standard & Poor's Rating Services	Long-term Short-term (less than one year)	B- C	Stable
Moody's Investor Services Limited	Long-term	B2	Stable
Fitch IBCA Ltd	Long-term Short-term (less than one year)	B- B	Stable
Rating and Investment Information, Inc.	Long-term Short-term	B+ b	Stable

All of the ratings referred to above are non-investment grade and a credit rating is not a recommendation by the rating organization or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organization and each should be evaluated independently from the other.

The definition applicable to Standard & Poor's Rating Services ratings referred to above is that debt of this rating is generally regarded as having significant speculative characteristics, and that the Lebanese Republic's capacity or willingness to meet its financial commitment on its securities will be dependent upon favorable business, financial, and economic conditions.

The definition applicable to the Moody's Investor Services Limited ratings referred to above is that debt of this rating is generally regarded as lacking characteristics of desirable investment, and that assurance of interest and principal payments or maintenance of other terms in connection with such debt over a long period may be small.

The definition applicable to the Fitch Ratings' ratings referred to above is that debt of this rating is generally regarded as indicating that significant credit risk is present, but that a limited margin of safety remains. Financial commitments are currently being met; however, the capacity for continued payment is contingent upon a sustained, favorable business and economic environment.

The definition applicable to the Rating and Investment Information Inc.'s ratings referred to above is that debt of this rating is generally regarded as indicating that creditworthiness is questionable and that there are factors that require constant attention.

Foreign Exchange Risk; Monetary Policy

The national currency, the Lebanese Pound, is convertible and its exchange rate is generally determined on the basis of demand and supply conditions in the exchange market. *Banque du Liban* intervenes when necessary in order to maintain orderly conditions in the foreign exchange market.

Banque du Liban's exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. *Banque du Liban* has been successful during the past several years in maintaining a stable rate of exchange, through the use of its foreign exchange reserves and its interest rate policy.

The period after the assassination of Mr. Hariri has been marked by significant conversions from Lebanese Pound deposits to foreign currency deposits followed by a decline in foreign currency reserves due to the intervention of *Banque du Liban* in the foreign exchange markets. Foreign currency reserves (excluding gold reserves) at *Banque du Liban* were approximately U.S.$8,611 million as at July 31, 2005. Similarly, the period of the July 2006 War saw significant conversions from the Lebanese Pound to foreign currency deposits resulting in a decline in *Banque du Liban*'s foreign currency reserves from U.S.$11,020 million at the end of June 2006 to U.S.$10,563 million at the end of July 2006 as it intervened in the foreign exchange markets. The decline in *Banque du Liban*'s foreign currency reserves reversed as hostilities ended, reaching U.S.$10,868 million at end August 2006. Foreign currency reserves were aided by deposits from Saudi Arabia and Kuwait. As at December 31, 2008, gross foreign currency reserves (excluding gold reserves) at *Banque du Liban* were approximately U.S.$17,062 million.

Although the authorities expect to continue to gear their monetary policy towards maintaining stability in the exchange rate, there can be no assurance that *Banque du Liban* will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise.

The possible depreciation of the Lebanese Pound against the U.S. Dollar, or the decline of the level of foreign reserves as a result of *Banque du Liban*'s intervention in the currency markets, could materially impair the Lebanese economy and, in turn, materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects.

Banque du Liban data indicate that the proportion of foreign currency deposits as a share of total deposits stood at approximately 76%, 77% and 70% as at December 31, 2006, 2007 and 2008, respectively. Because a substantial portion of the Bank's loans are denominated in U.S. Dollars, a devaluation of the Lebanese Pound would increase the debt service burden of borrowers whose income is in Lebanese Pounds and, therefore, would likely increase the level of the Bank's non-performing loans.

Considerations relating to the Bank and the Lebanese Banking Industry

Global Financial Crisis

A global financial crisis continues as at the date of this Offering Circular, which has contributed to the failures of a number of financial institutions in the United States and Europe and unprecedented action by governmental authorities, regulators and central banks around the world. As a result of the current market turmoil, there is a general lack of liquidity and significant price volatility in the secondary market for instruments similar to the Series 2009 Preferred Shares. Moreover, systemic risk within the financial system and the related general deterioration in global economic conditions could result in a decline in the recoverability and value of the market price of the Series 2009 Preferred Shares.

It is difficult to predict how long the persisting volatility in the financial sector and capital markets will exist or whether related concerns about further failures of financial and other institutions will exacerbate the prevailing difficulties in the global economy and, accordingly, it is not possible to foresee the specific impacts these conditions may have on the Lebanese Republic. In particular, the global financial crisis may have adverse effects on the Lebanese Republic, including with respect to: (i) losses by, or reduced income of, Lebanese nationals overseas, which may result in reduced inflows and remittances; and (ii) the general slowdown in economic activity in the Lebanese Republic, which may impact the assets and profitability of Lebanese banks, including the Bank. If current global market conditions and circumstances deteriorate further, or continue for protracted periods of time, this could lead to a decline in available funding and credit quality and increases in defaults and non-performing debt, which may impact the rating, investments and finances of the Bank.

Bank's Financial Condition

An investment in the Series 2009 Preferred Shares constitutes an investment in the equity of the Bank. Holders will not have creditor rights against the Bank in respect of the Series 2009 Preferred Shares, including for any non-payment of Distributions.

Exposure to Lebanese Government Risk

In common with other Lebanese banks, a significant portion of the Bank's liquidity in both Lebanese Pounds and foreign currency is invested in Lebanese Government obligations or maintained as reserves with *Banque du Liban*. The composition of the Bank's investment and trading portfolio and placements with *Banque du Liban* remained relatively stable as at December 31, 2007 and 2008, with Lebanese and other governmental treasury bills and bonds and placements with *Banque du Liban* (in both LBP and foreign currency) comprising 51.1% of the Bank's interest earning assets at the end of 2008. In addition, for the year ended December 31, 2008, 48.8% of the Bank's revenues (interest income, commissions received, profit on financial operations and other income) derived from Government securities and *Banque du Liban* placements. Such investments are generally considered to be relatively illiquid to the extent that, in the event that the Bank were to attempt to sell a significant portion of its holdings, it would likely experience a discount on the price, which could be substantial. See "—*Liquidity and Maturity Mismatching*". As a result, any default by the Lebanese Government or *Banque du Liban* on any of its obligations, or any significant reduction in value or liquidity of Government securities the Bank holds, or in the regulatory or accounting treatment thereof, would have a material adverse effect to the Bank's business, liquidity, results of operations, financial condition and prospects, as well as on other Lebanese banks.

Regional and International Expansion

Many of the countries in which the Bank has existing operations, or is considering developing operations, have in the past experienced periods of political instability and, in some cases, civil unrest and clashes or are located in regions characterized by instability. Such political and social unrest that may characterize the regions where the Bank has or may commence operations has, at times, adversely affected the banking sectors in these jurisdictions and there can be no assurance that social and civil disturbances will not occur in the future. In fact, in many cases, these conditions are not likely to be resolved quickly and, accordingly, could lead to further political and economic instability as well as loss of confidence in business investment in the regions where the Bank currently operates or may operate in the future. As a result, particularly as the Bank expands its operations geographically, regional political and social instability both generally and in local banking sectors in particular could materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects. In addition, there can be no assurance that the Bank will be able to achieve and effectively manage the growth of its operations in foreign countries. A failure to expand and manage growth as planned or to achieve effective marketing strategies may have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Risks relating to Acquisitions and Divestitures

The Bank has historically pursued and intends to continue to implement a strategic plan that envisages selective acquisitions to further its growth. Risks relating to recent and future acquisitions include:

- difficulties in the integration of operations, technologies, products and personnel of acquired entities;
- diversion of management's attention away from other business concerns;
- expenses relating to undisclosed or unknown potential liabilities of acquired entities; and
- limitations on foreign ownership of banking or corporate institutions.

Moreover, the Bank's ability to implement its acquisition strategy in certain countries may be hindered due to a scarcity of acquisition targets and/or competition from other potential acquirers in the acquisition process.

In addition, future acquisitions could result in the incurrence of debt and the assumption of liabilities, including contingent liabilities. Any of the foregoing could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

U.S. Sanctions on Sudan and Syria

The Bank has banking operations in Sudan and in Syria, which respectively accounted for 7.1% and 5.4% of its operating income for 2008. As the Bank expands its operations in Sudan and Syria, it expects its operations in these countries to constitute an increasing percentage of its consolidated revenues. See "*Overview of the Bank—Subsidiaries*".

The U.S. Treasury Department Office of Foreign Assets Control ("*OFAC*") administers the Sudanese Sanctions Regulations, which have been in place since 1997, imposing a trade embargo against Sudan and a total asset freeze against the Sudanese Government. In particular, the Sudanese Sanctions Regulations prohibit the import into the United States of goods or services of Sudanese origin as well as the export of goods, technology or services from the United States to Sudan. Individuals or organizations that are owned or controlled by, or act on behalf of, the Government of Sudan anywhere in the world are designated by the U.S. Treasury Department as "Specially Designated Nationals" of Sudan. U.S. persons are prohibited from transacting business with these individuals and entities. Even though a peace agreement was signed between the Sudanese People's Liberation Army/Movement and the Government of Sudan in January 2005, the Sudanese Sanctions Regulations remain in place because of continuing U.S. concerns about reported Sudanese support for international terrorism, and the more recent human rights abuses and claimed genocide in western Sudan (Darfur).

Former U.S. President George W. Bush signed the Sudan Accountability and Divestment Act in early 2008, allowing state and local governments to cut investment ties with companies doing business in Sudan. The measure aims to pressure Sudan to end the violence in the Darfur region. The bill, which passed both houses of Congress unanimously, makes it easier for mutual funds and private pension fund managers to sell their investments and allows states to prohibit debt financing for companies that do business in Sudan. It also requires companies seeking contracts with the U.S. federal government to certify that they are not doing business in Sudan. The bill targets specifically companies involved in oil, power production, mining and military equipment, which are considered sectors that provide vital revenue for Sudan's Government. President Bush's signature was accompanied by a proviso known as a signing statement, in which he said he was reserving the authority to overrule state and local divestment decisions if they conflicted with foreign policy.

OFAC also administers the Transactions Regulations, which include sanctions imposed on Syria prohibiting U.S. persons from engaging in certain transactions, including investments, with the Syrian Government and certain private parties, as well as other parties, designated by OFAC as Specially Designated Nationals of Syria.

In addition, Syria's relations with the United States have deteriorated in recent years and, in 2003, the United States enacted the Syria Accountability and Lebanese Sovereignty Restoration Act of 2003, which authorizes the potential imposition of a number of sanctions on Syria. Some of these sanctions have already been imposed, including a general prohibition of U.S. exports to Syria, except for food and medicine; a prohibition of flights from Syria to the United States; sanctions against Syria's largest bank, the Commercial Bank of Syria; and the blacklisting of certain Syrian individuals. Moreover, if relations between Syria and Lebanon deteriorate significantly, it is possible that the Bank's operations in Syria may be affected.

There can be no assurance regarding OFAC's enforcement policy with regard to Sudan or Syria or other countries where the Bank may develop operations, and it is possible that OFAC may take a different view regarding the measures the Bank has taken or the status of the Bank's Sudanese or Syrian operations. The imposition of any OFAC sanctions or designations of individuals or entities within the Bank as Specially Designated Nationals may result in U.S. persons or affiliates associated with the Bank being subject to restrictions and penalties. These sanctions could also have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Currency Considerations and Devaluation Risks

Banque du Liban has been successful during the past several years in maintaining a stable rate of exchange. However, there can be no assurance that *Banque du Liban* will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise. In the event the Lebanese Pound devalues against the U.S. Dollar, the financial condition or results of operations of Lebanese companies, including the Bank and its customers located or doing business in the Lebanese Republic, would be affected. Furthermore, because a substantial portion of the loans of banks operating in Lebanon, including the Bank are denominated in U.S. Dollars, a devaluation of the Lebanese Pound would increase the debt service burden of borrowers whose income is in Lebanese Pounds and, therefore, would likely increase the level of the Bank's non-performing loans. In addition, a devaluation of the Lebanese Pound against the U.S. Dollar will adversely impact the Bank's ability to generate Unconsolidated Distributable Net Income sufficient to make Distributions in U.S. Dollars.

Liquidity and Maturity Mismatching

Although the Bank's balance sheet appears to indicate a high level of liquidity, the Bank, along with other Lebanese financial institutions, has utilized a portion of these liquidity levels to invest in longer-term higher yielding assets, namely Lebanese treasury bills and other financial papers traded in regulated markets. While much of the Bank's investment portfolio is funded by comparatively shorter-term customer deposits, the investments are comprised principally of Lebanese governmental securities, including, in particular, Lebanese treasury bills, which are often, in practice, characterized by limited liquidity. See "*—Exposure to Lebanese Government Risk*". As a result, although historically the Bank has been able to roll over the significant majority of its deposits, and these securities typically may be liquidated in times of crisis according to discount arrangements or repurchase agreements with *Banque du Liban*, there can be no assurance that the Bank will be able to liquidate all or a portion of its portfolio of Lebanese treasury bills if it became necessary or advisable to do so. As a result, investors should not assume that the Bank's liquidity, as measured by its balance sheet, will continue to be available, but instead should be aware that the Bank, in common with other banks in Lebanon, may be required to rely on other more expensive funding sources in order to finance growth in its loan portfolio. Any failure to source funding through less expensive deposits, if at all, would have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

Interest Rate Sensitivity

As a result of the maturity mismatch between deposits and assets, the Bank, in common with most Lebanese banks, is exposed to the risk of any sharp increase in short term interest rates. The Bank realizes income from the margin between interest earned on its assets and interest paid on its liabilities. Because many of the Bank's assets and liabilities reprice at different times, the Bank is vulnerable to fluctuations in market interest rates. Typically, the Bank's liabilities reprice substantially more frequently than its assets and, as a result, if interest rates rise, the Bank's interest expense will increase more rapidly than its interest income, which could negatively affect interest margins and result in liquidity problems. The Bank is limited in its ability to reprice assets more frequently and to mitigate this risk since many of the securities held in the Bank's investment portfolio either have fixed interest rates or longer-term variable interest rates. As a result, volatility in interest rates could have a material adverse effect on the Bank's business, liquidity, results of operations, financial condition and prospects.

International Capital Adequacy Reform

In 2001, the Basel Committee issued a proposal for a new capital adequacy framework to replace the previous Basel Accord issued in 1988. In this proposal, the Basel Committee proposes replacing the existing approach with a system that would use both external and internal credit assessments for determining risk weightings to be applied to exposures to sovereign states. It is intended that such an approach will also apply, either directly or indirectly and to varying degrees, to the risk weighting of exposures to banks, securities firms and corporations. Pursuant to *Banque du Liban* Decision N° 9302 dated April 1, 2006, as amended, adopted with respect to the application of the Basel II International Convention regarding Capital Adequacy ("*Decision N° 9302*"), all banks operating in Lebanon must apply the Basel II International Convention for the calculation of capital adequacy on a consolidated and non-consolidated basis, where applicable, starting from January 1, 2008 in accordance with the standards set forth in Decision N° 9302 and any subsequent decisions adopted in that regard. In addition, as of December 31, 2006, Lebanese banks must include in their calculation of their capital adequacy ratio, reserves for unspecified banking risk. Pursuant to Article 7 of Decision N° 9302, banks operating in Lebanon were required to appoint an expert in risk management to be in charge of applying the Basel II International Convention and notify the Banking Control Commission of the name of such person and contact details prior to April 30, 2006; the Bank has fulfilled this requirement.

This new framework could cause financial institutions that lend to Lebanese banks, including the Bank, to be subject to higher capital requirements as a result of the credit risk rating assigned to Lebanon and, accordingly, to Lebanese entities constrained by the sovereign ceiling. The framework could also require Lebanese banks to be subject to higher capital requirements based on loans made to, and investments in securities issued by, Lebanese entities (including the Government) of up to 150% of the respective asset class. As a result, along with other Lebanese banks, the Bank may become subject to higher borrowing costs, which may adversely affect the Bank's results of operations and financial condition, and the Bank may be required to raise new equity, which may or may not be available to it, in order to meet new, more stringent capital requirements.

Competition

The market for financial and banking services in the Lebanese Republic is competitive. As at December 31, 2008, there were 53 active commercial banks (including nine branches of foreign banks in Lebanon), with 860 operational branches in Lebanon, 45 financial institutions, 12 investment banks and 13 specialised medium-and long-term credit banks, licensed by *Banque du Liban* to operate in the Lebanese Republic, which has a population of approximately 4.0 million people. These banks include large international financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in the Lebanese Republic, in common with other Lebanese banks, the Bank's lending margins, especially in respect of retail loans, have decreased. Depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank's expenses may increase and its revenues may decrease.

Considerations relating to the Series 2009 Preferred Shares and the Offering

Bank Not Required to Pay Distributions

Payments of Distributions are not mandatory. Holders of the Series 2009 Preferred Shares will have no right to receive any Distributions unless (A) the Bank has sufficient Unconsolidated Distributable Net Income for the relevant year available for the payment of such Distributions; (B) the Bank is in compliance with applicable ratios and regulations at the time imposed by *Banque du Liban* and the Banking Control Commission in respect of the payment related to the net profits of the Bank and the Banking Control Commission has verified such compliance; and (C) the payment of such Distributions out of Unconsolidated Distributable Net Income of the year have been approved by the shareholders of the Bank pursuant to a resolution adopted at the Ordinary General Meeting (or such other shareholders' meeting) at which the annual accounts of the Bank for the relevant year are approved and at which the amount and payment of such Distributions are approved. In the event, however, that Unconsolidated Distributable Net Income for the relevant year is insufficient to pay Series 2008 Distributions and Series 2009 Distributions (and distributions in respect of any future series of preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 2009 Preferred Shares) at their respective stated annual rate, such amounts of Distributions shall be decreased in proportion to the available net profits, if any. See "*Description of the Share Capital of Byblos Bank S.A.L.—Description of the Series 2009 Preferred Shares—Distributions*".

If the Bank does not have sufficient Unconsolidated Distributable Net Income for the relevant year, Distributions will not be paid.

Distributions Not Cumulative

The right to the payment of Distributions on the Series 2009 Preferred Shares shall not be cumulative. If Distributions are not declared or paid for any reason, holders of Series 2009 Preferred Shares will not be entitled to receive such Distributions whether or not funds are or subsequently become available.

Limited Voting Rights

The Series 2009 Preferred Shares will be non-voting, except for the limited rights of holders of Series 2009 Preferred Shares to vote on any proposed amendments to the object or legal form of the Bank, any capital increase by way of a contribution in kind of assets or any dissolution, liquidation or winding-up of the Bank or any merger or acquisition scheme in which the Bank is a party or in the event Distributions are not made for three consecutive years when, in each such year, the Bank had Unconsolidated Distributable Net Income for the year available to make such Distributions or the Bank shall default in the provision of any of the rights or benefits attaching to the Series 2009 Preferred Shares.

No Fixed Redemption Date

The Series 2009 Preferred Shares shall be of perpetual existence and have no fixed final redemption date and holders of Series 2009 Preferred Shares do not have the benefit of any put option or other right to require the redemption thereof. Although the Bank has the option to redeem and cancel the Series 2009 Preferred Shares, in whole or in part, under certain circumstances, it has no obligation to do so and its ability to do so may be restricted by applicable ratios or regulations of *Banque du Liban* and the Banking Control Commission. As a result, purchasers of Series 2009 Preferred Shares must be willing and able to maintain their investment in the long term indefinitely.

No Distributions Payable Upon Redemption

In the event that the Bank exercises its option to redeem and cancel the Series 2009 Preferred Shares at any time on the terms and subject to the conditions described herein, no Distributions shall be payable in respect of the year in which such Series 2009 Preferred Shares are redeemed and cancelled.

Potential Conflicts of Interest

The Bank has been, and will continue to be, involved in many aspects of the transactions relating to the issuance of the Series 2009 Preferred Shares, including in its capacities as Issuer and Escrow Agent and as the participant in Midclear to which the Series 2009 Preferred Shares will initially be delivered upon the issuance thereof, without the advice of separate legal counsel in respect of its various roles. As a result, it is possible that the Bank may be subject to competing interests in its relationships with the holders of Series 2009 Preferred Shares. The various roles of the Bank raise potential conflicts of interest which prospective purchasers of Series 2009 Preferred Shares should carefully consider.

Secondary Market; Liquidity

Although the Bank intends to list all of the Series 2009 Preferred Shares on the BSE in accordance with applicable regulations, such listing will not be effected until some time after the Issue Date and, notwithstanding such listing, there can be no assurance that a secondary market in the Series 2009 Preferred Shares will develop, or, if one does develop, that it will provide liquidity of investment or will continue for the life of the Series 2009 Preferred Shares. Moreover, no assurance can be given that it will be possible to effect a sale of the Series 2009 Preferred Shares or that, if a sale were to take place, it would not be at a discount to the Issue Price.

The market price for the Series 2009 Preferred Shares is likely to be influenced by a number of factors, including the financial condition and results of operations of the Bank, as well as the overall political, economic and social conditions in the Lebanese Republic and the surrounding region, which are outside the control of the Issuer. As a result, the price for the Series 2009 Preferred Shares may be subject to volatility.

The Series 2009 Preferred Shares are Non-Participating

Holders of Series 2009 Preferred Shares have no right to any participation or claim in the distributable assets of the Bank other than their right to receive annual Distributions, as and when declared and approved by the General Meeting of Shareholders, and, upon liquidation, the Liquidation Preference. Accordingly and unless otherwise provided under applicable laws, without limitation of the generality of the foregoing, holders of Series 2009 Preferred Shares have no right to receive any distributions in respect of the Bank's reserves or any distributions effected through an increase of the Bank's capital realized by incorporation of the Bank's retained earnings or reserves.

However, if the Bank is liquidated, the surplus, if any, remaining, after (i) payment of the Bank's debts, liquidation expenses (including liquidation preferences in respect of all series of preferred shares of the Bank at the time outstanding) and all of the Bank's other remaining obligations and (ii) distribution in full of the par value of the Common Shares, will be distributed *pro rata* among all holders of shares of the Bank, irrespective of the class thereof.

REPRESENTATIONS AND WARRANTIES OF PURCHASERS

Each prospective purchaser of Series 2009 Preferred Shares will be required to make the representations and warranties set forth in Annex I to Exhibit B to this Offering Circular to, and for the benefit of, the Issuer, on and as of the date of its application to purchase Series 2009 Preferred Shares and on and as of the Issue Date. The Series 2009 Preferred Shares will be sold to such purchaser in reliance on such representations and warranties. See "Exhibit B: Form of Purchase Application".

USE OF PROCEEDS

It is intended that the Aggregate Issue Price for the Series 2009 Preferred Shares, consisting of the par value and the Issue Premium in excess thereof, will constitute Tier I Capital. The net proceeds of the issue will be used for general funding purposes, including, but not limited to strengthening the Bank's capital structure and external growth. By strengthening its capital structure, the Bank believes it will be able to expand domestically and/or regionally through the acquisition of other financial institutions.

STATEMENT OF CAPITAL AND LONG-TERM LIABILITIES

The following table sets forth the consolidated long-term liabilities and shareholders' equity of the Bank as at December 31, 2007 and 2008:

	As at and for the Year Ended December 31,			
	2007		2008	
	(U.S.$ thousand)	*(LBP million)*	*(U.S.$ thousand)*	*(LBP million)*
Long-term liabilities(1)				
Banque du Liban	26,534	40,000	26,534	40,000
Certificates of deposits(2)	77,921	117,466	77,920	117,464
International Finance Corporation(3)	4,895	7,379	1,634	2,463
Arab Trade Finance Program(4)	1,986	2,994	22,313	33,637
Loans from FMO(5)	5,357	8,076	3,214	4,846
Proparco(6)	15,196	22,908	12,530	18,889
GSM Program (Bank of New York) (7)	642	968	-	-
OPEC Fund for International Development(8)	1,364	2,056	455	685
European Investment Bank(9)	73,865	111,351	180,689	272,388
Govco Incorporated NY(10)	45,000	67,838	43,393	65,415
Citibank loan(10)	5,000	7,538	4,583	6,909
Agence Française de Développement(11)	4,894	7,378	12,792	19,284
Index-linked notes	49,442	74,533	49,430	74,516
Equity-linked notes	49,410	74,486	49,414	74,491
Commodity-linked notes	6,367	9,598	6,371	9,604
Subordinated debt	31,169	46,987	31,169	46,987
Convertible subordinated debt.	186,196	280,690	161,033	242,757
Interest payable	11,141	16,795	13,113	19,768
Unamortized front-end fees and cost of issuance	(10,031)	(15,122)	(8,674)	(13,076)
Unamortized discount on soft loan	(2,299)	(3,465)	(985)	(1,485)
End of service indemnity	13,648	20,575	18,228	27,478
Total long term-liabilities	**597,697**	**901,029**	**705,156**	**1,063,020**
Shareholders' equity(1)				
Issued and paid-in capital	327,997	494,456	339,213	511,363
Reserves and premiums	295,879	446,037	537,987	811,015
Treasury shares	(628)	(947)	(1,031)	(1,554)
Retained earnings	7,381	11,127	10,161	15,317
Net income	94,561	142,550	114,285	172,285
Revaluation variance	1,312	1,978	1,312	1,978
Fair value changes	(30,676)	(46,244)	(20,243)	(30,517)
Foreign currency translation reserve	14,374	21,669	12,341	18,604
Minority shareholders	51,491	77,622	77,086	116,207
Total shareholders' equity	**761,691**	**1,148,248**	**1,071,111**	**1,614,698**
Total capitalization	**1,359,388**	**2,049,277**	**1,776,267**	**2,677,718**

Notes:

(1) Translated at the closing exchange rate on each of December 31, 2007 and December 31, 2008 of U.S.$1.00 = LBP 1,507.5, as reported by *Banque du Liban*.

(2) Represents U.S.$77.9 million outstanding principal amount of the 6.5% Certificates of Deposit that came due on July 1, 2009, issued by the Bank on July 1, 2004 and bearing interest payable semi-annually.

(3) Represents the outstanding principal amount drawn under a loan agreement with International Finance Corporation ("*IFC*").

(4) Represents the outstanding principal amount drawn under a loan agreement with Arab Trade Finance Program.

(5) Represents the outstanding principal amount drawn under a loan agreement with Nederlandse Financierings Maatschappij voor Ontwikkelingslanden N.V. ("*FMO*").

(6) Represents the outstanding principal amount drawn under a loan agreement with Proparco (Promotion et participation pour la coopération économique).

(7) Represents the outstanding principal amount drawn under a loan agreement with The Bank of New York (Luxembourg) S.A. under the Commodity Credit Corporation's Export Credit Guarantee Program (GSM-102) authorized by the U.S. Department of Agriculture ("*USDA*").

(8) Represents the outstanding principal amount drawn under a loan agreement with OPEC Fund for International Development.

(9) Represents the outstanding principal amount drawn under a loan agreement with European Investment Bank.

(10) Represents the outstanding principal amount drawn under a loan agreement with Citibank.

(11) Represents the outstanding principal amount drawn under a loan agreement with *l'Agence Française de Développement*.

Subsequent to December 31, 2008, the Bank issued: (i) Global Depositary Shares ("*GDSs*"), representing 23.94% of its Common Shares, under a Global Depositary Receipts Program (the "*GDR Program*") established on February 6, 2009 pursuant to which holders of Common Shares were given the option to deposit their Common Shares for the issuance of GDSs at a ratio of 50 Common Shares per GDS; (ii) U.S.$101.15 million 6.5% Certificates of Deposit due March 2012 (issued on March 31, 2009); and (iii) U.S.$40.45 million 7.25% Certificates of Deposit due March 2014 (issued on March 31, 2009).

Except as otherwise described above or elsewhere in this Offering Circular, there has been no material change in the consolidated long-term liabilities and shareholders' equity of the Bank since December 31, 2008.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

The following information (other than the financial ratios and statistical data) as at and for the years ended December 31, 2007 and December 31, 2008 has been derived from, should be read in conjunction with, and is qualified in its entirety by reference to, the audited consolidated financial statements of the Bank as at and for the years ended December 31, 2007 and December 31, 2008, including the notes thereto, which appear elsewhere in this Offering Circular.

	As at and for the Year ended December 31,			
	2007		**2008**	
	(U.S.$ thousand)[1]	*(LBP million)*	*(U.S.$ thousand)*[1]	*(LBP million)*
Income Statement				
Interest income	622,900	939,021	688,421	1,037,795
Interest expense	(438,484)	(661,014)	(452,373)	(681,953)
Net interest income	184,416	278,007	236,048	355,842
Net provisions for doubtful loans and other provisions	(3,158)	(4,761)	(3,605)	(5,434)
Net non-interest income	76,937	115,982	73,364	110,596
Operating expenses	(135,414)	(204,136)	(158,462)	(238,881)
Net income before taxes	122,781	185,092	147,345	222,123
Taxes	(23,598)	(35,574)	(25,345)	(38,208)
Net income[2]	**99,183**	**149,518**	**122,000**	**183,915**
Balance Sheet				
Cash and due from banks	3,884,186	5,855,411	4,707,886	7,097,138
Government securities	2,829,211	4,265,036	2,974,959	4,484,751
Loans and advances to customers (net)	2,232,844	3,366,013	2,790,490	4,206,664
Other assets	539,549	813,370	756,610	1,140,589
Total assets	**9,485,790**	**14,299,830**	**11,229,945**	**16,929,142**
Due to banks.	709,195	1,069,112	1,025,484	1,545,917
Customers' deposits	7,262,427	10,948,108	8,362,773	12,606,880
Certificates of deposits	80,327	121,093	80,428	121,246
Structured products.	98,693	148,779	97,054	146,309
Other liabilities	353,794	533,345	396,610	597,889
Total liabilities	**8,504,436**	**12,820,437**	**9,962,349**	**15,018,241**
Tier I Capital	744,280	1,122,002	1,057,457	1,594,116
Tier II Capital[3][4]	237,075	357,391	210,139	316,785
Total capital	**981,355**	**1,479,393**	**1,267,596**	**1,910,901**

Notes:

(1) Translated at the closing rate of exchange U.S.$1.00 = LBP 1,507.5, which was the closing rate of exchange as at each of December 31, 2007 and December 31, 2008, as reported by *Banque du Liban*.

(2) Prior to distribution of dividends and including minority interest.

(3) Including subordinated debt.

(4) Excluding LBP 3,711 million (U.S.$2.46 million) representing revaluation of fixed assets not accepted by *Banque du Liban* as Tier II Capital for the calculation of certain regulatory ratios.

Selected Financial Ratios and Statistics[1]

	As at December 31,	
	2007	2008
	(%)	
Growth		
Total assets	15.82%	18.39%
Customers' deposits	15.71%	15.15%
Loans and advances to customers, net	27.61%	24.97%
Net income	25.98%	23.01%
Profitability		
ROA (Return on average assets)[2]	1.12%	1.18%
ROE (Return on average equity)[2][3]	13.41%	13.31%
Interest on average earning assets[2]	7.40%	6.97%
Funding cost[4]	5.66%	4.99%
Net interest differential	1.74%	1.98%
Net interest income on average earning assets (net interest margin)	2.19%	2.39%
Non-interest income to total operating income	29.44%	23.71%
Operating expenses to operating income (cost-to-income ratio)	51.81%	51.21%
Operating expenses on average customers' deposits	2.00%	2.03%
Operating expenses on average assets	1.53%	1.53%
Operating income on average assets (assets yield)	2.96%	2.99%
Net income on operating income (profit margin)	37.95%	39.43%
Earnings per share for Common Shares (in LBP)	278.73	317.19
Earnings per share for Priority Shares (in LBP)	326.73	365.19
Net book value per share (in LBP)[5]	2,427	2,757
Net dividend per Common Share (in LBP)	150	150
Net dividend per Priority Share (in LBP)	195.6	195.6
Dividend payout ratio	62.17%	57.10%
Capital adequacy		
Leverage multiplier[6]	11.90 x	11.46 x
Capital to asset ratio	10.35%	11.29%
Tier I capital on RWA[7]	14.85%	20.63%
Tier II capital on RWA[7]	5.69%	3.31%
Cooke ratio[8]	20.54%	23.94%
Liquidity		
Net loans to net deposits	30.75%	33.37%
Customers' deposits to total assets	76.56%	74.47%
Liquid assets ratio to total assets	71.63%	70.69%
Net liquid assets to customers' deposits	83.79%	82.66%
Interbank assets to interbank liabilities	5.39 x	4.52 x
Asset quality ratios		
Loan loss provision to total loans	5.40%	4.19%
Non-performing loans to total loans	4.66%	3.36%
Non-performing loans (net of provisions) to total loans	0.22%	0.00%
Loan loss provision to non-performing loans[9]	95.23%	100.00%

Notes:
(1) The selected financial ratios and statistical information appearing above have been prepared by the Bank and have not been submitted to, or reviewed or validated by, third parties or governmental agencies, including *Banque du Liban*.
(2) Average assets and average equity are computed as the average of period-beginning and period-ending balances.
(3) Excluding subordinated loans.
(4) Funding cost is the ratio of interest expenses to interest bearing liabilities.
(5) Net book value = Total assets - (liabilities + subordinated loans) - preferred shares.
(6) Leverage multiplier = Average Assets/Average Capital.
(7) RWA = Risk Weighted Assets.
(8) Cooke Ratio is determined in accordance with applicable *Banque du Liban* regulations, which are based on the guidelines of the Committee on Banking Regulation and Supervisory Practices of the Bank for International Settlement (the Basel Committee).
(9) Excluding general provisions for retail loans

OVERVIEW OF THE BANK

The following summary should be read in conjunction with the financial statements of the Bank as at and for the years ended December 31, 2007 and December 31, 2008, which appear elsewhere in this Offering Circular.

For a discussion of certain matters that should be considered by prospective investors in the Series 2009 Preferred Shares, refer to "Investment Considerations".

The Bank

The Bank is one of the leading banks in Lebanon providing a full range of banking services through its extensive branch network, which, as at December 31, 2008, was the third largest in Lebanon. The Bank's objects and purposes can be found in Article 2 of its By-laws. Through its overseas banking and other subsidiaries, the Bank also conducts a wide range of commercial banking and financial activities in Europe and in the MENA region. As at December 31, 2008, the Bank had 2,362 employees, approximately 408,000 active accounts and 91 branches (76 branches in Lebanon, one in Limassol, Cyprus and one in Erbil, Iraq and 13 other international branches owned by the Bank's subsidiaries). As at December 31, 2008, Byblos Bank Europe S.A. ("*Byblos Bank Europe*"), the Bank's 99.95% owned subsidiary, had its main branch in Brussels, one branch in London and one branch in Paris; Byblos Bank Africa Ltd ("*Byblos Bank Africa*"), the Bank's 56.86% owned subsidiary, had one branch in Khartoum, Sudan; and Byblos Bank Syria S.A. ("*Byblos Bank Syria*"), the Bank's 41.5% owned subsidiary, had six branches in Syria in Abou Remmaneh, Mazzeh (Damascus), Aleppo, Homs, Lattakia and Tartous. In September 2007, the Bank acquired a 100% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC ("*Byblos Bank Armenia*"). In June 2008, the European Bank for Reconstruction & Development ("*EBRD*") and OPEC Fund for International Development ("*OFID*") also acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. Since 2005, the Bank has also had a representative office in Abu Dhabi, United Arab Emirates. In August 2008, the Bank obtained a license for a representative office in Lagos, Nigeria.

The Bank has developed a reputation as a pioneer in the development and marketing of new products designed principally to serve the rapidly growing consumer market in Lebanon. In recent years, the Bank has undertaken a number of steps to expand its business and improve its market share and profile by setting up subsidiaries in key MENA countries, by striving to provide tailor-made banking services to its customers in terms of retail and commercial banking and by launching new financial products. See "—*History*".

As at December 31, 2008, according to Bankdata Financial Services WLL ("*Bankdata*"), based on unaudited financial statements of banks operating in the Lebanese Republic provided to Bankdata by such banks, the Bank ranked third among all banks operating in the Lebanese Republic in terms of net profit of LBP 183,960 million (U.S.$122.0 million), total assets of LBP 16,941,252 million (U.S.$11,238 million), total shareholders' equity (excluding subordinated loans) of LBP 1,624,370 million (U.S.$1,078 million) and total deposits of LBP 12,607,550 million (U.S.$8,363 million).

During the three-year period from January 1, 2006 to December 31, 2008, total assets of the Bank increased at an average annual compounded rate of 14.3% from LBP 11,345 billion (U.S.$7,526 million) to LBP 16,929 billion (U.S.$11,230 million), customers' deposits increased at an average annual compounded rate of 14.0% from LBP 8,511 billion (U.S.$5,646 million) to LBP 12,607 billion (U.S.$8,363 million), net customer advances increased at an average annual compounded rate of 23.3 % from LBP 2,243 billion (U.S.$1,488 million) to LBP 4,206 billion (U.S.$2,790 million) and total equity increased at an average annual compounded rate of 17% from LBP 1,193 billion (U.S.$791 million) to LBP 1,911 billion (U.S.$ 1,268 million), while net income increased at an average annual compounded rate of 20.7% from LBP 104,623 million (U.S.$ 69.4 million) to LBP 183,915 billion (U.S.$122.0 million).

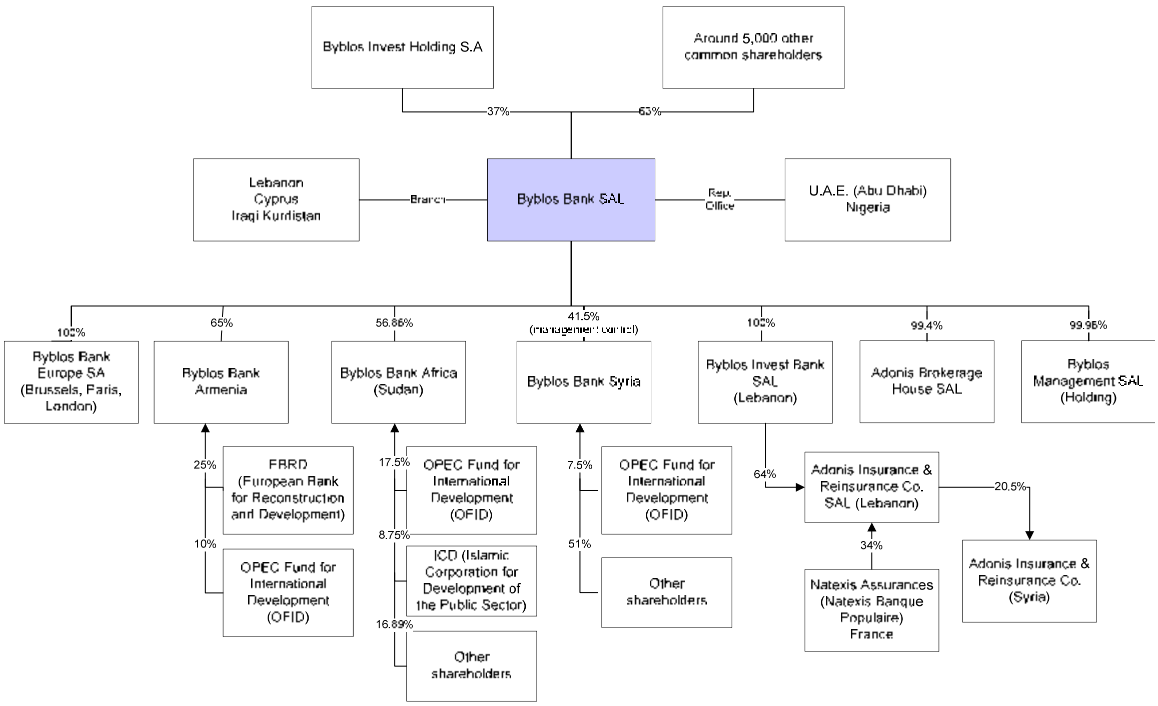
The Bank has a high level of nominal liquidity, with cash, placements with *Banque du Liban*, interbank deposits and investments in Lebanese Treasury Bills and other marketable securities representing 70.4% of total assets as at December 31, 2008. As at December 31, 2008, the Bank's capital adequacy ratio was 24.09%, its return on average assets was 1.18% and its return on average equity was 13.31%.

As at the date of this Offering Circular, the Bank has been assigned the following ratings by international rating agencies:

Rating Agency	Tenor	Rating	Outlook
Moody's Investor Services Limited	Long-term	B2	Stable
Fitch IBCA Ltd.	Long-term	B-	Stable
	Short-term (less than one year)	B	

All of the ratings referred to above are non-investment grade and a credit rating is not a recommendation by the rating organization or any other person to buy, sell or hold securities and may be subject to revisions or withdrawal at any time by the assigning rating organization and each should be evaluated independently from the other.

The following diagram illustrates the corporate structure of the Bank and its subsidiaries as at the date of this Offering Circular:



History

The origins of the Bank date to 1950 when Mr. Semaan Melkan Bassil, Mr. Joseph Melkan Bassil, Mr. Victor Ferneiné and Mr. Fouad Ferneiné founded a company in Jbeil (Byblos) under the name "*Société Commerciale et Agricole Byblos Bassil Frères et Co.*", with a paid-up capital of LBP 30,000. The company initially dealt with natural silk and leather tanning and carried out some lending activities related to the agricultural, commercial and transportation sectors. In 1956, this company was converted into a limited partnership, its capital was increased to LBP 500,000, and it obtained a license from the Ministry of Finance to take deposits. The Bank was incorporated on November 14, 1959 as a *société anonyme libanaise* (joint stock company), pursuant to a presidential decree (N° 2511) and the Bank's capital was increased to LBP 2,000,000 effective December 21, 1959.

The scope of the Bank's activities was broadened to include the discounting of bills and the extension of credit. Non-financial activities were either terminated or transferred to a separate entity. In 1961, its name was changed to "*Société Bancaire Agricole Byblos Bassil Frères et Co.*" and the Bank was granted a banking license. In 1963, it was renamed Byblos Bank S.A.L. and the paid-up capital was increased to LBP 5,000,000. The Bank expanded gradually from 1963 to 1975, and had 13 branches by the end of 1977.

The Bank continued to expand during the conflict period of 1975 to 1990. From 1976 to 1984, the Bank's principal shareholders continued the Bank's expansion in Lebanon and established overseas operations in Brussels (1976), Paris (1980), London (1981) and Cyprus (1984). Adonis Insurance & Reinsurance Co. S.A.L. ("*ADIR Lebanon*"), the Bank's affiliated insurance company, was established in 1983.

The end of the conflict in 1990 led to a significant improvement in the Lebanese economy. Beginning in the mid-1990s, the Bank began to implement a number of programs aimed at expanding its business. In 1993, the Bank became the first bank in Lebanon to enter the retail banking market when it launched mortgage, personal lending and revolving credit card products. At this time, the Bank also provided services to small and medium-sized enterprises and select corporate clients, while also focusing on servicing both personal and business requirements of the Lebanese expatriate community.

On November 22, 1997, the Bank acquired all of the net assets and liabilities of *Banque Beyrouth pour le Commerce S.A.L.* ("*BBC*"). As a result of the merger, the Bank acquired 19 additional branches, through which it began to provide retail lending and deposit taking services in geographical areas outside Beirut, which had not traditionally been served by the Bank. In connection with the merger, pursuant to applicable law, *Banque du Liban* provided the Bank with a "*soft*" loan of LBP 52.0 billion (U.S.$34.5 million), which matured and was fully repaid on May 28, 2006.

On January 1, 1998, the Bank acquired 99.96% of the outstanding share capital of Byblos Bank Europe. The Bank's rationale for the Byblos Bank Europe acquisition was to diversify its activities and enlarge its international presence. Following the Byblos Bank Europe acquisition, the Bank has been able to benefit from economies of scale in staffing and technology costs as it has consolidated and centralized its business and marketing strategy and credit decision making for its global business in its Head Office in the Lebanese Republic See "*—Subsidiaries—Byblos Bank Europe S.A.*".

On May 9, 2001, the Bank sold 34% of ADIR Lebanon, its then wholly-owned insurance company to *Assurances Banque Populaire,* the fifth largest bancassurance group in France (today named Natexis Assurances); as at the date of this Offering Circular, the Bank retained a controlling interest (63.95%) in ADIR Lebanon. The Bank believes that the association with the French banking group will continue to facilitate the Bank's offerings of bancassurance products to its customers in the Lebanese Republic and selected Middle Eastern countries. See "*—Subsidiaries—Adonis Insurance & Reinsurance Co (ADIR). S.A.L.*".

On June 20, 2001, the Bank acquired 100% of the outstanding share capital of Wedge Bank Middle East S.A.L. ("*Wedge Bank*"), a medium-sized Lebanese bank concentrating its commercial activities in the retail banking sector, and having six branches and over 6,000 customers. The Bank believes that the larger combined structure will continue to provide the Bank with additional banking resources, which, in particular, have facilitated, and are expected to continue to facilitate, cross-selling activities. In connection with the merger, pursuant to applicable law, *Banque du Liban* provided the Bank with a "soft" loan of LBP 40.0 billion (U.S.$26.5 million) maturing on November 15, 2009. See "*—Funding Sources*".

In order to acquire additional large corporate clients and thereby diversify its risk and enhance returns, on October 21, 2001, the Bank acquired the loan book and fixed assets of ING Barings in Lebanon. The aggregate principal amount of the purchased loans, net of specific provisions and reserved interest, totaled U.S.$13.5 million; the fixed assets acquired by the Bank were valued at U.S.$1 million at the time of the acquisition.

On July 1, 2002, the Bank issued its U.S.$100 million 9% subordinated participating bonds due 2012, which were subscribed by more than 1,000 investors. This issue, which was accounted for as Tier II Capital, was designed to strengthen the Bank's capital base and allowed it to have access to supplementary financing for potential external growth, both in the local market and abroad, in addition to entering into new banking activities, such as investment banking. In addition to fixed interest, holders of these notes may be entitled to receive contingent interest at a rate, not exceeding 6% per annum, equivalent to 5% of the adjusted annual net income of the Bank.

On November 10, 2002, the Bank acquired the assets and certain liabilities of ABN AMRO Bank N.V. Lebanon Branch, in line with the Bank's continuing external growth strategy, which reflects its intent to expand in the local market through selected acquisitions that attract prime clientele and increase profitability and shareholders' value.

In May 2003, the Bank issued its U.S.$100 million Series 2003 Preferred Shares, which were fully redeemed in May 2009 (the "*Series 2003 Preferred Shares*").

In 2003, building on its presences in the Sudanese market for more than three decades, with a focus on trade financing and international trade and commercial transactions, the Bank obtained a license to operate a bank in Sudan under the name Byblos Bank Africa, which commenced its operations in the beginning of 2004 and is 56.86%-owned by the Bank. Byblos Bank Africa, located in Al Amarat area and governed by the Sudanese law under the regulations of the Bank of Sudan, is focusing on commercial banking transactions (trade finance, corporate finance and project finance), private banking and correspondent banking activities. See "*—Subsidiaries—Byblos Bank Africa Ltd.*".

In October 2003, the Bank established Byblos Invest Bank, as a "specialized bank" in Lebanon. See "*—Subsidiaries—Byblos Invest Bank S.A.L.*".

At the end of 2005, the Bank began operations in Syria through its subsidiary Byblos Bank Syria, which is the sixth private bank to set up operations in Syria following legislation to reform and modernize the banking sector. The Bank has management control and a 41.5% stake in Byblos Bank Syria. The Organization of Petroleum Exporting Companies ("*OPEC*") Fund for International Development has a 7.5% stake, and the remaining 51% was acquired by Syrian investors. See "*—Subsidiaries—Byblos Bank Syria S.A.*".

Also in 2005, the Bank began its operations in Abu Dhabi by setting up its United Arab Emirates' representative office.

On January 16, 2006, the Extraordinary General Meeting of Shareholders of the Bank approved the listing of all of the Bank's shares on the BSE. Also in 2006, the Bank obtained approval for its wholly owned subsidiary, Byblos Invest Bank, to hold a seat on the BSE.

On September 19, 2007, Adonis Insurance & Reinsurance (ADIR) Syria ("*ADIR Syria*") was established in Damascus, Syria, marking the initial step in the geographical expansion of ADIR Lebanon in the MENA region. The Bank is the main shareholder of ADIR Syria with a 40% stake, followed by ADIR Lebanon with a 16% stake and Byblos Bank Syria with a 5% stake, with the remaining shares held by high-net-worth Syrian investors. See "*—Subsidiaries—Adonis Insurance & Reinsurance (ADIR) Syria*".

In September 2007, the Bank acquired a 100% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC and is operated as an independent subsidiary of the Bank. Following a capital increase by Byblos Bank Armenia, EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. The expansion into Armenia helps to diversify the Bank's assets and revenues and aids in overseas expansion, as Armenia is viewed as a significant market for the Bank with high potential for retail and commercial activities. See "*—Subsidiaries—Byblos Bank Armenia CJSC*".

In November 2007, the Bank obtained a U.S.$200,000,000 6.5% subordinated loan, which was financed by the issuance by The Bank of New York (Luxembourg) S.A. ("*The Bank of New York*"), in its fiduciary capacity, of U.S.$200,000,000 6.5%. Convertible Fiduciary Notes due 2012 (the "*Fiduciary Notes*"), which are convertible into Common Shares of the Bank. Holders of Fiduciary Notes have the right to convert Fiduciary Notes held by them into Common Shares on a quarterly basis and following certain extraordinary events at a price of U.S. $2.25 per Common Share.

In January 2008, a holder of Fiduciary Notes exercised its right to convert U.S.$27 million in nominal amount of Fiduciary Notes, together with accrued interest thereon, into Common Shares at a conversion price of U.S.$2.25 per Common Share. As a result of this conversion, 12,088,834 new Common Shares were issued increasing the share capital of the Bank by LBP 14,506,600,800 (U.S.$9,622,952) to LBP 508,963,536,000.

In August 2008, the Bank issued its U.S.$200 million Series 2008 Preferred Shares. See "*Description of the Share Capital of the Bank—Description of the Series 2008 Preferred Shares*".

In August 2008, the Bank obtained a licence for a representative office in Lagos, Nigeria.

On October 23, 2008, the Bank signed a sale and purchase agreement with Unicredit Banca Di Roma SPA ("*UBDR*") for the purchase and acceptance by the Bank of all of the assets and all of the liabilities of UBDR in Lebanon for an aggregate amount of U.S.$6.76 million (including legal fees and other expenses). The Central Bank of Lebanon gave its final approval for the acquisition, and the transaction was completed, on December 18, 2008. As at the date of the acquisition, UBDR Lebanon had total assets of LBP 37,816 million (U.S.$25.1 million), total customers' deposits of LBP 21,453 million (U.S.$14.2 million), total loans to customers of LBP 13,678 million (U.S.$9.1 million) and total equity of LBP 9,667 million (U.S.$6.4 million).

On February 6, 2009, the Bank entered into a depositary agreement with The Bank of New York Mellon (acting as depositary) and established a Global Depositary Receipts Program pursuant to which holders of Common Shares were given the option to deposit their Common Shares for the issuance of GDSs at a ratio of 50 Common Shares per GDS. GDSs, representing 23.94% of the Common Shares, were issued under the GDR Program and admitted to trading on the London Stock Exchange's Main Market (the "*LSE's Main Market*") on February 19, 2009, making the Bank the first Lebanese bank to obtain a listing on the Official List of the United Kingdom Listing Authority in 12 years. See "*Description of the Share Capital of the Bank—Description of the Global Depositary Shares*".

In May 2009, the Bank exercised its call option on the Series 2003 Preferred Shares in order to redeem all of the Series 2003 Preferred Shares at the time outstanding at a price equal to U.S.$100.00 per share in accordance with the terms thereof. As a result, all of the Series 2003 Preferred Shares have been redeemed and cancelled and were de-listed from the BSE on May 27, 2009.

The Bank's Objectives and Strategy

The Bank's corporate strategy is focused on creating value for its shareholders through continued domestic and regional growth, geographic and product diversification, operational efficiency and cost containment and optimising its capital structure. In order to realize these objectives, the Bank's medium- and long-term key strategies are as follows:

- ***Strengthen its platform and consolidate its leading positions in the Lebanese market.*** The Bank intends to continue to enhance its domestic market penetration, increase market share and achieve a top three market share in each product that it offers through:

  - *organic growth*: the Bank intends to continue to expand its branch network and other distribution channels and particularly to target customers in previously underserved areas (principally the Bekaa Valley, North Lebanon and South Lebanon);

  - *external growth*: the Bank intends to pursue selective acquisitions of smaller domestic banks with significant synergies and complementary branch networks;

  - *aggressive and targeted marketing campaigns*: the Bank plans to conduct directed promotional activities to grow its businesses, including through telemarketing, marketing campaigns to employees of corporate clients and other cross-selling initiatives focused on offering additional products to the Bank's existing client base; and

  - *increased focus on retail banking through segmentation*: the Bank plans to sub-divide its client base into different segments based on pre-defined criteria, which will help in designing special customized products for targeted segments.

- ***Continue to expand in regional growth markets.*** Geographic expansion is one of the Bank's key strategic objectives in order to diversify its revenues in the MENA region. The Bank believes that its entry into underdeveloped, high-growth markets with low levels of traditional banking activity will allow it to leverage on its competitive advantages in terms of regional expertise and its strategic geographic position relative to other international players. The Bank plans to continue to expand internationally through a combination of organic growth, by opening subsidiaries and branches in selected countries and through selective acquisitions of established financial institutions that are able to add new distribution capabilities while adopting the Bank's corporate culture. The Bank intends to target markets where it can benefit from the presence of Lebanese Diaspora or significant trade flows with Lebanon and gain a first-mover advantage. In August 2008, the Bank obtained a licence to open a representative office in Lagos, Nigeria, and the Bank is evaluating a number of potential acquisition opportunities in Jordan and Egypt (although the regulators in these markets are not currently granting new banking licenses), as well as the potential establishment of "greenfield" operations in Algeria, Iraq, the United Arab Emirates and Yemen. All targets are evaluated by the Bank in the context of its strict returns criteria and its intention to focus on trade finance and certain niche segments of the markets it enters.

- ***Enhance earnings stability through an improved business mix and risk profile.*** The Bank will continue to strive to improve its capital and balance sheet management in order to further enhance profitability and support anticipated asset growth. The Bank will aim to achieve a more balanced mix of income and assets, both geographically, with an increasing share of the Bank's business deriving from international markets, and across products. The Bank will particularly pursue growth in its consumer lending activities through the sustained marketing, including cross-selling and segmentation, of its current retail products (such as revolving credit cards, housing loans, professional and small business loans and bancassurance products), as well as the development of new differentiated products and services. In addition, the Bank plans to position itself to take advantage of the expected growth in the SME lending market, which the Bank believes will generate an important source of both interest and fee income. The Bank also intends both to develop existing relationships with its corporate customers and to seek new corporate clients, while introducing new lines of commercial business, such as factoring and leasing both in the domestic market and through international partnerships. The Bank will also strive to further develop fee-based products and services in order to achieve a more diversified, stable revenue stream. In particular, the Bank plans to focus on maintaining its leading position in trade finance activities and developing further its treasury operations, investment banking activities and selected private banking services. The Bank also intends to continue to participate in the development of the Lebanese capital markets, engaging in relatively high-margin investment banking transactions in order to generate enhanced fee-based income, and to expand its correspondent banking activities.

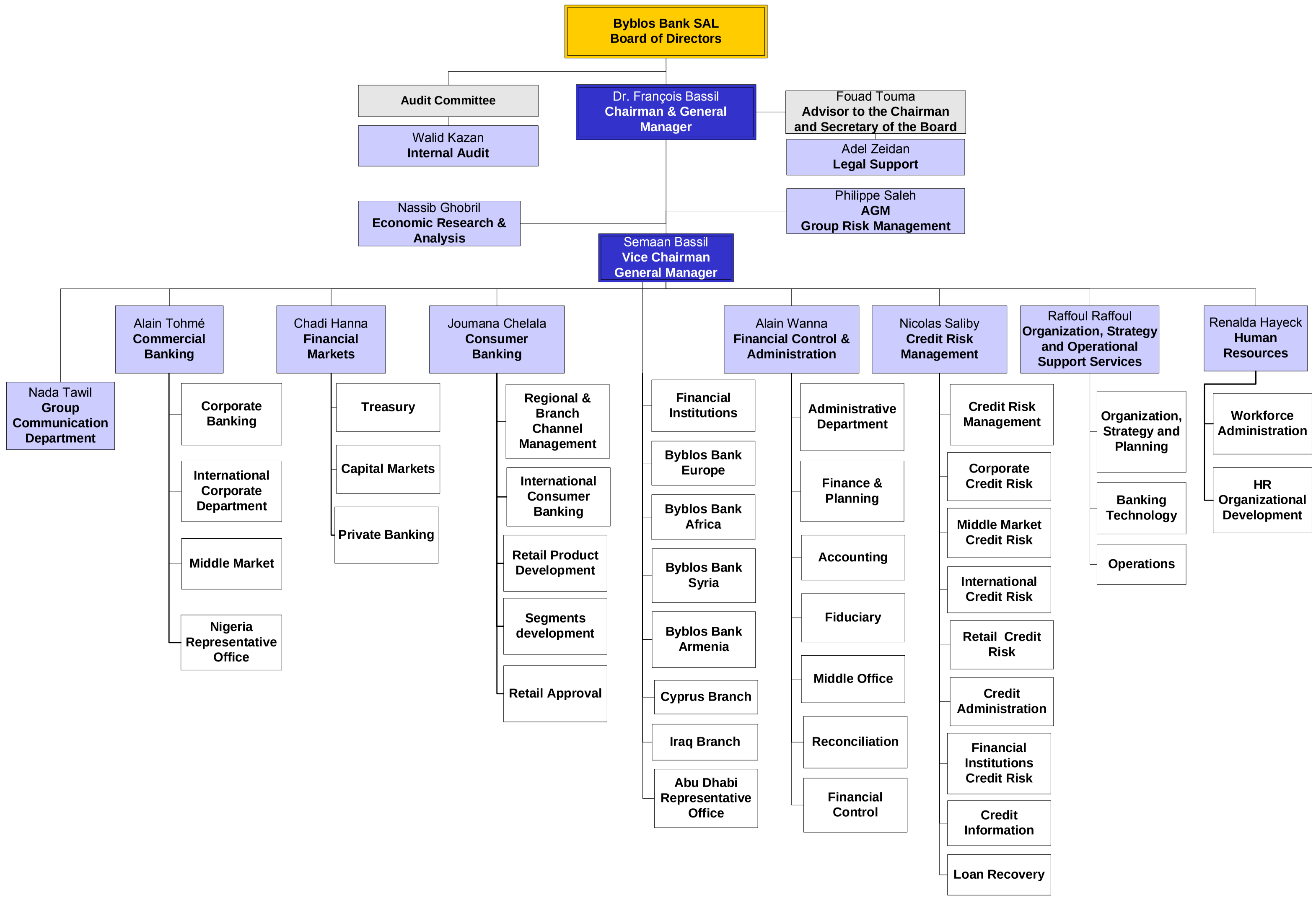
- ***Enhance cost efficiency and profitability.*** Following on the Bank's achievement of a 51.21% cost-to-income ratio in 2008, which was among the lowest in the Lebanese banking sector and was a result of significant efforts made in the centralization and automation of the processing of banking operations, the Bank intends to reduce its cost-to-income ratio further. To this end, the Bank plans to continue reducing its cost base by focussing on the introduction and development of automated solutions and centralised processing systems, achieving scalable cost and size synergies through further expansion, improving the efficiency of the workflow within and between branches, further focussing resource allocation within branches toward revenue generating activities, continuing to upgrade the Bank's IT and control systems and leveraging cost savings potentials by further analysing and refining processes based on international best practices across all its operations and markets. At the same time, the Bank will aim to enhance income generation as described above.

- ***Diversify further the Bank's funding structure.*** The Bank intends to continue to strengthen its balance sheet with new sources of international and other longer-term funding, thereby reducing its dependency on local market funding and on medium-term and other expensive funding sources.

Structure of the Bank

The organizational structure of the Bank, implemented gradually since 1998, both reflects and promotes the Bank's strategy to pursue development along two business lines: retail banking and commercial banking. The Bank's Group Consumer Banking Division was established to focus on the expansion of the Bank's branch network, the promotion of retail lending through the development of innovative retail products and the delivery of these products through the Bank's various distribution channels. In 2000, the Group Consumer Banking Division was reorganized and the branches were subdivided into geographic regions. Regional centers were created to monitor deposit-taking and retail and middle-market lending at each branch located within the relevant geographical area. The Group Commercial Banking Division was also created, which operates through relationship managers resident in the Bank's Head Office. The Group Commercial Banking Division focuses on the development of commercial lending in two segments: loans to medium and large corporations and transactions in the international markets. The Bank's Group Financial Markets Division, which was also established in 2000, comprises the Treasury Department, the Capital Markets Department, and the Private Banking Department.

The following chart shows the Bank's organizational structure:



The Bank's Group Financial Control and Administration Division is responsible for analyzing the financial performance of the bank, planning related strategies and optimizing and controlling operating expenses. The Bank's Group Banking Technology Division supports the Bank's objectives through the implementation of technology and development of the Bank's systems. The Bank's structure also comprises an independent Group Risk Management Division, which is responsible for monitoring and managing all risks inherent to banking activities, including credit risk analytics, anti-money laundering, interest rate, liquidity, information security and operational risks.

Business Description

The Bank provides a full range of banking services to three core sectors of the Lebanese economy: retail customers, small to medium-size companies (defined as companies with an annual turnover below U.S.$10 million or its equivalent in Lebanese Pounds) and large corporations (defined as companies with an annual turnover of U.S.$10 million and above or its equivalent in Lebanese Pounds).

Retail Banking

The Bank has developed a diversified retail banking product mix, including traditional and innovative services designed to address the needs of its customers. The Bank's retail products include checking and term deposits; credit, charge and debit cards; personal, housing, and professional loans; financial planning; insurance; foreign exchange services; and ATM services, through a network of 99 ATMs spread across Lebanon. As at December 31, 2008, the Bank had approximately 58,000 retail borrowers and 498,000 retail depositors.

Specific lending programs, such as auto and small business loans, have also been developed and are widely available. The Bank has taken an active role in developing and participating in Government-sponsored loan programs, such as the Public Housing Corporation Loan Project for housing loans and Kafalat Company S.A.L. ("*Kafalat*") loans for small business and professional loans. The Bank was also the first Lebanese financial institution to offer specially designed saving schemes, such as "Ghadi", a children savings program, and "Credex", a young adult savings program, both of which have since been developed into a range of Bancassurance products.

In addition, the Bank was the first banking institution in Lebanon to offer personal loans to retail customers and create a comprehensive residential mortgage program. The Bank holds the leading market share in Lebanon in personal loans, housing loans and Kafalat small business and professional loans and has strong market shares in car loans, travel loans and other consumer lending products.

The Bank's main strategy in consumer banking is to develop a relationship management approach with its retail customers. Accordingly, the Bank focuses on developing solutions based on customer needs and product innovation. In this respect, the Bank has created the following products and services based on identified customer needs:

- bancassurance: the Bank currently offers a wide range of bancassurance products encompassing competitive features and good pricing;

- borrowing: the Bank targets a broad client base and focuses mainly on customer needs and enhancement of procedures, such as simplified application forms and processes and the "Group Offering" approach (see "*—Commercial Banking*");

- cash flow management: the Bank focuses on creating new sight accounts that address customer needs and comply with international banking standards, with enhancements of the teller function and spreading the use of debit cards; moreover, existing saving accounts have been converted into term deposit accounts;

- investment: the Bank launched several structured products, such as index-linked notes and equity-linked notes, marketed to customers through the Bank's branch network;

- branch network: the nature and scope of administrative work conducted at the branch level has been reviewed and, consistent with the Bank's retail and marketing strategy, the Bank is remodeling its branch network to centralize many administrative functions with the aim of permitting branches to focus resources and personnel on sales and customer service; in particular, the execution of retail loan files (including housing, auto and personal loans) has been centralized in the regional offices, the scoring of credit cards has been transferred to the Bank's Head Office and bills administration has been transferred to the Central Operations Department; and

- e-channels: the Bank has developed phone banking and Internet banking services in order to offer customers a global view on-line, real-time and 24/7.

The main retail product lines and services currently offered by the Bank include:

Debit, Charge and Credit Cards

The Bank offers a full range of debit cards, charge cards and credit cards in several currencies, including Lebanese Pounds, U.S. Dollars and Euros. Internet cards are also available. The Bank has been offering payment cards under its own brand since 1994, although the management and servicing of these cards are outsourced. As at December 31, 2008, the Bank had approximately 137,000 payment cards outstanding, including 10,792 Visa and MasterCard charge cards, 30,684 outstanding revolving credit cards, 8,261 Internet and pre-paid cards and 87,294 debit cards.

The Bank's payment cards offerings include the following:

- charge cards: MasterCard charge (U.S.$), MasterCard Euro charge (EUR), MasterCard Lira Charge (LBP), MasterCard Platinum charge (U.S.$) and Visa charge (U.S.$);

- revolving credit cards: MasterCard revolving (U.S.$), MasterCard Lira revolving (LBP) and Visa revolving (U.S.$);

- debit card: Maestro; and

- pre-paid cards: web surfer and MCE pre-paid.

The Bank launched MasterCard Lira charge and credit cards in January 2004, the first international cards denominated in Lebanese Pounds. The aim of these products is to encourage the use of the national currency, as a basic means of payment and minimize the "dollarization" of the Lebanese economy, to strengthen the purchasing power of customers with a salary in Lebanese Pounds and to reduce foreign exchange commission charges. In 2006, the Bank launched the Cool Card specially designed for the youth segment. In 2007, the Bank launched the Military Card, a revolving credit card in Lebanese Pounds and in U.S. Dollars targeting the military segments, and the Mothers Card, a card aimed at young mothers. The Bank introduced its cards loyalty program in August 2007, covering all of its revolving and charge cards, and allowing its cardholders to accumulate points redeemable into gasoline, mobile minutes, travel, tree planting to reforest the country and other rewards.

Personal Loans

Personal loans with maturities of up to four years and amounts ranging from U.S.$2,000 to U.S.$15,000 (or more in exceptional cases) are granted to qualifying individuals. As at December 31, 2008, total personal loans outstanding were equivalent to U.S.$118.4 million.

The Bank has adopted a strategy to segment its personal loan portfolio into specific industries and, accordingly, offers specialized personal loan programs for physicians, teachers, wedding and travel needs (among others).

Residential Mortgage Loans

The Bank offers residential mortgage loans with maturities of up to 20 to 25 years, targeted to Lebanese residents as well as expatriates allowing them to buy a house or apartment in their home country. Residential housing loans are also offered to members of the Lebanese Army with preferential features. As at December 31, 2008, the Bank had outstanding residential mortgage loans of U.S.$258.1 million, which the Bank believes constituted the largest housing loan portfolio among Lebanese banks as at that date.

In addition to the traditional mortgage loan program, the Bank offers mortgage loans mainly in Lebanese Pounds, at preferential rates, with maturities ranging from 10 to 30 years and in amounts up to LBP 120 million (or U.S.$80,000), under the Public Housing Corporation Loan Project. As at December 31, 2008, the Bank had outstanding Public Housing Corporation-sponsored residential mortgage loans equivalent to U.S.$117.1 million, which the Bank believes represented the highest market share in the Lebanese banking sector as at that date.

Car Loans

The Bank offers car loans on certain types of eligible models with maturities of up to six years for new cars and five years for used cars. The borrower is required to pledge the car being financed to the Bank and to obtain a compulsory all-risks insurance policy issued by ADIR Lebanon, the Bank's insurance subsidiary. In 2008, the amount of car loans granted by the Bank increased by 60.5%, as compared to 2007, to reach an outstanding car loans balance of U.S.$195.2 million as at December 31, 2008, which the Bank believes represented the second highest market share in the Lebanese banking sector as at that date.

Small Business Loans

The Bank's small business and professional loans program is aimed at craftsmen, small traders and manufacturers. These loans may be used to finance the purchase of equipment or other fixed assets, as well as for working capital needs. Loans may be denominated in Lebanese Pounds or U.S. Dollars, for amounts ranging from the equivalent of U.S.$5,000 up to U.S.$50,000 for overdraft facilities or from the equivalent of U.S.$15,000 up to U.S.$50,000 loans with maturities of up to three years. As at December 31, 2008, the outstanding amount of small business loans was equivalent to U.S.$16.0 million.

Kafalat

Kafalat loans are a form of subsidized loan granted by the Bank, with the benefit of a guarantee from Kafalat Co. S.A.L., a limited liability company incorporated in Lebanon. Kafalat loans are granted to customers in the industrial, agricultural, tourism, craftsmen and technological sectors to finance machinery and equipment purchases and working capital needs, in amounts up to LBP 300 million (U.S.$200,000) for Kafalat Basic Program loans and up to LBP 600 million (U.S.$400,000) for Kafalat Plus Program loans, in each case for terms of up to seven years. The outstanding amount of Kafalat loans offered by the Bank was equivalent to U.S.$74.3 million as at December 31, 2008. The Bank was a pioneer in launching and marketing Kafalat loans and the Bank's management believes the Bank currently holds the highest market share in Kafalat loans among Lebanese banks.

Insurance and Bancassurance Products

The Bank offers several bancassurance products through ADIR Lebanon, its insurance subsidiary, which is also partially owned by Natexis Assurance. These products are divided into investment products, such as "Insure Your Retirement" and "Insure Your Child's Education"; protection products, including various life insurance products such as "Insure Your Life" and "Insure Your Income"; and car insurance products, such as "Insure Your Car" and "Motor Bodily Injury". These products, in addition to providing non-interest income to the Bank, present the Bank with cross-selling opportunities, which, in turn, facilitate customer retention by allowing broader penetration of the Bank's customer base, with many customers purchasing two or more different product offerings. As at December 31, 2008, the Bank had sold 9,003 outstanding insurance plans.

Commercial Banking

The Commercial Banking Division, a core activity at the Bank, encompasses the Corporate Department, the Middle Market Department (SMEs) and the International Corporate Department.

The Bank is considered a leading player in the local corporate banking sector. Management believes that this reputation derives from the Bank's pioneering approach in centralizing its Corporate Department over 13 years ago, and splitting it along business lines, in order to give the client a professional and tailored service. The Bank's corporate clients enjoy a one-stop-shop service through fully dedicated and specialized relationship managers. As at December 31, 2008, the Bank had 890 corporate clients, 870 SME clients and 186 international corporate clients.

The Corporate Department is split along the following business lines: Trading and Manufacturing; Real Estate and Contracting; Project Finance; and Syndications and Special Projects.

In 2008, and going forward, the Bank is focusing on developing its SME portfolio. This business segment has recently been re-organized into the Middle Market Department (SMEs) with the appointment of a fully dedicated Head of Department. Given the peculiarity of the SME business, and the fact that clients of that business segment are more geographically dispersed throughout the country than corporate clients, the SME relationship managers have been located in each of the seven regional offices of the Bank to better meet the needs of such clients.

The International Corporate Department, which was established in 1997, serves non-resident Lebanese traders and industrialists whose place of business is outside of Lebanon, as well as Arab traders and industrialists located in selected markets. A team of dedicated relationship managers travels regularly to these clients' places of business. Lending criteria are set for each country, taking into account the underlying country risk and subject to an approved overall risk acceptance lending criteria, which is regularly updated.

Given the short term maturity of customers' deposits in the banking sector in Lebanon, the Bank has pursued a strategy of seeking medium term loan facilities to match the tenor of the medium term portion of its commercial portfolio. In this respect, the Bank has sourced and identified various trade and industrial programs offered by international banks and agencies, such as the International Finance Corporation ("*IFC*"), Proparco, Netherlands Finance Development Company ("*FMO*"), European Investment Bank ("*EIB*") and the Arab Trade Finance Program ("*ATFP*"), and has passed on the benefit of such funding to its customers. Today, the Bank has distinguished itself among its peers by being the leading beneficiary of such programs in Lebanon. See "—*Funding Sources*".

The Bank is looking to capitalize on its leading position in commercial banking by cross-selling its retail, capital markets, and treasury products to the employees of its commercial clients. In this respect, a specialized "Group Offering" unit has been created within the Retail Division to effect joint visits with relationship managers to commercial clients and offer the full range of the Bank's retail products to their employees.

Financial Markets

The Financial Markets Department serves as a platform for the Bank's treasury, capital markets and private banking services. Whilst the Treasury Department manages the Bank's available liquidity, residual foreign currency and market positions within the guidelines and limits set by the Assets and Liabilities Management Committee ("*ALCO*"), the Private Banking Department offers investment opportunities to corporate and high-net worth customers and the Capital Markets Department manages the Bank's equity and fixed income portfolio. The Equities Desk within the Financial Markets Department conducts limited proprietary trading in local equities and offers brokerage services for institutional and private clients, while the Fixed Income Desk acts as a market maker for Lebanese Government Eurobonds. In 2006, Byblos Invest Bank obtained approval to hold a seat on the BSE.

In line with the group's strategic development to diversify its financial instruments and provide financial resources to its clients, in 2004 the Bank's Capital Markets Department launched an innovative approach to structure financial instruments tailored to its customers' demands, some of which were the first of their kind to be offered in Lebanon. For instance, the Bank offered index-linked notes, equity-linked notes and commodity-linked notes, each with capital guarantees and high annual coupons.

The Bank started its private banking activities in 2003 to attract high net-worth clients by offering them personalized banking services, financial solutions and investment alternatives. The private banking services offered by the Bank include exposure to the financial markets, asset allocation and portfolio advisory services, as well as traditional branch banking services in a specialized, quiet and confidential environment. Private banking officers act as private money advisors and offer customized solutions, banking and brokerage services covering global markets, through the Bank's many subsidiaries and branches around the world. As of December 31, 2008, the Bank had 311 high net-worth individuals as private banking clients.

To keep in touch with its customers and expose them further to available money markets, the Financial Markets Department has developed three publications: *Papyrus*, a quarterly private banking newsletter; *Financially Yours*, a daily capital markets; and the *Focus List,* a weekly issue offering investment ideas on equities, fixed income, derivatives and structured products.

Investment Banking

The Bank acts, in conjunction with international investment banks, as an arranger, placement agent or manager in connection with securities offerings in the domestic and international debt markets. One of the Bank's medium-term objectives is to provide traditional corporate finance and investment banking services to its prime customers. A detailed plan is being developed pursuant to which advisory and valuation services are offered to clients engaged in privatizations, other initial primary offerings, mergers and acquisitions and other corporate finance transactions. A number of equity investment vehicles are being actively pursued, the first of which is expected to come to fruition in 2009.

In 2003, in order to develop the Bank's investment banking activities, the Bank established Byblos Invest Bank. See *"—Subsidiaries*". The creation of this investment banking affiliate has allowed the Bank to offer its clients attractive products and advisory services, while maintaining its core image as a retail bank. Byblos Invest Bank plans to participate in the privatization program expected to be conducted by the Lebanese government and has started building the necessary relationships to fulfill this goal.

The Bank has also raised U.S.$20 million (possible increase to up to U.S.$50 million) for a private equity project called Byblos Ventures, which is active in Lebanon and the region. Subscriptions to the first tranche of Byblos Ventures's capital were completed at the end of 2008 and, as at the date of this Offering Circular, are comprised as follows:

Name	**Number of Shares**	**Value of Shares in U.S.$**
Byblos Invest Bank S.A.L.	14,991	1,499,100
European Investment Bank (EIB)	7,500	750,000
OPEC Fund for International Development (OFID)	7,500	750,000
Byblos Bank S.A.L.	3	300
Byblos Management S.A.L. (Holding)	3	300
Mr. Sami F. Haddad	3	300
Total	**30,000**	**3,000,000**

The Bank's strategy is to use Byblos Ventures to make private equity investments in unlisted companies offering growth opportunities, with transaction sizes of between U.S.$500,000 and U.S.$4,000,000 or higher with co-investment.

International Banking

The Bank's International Banking Division manages and supervises the Bank's correspondent banking activities, as well as the activities of the Bank's overseas entities. The aim of the Bank's international activities is the establishment of "home-country" banks providing comprehensive and fully-developed banking services through a branch network that covers the country's territory. The Bank has more than 70 correspondent banking relationships in more than 40 countries.

Within the International Banking Division, the Financial Institutions Department plays a major role in the Bank's fund raising operations aimed mainly at supporting commercial lending. The Financial Institutions Department is responsible for the Bank's agreements with international agencies granting credit lines for purposes of financing commercial credit, such as the ATFP, the Islamic Corporation for the Development of the Private Sector and the EIB.

The Bank provides correspondent banking services to long-standing relationship banks located principally in the MENA countries. The Bank's efforts are concentrated around the financing of trade between the MENA region and Europe. The related products include letters of credit, documentary collection, letters of guarantee, reimbursements and other payment services.

Management believes that the Bank has competitive advantages in this business based on its strong knowledge and experience in handling and structuring trade finance products, its extensive coverage of the MENA countries, its long-established relationships with regional banks, its strong relationships with European suppliers and its ability to rapidly adapt to local banking cultures and requirements, such as in connection with Islamic banking. The Bank is pursuing several different expansion schemes in selected MENA countries.

The Overseas Entities Department within the International Banking Division provides support to Byblos Bank Europe, Byblos Bank Africa, Byblos Bank Syria, Byblos Bank Armenia, the Bank's branches in Cyprus and Iraq and the Bank's representative offices in the United Arab Emirates and in Nigeria.

Subsidiaries

The following table shows the Bank's equity interest in its subsidiaries as at December 31, 2008:

	As at December 31, 2008	
	Equity Interest	Book Value
	(%)	*(LBP million)*
Byblos Bank Europe S.A.	99.95	46,626
Adonis Insurance & Reinsurance Co. (ADIR) S.A.L.	63.95	2,082
Adonis Brokerage House S.A.L.	99.40	30
Adonis Insurance & Reinsurance (ADIR) Syria	76.00	28,889
Byblos Invest Bank S.A.L	99.99	29,998
Byblos Bank Africa Ltd.	56.86	32,268
Byblos Bank Syria S.A.	41.50	23,387
Byblos Bank Armenia CJSC	64.9974	26,966
Byblos Management S.A.L. (Holding)	99.98	450

Byblos Invest Bank S.A.L.

Byblos Invest Bank S.A.L. ("*Byblos Invest Bank*") was established in October 2003 as a specialized bank pursuant to Article 1 of Decree Law 50 dated July 15, 1983. Specialized banks are governed by the Code of Money and Credit, by Decree Law N° 50/83 dated July 15, 1983 and by *Banque du Liban* Decisions 5996 (dated September 7, 1995), 6101 (dated February 8, 1996), 6156 (dated November 10, 1998), 7739 (dated December 21, 2000) and 7835 (dated June 2, 2001).

The object of a specialized bank is restricted to the use of its funds in medium- and long-term credit applications, direct investment, acquiring equity participations not exceeding 50% of deposits and borrowed funds whose maturity exceeds five years, the purchase and sale of financial paper for its own account or for the accounts of other parties, the issuance of medium- and long-term guarantees against sufficient collateral and the issuance of short-term guarantees provided that they relate to medium- and long-term operations. Specialized banks may also engage in fiduciary operations and asset management on behalf of third parties, carry out brokerage operations, including trading operations on the floor of the BSE, and participate in the establishment of mutual investment funds or mutual investment companies.

Byblos Invest Bank's main objective is to allow customers to benefit from attractive products and advisory services and to offer medium and long term loans to customers in different economic sectors. The establishment of Byblos Invest Bank has allowed the Bank to capitalize on the advantages offered to investment banks operating in Lebanon, including certain regulatory advantages and exemptions from reserve requirements. Byblos Invest Bank intends to participate in the expected relaunching of the Lebanese government's privatization program.

Byblos Invest Bank is headquartered in Beirut. Byblos Invest Bank had total assets of LBP 920.1 billion (U.S.$610.3 million) and total shareholders' equity of LBP 56.8 billion (U.S.$37.7 million) as at December 31, 2008 and net profits of LBP 6.5 million (U.S.$4.3 million) for the year then ended.

Adonis Insurance & Reinsurance Co. (ADIR) S.A.L.

ADIR Lebanon was established in 1983 as part of the Bank's strategy to expand its business to encompass activities relating to other financial services. ADIR Lebanon provides a broad range of standard and tailored insurance products to both individual and institutional clients. Its products include, among others, life, fire, general accident and medical coverage. In 2001, Natexis Assurances (formerly Assurances Banque Populaire) purchased a 34.0% stake in ADIR Lebanon and the Bank began marketing bancassurance products through its branch network. In May 2005, the Bank transferred its 64.0% ownership interest in ADIR Lebanon to Byblos Invest Bank. The remaining 2.0% interest in ADIR Lebanon is owned by the General Manager of ADIR Lebanon.

ADIR Lebanon had total assets of LBP 117.4 billion (U.S.$77.9 million) and total shareholders' equity of LBP 27.2 billion (U.S.$18.0 million) as at December 31, 2008 and net profits of LBP 5.4 billion (U.S.$3.6 million) for the year then ended.

Adonis Insurance & Reinsurance (ADIR) Syria

ADIR Syria was established in Damascus, Syria in September 2007 as part of the Bank's strategy to expand ADIR Lebanon's operations outside Lebanon to the MENA region. As at the date of this Offering Circular, ADIR Syria has capital of U.S. \$25 million, with the Bank as main shareholder with a 40% stake, followed by ADIR Lebanon with a 16% stake and Byblos Bank Syria with a 5% stake, with the remaining shares held by high-net-worth Syrian investors.

ADIR Syria had total assets of 1.4 billion Syrian pounds (U.S. \$30.0 million) and total shareholders' equity of 1.3 billion Syrian Pounds (U.S. \$27.2 million) as at December 31, 2008.

Adonis Brokerage House S.A.L.

Adonis Brokerage House is an insurance and reinsurance brokerage company, established in 2002.

Adonis Brokerage House had total assets of LBP 1.9 billion (U.S.$1.3 million) and total shareholders' equity of LBP 1,318 million (U.S.$0.9 million) as at December 31, 2008 and net profits of LBP 450 million (U.S.$0.3 million) for 2008.

Byblos Bank Europe S.A.

Byblos Bank Europe is headquartered in Brussels and has branches in London and Paris. Established in 1976, Byblos Bank Europe specializes in short-term trade finance operations for selected export companies in Europe and offers correspondent banking services for banks in the MENA region. In addition, the Paris branch provides banking services to customers located in French speaking African countries, whilst the London branch provides services to customers located in the English speaking countries in Africa.

Byblos Bank Europe had total assets of EUR 599.9 million (U.S.$850.4 million) and total shareholders' equity of EUR 41.6 million (U.S.$59.0 million) as at December 31, 2008 and net profits of EUR 5.5 million (U.S.$8.1 million) for the year then ended.

Byblos Bank Africa Ltd.

In 2003, after three decades of conducting business in Sudan with local banks and a selective customer base, the Bank established Byblos Bank Africa, a full-fledged Islamic bank, which is headquartered in Khartoum, Sudan and has a branch in Bahri. Byblos Bank Africa operates under Sudanese law and the supervision of the Central Bank of Sudan. As at the date of this Offering Circular, the Islamic Corporation for the Development of the Private Sector and OFID also hold stakes of 8.75% and 17.5%, respectively, in Byblos Bank Africa.

Byblos Bank Africa's main lines of business are commercial banking (mainly short-term trade finance operations for selected large local and multinational companies), private banking and correspondent banking.

Byblos Bank Africa had total assets of 683.8 million Sudanese Guineas (U.S.$313.1 million) and total shareholders' equity of 144.1 million Sudanese Guineas (U.S.$66.0 million) as at December 31, 2008 and net profits of 19.9 million Sudanese Guineas (U.S.$9.5 million) for the year then ended. Byblos Bank Africa is managed by the Bank pursuant to a management agreement dated July 13, 2003.

Byblos Bank Syria S.A.

Byblos Bank Syria became fully operational in December 2005. While, as at the date of this Offering Circular, the Bank owns a 41.5% stake in Byblos Bank Syria, it also has management control pursuant to a technical assistance agreement dated September 15, 2005, and, accordingly, Byblos Bank Syria is consolidated with the Bank's financial results. As at the date of this Offering Circular, the remaining share capital of Byblos Bank Syria is 51%-owned by high net-worth individual Syrian investors, some of whom are permitted by law to own more than 5% of the total share capital, and 7.5%-owned by OFID.

Byblos Bank Syria is the sixth private bank to set up operations in Syria following new legislation in Syria to reform and modernize the banking sector. Byblos Bank Syria provides a wide range of banking services such as retail products and corporate services aimed at addressing the needs of Syrian nationals. Byblos Bank Syria endeavors to become a leading provider of financial services in Syria. Its operations are carried out from its head office in the Abou Remmaneh district (Damascus) along with seven branches in Abou Remmaneh, Mazzeh (Damascus), Aleppo, Homs, Lattakia, Tartous and Hama.

Byblos Bank Syria had total assets of 27.1 billion Syrian pounds (U.S.$585.2 million) and total shareholders' equity of 2.1 billion Syrian Pounds (U.S.$45.8 million) as at December 31, 2008 and net profits of 196.6 million Syrian Pounds (U.S.$4.2 million) for the year then ended.

Byblos Bank Armenia CJSC

In September 2007, the Bank acquired a 100% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and two other branches in Malatia and Vanadzor. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC and is operated as an independent subsidiary of the Bank. Following a capital increase by Byblos Bank Armenia, EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25% and 10%, respectively. The Bank's development of Byblos Bank Armenia is in line with the Bank's strategy of diversifying its assets and revenues and expanding overseas. Management believes that Armenia represents a significant market with particular opportunities for retail and commercial activities. Moreover, the Bank expects its expansion into Armenia will allow it to capitalize on the need to serve the Armenian Diaspora in the United States, Europe, Lebanon, Syria and other parts of the world.

Byblos Bank Armenia had total assets of 14.3 billion Armenian Drams (U.S.$46.4 million) and total shareholders' equity of 8.2 billion Armenian Drams (U.S.$26.7 million) as at December 31, 2008.

Branch Network

The Bank's headquarters are located in the centre of the Achrafieh business district in Beirut. As at the date of this Offering Circular, the Bank has 75 branches operating in Lebanon. As at December 31, 2008 the Bank's domestic network comprised the third largest branch network in Lebanon and represented 8.8% of all Lebanese commercial bank branches. The Bank's presence is more concentrated in rural areas as compared to the Lebanese banking sector. As at December 31, 2008, the Bank had branches located in the Greater Beirut area representing 50.0% of all the Bank's branches (as compared to 54.4% in the Lebanese banking sector), whilst branches located in Mount Lebanon and North Lebanon represented 38.2% of total branches (as compared to 27.9% in the Lebanese banking sector), branches located in the Bekaa Valley representing 3.9% of total branches (as compared to 7.1% in the Lebanese banking sector) and branches located in South Lebanon represented 7.9% of total branches (as compared to 10.6% in the Lebanese banking sector).

Local branches are organized by regional centres (Beirut, Metn, Kesserwan-Jbeil, North Lebanon, Bekaa and South Lebanon). Outside Lebanon, the Bank has branches in Limassol, Cyprus and Erbil, Iraq and representative offices in Abu Dhabi, United Arab Emirates and Lagos, Nigeria, as well as one branch in each of Brussels, London and Paris through its subsidiary, Byblos Bank Europe; branches in Khartoum and Bahri through its subsidiary, Byblos Bank Africa; branches in Abou Remmaneh, Mazzeh (Damascus), Aleppo, Homs, Lattakia, Tartous and Hama through its subsidiary, Byblos Bank Syria; and branches in Yerevan, Vanadzor and Malatia through its subsidiary, Byblos Bank Armenia. The Bank intends that all branches will gradually be transformed into sales outlets, with all processing and back-office activities being moved to regional centralised centres in line with the new branch model further to the rehabilitation project described below. The Bank has a network of 99 ATMs spread throughout Lebanon.

In the next three to five years, the Bank intends to relocate two or three of its current branches and to open five new branches.

In 2004, the Bank initiated a branch rehabilitation project in order to review the roles and functions of its branches and to adapt these to better serve customer needs. The role of the branch was changed to provide a greater focus on revenue generating activities through value based segmentation, relationship management, sales and recruitment. Core functions, such as administrative and back-office tasks, the management and processing of retail credit files and loan recovery processes, were centralized in the Head Office and in the regional centers with the aim of promoting a focus on customer service and sales among all branch managers and staff. Staff levels were increased to optimal levels and training sessions were organized to better support sales efforts.

Loan Portfolio

As at December 31, 2008, the Bank's total loan portfolio, excluding acceptances and net of loan loss provisions, was LBP 4,206.7 billion (U.S.$2,790.5 million) and, as a result, the Bank ranked fourth among banks operating in Lebanon in terms of loans and advances.

Analysis of Loans by Nature of Borrower

The following table shows the breakdown of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions), by nature of borrower as at December 31, 2007 and 2008:

	As at December 31,					
	2007			**2008**		
	(U.S.$ thousand)	*(LBP million)*	*(% of total)*	*(U.S.$ thousand)*	*(LBP million)*	*(% of total)*
Corporate customers	1,016,248	1,531,994	42.5	1,120,992	1,689,895	37.7
International customers	527,539	795,266	22.0	753,861	1,136,445	25.4
Middle market customers	142,457	214,755	6.0	173,961	262,246	5.9
Retail customers	507,579	765,175	21.2	684,316	1,031,607	23.0
Syndication.	142,286	214,496	5.9	144,250	217,457	4.9
Others	56,971	85,882	2.4	92,080	138,811	3.1
Total loans	**2,393,080**	**3,607,568**	**100.0**	**2,969,460**	**4,476,461**	**100.0**

The Bank generally does not make loans to the public sector (excluding the purchase of Lebanese treasury bills). As at December 31, 2008, loans to the public sector represented an insignificant proportion of the Bank's total loans.

The 20 largest groups of borrowers of the Bank accounted for loans outstanding of LBP 824 billion (U.S.$546.9 million) as at December 31, 2008, representing 18.4% of total loans outstanding, excluding acceptances.

Analysis of Loans by Geographic Distribution

The following table shows the percentage breakdown of the aggregate principal amounts outstanding of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions) by geographic area, as at December 31, 2007 and 2008:

	As at December 31,	
	2007	**2008**
	(% of total)	
Beirut and suburbs	73.2	72.5
Mount Lebanon	14.1	13.9
North Lebanon	4.6	4.5
South Lebanon	4.1	4.0
Bekaa	4.0	5.1

As at December 31, 2008, approximately 86.4% of the Bank's loan portfolio consisted of loans to borrowers in Beirut and Mount Lebanon. This distribution generally mirrors the concentration of activity in Lebanon.

Analysis of Loans by Maturity

The following table shows the maturity profile of the loan portfolio of the Bank (excluding acceptances and after deduction of loan loss provisions) as at December 31, 2007 and 2008:

	As at December 31,			
	2007		2008	
	(U.S.$ thousand)	*(LBP million)*	*(U.S.$ thousand)*	*(LBP million)*
1 month or less	999,232	1,506,342	1,135,478	1,711,733
1 month through 3 months	218,920	330,022	206,413	311,168
3 months through 1 year	278,063	419,180	349,603	527,026
1 to 5 years	640,550	965,629	681,181	1,026,880
Greater than 5 years	96,080	144,840	417,816	629,857
Total	**2,232,845**	**3,366,013**	**2,790,491**	**4,206,664**

Analysis of Loans by Economic Sector

The following table shows the percentage distribution of the loan portfolio of the Bank (excluding acceptances and before deduction of loan loss provisions) by economic sector as at December 31, 2007 and 2008:

	As at December 31,			
	2007		2008	
	(LBP million)	*(% of total)*	*(LBP million)*	*(% of total)*
Commercial	1,041,522	28.9	1,166,082	26.0
Manufacturing	638,231	17.7	886,058	19.8
Agriculture	84,051	2.3	91,242	2.0
Services	526,617	14.6	635,772	14.2
Construction	440,958	12.2	524,607	11.7
Retail	765,175	21.2	1,031,607	23.0
Others	111,013	3.1	141,094	3.3
Total	**3,607,567**	**100.0**	**4,476,462**	**100.0**

Analysis of Loans by Currency

The following table shows a percentage breakdown of the Bank's loan by currency as at December 31, 2007 and 2008:

	As at December 31,	
	2007	2008
	(% of total)	
Loans in LBP	11.68	10.78
Loans in foreign currencies	88.32	89.22
Total	**100.00**	**100.00**
Number of clients	56,986	68,186
Average balance per client (in LBP million)	63.3	61.7

The Bank's foreign currency lending accounted for 89.22% of its loan portfolio as at December 31, 2008 and is principally (81.3%) in U.S. Dollars.

The Bank limits the ratio of its foreign currency loans to deposits to a maximum of 70% in conformity with the limit imposed by *Banque du Liban*. As at December 31, 2008, the Bank's foreign currency loan-to-deposits ratio was 45.5%.

The Bank's internal lending limit with respect to loans to a single borrower or group of related borrowers is 10% of combined Tier I and Tier II capital. The benchmark rate used for the calculation of interest on a small portfolio of Lebanese Pound loans is the Lebanese treasury bill rate plus a margin.

Lending Policies

As its lending activities have expanded, the Bank has developed and implemented credit risk policies designed to maintain high asset quality in its loan portfolio. The Credit Policies and Procedures Manual (the "*CPPM*") covers the full range of the Bank's credit activities and applies to all domestic and international branches and offices, subject to all local laws and regulations.

The objectives of the CPPM are:

- to assist and guide the Bank's risk officers and relationship managers in developing a quality loan portfolio;

- to establish minimum criteria for sound credit practices to ensure quality assets portfolio;

- to define and establish the credit limits for each Committee;

- to establish functions and responsibilities of the Bank's staff, particularly those involved in marketing and credit functions;

- to define, establish and implement a continuous and effective system of credit administration and provide tools and techniques for monitoring the utilization of established facilities; and

- to set policies and procedures for identifying and monitoring classified accounts, creating loan loss provisions and determining write-offs.

Loan Approval Procedures

The Bank conducts its credit approval process through several committees. Each Credit Committee may approve, within specific guidelines, the extension of credit for amounts not exceeding its authorized credit limits.

The Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism Committee

The principal function of the Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism (the "*AML/CFT*") Committee is supervision, oversight and monitoring of all risks taken by the Bank. Its mission is to assist the Board of Directors in fulfilling its risk management responsibilities. The AML/CFT Committee is headed by a member of the Board of Directors and comprised of two other members of the Board, as well as the Group Risk Management Head.

As at the date of this Offering Circular, the members of the AML/CFT Committee are Dr. Nasser H. Saidi (appointed as Chairman of the AML/CFT Committee by the Board), Mr. Bassam A. Nassar and Mr. Samir F. Haddad.

The objectives of the AML/CFT Committee are:

- to review and assess the strategies, policies, structures, models and procedures in place to govern the understanding, identification, measurement, reporting and mitigation of significant banking risks;

- to review and critically assess the Bank's risk profile comprised of:

    - *Credit risk*: to approve or delegate approval authority for facilities exceeding the Bank's internal lending limits imposed at management-level credit committees (*i.e.*, facilities exceeding 10% of Tier I Capital); to approve major credit policy exceptions, deviations and changes; and to analyze the performance of credit products by monitoring arrears, balance sheet exposure, trend analysis and industry and geographic concentration;

- *Market risk*: to review relevant issues relating to financial markets activities (particularly trading and derivatives) as well as market risk limits, policies and management framework;

- *Interest rate risk*: to assess the effects of changes in market interest rates on the Bank's assets and liabilities and market positions;

- *Funding and liquidity risk*: to assess liquidity policies for the Bank, as well as the contingency plan for management of an escalated liquidity requirement (where the Bank experiences either restricted access to wholesale funding or a large and sudden increase in withdrawal of funds);

- *Capital adequacy risk*: to review the adequacy of the Bank's capital and its efficient allocation to the Bank's businesses and assess the Bank's compliance with Basel recommendations concerning capital adequacy;

- *Operational risk*: to assess the policies and procedures in place to control monetary losses resulting from inadequate or failed internal processes, personnel and systems or from external events;

- *Regulatory and reputation risk and anti-money laundering issues*: to monitor changes in regulatory laws that may affect the Bank's positions locally and overseas and assess how management anticipates and responds to changes of a market or regulatory nature that impact its reputation in the marketplace; and

- *Anti-money laundering and combating the financing of terrorism*: to review and ensure the Bank's compliance with local regulations and international best practice standards, by applying proper processes and using adequate and relevant sources of information for anti-money laundering and combating the financing of terrorism.

- to assess the implementation of risk management and internal compliance and control systems throughout the Bank;

- to monitor the ongoing effectiveness and independence of risk management functions and review and approve the budget allocated to risk management functions;

- to review issues raised by the Internal Audit Division that impact the Bank's risk management framework or the implementation of the Bank's risk management policies and practices;

- to consider and provide advice to the Board of Directors, when appropriate, on the risk impact of any strategic decision that the Board may be contemplating, including considering whether any strategic decision is within the "risk appetite" established for the Bank;

- to regularly report Committee activities to the Board of Directors with recommendations when deemed required;

- to promote awareness of a risk-based culture and the achievement of a balance between risk minimization and reward for accepted risks;

- to perform an annual self-assessment of the AML/CFT Committee's own performance; and

- to review and assess on a regular basis the adequacy of its charter and recommend any proposed changes to the Board of Directors for approval.

The AML/CFT Committee shall have direct access to, and receive regular reports from, the Bank's management. It shall have the power to conduct or authorize investigations into any matter within its scope and responsibilities. The AML/CFT Committee meets on a quarterly basis, before meetings of the full Board of Directors or when deemed necessary based on the request of the Chairman – General Manager of the Bank.

Central Credit Committee

After the AML/CFT Committee, the Central Credit Committee (the "*CCC*") is the highest level of authority in the Bank's credit approval process. The CCC is comprised of the Vice-Chairman – General Manager, the Commercial Division Head (Deputy General Manager), the Credit Risk Management Division Head (Assistant General Manager) and the Corporate Department Head when commercial issues are included in the CCC's agenda (including those initiated by the Corporate Department and the International Corporate Department, as well as overseas branches and subsidiaries).

The CCC has the authority to approve all extensions of credit for amounts exceeding the authorized limits that may be approved by lower-level credit committees, except large exposures (exceeding the internal lending limits of 10% of Tier I Capital), which are submitted to the AML/CFT Committee for approval. The CCC is entrusted with the following responsibilities:

- to approve credit proposals recommended by the Corporate Department, the Financial Institutions Department, the International Corporate Department and by overseas subsidiaries and branches;
- to approve country limits;
- to approve credit proposals, which exceed the delegated authorities to other committees; and
- to establish and delegate approval authorities to various committees in accordance with the recommendations of the Division Head.

The CCC also operates through two sub-committees, the CCC1 and the CCC2. The CCC2 has three members—the Head of the Commercial Division, the Head of the Credit Risk Division and the Head of the Corporate Department—and is authorized to approve corporate loans in amounts greater than U.S.$1,000,000 up to U.S.$3,000,000. The CCC1 is authorized to approve loans originating from the Corporate Department, the Financial Institutions Department and the International Corporate Department, as well as overseas branches and subsidiaries. The members of the CCC1 vary according to the business focus of the borrower. The following table sets forth the members and approval authorities of the CCC1 and the CCC2:

Level	**Amount approved (US$ equivalent)**	**Business Segment**	**Members**
CCC1	Less or equal to US$1,000,000	Corporate	- Head of Corporate Department - Delegated Head of Unit - Deputy Head of Credit Risk - Head of Corporate Risk
		International Corporate and overseas branches	- Head of Commercial Division - Head of Credit Risk Division - Head of International Corporate Department - Head of International Corporate Credit Risk
		Overseas Subsidiaries	- Head of Commercial Division - Head of Credit Risk Division - Head of International Corporate Credit Risk
		Financial Institutions	- Head of Commercial Division - Head of Credit Risk Division - Head of Financial Institutions - Head of Financial Institutions Credit Risk
CCC2	Less or equal to US$3,000,000 and greater than US$1,000,000	Corporate	- Head of Commercial Division - Head of Credit Risk Division - Head of Corporate Department

All decisions of the CCC, CCC1 and CCC2, respectively, must be approved unanimously. The CCC meets at least once a week, while the CCC1 and CCC2 meet on an *ad hoc* basis.

Loan Recovery Committee

The Loan Recovery Committee (the "*LRC*") is composed of the Head of the Credit Risk Management Division (who acts as the chairman of the LRC), the Vice-Chairman – General Manager, the Head of the Commercial Banking Division, the Head of the Consumer Banking Division and the Head of the Loan Recovery Department.

The LRC has the following responsibilities:

- to assess and implement strategies that comply with applicable *Banque du Liban* rules and regulations for the recovery and settlement of commercial and retail files and loans that have been transferred to the Loan Recovery Department;
- to approve recovery and work-out plans prepared by the Loan Recovery Department;
- to approve legal actions against defaulting borrowers
- to approve write-offs upon recommendations from different divisions and the Loan Recovery Department;
- to analyze all the statistical data compiled by the Loan Recovery Department and follow-up the evolution of the Bank's loan portfolio; and
- to establish and delegate approval limits for various sub-committees.

All decisions of the LRC must be approved by a minimum of four members, including the Chairman of the LRC or his delegate. The LRC meets once a month or more frequently depending on the materiality and urgency of the agenda items to be discussed.

Middle Market Credit Committee

The Middle Market Credit Committee (the "*MMCC*") is composed variably of the Credit Risk Division Head, the Commercial Division Head, the Risk Manager (Middle Market), the Middle Market Department Head, the Middle Market Credit Risk Head, the Middle Market Credit Risk Assistant Head and the relevant Regional Manager, with active participation by such members varying depending on the amount and type of the credit facility under consideration.

The MMCC is responsible for approving, through its relevant members subject to their respective authority levels, credit proposals generated from the Middle Market business segment. Credit approvals must be granted by the members of the sub-committee (MMCC1, MMCC2 or MMCC3) with the appropriate credit approval authority in accordance with following:

<table>
<tr><th colspan="4"></th><th>Clean or Secured basis (excluding Cash Collateral)</th></tr>
<tr><td rowspan="5">MCC3</td><td colspan="2"></td><td>Credit Risk & Commercial Division Heads</td><td>U.S.$1,250,000</td></tr>
<tr><td rowspan="4">MCC2</td><td></td><td>Middle Market Credit Risk Head or delegate</td><td>U.S.$750,000</td></tr>
<tr><td rowspan="3">MCC1</td><td>Middle Market Department Head</td><td>U.S.$125,000</td></tr>
<tr><td>Middle Market Credit Risk Assistant Head</td><td>—</td></tr>
<tr><td>Regional Manager</td><td>—</td></tr>
</table>

At the lowest level, decisions by the MMCC require the mandatory joint approval of the Middle Market Department Head and the Middle Market Credit Risk Assistant Head. In the event of divergences, including the rejection of a loan application by the relevant Risk Officer, the credit application will be resubmitted to the next higher level for a final decision. At the highest level, decisions by the MMCC require the mandatory joint approval of the Credit Risk Management Division Head and the Commercial Division Head, which, in turn, have the authority to resubmit an application to the CCC if the joint approval is not obtained. Referral to the CCC is required for accounts exceeding the MMCC limit, for accounts classified at level 3 or below and when there are deviations from prescribed guidelines.

Retail Credit Committee

The Bank is in the process of establishing several Retail Credit Committees with responsibilities defined to approve proposals relating to different retail lending products, within defined limits.

Small Lending Credit Committee

Each Regional Management Division of the Bank, consisting of branches grouped by geographic location, has its own Small Lending Credit Committee comprised of the relevant Regional Manager, Branch Manager and Retail Banking Officer.

The Small Lending Credit Committee functions and responsibilities are to approve any loan not exceeding U.S.$50,000 in its region.

Branch Credit Committee

Each branch has its own Branch Credit Committee comprised of the relevant Branch Manager, Assistant Branch Manager and Retail Banking Officer.

The Branch Credit Committee functions and responsibilities are to approve any loan not exceeding U.S.$500,000 which is covered by cash collateral. Due diligence is completed with respect to the customer with the aim of ensuring that each qualifying transaction is commercially sound and in full compliance with the Bank’s money laundering procedures. In the event that a loan is requested for an amount exceeding U.S.$500,000, the application is submitted through the normal approval channels.

Lending Limits

Banque du Liban Decision N° 7055 dated August 13, 1998, as amended by Intermediary Decision N° 9456 dated November 9, 2006, sets the maximum allowable weighted credit limit for loans to a single borrower (or a group of related borrowers) at (i) 20% of a bank's shareholders' equity with respect to loans extended to borrowers (or a group of related borrowers) resident in Lebanon the proceeds of which are to be used in Lebanon, (ii) 20% of a bank's shareholders' equity with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings of A+ and above and (iii) 10% of a bank's shareholders' equity with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings below A+, provided that (x) the aggregate exposure for countries rated from A to BBB- is not to exceed 200% of the bank's shareholders' equity and the aggregate exposure to each of these countries is not to exceed 50% of the bank's shareholders' equity or (y) the aggregate exposure for countries rated below BBB- is not to exceed 100% of the bank's shareholders' equity and the aggregate exposure to each of these countries is not to exceed 25% of the bank's shareholders' equity. See "*The Banking Sector and Banking Regulation in the Lebanese Republic—Banking Regulations—Credit Limits*". The Bank is currently in compliance with this Decision.

The Bank undertakes regular reporting on its loan portfolio industry distribution to make sure it is well diversified. Analyses of various sectors of the Lebanese economy, namely for those sectors where the concentration is higher, are also performed and updated in order to monitor industry risk. An internal rating system, Moody's Risk Advisor, which complies with the Basel II Accord, has been implemented and the model is being reviewed to meet local macroeconomics and market structure conditions. The internal rating system is based on asset risk differentiation that aims, in addition to linking capital to risk, to improve the Bank's credit portfolio management by addressing strategic issues such as pricing, provisioning, and credit selection and monitoring. The Bank intends to make continual progressive adjustments to the model, based on portfolio default rate and loss norm observations, in order to maximize its reliability and usefulness, while also achieving a certain model stability. See "*—Risk Management—Portfolio Management and Credit Risk Analytics (PMCRA)*".

Methodology of Valuation of Collateral

The Bank's method of valuing the collateral supporting any loan varies depending upon the type of collateral. With respect to real estate, the Bank appoints one or more independent appraisers, depending on the geographic location and the value of the property, to conduct a site survey and provide an estimated market value of the appraised property. Property rights and liens in respect of the appraised property are generally reviewed on an annual basis or, if needed, on a semi-annual or more frequent basis.

For collateral consisting of securities, the Bank accepts only securities that are traded on organized exchanges and lending is capped at 50% of the market value of these securities. The market value of exchange-traded securities is monitored by the Bank's Capital Markets Department. In the event of any decrease in market value, the borrower is immediately required to provide additional collateral or reduce the loan outstanding amount.

With respect to cash collateral, collateral denominated in an OECD currency (other than the currency of the facility) is required in the amount of 110% to 120% of the principal amount of the facility. In cases where the collateral and the facility are denominated in the same currency, the required coverage is 100% to 110% of the principal amount of the facility. The required coverage for collateral denominated in Lebanese Pounds is 140% to 150% of the principal amount of the facility.

The following table shows a breakdown of the Bank's loan portfolio, by type of collateral, as at December 31, 2007 and 2008:

	As at December 31,	
	2007	2008
	(% of total)	
Unsecured	43.94	41.50
Secured by financial securities	0.30	0.43
Secured by real guarantees	18.65	16.27
Secured by bank guarantees	1.48	3.58
Secured by cash collateral	9.15	9.57
Secured by personal guarantees	26.48	28.65
Total	**100.00**	**100.00**

Article 152 of the Code of Money and Credit and *Banque du Liban* Decision N° 7776 dated February 21, 2001, as amended from time to time, provides that advances and credit facilities to directors or managers of banks or to companies having common directors with a bank must be authorized by the shareholders of the bank, must not exceed in aggregate 5% of the bank's shareholders' equity and must be made on normal commercial terms. The Bank is in compliance with Article 152 of the Code of Money and Credit in all respects, as at December 31, 2008, since it had a net direct exposure to related parties of LBP 2,122 million (U.S.$1.41 million) and an indirect exposure to related parties of LBP 2,227 million (U.S.$1.48 million), representing, in the aggregate, only 0.2% of the Bank's shareholders' equity. Management believes the Bank remains in compliance with Article 152 of the Code of Money and Credit as at the date of this Offering Circular.

Credit Review Procedures for Approval

Each account manager who originates a loan remains vested with the responsibility of monitoring the Bank's exposure to the relevant customer and to renew the file on an annual basis or on such more frequent basis as may be warranted by the status of each loan.

Credit monitoring within the Credit Risk Management Division is carried out through specialized units which monitor the loan portfolio as a whole and individual loans, granted to small, medium, corporate and international clients, respectively. In addition, credit officers review and approve or, depending on the size and type of loan, make recommendations for submission to the relevant credit committees.

In addition, the loan portfolio is reviewed by a separate Credit Review Department as part of the Bank's Internal Audit Division. This review is performed on a sample of credit facilities, taking into account all direct, indirect and contingent outstanding liabilities, across loans booked by the Bank's Head Office or in another unit of the Bank or its subsidiaries. The main objective is to provide an independent appraisal of the loan portfolio and process and ensure compliance with the Bank's Credit Policy and Procedures. Findings and comments that have not been regularized are reported to the Audit Committee through the quarterly report regularly submitted by the Internal Audit Department.

The Chairman or the Board of Directors may at its option appoint external auditors to undertake an independent risk asset review, either of selected countries or units or of all units.

Loan Classifications

On November 10, 1998, *Banque du Liban* issued Decision N° 7159, which requires all banks and financial institutions in Lebanon to classify loans according to five categories of risk: (i) ordinary/regular loans (sub-divided into (a) unconditional and (b) incomplete documentation); (ii) loans to be followed-up and regularized; (iii) less than ordinary/sub-standard loans; (iv) doubtful loans; and (v) bad or ailing loans. The Bank's internal classification system described below, which has been followed since 1992, generally incorporates and refines the requirements set out in *Banque du Liban* Decision N° 7159. The Bank's internal classification criteria are more detailed than those of *Banque du Liban*. The Bank continues to adhere to its own loan classification criteria for internal purposes, although reports to *Banque du Liban* and the Banking Control Commission are made in accordance with *Banque du Liban* classifications. Management believes that, as at the date of this Offering Circular, the Bank is in compliance with all related requirements.

Banque du Liban loan classifications are more fully described as follows:

- ***Classification 1*** covers current loans. This classification is subdivided as follows:
    - *Classification 1A (uncriticized)* covers loans that are fully current and the orderly repayment of which is without a doubt; and
    - *Classification 1B* covers loans that are current, but where credit information or documentation remains to be completed.

All Classification 1 loans, irrespective of the sub-class, are considered acceptable risks and no losses are foreseen.

- ***Classification 2 (watch list)*** covers loans the principal and interest of which are generally covered by the financial strength of the borrower and/or by adequate collateral. Such loans, however, are placed on the watch list (rather than being classified as current loans, classification 1) due to one or more of the following criteria or other similar credit issues: (i) the unavailability of recent financial statements; (ii) the absence of a collateral valuation; (iii) the lack of information relating to a guarantor's financial means; (iv) the decreasing profitability and/or insufficient cash flow of the borrower; (v) a perceived negative impact on the borrower in the near future due to adverse trends in the relevant economic sector or market; or (vi) the occurrence of occasional excesses over approved lines and/or the movement of accounts close to the facilities ceiling.

No loss is foreseen at this stage but early attention, including substantive discussions with borrowers, is required to correct deficiencies.

- ***Classification 3 (substandard)*** covers loans the normal repayment of which may be or has been jeopardized by reason of: (i) a substantial deterioration in the borrower's cash-flows during more than two consecutive years; (ii) a substantial decline in the profitability of the borrower; (iii) significant weaknesses in the value of collateral (especially if reimbursement stems from liquidation of submitted guarantees); (iv) severe adverse trends or developments of a managerial, economic or political nature, which may affect the borrower; or (v) the partial or total use of the proceeds from the credit facility for purposes other than those originally intended.

Classification 3 is also warranted when principal and/or interest payments are over 90 days past due (from the scheduled payment date), in which case, interest must be placed on a non-accrual basis.

- ***Classification 4 (doubtful)*** covers loans, the full repayment of which appears questionable on the basis of available information and in respect of which, as a result, there is a suggested degree of eventual loss not yet determinable as to amount or timing.

Non-accrual of interest and commissions is required and previously accrued and unpaid interest must be reversed, while principal should be reserved or written-off to the extent deemed necessary. Classification 4 accounts are transferred to the Loan Recovery Unit for handling.

- ***Classification 5 (loss)*** covers loans that are regarded as uncollectible.

Any amount so classified by the Bank's management and approved or requested by the Banking Control Commission should be promptly written-off after it is firmly established that no further repayment or recovery is possible or adequately reserved and previously accrued and unpaid interest must be reversed.

The frequency of the Bank's review of problem loans is dependent upon the applicable classification. Loans that are classified as Classification 1 or Classification 2 are reviewed by the Bank on a monthly basis, whereas loans that are classified as Classification 3 or Classification 4 are reviewed on a quarterly basis.

When a loan is 90 days past due, interest income ceases to be accrued in the statement of income and is allocated as "*reserved interest*".

Analysis of Loans by Classification

The following tables set forth the breakdown of the Bank's loan portfolio, by classification, on a gross and net basis, respectively, as at December 31, 2007 and 2008:

	As at December 31,			
	2007		2008	
	(LBP million)	*(% of total)*	*(LBP million)*	*(% of total)*
Gross balances:				
Good loans	3,122,415	86.5	4,049,822	90.5
Watch loans	281,679	7.8	248,987	5.5
Substandard loans	35,495	1.0	27,027	0.6
Doubtful loans	113,968	3.2	88,049	2.0
Bad loans	54,011	1.5	62,577	1.4
Total	**3,607,568**	**100.0**	**4,476,462**	**100.0**

	As at December 31,			
	2007		2008	
	(LBP million)	*(% of total)*	*(LBP million)*	*(% of total)*
Net balances:				
Good loans	3,122,415	90.4%	4,049,822	93.4%
Watch loans	281,679	8.2%	248,987	5.8%
Substandard loans	21,381	0.6%	13,573	0.3%
Doubtful loans	29,281	0.8%	23,607	0.5%
Bad loans	-	0.0%	-	0.0%
Total	**3,454,756**	**100.0%**	**4,335,989**	**100.0%**

As at December 31, 2008, good and watch loans represented 96.0% of gross loans and 99.2% of net loans, as compared to 94.3% and 98.6% as at December 31, 2007. The continuing increase in the share of good loans to total loans reflects the continuous improvement in the overall quality of the loan portfolio.

Substandard loans represented 0.6% of gross loans and 0.3% of net loans as at December 31, 2008, as compared to 1.0% and 0.6% as at December 31, 2007. Doubtful and bad loans represented 3.4% of gross loans and 0.5% of net loans as at December 31, 2008, as compared to 4.7% and 0.8% as at December 31, 2007.

Pursuant to Banking Control Commission Circular N° 240 dated 2 January 2004, banks are required to transfer any bad debt more than two years overdue to off-balance sheet accounts. In compliance with this circular, the Bank wrote off bad debts (including related provisions and unrealized interest) of LBP 121.2 billion (U.S.$80.4 million) for the year ended December 31, 2008.

Provisions for Loan Losses

The Banking Control Commission retains the right to review periodically the entire loan portfolio of every Lebanese bank and has power to impose provisions relating to loans if it assesses them as doubtful or inadequately secured. The Banking Control Commission requires specific provisions to be established for identified credit losses. Full or partial provisions must be made in respect of doubtful loans in accordance with applicable *Banque du Liban* regulations. Furthermore, doubtful loans must be put on a non-accrual basis and any interest subsequently received booked on a cash basis, as and when received. Doubtful loans are those as to which the Central Credit Department has determined that the borrower may be unable to meet principal and/or interest repayment obligations, or performance is otherwise unsatisfactory, unless the loans are adequately secured and/or are in the process of liquidation. The Bank deems its loans in classifications 4 and 5 to be doubtful loans.

Pursuant to *Banque du Liban* Basic Decision N° 7129, dated 15 October 1998, Lebanese banks are required to allocate, on an yearly basis, a general reserve (which is included in Tier I capital) for unspecific risks out of net profits in an amount equal to a minimum of 0.2% and a maximum of 0.3% of risk weighted assets. The reserve for unspecified banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from Decision 7129's issuance and 2.0% of risk-weighted assets within 20 years from Decision 7129's issuance.

Effective 14 December 2001, *Banque du Liban* requires banks to constitute provisions in LBP on newly classified doubtful and bad debts irrespective of their currency of denomination. The Bank, however, is permitted to translate a portion of these provisions into foreign currency to the extent of its profits realized in foreign currency.

The Bank's policy is to maintain a high level of adequate provisions against doubtful and bad loans. As a result, the ratio of provisions to bad and doubtful loans reached 100.0% as at December 31, 2008, as compared to 95.2% as at December 31, 2007.

The following table shows the level of the Bank's provisioning and coverage ratios as at December 31, 2007 and 2008:

	As at December 31,	
	2007	**2008**
	(LBP million)	
Classification 3 loans (substandard loans)	35,495	27,027
Classification 4 & 5 loans (non-performing loans)	167,979	150,626
Total classified loans	**203,474**	**177,653**
Specific provisions for loan losses.	65,690	59,668
General provisions	41,901	47,170
out of which general provisions for retail.	20,630	21,574
Reserved interest (substandard loans)	14,114	13,454
Reserved interest (non-performing loans)	73,008	67,351
Total provisions and cash collateral.	**194,713**	**187,643**
Classified loans (3) / Total loans.	0.98%	0.60%
Classified loans (4 & 5) / Total loans.	4.66%	3.36%
Total classified / Total loans.	5.64%	3.97%
Total provisions / Total loans.	5.40%	4.19%
Non-performing loans provisions /Non-performing loans[(1)]	100.00%	100.00%
Non-performing loans provisions /Non-performing loans[(2)]	95.23%	100.00%
Total provisions / Total classified loans (3, 4 & 5) [(1)]	95.69%	100.00%

Notes:
(1) Including specific and general provisions and reserved interest.
(2) Excluding general provisions for retail loans.

In 2008, the Bank continued to follow a conservative classification for its non-performing loans within the context of the overall weakness of the Lebanese economy, which continues to experience oversupply, significant competition in several sectors and an increase in operating costs coupled with lower disposable incomes, which may lead to a consolidation of different businesses.

Customer advances (other than consumer loans) receive a non-accrual status immediately if, in the opinion of Management, principal or interest is not likely to be paid in accordance with the terms of the loan agreement or when principal or interest is 90 days or more past due. Interest accrued but not collected at the date of the loan receives a non-accrual status and is reserved against interest income.

Specific provisions are also made against loans and off-balance sheet items based on Management's ongoing assessment of the Bank's credit exposure, prevailing and anticipated domestic and international economic conditions, the current and projected financial status and creditworthiness of borrowers, certain off-balance sheet credit risks, the nature and level of non-performing loans identified as potential problems, past and expected loss experience and other factors deemed relevant by management. A major factor in determining the level of specific provisions is the adequacy of collateral (*i.e.*, where the Bank provides for the difference between the amount of the non-performing loan and the current value of the real collateral). Specific provisions for retail loans are based principally on delinquencies and historical loss rates. The Bank believes that it maintains the highest ratio of total provisions to total classified loans among the top banks in the Lebanese Republic.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and the possibility of further recovery is considered remote.

The Bank did not experience any significant loan losses during the three years ended December 31, 2008, and does not anticipate recording significant loan losses in 2009.

Investment and Trading

The Bank's investment portfolio includes Lebanese treasury bills and other governmental bills, bonds and financial instruments with fixed income and marketable securities and financial instruments with variable income.

The following table sets forth the breakdown of the Bank's securities portfolio by type of instrument and currency as at December 31, 2007 and 2008:

	As at December 31,			
	2007		2008	
	(LBP million)	*(% of total)*	*(LBP million)*	*(% of total)*
Lebanese and other governmental treasury bills and bonds				
Lebanese treasury bills in LBP[1]	2,134,306	39.76	2,342,233	32.49
Lebanese governmental bonds in foreign currency	2,130,730	39.69	2,142,518	29.72
Bonds and financial assets with fixed income				
Corporate bonds in foreign currency	122,316	2.28	385,326	5.34
Corporate certificates of deposit in foreign currency	38,607	0.72	25,491	0.35
Banque du Liban certificates of deposits in LBP and foreign currency[2]	824,184	15.35	2,223,764	30.86
Shares, securities and financial assets with variable income in LBP and foreign currency	**117,867**	**2.20**	**89,300**	**1.24**
Total	**5,368,010**	**100.00**	**7,208,632**	**100.00**

Lebanese and other governmental treasury bills and bonds

Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currency) decreased, as a percentage of the Bank's total securities portfolio, to 62.2% as at December 31, 2008, as compared to 79.5% as at December 31, 2007. Investments in Banque du Liban certificates of deposits (in both Lebanese Pounds and foreign currency) represented 30.9% of the Bank's portfolio as at December 31, 2008, as compared to 15.4% as at December 31, 2007.

The following tables show the breakdown of the Bank's portfolio of Lebanese and other governmental securities by maturity as at December 31, 2007 and 2008:

	As at December 31, 2007		
	Amount denominated in LBP	**Amount denominated in foreign currency**	**Total Amount**
		(LBP million)	
Maturity			
Up to 1 month	18,073	19,866	37,939
1 to 3 months	309,484	99,578	409,062
3 months to 1 year	542,600	63,794	606,394
1 year to 5 years	1,264,149	979,908	2,244,057
Over 5 years	—	967,584	967,584
Total	**2,134,306**	**2,130,730**	**4,265,036**

	As at December 31, 2008		
	Amount denominated in LBP	**Amount denominated in foreign currency**	**Total Amount**
		(LBP million)	
Maturity			
Up to 1 month	81,325	3,185	84,510
1 to 3 months	170,411	55,753	226,164
3 months to 1 year	757,513	479,737	1,237,250
1 year to 5 years	1,332,984	578,354	1,911,338
Over 5 years	0	1,025,489	1,025,489
Total	**2,342,233**	**2,142,518**	**4,484,751**

Investments by Classification

The Bank's investment securities portfolio is divided between investments held for trading and non-trading investments and financial assets, which are further classified pursuant to IAS 39 as set outlined below.

Trading Investments

Investments held for trading are initially recognized at cost and subsequently remeasured at fair value. All related realized and unrealized gains or losses are included in gains and losses arising from trading investments. Interest earned or dividends received are included in interest and similar income and dividend income, respectively.

Non-trading investments and financial assets

Pursuant to IAS 39, financial assets are classified as follows:

- Held-to-maturity investments – non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Bank has the positive intention and ability to hold these investments to maturity. Investments intended to be held for an undefined period, however, are not included in this classification;

- Investments carried at fair value through profit and loss account – investments are classified as fair value through profit and loss account if the fair value of the investment can be reliably measured and the classification as fair value through profit and loss account is in accordance with the documented strategy of the Bank;

- Investments carried at amortized cost (loans and receivables) – loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market; and

- Available-for-sale investments – available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified to any of the three preceding categories.

Financial assets are initially measured at fair value, plus, in the case of an investment not carried at fair value through profit or loss, directly attributable transaction costs. The Bank classifies its financial assets at the time of initial recognition and, where allowed and appropriate, re-evaluates its classifications at each financial year-end.

The following tables set forth a breakdown of the Bank's investment securities portfolio, by classification, as at December 31, 2007 and 2008:

	As at December 31, 2007					
	Held for trading	Held to maturity	Available for sale	Loans and receivables	Accrued interest	Total
			(LBP million)			
Central banks' certificates of deposit	—	—	33,164	759,666	31,354	824,184
Lebanese and other governmental treasury bills and bonds	787,967	1,646,219	1,729,875	—	100,975	4,265,036
Bonds and financial assets with fixed income	148	611	118,301	—	3,256	122,316
Shares, securities and financial instruments with variable income	28,547	—	89,320	—	—	117,867
Certificates of deposits	—	—	21,625	15,685	1,297	38,607
Total by category	**816,662**	**1,646,830**	**1,992,285**	**775,351**	**136,882**	**5,368,010**

	As at December 31, 2008					
	Held for trading	Held to maturity	Available for sale	Loans and receivables	Accrued interest	Total
			(LBP million)			
Central banks' certificates of deposit	—	—	—	2,157,271	66,493	2,223,764
Lebanese and other governmental treasury bills and bonds	169,115	1,232,442	1,078,948	1,907,264	96,982	4,484,751
Bonds and financial assets with fixed income	7,866	71,322	116,782	178,775	10,581	385,326
Shares, securities and financial instruments with variable income	29,954	—	59,346	—	—	89,300
Certificates of deposits				24,652	839	25,491
Total by category	**206,935**	**1,303,764**	**1,255,076**	**4,267,962**	**174,895**	**7,208,632**

Funding Sources

The Bank's sources of funds are comprised of *Banque du Liban* loans, deposits from banks and financial institutions, customers' deposits, liabilities under financial instruments, subordinated loans and shareholders' equity.

The primary source of funds for the banking sector in Lebanon is customers' deposits, which represented 82.5% of total funding for the sector as at December 31, 2008. The Bank's funding objectives are maturity extension, cost effectiveness, growth and stability. To fulfill its objectives, the Bank is concentrating its efforts on generating a higher volume of small deposits through its branch network and its specialized savings programs, and is investigating ways in which it may develop new saving schemes to ensure stable and low-cost funding. See "—*Business Description—Retail Banking*". In addition, the Bank issues certificates of deposit, structured products (index-linked notes, equity-linked notes and commodity-linked notes) and has entered into a number of debt facilities.

The following tables show the breakdown of the Bank's sources of funding as at December 31, 2008 and 2007 for the Bank's LBP-based funds and U.S. Dollar-based funds, respectively:

	As at December 31,	
	2007	**2008**
	(LBP million)	
LBP-Based Funds		
Loans from *Banque du Liban*	36,535	38,515
Banks and financial institutions	13,741	61,150
Sight deposits	1,464	601
Time deposits	12,277	60,549
Total LBP placements from banks	**50,276**	**99,665**
Customers' deposits		
Sight deposits	174,105	333,829
Time deposits	405,082	900,856
Saving deposits	2,156,439	3,101,284
Related party deposits	3,379	28,100
Total LBP customers' deposits	**2,739,005**	**4,364,069**
Paid up capital	494,456	511,363
Reserves and premiums	220,087	251,246
Retained earnings	10,673	12,874
Net income for the year(1)	124,920	133,658
Foreign currency translation reserve	1,116	1,116
Revaluation variance accepted a supplementary capital.	1,978	1,978
Treasury shares.	(947)	(1,554)
Cumulative changes in fair value.	9,715	18,315
Minority interest	8,666	9,809
Total LBP capital funds	**870,664**	**938,805**
Total LBP funds	**3,659,945**	**5,402,539**

Note:
(1) Before dividend distributions.

	As at December 31,	
	2007	2008
	(U.S.$ thousand)	
U.S. Dollar-based funds		
Loans from central banks	16,196	29,944
Banks and financial institutions	659,649	629,991
Sight deposits	130,406	249,373
Time deposits	529,243	380,618
Total foreign currency placements from banks	**675,845**	**659,935**
Customers' deposits		
Sight deposits	1,150,290	1,049,372
Time deposits	2,314,106	1,621,826
Saving deposits	4,265,180	2,744,682
Related party deposits	119,527	51,988
Total foreign currency customers' deposits	**7,849,103**	**5,467,868**
Certificates of deposit	77,921	77,920
IFC loans	4,895	1,634
Arab Trade Finance	1,986	22,313
Loans from FMO	5,357	3,214
GSM Program (The Bank of New York)	642	-
Proparco	15,196	12,530
OPEC Fund for International Development	1,364	455
European Investment bank	73,865	191,952
Govco Incorporated New York	45,000	43,393
Agence Française pour le Développement	4,893	12,792
Citibank.	5,000	4,583
Index Linked Notes	49,442	49,430
Equity Linked Notes.	49,410	49,414
Commodity Linked Notes	6,367	6,371
Unamortized front end fees and cost of issuance.	(10,110)	(10,817)
Accruals	8,920	10,972
Total foreign currency debt	**340,148**	**476,156**
Subordinated notes(1)	31,781	31,935
Convertible subordinated notes(1)	187,884	164,551
Reserves and premiums	149,882	371,322
Retained earnings	302	1,621
Net income for the year(2)	11,694	25,623
Foreign currency translation reserve	13,634	11,601
Cumulative changes in fair value	(37,121)	(32,393)
Minority interest	45,742	70,579
Total foreign currency capital funds(3)	**403,798**	**644,839**
Total foreign currency funds	**9,268,894**	**7,248,798**

Notes:
(1) Including accrued interest payable and up-front fees.
(2) Before dividend distributions.
(3) Excluding "*Revaluation variance*".

As a part of the Bank's strategy to match its longer-term loan portfolio with longer-term funding sources, the Bank has entered into several types of long-term funding resources, as set out in the above tables and described in more detail below:

Banque du Liban Soft Loans

The Bank has obtained soft loans from *Banque du Liban* to finance certain of its acquisitions, including the following:

- Banque de Beyrouth pour le Commerce ("*BBC*") Merger: Following the merger of BBC into the Bank, the Bank entered into a loan agreement with *Banque du Liban* in the principal amount of LBP 52 billion (U.S.$34.5 million) in February 1998. The loan was fully drawn down in May 1998 and matured on 28 May 2006. This loan was fully repaid on May 28, 2006. The loan bore interest at the rate of 60% of the interest rate on one-year Lebanese treasury bills for the first two years of the loan and then bore interest, for the remaining life of the loan, at the rate equal to the interest rate on one-year Lebanese treasury bills.

The loan was collateralized by LBP 56 billion (U.S.$37.1 million) in a nominal amount of two-year Lebanese treasury bills, which were held in the Bank's investment portfolio.

- Wedge Bank Merger: Following the merger of Wedge Bank into the Bank, the Bank entered into a loan agreement with *Banque du Liban* in the principal amount of LBP 40 billion (U.S.$26.5 million) in November 2001. The loan was fully drawn down and matures in November 2009. The loan bore interest at the rate equal to 60% of the notional interest rate on one-year Lebanese treasury bills for the first two years of the loan and now interest is determined according to the effective yield of one-year Lebanese treasury bills traded in the primary market less 6.326%, provided that the interest does not fall below 60% of the notional interest rate on one-year Lebanese treasury bills traded in the international markets. The loan is collateralized by LBP 43 billion (U.S.$28.5 million) in a nominal amount of two-year Lebanese treasury bills, which are held in the Bank's investment portfolio.

International Finance Corporation ("IFC")

On December 3, 1999, the Bank entered into a third syndicated loan agreement with the IFC, pursuant to which the Bank drew down U.S.$45 million in several installments up to November 2001, comprised of U.S.$22.8 million in loans financed directly by the IFC (the "A" loan) and U.S.$22.2 million in loans syndicated by other investors (financial institutions) (the "B" loan). The "A" loan is subject to repayment in 14 equal semi-annual installments beginning December 15, 2002 (ending on June 15, 2009) and bears interest on its outstanding principal balance at the rate of LIBOR plus 2.5% per annum; all principal amortizations due to the date of this Offering Circular were paid in full on a timely basis. The "B" loan, which bore interest at the rate of LIBOR plus 2.25% per annum on its outstanding principal amount; has been fully repaid in accordance with its terms, with the tenth and final semi-annual installment having been paid on June 15, 2006.

The remaining portion of the "A" loan is pre-payable at any time, in whole or in part, at par in minimum amounts of U.S.$2 million plus accrued interest. The proceeds of this loan are used to provide long-term project finance to small and medium-sized enterprises and to expand the Bank's housing loan portfolio.

Arab Trade Finance Program ("ATFP")

The ATFP was established by the Arab Monetary Fund to provide financing of Inter-Arab trade transactions at low and competitive interest rates in order to enhance the competitive abilities of traders in the Arab World and Arab trade with non-Arab countries. Crude oil is now eligible for ATFP financing.

On March 16, 2008, the Bank renewed a U.S.$25 million credit line agreement with the ATFP. The line is available to the Bank, on a revolving basis, with numerous drawdowns and settlements being made on a semi-annual basis (up to a maximum of ten settlements). Drawdowns can be effected at any time within the agreement's validity (one year renewable) and bear interest at various LIBOR-based rates (six month-LIBOR at the date of each disbursement). As at the date of this Offering Circular, the Bank had drawn down U.S.$15.7 million under this credit facility. This line with Arab Trade Finance program was renewed on April 27, 2009.

Proparco

In April 2000, the Bank signed an agreement with Proparco, a French development bank owned by the state entity "*Agence Française de Développement*", pursuant to which the Bank was permitted to borrow up to EUR 10 million to finance general-purpose projects. This loan was disbursed in three installments, as follows:

- in December 2000, the Bank drew down U.S.$3,232,000, which bears interest at a rate equal to six-month LIBOR plus 225 basis points and is repayable in April 2011;

- in May 2001, the Bank drew down a further amount of U.S.$3,500,000, which also bears interest at the rate equal to six-month LIBOR plus 225 basis points and is repayable in April 2011; and

- in December 2001, the Bank drew down a further amount of U.S.$2,037,139.91; which bears interest at a fixed rate of 7.43% and is repayable in October 2011.

In September 2003, the Bank signed a second similar agreement with Proparco, also consisting of a credit line amounting to EUR 10 million. This loan was disbursed in four installments as, follows:

- on April 9, 2004, the Bank drew down U.S.$3,600,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting April 30, 2004) and capital repayments (starting October 31, 2006 and ending April 30, 2014 of U.S.$225,000 each);

- on September 29, 2004, the Bank drew down a further amount of U.S.$3,000,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting October 31, 2004) and capital repayments (starting April 30, 2007 and ending October 31, 2014 of U.S.$187,500 each);

- on December 29, 2004, the Bank drew down a further amount of U.S.$3,150,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting April 30, 2005) and capital repayments (starting October 31, 2007 and ending April 30, 2015 of U.S.$196,875 each); and

- on April 15, 2005, the Bank drew down a further amount of U.S.$3,000,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting April 30, 2005) and capital repayments (starting October 31, 2007 and ending April 30, 2015 of U.S.$187,500 each).

Agence Française de Développement

In January 2007, the Bank signed an agreement with the French state-owned entity "*Agence Française de Développement*", pursuant to which the Bank was permitted to borrow up to EUR 25 million to finance general-purpose, working capital and treasury needs of SME's, which suffered from the military conflict in Lebanon in July and August 2006. The Bank is allowed to draw down the loan in up to five draw-downs through the end of July 2009. Three installments of this loan have been drawn down by the Bank, as follows:

- in May 2007, the Bank drew down EUR 3,334,000, which bears interest at the rate equal to the EURIBOR minus 25 basis points and is repayable in April 2017;

- in February 2008, the Bank drew down an additional EUR 5,690,175, which also bears interest at the rate equal to EURIBOR minus 25 basis points and is repayable in April 2017; and

- in June 2009, the Bank drew down an additional EUR 14,840,990, which also bears interest at the rate equal to EURIBOR minus 25 basis points and is repayable in April 2017.

Depending on its financial needs, the Bank may drawdown the remaining EUR 1,134,835, which remains available under this facility until the end of July 2009.

Import Credit Facility under the Guarantee of the Commodity Credit Corporation/GSM-102 Program

The U.S. Department of Agriculture ("*USDA*") has authorized credit guarantees for U.S. Dollar financing of agricultural commodities imported to Lebanon under the Commodity Credit Corporation's Export Credit Guarantee Program (GSM-102). From 1999 to 2001, the USDA approved U.S.$10 million per year in GSM-102 credits for Lebanon.

On March 28, 2002, the Bank and The Bank of New York Mellon signed an agreement under which The Bank of New York Mellon offered the Bank a credit facility up to U.S.$20 million for the purpose of financing exports of American grain to Lebanese buyers. The facility is supported by guarantees assigned to The Bank of New York Mellon by the Commodity Credit Corporation. The GSM-102 program provides support for credits extended by the private banking sector in the United States (or, less commonly, by the United States exporter) to approved foreign banks using U.S. Dollar-denominated, irrevocable letters of credit for purchases of food and agricultural products from the United States by foreign buyers. The USDA's Foreign Agricultural Service administers the program on behalf of the CCC, which issues the credit guarantees. The GSM-102 program covers credit terms of up to three years of the USDA under its Export Credit Guarantee Program (GSM-102). Under this facility, disbursements must be made to refinance drawings under commercial letters of credit issued by the Bank and advised or confirmed by The Bank of New York Mellon in favor of the U.S. supplier. Each loan under the facility bore interest at the annual rate of six-month LIBOR plus 0.20%, which is payable semi-annually. Repayments are made in six equal semi-annual installments over a period of three years from the date falling six months after the date of export.

The line was fully used through several disbursements made between May 2002 and June 2003, maturing respectively, in 2005 and 2006. Two additional drawdowns were made in 2005, which matured in February and April 2008 and were repaid in accordance with their terms.

OPEC Fund for International Development

In October 2001, the Bank signed an agreement with the OPEC Fund for International Development, pursuant to which the Bank was permitted to borrow up to U.S.$5 million over seven years to finance projects undertaken by small and middle market enterprises. The loan was fully drawndown in January 2002 and matured in installments, with a final maturity in February 2009. The interest rate on the loan is equal to six-month LIBOR plus 225 basis points. Eligible projects are the purchase or rehabilitation of fixed assets.

European Investment Bank

In 1998, 1999 and 2007, respectively, the EIB granted the Republic of Lebanon three APEX Global loans. The first two loans are in the amount of EUR 30 million each, while the third loan is in the amount of EUR 60 million. These loans were disbursed, respectively, to provide financing for the hotel sector in Lebanon, financing for the expansion, modernization and rehabilitation of the industrial plants and financing for several other sectors of the economy. All APEX Global loans are managed by *Banque du Liban*. The proceeds were on-lent to eligible SMEs through 14 major Lebanese commercial banks (acting as intermediary banks), including the Bank.

Within this framework, the Bank signed three agreements with *Banque du Liban* dated November 19, 2003, February 19, 2004 and October 8, 2007, respectively, granting the Bank the right to drawdown specific amounts under each loan, with maturities of 10, 8 and 12 years, respectively, subject to annual payments of principal and interest. In each case, interest is calculated in line with the average LIBOR rate paid for Euros or U.S. Dollars, as the case may be, in effect on the date of the disbursement. The Bank has made several further drawdowns of the three types of financings, most of which mature in 2020.

On December 22, 2005, the Bank and the EIB signed a finance contract, without the need of a state guarantee, in the amount of EUR 50 million for the financing of small and medium-sized private sector projects approved by the EIB and to be carried out by private sector enterprises located in Lebanon, as well as selected public sector infrastructure investments. The credit line was made available to the Bank on January 22, 2006. The loan bears interest at the annual rate of 6.13%, which is payable semi-annually, and is repayable in annual installments of principal from January 23, 2009 through January 23, 2016.

On April 27, 2006, Byblos Bank Syria signed an agreement with the EIB, the Syrian Bank of Commerce and the Unit of Finance Management for Small and Medium Syrian Enterprises FMU for a loan in the amount of EUR 40 million, pursuant to a program submitted by the EIB to Syria for the financing of long-term development projects. The loan finances investment projects in the industry, agriculture industry, tourism and services sectors (excluding local and foreign trade, real estate and car trade).

On December 20, 2007, Byblos signed a second finance contract with the EIB, without a state guarantee in the amount of U.S.$87 million, with the objective of promoting economic growth and sustainable employment in all the productive sectors of the Lebanese economy. The credit line was made available to the Bank on January 10, 2008. Each loan bears interest at the annual rate of 5.975% and is repayable in semi-annual installments of principal from January 10, 2012 through January 10, 2018 (in the case of the 2006 loan) and July 10, 2012 through July 10, 2018 (in the case of the 2007 loan).

Netherlands Finance Development Company ("FMO")

In 2000, the Bank entered into a ten-year loan agreement with FMO, pursuant to which the Bank was permitted to borrow up to U.S.$15 million to finance medium and small scale enterprises. The loan was fully disbursed in November 2000 and is repayable in installments commencing in September 2003 and ending in March 2010. The interest rate on the loan is equal to six-month LIBOR plus 287.5 basis points.

Citibank Loan Guaranteed by OPIC

In January 2007, the Bank signed an agreement with Citibank for a loan in the amount of U.S.$50 million in two tranches of U.S.$45 million ("*Tranche A*") and U.S.$5 million ("*Tranche B*"), each guaranteed by OPIC. The purpose of this loan is to provide financing to SMEs, housing loans in amounts up to U.S.$120,000 and consumer loans. Both Tranche A and Trance B of the loan originally bore interest at an annual rate of six-month LIBOR plus 1.75%. In August 2007, the interest rate applicable to each tranche was converted to a fixed rate basis, such that, as at the date of this Offering Circular, the Tranche A loan now bears interest at a fixed annual rate of 7.100% and the Tranche B loan now bears interest at a fixed annual rate of 8.525%. The Tranche A loan is repayable in 28 consecutive semi-annual installments commencing on July 22, 2008 through its final maturity on January 23, 2022, while the Tranche B loan is repayable in 12 consecutive semi-annual installments commencing on July 22, 2008 through its final maturity on January 22, 2014.

Certificates of Deposits

In 2004, the Bank issued U.S.$78 million in certificates of deposit due July 2009, which bear interest at an annual rate of 6.5% payable semi-annually.

In 2009, the Bank issued U.S.$101.15 million in certificates of deposit due March 2012, which bear interest at an annual rate of 6.5% payable quarterly, and U.S.$40.45 million in certificates of deposit due March 2014, which bear interest at an annual rate of 7.25% payable quarterly.

Index-Linked Notes

In October 2004, the Bank raised U.S.$50 million through the issuance of index-linked notes due October 2009. The index-linked notes bear interest at an annual rate of 7%, payable semi-annually during the first four years of the life of these securities, with no interest accruing or payable in the final year of the term. The repayment of 95% of the principal amount is guaranteed at maturity, while holders also have the right to receive an unlimited additional potential return representing 50% of the positive performance of a portfolio of six international market indices.

Equity-Linked Notes

In August 2005, the Bank raised an additional U.S.$50 million through the issuance by Byblos Invest Bank of equity-linked notes, which mature in August 2010. This innovative five-year structured product comprises bonds, the repayment of which is tied to a basket of ten shares of well-known international firms. The equity-linked notes bear interest at the annual rate of 8% payable semi-annually. Interest paid on the equity-linked notes is tax exempt, based on Byblos Invest Bank's status as a specialized bank. The repayment of 95% of the principal amount is guaranteed at maturity, together with an amount equal to the sum of the two highest annual average performances of the ten shares comprising the basket.

Commodity-Linked Notes

In September 2006, the Bank raised an additional U.S.$6.5 million through the issuance of commodity-linked notes, which mature in September 2009. This new three-year structured product bears interest at the annual rate of 8% payable quarterly, subject to increase to a rate of 16% for the third year if the performance of the index of five commodities is positive. The repayment of 95% of the principal amount is guaranteed at maturity.

9% Subordinated Participating Notes

In July 2002, the Bank issued its Subordinated Participating Notes, in an aggregate principal amount of U.S.$100 million. The Subordinated Participating Notes have a stated final maturity of June 2012. The Subordinated Participating Notes bear fixed interest at a rate of 9% per annum, payable quarterly, and may bear contingent interest, payable annually, at a rate, not exceeding 6% per annum, equivalent to 5% of the adjusted annual net income of the Bank.

In May 2006, the Bank commenced an offer to purchase (the "*Subordinated Notes Purchase Offer*"), for cash, any and all of its Subordinated Participating Notes, validly tendered by holders and accepted for purchase by the Bank, at a price equal to 106% of the principal amount thereof, plus any accrued and unpaid fixed interest, and any accrued and unpaid contingent interest (as determined in accordance with the terms and conditions of the

Subordinated Participating Notes), in each case, to, but not including, the date of purchase. On June 7, 2006 and in accordance with the Ordinary General Meeting held on April 20, 2006, the Bank redeemed 68,731 subordinated notes in an aggregate principal amount comprising 68.7% of the total amount in issue.

Convertible Subordinated debt

In November 2007, the Bank obtained a U.S.$200,000,000 6.5% subordinated loan, which was financed by the issuance by The Bank of New York, in its fiduciary capacity, of U.S.$200,000,000 6.5% Convertible Fiduciary Notes due 2012, which are convertible into Common Shares of the Bank. Holders of Fiduciary Notes have the right to convert Fiduciary Notes held by them into Common Shares on a quarterly basis and following certain extraordinary events at a price of U.S. $2.25 per Common Share. In January 2008, a holder of Fiduciary Notes exercised its right to convert U.S.$27 million in nominal amount of Fiduciary Notes, together with accrued interest thereon, into Common Shares. As a result of this conversion, 12,088,834 new Common Shares were issued increasing the share capital of the Bank by LBP 14,506,600,800 (U.S.$9,622,952) to LBP 508,963,536,000. As at the date of this Offering Circular, U.S.$173 million in nominal amount of Fiduciary Notes remains outstanding.

In addition, each holder of Fiduciary Notes, acting singly, has the right to cause The Bank of New York, in its capacity as lender under the Subordinated Loan, to exercise the rights granted to it by the Bank to subscribe, on a priority basis, to (i) any capital increase (other than any such capital increase that results in an adjustment of the conversion price in accordance with the terms of the Subordinated Loan) or (ii) any new issue of convertible loans or convertible bonds, to the extent necessary to permit such holder to maintain its *pro rata* ownership interest in the Bank, assuming that such holder had, at the time of such subscription, previously converted the aggregate outstanding nominal amount of Fiduciary Notes held by it into Common Shares in accordance with the terms thereof. Upon becoming aware that it is entitled to exercise any priority subscription rights in respect of a particular capital increase or new issue of convertible loans or convertible bonds, the Fiduciary (or its agent) shall give written notice of such rights to the holders, including relevant details of the subject offering, whereupon the holder shall give its written notice to the Fiduciary indicating (among other things) the aggregate nominal amount of Fiduciary Notes held by such holder and the maximum amount which such holder wishes to subscribe.

To the extent that any holder of Fiduciary Notes is unable to benefit from any such priority subscription rights granted to The Bank of New York, in its capacity as lender under the Subordinated Loan, Byblos Invest Holding has agreed that, subject to the approval of the Central Bank, to the extent required, and to all applicable fiscal or other laws and regulations, and provided that Byblos Invest Holding shall have received timely notice from such holder that it wishes to participate in such capital increase, Byblos Invest Holding shall (i) exercise its pre-emptive rights in connection with the relevant capital increase in a manner sufficient to accommodate the participation of such holder and (ii) assign such rights to each electing holder (on a proportional basis) at no additional consideration.

Customers' Deposits

Customers' deposits comprise the substantial majority of the Bank's funding sources.

Customers' deposits grew by 15.2% in 2008 to LBP 12,606.9 billion (U.S.$8,362.8 million) as at December 31, 2008, as compared to LBP 10,948.1 billion (U.S.$7,262.4 million) as at December 31, 2007. Customers' deposits constituted 77.2% of total funding as at December 31, 2008, as compared to 79.5% as at December 31, 2007.

Customers' Deposits by Currency

The following table shows the breakdown of the Bank's deposits by currency, as a percentage of total deposits, as at December 31, 2007 and 2008:

	As at December 31,	
	2007	**2008**
	(% of total)	
Deposits in LBP	25.27	34.62
Deposits in foreign currencies	74.73	65.38
Total	**100.00**	**100.00**

Customers' deposits denominated in foreign currencies denominated in foreign currencies constituted 65.4% of total customers' deposits as at December 31, 2008, as compared to 74.7% as at December 31, 2007.

The Bank fixes the interest rates it offers on foreign currency deposits by reference to the relevant LIBOR plus an appropriate margin, taking into account the rates offered by its competitors in Lebanon. The Bank sets its own rate for Lebanese Pound deposits regularly by reference to Lebanese Pound Treasury bill rates, general market conditions and the rates being offered by its competitors in Lebanon. The Lebanese Pound deposit rates are communicated to branch managers who are given limited discretion to vary rates within a specified margin in order to take account of competing rates offered locally.

Customers' Deposits by Type of Accounts

The following table shows the breakdown of the Bank's customers' deposits, by type of accounts, as at December 31, 2007 and 2008:

	As at December 31,			
	2007		**2008**	
	(LBP million)	*(% of total)*	*(LBP million)*	*(% of total)*
Current deposits	1,309,826	11.97	1,528,408	12.12
Time deposits	2,708,376	24.74	3,317,235	26.31
Saving accounts	6,747,530	61.63	7,597,825	60.27
Blocked deposits.	57	0.00	-	0.00
Related parties' deposits	122,906	1.12	106,472	0.85
Accrued interest	59,413	0.54	56,940	0.45
Total	**10,948,108**	**100.00**	**12,606,880**	**100.00**

As at December 31, 2008, the Bank's customers' deposits were comprised 86.6% of time and savings deposits, as compared to 86.4% as at December 31, 2007. Time deposits increased from 24.7% of total customers' deposits as at December 31, 2007 to 26.3% as at December 31, 2008, while saving deposits decreased from 61.6% as at December 31, 2007 to 60.3%as at December 31, 2008.

Maturity Profile of Customers' Deposits

The following table shows the maturity payable of the Bank's customers' deposits as at December 31, 2007 and 2008:

	As at December 31,			
	2007		**2008**	
	(LBP million)	*(% of total)*	*(LBP million)*	*(% of total)*
Less than 1 month	8,134,555	74.30	8,781,435	69.66
1 month to 3 months	1,226,831	11.21	1,647,919	13.07
3 months to 1 year	1,242,934	11.35	1,762,893	13.98
1 year to 5 years	269,571	2.46	343,257	2.72
Over 5 years	74,217	0.68	71,376	0.57
Total	**10,948,108**	**100.00**	**12,606,880**	**100.00**

Almost all of the Bank's customers' deposits are short-term, with deposits having a remaining maturity of less than one year representing 96.7% and 96.9% of total customers' deposits as at December 31, 2008 and December 31, 2007, respectively.

Asset and Liability Management

Interest rate risk management and trading activities are managed by the Bank's Asset and Liability Management Committee (*"ALCO"*). The primary objectives of ALCO are to ensure that the level of interest rate and foreign exchange risk are within the regulatory limits, to maximize the Bank's net interest income, to provide adequate liquidity and to maximize the return on the Bank's capital net of fixed assets. ALCO is comprised of the Head of Finance and Administration Division (who acts as chairman of ALCO), the Head of the International Banking Division (who acts as vice-chairman of ALCO), the Vice-Chairman, the Head of the Commercial Banking Division, the Head of the Consumer Banking Division, the Head of the Group Risk Management Division, the Head of the Treasury Department and the Head of the Financial Institutions Department.

Daily exceptions reports in relation to transactions in excess of agreed limits and deposits and withdrawals are sent to the Chairman, the Audit Department and the Assistant General Manager in charge of the Treasury Department. In addition, the Audit Department monitors treasury activity, branch operations and operational risk and conducts reviews of loan documentation. The Audit Department reports directly to the Chairman.

In order to measure its interest rate sensitivity, the Bank uses static gap analysis. Assets and liabilities are categorized based on their respective maturities and based on their currency. In addition, a dynamic gap analysis is performed annually to project any future mismatch in interest rates.

As with many banks in Lebanon, the Bank's Lebanese Pound assets are not matched, in terms of maturities, on the liability side. As at December 31, 2008, the average life of customers' deposits, the Bank's primary source of funding in Lebanese Pounds, was approximately 100 days, whereas the average duration of its Lebanese treasury bill portfolio was 950 days. The Bank's ability to manage its interest rate risk is limited as a result of these circumstances. The Bank generally is more able to match maturities in its U.S. Dollar-denominated assets. Interest rate risk on foreign currency loans is insignificant, however, as virtually all such loans are made at floating rates of interest.

As at December 31, 2008, the ratio of loans to deposits in Lebanese Pounds was 10.4%, while the ratio of loans to deposits in foreign currencies was 45.5%. At the same date, 39.4% of loans outstanding and 3.3% of customers' deposits had maturities of over one year.

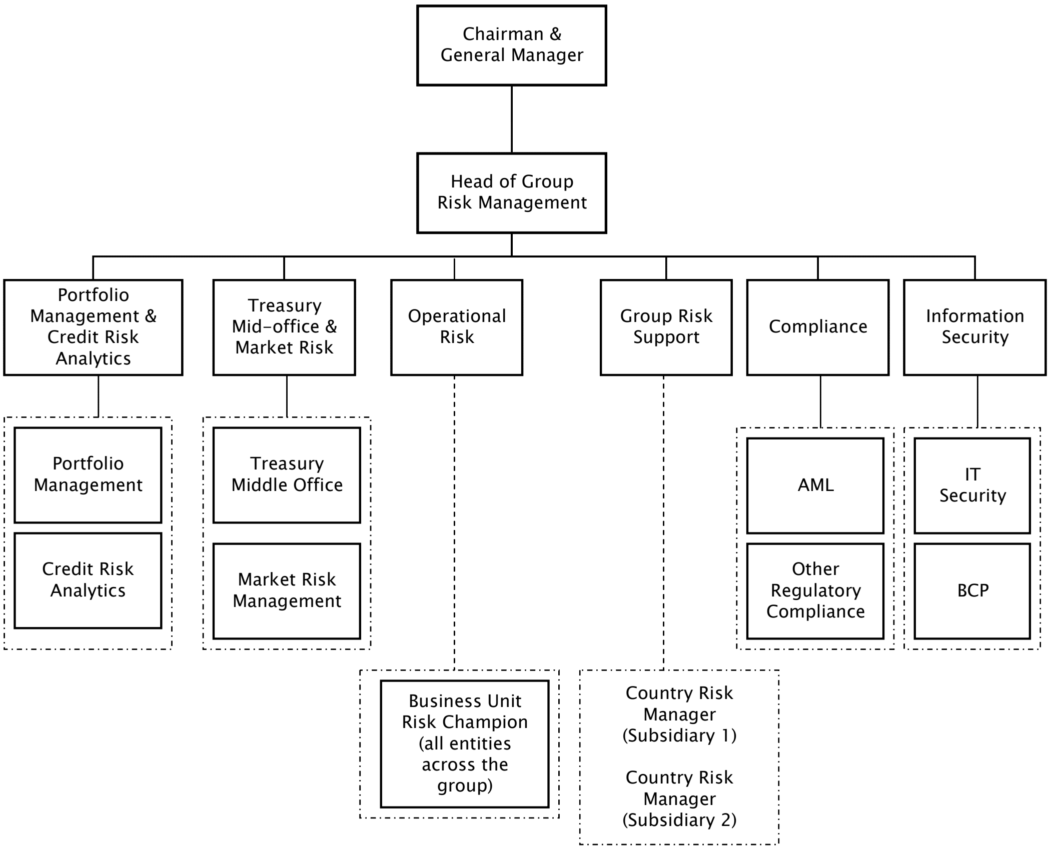
Risk Management

The Group Risk Management function ("*GRM*") at the Bank was defined in early 2004 to handle measurement and the management of the risks facing the Bank. The GRM is broadly following the guidelines of the Basel II Accord to measure and assess the risks identified under Pillars 1 and 2 (*i.e.*, credit, operational and market risks) as well as interest rate risk, liquidity risk and credit concentration (by borrower, group of connected borrowers, industry and country).

The Bank is currently implementing the FinStudio tool for the calculation of its capital adequacy ratio in accordance with Basel II rules, starting with the standardized approach. FinStudio will be implemented throughout the Bank's group for both stand-alone reporting at each subsidiary and consolidated reporting.

In January 2008, the GRM has established a risk management charter, which sets out the appropriate organization structure to manage the Bank's strategic, operational and financial and compliance risks. The GRM charter is also expected to aid the Bank in achieving its business objectives and compliance with internal and external laws and regulations. The Charter will be evaluated annually and updated, as necessary, by the AML/CFT Committee.

The organization chart of the GRM is illustrated below:



Portfolio Management and Credit Risk Analytics (PMCRA)

Since 2003, the Bank has been applying Moody's Risk Advisor – MRA™ ("*MRA*"), an international platform that rates the credit risk of the Bank's commercial loan portfolio. MRA is a judgmental, multi-criteria model formed of 10 grades and a multitude of financial and business criteria. As at the date of this Offering Circular, MRA is used to rate borrowers in the corporate, middle market (SME) and international segments in Lebanon, as well as borrowers in Byblos Bank Syria, Byblos Bank Armenia and Byblos Bank Europe; the Bank intends to implement MRA in its other operations over time. The corporate portfolio, defined according to local regulations by annual turnover exceeding U.S.$5 million, encompasses trade and manufacturing, services, contracting and real estate, project finance and syndicated loans. The Bank is currently undertaking the customization of MRA to adapt its predictive power to the Lebanese environment and the Bank's internal credit culture. The project takes account of the specific characteristics of each business line, in terms of size and scope of the companies and the industry structure. The Bank aims to achieve in the medium term consistent ratings for every company and individual belonging to its commercial loan portfolio.

The GRM has started updating the Bank's credit policies and procedures' manual to include framework for the measurement and management of expected and unexpected credit losses. Currently, the Bank's credit loss history database contains records for only a few years and is insufficient to create properly-validated scales for probability of default and loss given default measurements; the scales are being supplemented with Basel II guidelines and assessments that take account of environmental conditions in order to create realistic probability of default and loss given default scales.

Although the use of retail scorecards has been limited to date, the GRM has built an extensive retail loss database (encompassing consumer loans (personal loans and auto loans), credit cards and housing loans), which has enabled it to calculate retail probabilities of default and loss given defaults and thereby monitor the performance of the Bank's different retail products.

Interest Rate, Exchange Rate and Liquidity Risk

Interest rate risk, exchange rate risk and liquidity risk are managed by the ALCO.

Operational Risks

In order to recognize operational risk as a distinct risk function with its own discipline and principles and establish a group-wide framework to manage this risk, the Bank established an independent Operational Risk Management Department ("*ORM*"). The ORM created a set of policies to outline the Bank's operational risk strategy, governance and approaches for identifying, assessing, monitoring and mitigating operational risk.

Operational risk management is a decentralized function, and management at all levels in the organization is responsible for managing this risk. In order to help management fulfill this role in a consistent manner, the Bank has established a number of mechanisms:

- *Loss reporting*: captures and reports losses across the business and support lines, which is necessary to perform root-cause analysis about loss events and recommend remedial actions to minimize similar reccurrence; and

- *Risk and control assessment*: a structured approach that helps the business and support lines to identify and assess their operational risk, including assessment of related controls inherent in existing or new products, processes, activities or systems, which is paramount for enhancing the Bank's internal controls in the Bank.

The Bank is in the process of implementing the key risk indicators tool, which permits the Bank to monitor its operational risk profile through identification of certain key indicators. The key risk indicators tool is designed to give early warning signals to management on the level of operational risk in the Bank's activities and over time builds trend analyses for improved monitoring.

Risk Governance

The Bank currently has five senior management committees dealing with risk related issues: the Risk Committee, the Assets and Liabilities Management Committee, the Operational Risk Management Committee, the Anti-Money Laundering Committee and the Information Security Committee. See "*Management and Employees—Committees—Risk Management Committees*".

Liquidity and Reserves

The Bank believes it has sufficient liquid assets to meet foreseeable liability maturity requirements. As at December 31, 2008, the Bank's total loan portfolio (net of provisions) comprised 24.85% of total assets and liquid assets (comprised of cash, reserves and placements held with *Banque du Liban*, Lebanese treasury bills, placements with banks and marketable securities) comprised 70.7% of total assets. The Bank focuses its liquidity policy towards meeting customers' demands to withdraw deposits, servicing debt obligations and providing funds to satisfy the demand for lending.

Short-term liquidity needs are managed by maintaining cash and overnight deposits in the local interbank market. Seasonal liquidity needs are managed by maturing Lebanese treasury bills and short-term deposits with local banks, including *Banque du Liban*. *Banque du Liban* will, to the extent necessary, provide additional liquidity in the Lebanese banking sector by discounting Lebanese treasury bills, thereby effectively acting as a lender of last resort.

Structural liquidity needs arising from changes to the composition of the Bank's assets, in particular, the longer maturity of its loan portfolio, are being satisfied by the provision of longer-term funding. See "—*Funding Sources*." Excluding the reserve requirements, surplus liquidity is invested on a short-term basis with large international banks.

The table below sets forth a breakdown of the liquid assets of the Bank, expressed as a percentage of total assets, as at December 31, 2007 and 2008:

	As at December 31,	
	2007	2008
	(%)	
Cash and banks	40.96%	41.92%
Lebanese treasury bills	29.83%	26.49%
Fixed income securities	0.86%	2.28%
Total	**71.65%**	**70.69%**

Banque du Liban requires banks operating in Lebanon to maintain 15.0% of their term Lebanese Pound customers' deposits as cash reserves with *Banque du Liban*, which do not earn interest. Lebanese banks are also required to maintain 25.0% of their demand Lebanese Pound customers' deposits as additional non-interest-bearing cash reserves with *Banque du Liban*.

Banque du Liban requires banks operating in Lebanon to maintain 15.0% of their foreign currency deposits as reserves with *Banque du Liban*. The banks may select the maturity of the deposits placed with *Banque du Liban* as reserves; these deposits bear interest at varying rates in accordance with their tenor.

The Bank believes that, as at the date of this Offering Circular, it is in compliance with all of *Banque du Liban*'s reserve requirements.

Anti-Money Laundering

The Bank recognizes the global problem of money laundering and has implemented organizational and supervisory initiatives to combat money laundering, the financing of terrorism, and other criminal or illegal activities.

In 2001, the Lebanese government issued Law No.318 (fighting money laundering) in which money laundering, terrorism and illegal activities are clearly defined as illegal. This law established the "Special Investigation Commission" and gave it the right to access suspicious accounts. The law also describes certain means for the prevention of money laundering and penalties, including imprisonment, fines and the retention of suspicious funds of non-complying institutions and persons.

Banque du Liban issued several circulars concerning money laundering and terrorism financing and has established regulations and measures to prevent dealings with shell banks and identify and report illegal operations and suspicious customers to the "Special Investigation Commission" established at *Banque du Liban*.

In 2002, the Bank established its Anti-Money Laundering and Compliance Committee (the "*AMLC*") with the mission to ensure that the Bank complies with applicable anti-money laundering laws and regulations.

Inspired by Basel committee consultative document "Customer Due diligence for Banks" the AMLC adopted the Bank's "Know Your Customer" ("*KYC*") policy, which has been implemented within the Bank and all of its subsidiaries and affiliates.

The objectives of the Bank's KYC policy consist of:

- Determining the true identity of all counterparties requesting the Bank's services through a suite of predetermined identity documents and creating a complete customer profile designed to allow the Bank to understand all facets of a customer's intended relationship with the Bank and thereby determining when transactions are responding to the real needs of the customer or if these may be suspicious or potentially illegal.

- Increasing compliance with all applicable anti-money laundering laws and regulations in conformity with international and local industry standards for the purpose of adhering to sound and recognized banking practices;

- Decreasing the likelihood of illegal activities being perpetrated against the Bank by customers or counterparties and assisting the Bank's customers in identifying such acts that may be perpetrated against them;

- Protecting the good name and reputation of the Bank and its customers; and

- Improving the quality of services provided by the Bank to its customers.

No operations may be conducted for the benefit of or on behalf of any entity that is not a customer of the Bank, which should provide all information required by the Bank's KYC policies.

Internal Audit

The Bank's Group Internal Audit Division is responsible for identifying and quantifying risk, providing independent appraisals of internal control systems, adding value to business initiatives and supporting the development of a sound control culture throughout the Bank. The Group Internal Audit Division has sufficient authority and independence to effectively achieve its responsibilities. The role of the Group Internal Audit Division has evolved with the expansion of the Bank in order to cover all countries where the Bank has expanded.

In order to maintain full independence, the Group Internal Audit Division has no direct authority or responsibility for any of the activities it audits. In addition, personnel within the Group Internal Audit Division are granted the right of unrestricted direct access to all Bank properties, records, information and personnel to the extent they deem necessary to meet the audit objectives.

The Group Internal Audit Division currently reports directly to the Audit Committee and the Chairman of the Bank.

The Group Internal Audit Division consists of three main departments: the Credit Audit (Credit Review) Department, the Operations Audit Department and the Information Technology Audit Department, as well as an Inspection and Investigation Unit. Each department is staffed with qualified professional auditors, who perform their work according to the Professional Practice Framework of the Institute of Internal Auditors. The Group Internal Audit Division currently consists of 26 experienced auditors; it is expected that the Bank will hire additional professionals especially in the Operations and Information Technology Audit Department.

The Credit Audit (Credit Review) Department's main functions are to provide an independent evaluation of the credit portfolio and approval process, the adequacy of credit policies, practices and procedures and the existing reporting system used to manage credit risk. It also reviews compliance with *Banque du Liban* and Banking Control Commission circulars and regulations.

The Operations Audit Department includes the Branch Audit Unit, the main functions of which are to undertake an efficient and cost effective internal audit of the branch network and to provide an independent assessment of the existing controls over customer operations and the reporting system used to manage operational risks. In addition, the Operations Audit Department also has a team whose main function is to give an independent evaluation of the controls over all banking activities centralized in the Head Office and subsidiaries, including the delivery of letters of credit and guarantee, treasury operations, money transfers, swift operations, human resources, accounting and other administrative activities.

The main functions of the Information Technology Audit Department are to provide an independent appraisal of controls over all software and hardware systems and applications used by the Bank and their compliance to local laws and regulations, to monitor and assess the development of new systems and changes to existing applications and to ensure the security, confidentiality and integrity of all the Bank's data.

Capital Expenditures

The tables below show the Bank's actual capital expenditures for the years ended December 31, 2007 and 2008.

	For the Years Ended December 31,	
	2007	2008
	(LBP million)	
Buildings	47,092	31,210
Fixed assets acquired in settlement of debt	19,089	5,719
Motor vehicles.	920	895
Furniture and equipment.	22,465	20,534
Total	**89,566**	**58,358**

In accordance with the Bank's strategic emphasis on retail banking, the Bank purchased real estate for its four new branches opened in 2007 at an aggregate cost of LBP 8.6 billion (U.S.$5.7 million), exclusive of furniture and fittings, and, in 2008, the Bank expended LBP 12.0 billion (U.S.$8.0 million) for the acquisition of additional new branch locations.

The tables below show the Bank's estimated capital expenditures requirements for the years ended December 31, 2009 and 2010.

	For the Years Ended December 31,[1]	
	2009	2010
	(LBP million)	
Land.	0	0
Premises in use for operations[2].	10,368	15,000
Rehabilitation of branches	13,454	10,000
Information technology	13,026	4,500
Furniture and equipment[3].	6,777	10,000
Motor vehicles.	157	750
Total	**43,782**	**40,250**

Notes:
(1) Unaudited.
(2) Represents the estimated remaining construction costs for the regional headquarters building.
(3) Represents the estimated cost for the furniture and installations for the regional headquarters building.

Generally, the Bank finances all its capital expenditure requirements from its own funds, and the Bank expects to provide for its capital expenditures in 2009 and 2010 in this manner.

Information Systems and Technology ("*IT*")

The Bank has always considered it crucial to maintain up-to-date management information systems to support its growth, and has continuously upgraded its information system. The Bank uses a world-class system, called Globus, throughout the Bank and its domestic and international subsidiaries and affiliates. Globus covers banking functions ranging from corporate banking and trade finance to retail-oriented banking. The Bank is currently upgrading Globus' core system to enhance its productivity and offer a variety of business functions such as syndicated loans, a fully-integrated retail system including scoring and management of workflow, and CRM-Datawarehouse capability.

The Bank's systems are all run directly from Beirut, a cost-effective measure that requires minimal IT investment in local and overseas branches. To enlarge its client offerings, the Bank has also implemented packages for all other non-branch delivery channels through the same full on-line real-time mode, which means that Steria Debit Card, Siebel Ebanking and Genesis IVR systems are fully operational and allow customers to conduct operations on a 24/7 basis. These packages have also allowed us to implement Peoplesoft HR System, a state-of-the-art human resources system that enables us to efficiently manage personnel through career planning, training and performance evaluations in a more scientific way. On the management level, the Bank has taken advantage of the core system and can deliver management reports, as per our Department heads' requirements, via a convenient internet interface. The Bank has made significant efforts to achieve full compliance with Basel II standards, by, among other ways, implementing FinStudio, a tool for the calculation of the Bank's capital adequacy ratio in accordance with Basel II rules. This tool has already been implemented in Byblos Bank Europe, and in the Bank's Head Office and the Bank is in the process of implementing this tool in its remaining subsidiaries.

To ensure system functionality with 99.99% high availability, the Bank has established a completely redundant infrastructure both for telecom and hardware, which is managed by a team of IT specialists on a 24/7 basis across the Bank's global network. A disaster recovery site designed to ensure that there is no disruption in the Bank's principal operations, mainly across the branches and businesses, is maintained in Jbeil Voie 13.

Competition

The market for financial and banking services in the Lebanese Republic is competitive. As at December 31, 2008, there were 53 active commercial banks (including nine branches of foreign banks in Lebanon), with 860 operational branches in Lebanon, 45 financial institutions, 12 investment banks and 13 specialised medium-and long-term credit banks, licensed by *Banque du Liban* to operate in Lebanon, which has a population of approximately 4.0 million people. These banks include large international financial institutions with access to larger and cheaper sources of funding. Competition to attract depositors and quality borrowers and to provide fee-based services to customers has been particularly intense since the end of the civil war in 1990. Due to the intensity of such competition and the increasing number of institutions offering financial and banking services in Lebanon, in common with other Lebanese banks, the Bank has experienced a decrease in its lending margins, especially in respect of retail loans. Depending on the continuing extent and intensity of the competition, in common with other Lebanese banks, the Bank's expenses may increase and its revenues may decrease.

As at December 31, 2008, based on unaudited financial statements of banks operating in the Lebanese Republic provided to Bankdata Financial Services WLL, the Bank ranked third among all banks operating in Lebanon with net profit of LBP 183,960 million (U.S.$122.0 million), total assets of LBP 16,941,252 million (U.S.$11,238 million), total equity (according to Bankdata calculation which excludes revaluation variance of other fixed assets and subordinated loans) of LBP 1,624,370 million (U.S.$1,078 million) total deposits of LBP 12,607,550 million (U.S.$8,363 million) and fourth in terms of aggregate customer loans of LBP 4,199,400 million (U.S.$2,786 million). See "*The Banking Sector and Banking Regulation in the Lebanese Republic—Banking Sector*".

Property

The Bank owns the property in which 53 of its branches are located and leases the premises for the remaining branches from unrelated third parties. In February 1999, the Bank moved its main branch and Head Office to a new building, the "Byblos Tower", in the Achrafieh business district in Beirut, which it owns and of which it is the sole occupant.

The Bank also owns five floors in the Aya Building in Dora (Metn region), which house the Metn Regional Management offices and the Banking Technology Division, as a well as the Aya branch.

The Netherlands Tower, which is also owned by the Bank and which is located in Achrafieh, accommodates the East Beirut Regional Management offices as well as the Risk Management Division, the Internal Audit Division, the Branch Distribution Management Division and the Economic Research & Analysis Department.

In 2007, the Bank completed construction of a new building in Jbeil. Major support activities (such as the accounting, financial control, trade finance, the back-office operations and transfers and payments operations) were moved to this new office by the second half of 2007.

Insurance

The Bank maintains insurance policies, which cover theft, forgery, cash in transit and forged and counterfeit currency, with its subsidiary, ADIR Lebanon. In addition, the Bank holds an insurance policy with ADIR Lebanon covering buildings, fixtures and fittings, computer equipment and motor vehicles. As is the case with many banks and companies in Lebanon, the Bank's insurance policies do not provide the same level of coverage as would be normally provided in the United States or Europe, as Lebanon's recent history has resulted in insurance premiums being so high as to make full coverage uneconomical. The Bank is subject to the additional risk that the policies are issued by its subsidiary; however, a significant percentage of the risk is reinsured.

Transactions with Related Parties

Transactions between the Bank and related parties are subject to the limitations set forth in Article 152 of the Lebanese Code of Money and Credit and Article 158 of the Code of Commerce (see "*—Lending Limits*") and must be authorized by a general meeting of shareholders in accordance with Articles 158 and 159 of the Code of Commerce, Article 152 of the Code of Money and Credit and *Banque du Liban* Decision N° 7776 dated February 21, 2001, as amended. Related parties are defined to include the Bank's shareholders, Directors and Managers and companies with common directors with the Bank. Advances and credit facilities to related parties may not exceed 5% of shareholders' equity and must be secured and must be approved by the Bank's shareholders at a General Meeting. See "*The Banking Sector and Banking Regulation in Lebanon—Banking Regulations—Related Party Transactions*". Any amount of loans in excess of these limits is deducted from the Bank's equity for purposes of computing the capital adequacy ratio and other equity-related ratios. In addition, *Banque du Liban*'s Decision N° 7156 dated November 10, 1998 provides that inter-bank deposits among banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25% of Tier I Capital.

The following principal transactions between the Bank and related parties were entered into or were in effect during 2007, as applicable. All transactions between the Bank and related parties have been duly approved by the Bank's shareholders and otherwise comply with applicable laws and regulations.

The following table sets forth certain information with respect to debt and credit balances of related parties as at December 31, 2008 and 2007:

	As at end of December 31,	
	2007	**2008**
	(LBP million)	
Loans and advances (net of provisions)	11,738	12,017
Deposits	122,906	106,472
Shareholders' credit balances	516	847
Interest received	670	841
Interest paid	9,073	5,783

As at December 31, 2008, 1,433 employees of the Bank had been granted loans from the Bank, which remained outstanding. All such loans were extended on standard market terms.

Legal Proceedings

The Bank is not involved in any litigation or arbitration proceedings, which, if determined adversely to the Bank, would have a material adverse effect on the Bank or its operations.

MANAGEMENT AND EMPLOYEES

Board of Directors

The administration of the Bank is conducted through the Board of Directors, which is presided over by the Chairman of the Board and composed of a minimum of three and a maximum of twelve members, each elected for a three-year term by the shareholders. Directors may be re-elected for any number of consecutive terms.

Lebanese law stipulates that the Board of Directors must be comprised of a majority of Lebanese nationals. Board members are jointly and severally liable to the Bank, shareholders and third parties for improper performance of their duties, for violations of the law, the Bank's By-laws or regulations and for any damage caused by fraud, abuse of authority or gross negligence.

The Board appoints two of its members as Chairman and Vice-Chairman. The Chairman of the Board of Directors, in his capacity as General Manager, has extensive powers to execute resolutions adopted by a General Meeting of shareholders of the Bank, undertake operations necessary for the daily functioning of the Bank and generally represent the Bank in its commercial activities. In the event that he is temporarily unable to perform his duties, the Chairman may delegate some or all of his powers to a member of the Board of Directors for a specific period of time, provided that the delegation is published in the Register of Commerce. In addition, the Chairman may delegate, subject to the approval of the Board of Directors, some of his managerial responsibility to another General Manager or managers. The Chairman remains personally responsible for such delegation.

According to the provisions of Article 153 of the Code of Commerce, the Chairman of the Board and the General Manager may represent the Bank in dealings with third parties, implement resolutions of the Board of Directors and conduct the daily business of the Bank, under the supervision and control of the Board.

The Board of Directors of the Bank is currently composed of twelve members, of which ten are non-executive directors and seven are independent, and ordinarily meets once every quarter. The official business address for each member of the Board of Directors is c/o Byblos Bank S.A.L., Byblos Tower Building, Elias Sarkis Avenue, Achrafieh, P.O. Box 11-5605, Beirut, Lebanon. As at the date of this Offering Circular, the Directors of the Bank, elected to serve until the annual Ordinary General Meeting to be held in 2010 to approve the financial statements of the Bank as at and for the year ending December 31, 2009, are as follows:

Dr. François S. Bassil

Chairman of the Board of Directors and General Manager since 1979; Director and co-founder of the Bank; Managing Director of Byblos Bank Europe; Chairman and General Manager of Byblos Invest Holding; Chairman of the Board of Byblos Bank Africa; Member of the Board of Byblos Bank Syria; and President of the Lebanese Bankers' Association (for the third time). Received Docteur en Droit from University of Louvain (Belgium). Has worked in the banking sector since 1960.

Mr. Semaan F. Bassil

Director since 1992; Vice-Chairman and General Manager; Chairman and General Manager of Byblos Invest Bank S.A.L.; Chairman and General Manager of ADIR Lebanon; Member of the Board of Byblos Bank Europe; Member of the Board of Byblos Invest Holding; Member of the Board of Byblos Bank Africa; and Chairman of the Board and General Manager of Byblos Bank Syria. Received a B.A. from Boston University (United States) and an M.B.A. from Cambridge University (United Kingdom). Has worked in the banking sector since 1990.

Mr. Samir A. K. Makdessi

Director since 2000; Dean of the Institute of Money and Banking at the American University of Beirut and ex-Minister of the Economy in Lebanon (1992); Professor of Economics at the American University of Beirut.

Mr. Ahmad T. Tabbarah

Director since 1999 and co-owner of Les Dunes S.A.L. (Lebanon).

Dr. Hassan N. Mounla

Director since 1992 and former President of Tripoli Chamber of Commerce. (Lebanon).

Mr. Bassam A. Nassar

Director since 1992; Member of the Board of *La Foncière Jbeil S.A.L.*; Chairman of the Board of Byblos Bank Europe; Member of the Board of Byblos Invest Holding; Director of Niger Biscuits (Lagos, Nigeria); and Director of Sleiman Nassar & Sons Ltd. (Lagos, Nigeria).

Mr. Faysal M.A. Tabsh

Director since 2000; Deputy-Chairman of Byblos Bank Europe; Member of the Board of Byblos Invest Holding; and Owner and General Manager of M.A. Tabsh (Kingdom of Saudi Arabia).

Mr. Moussa A. Maksoud

Director since 2003; Chairman of the Board of Adonis Brokerage House; General Manager of Byblos Invest Bank; and Member of the Board of Byblos Bank Europe.

Mr. Nasser H. Saidi

Director since 2006; Executive Director of the Hawkamah – Institute for Corporate Governance and Chief Economist of the Dubai International Financial Centre; former Minister of Economy and Trade and Minister of Industry of Lebanon (1998–2000); First Vice-Governor of the Central Bank for two successive mandates (1993–1998 and 1998–2003); Co-Chair, with the OECD, of the MENA Corporate Governance Working Group; former Member of the U.N. Committee for Development Policy for two mandates (2000–2006); has served as economic advisor and director to a number of central banks and financial institutions in the Arab countries, Europe and Central and Latin America; was a Professor of Economics at the Department of Economics of the University of Chicago, *the Institut Universitaire des Hautes Etudes Internationales* (Geneva) and the *Université de Genève* and was a lecturer at the American University of Beirut and the *Université Saint Joseph* in Beirut; holds a Ph.D. and an M.A. in Economics from the University of Rochester (United States), a M.Sc. from University College, London University and a B.A. from the American University of Beirut.

Mr. Abdelhadi A. Shayif

Director since 2006; Member of the Board, the Executive Committee, the Credit Committee, the Risk Management Committee and the Audit Committee; General Manager of the National Commercial Bank, Saudi Arabia (1999–2005); Member of the Board of Saudi Railroad Organization; Member of the Board of Saudi Cables Co., Jeddah; Member of the Board of Arab Cement (Jeddah); Member of the Board of Sab Scavel Co. (Riyadh); Member of the Board of Majed El Fatim Trust (Dubai); Member of the Board of Awal Bank (Bahrain); Member of the Board of Majdouhi Group (Al Dammam); Member of the Board of Attieh Group for Steel; Member of the Advisory Board of FWU (Munich); Member of the Advisory Board of BMG (Jeddah); Member of the Advisory Board of NBK Capital (Dubai).

Mr. Arthur G. Nazarian

Director since 2006; Businessman, Chairman – General Manager of Bycop S.A.L.; former Minister of Tourism of the Republic (1998).

Mr. Sami F. Haddad

Director since 2009; Chairman – General Manager of Byblos Invest Bank S.A.L.; former Minister of Economy and Trade of the Republic (2005 - 2008); former director at the International Finance Corporation.

Compensation and Benefits

In 2008, the Bank paid LBP 600 million (U.S.$398 thousand) as compensation and benefits for Board members, as approved at the General Meeting of Shareholders held on May 22, 2009. As at the date of this Offering Circular, no options for the purchase of any of the Bank's securities were held by any of the Directors.

None of the Bank's directors currently have service contracts with the Bank or any of its subsidiaries that provide for benefits upon termination of employment.

Senior Management

As at the date of this Offering Circular, the senior managers of the Bank (the "**Senior Managers**") were:

Dr. François S. Bassil

Chairman General Manager. See "*—Board of Directors—Dr. François S. Bassil*".

Mr. Semaan F. Bassil

Vice-Chairman-General Manager. See "*—Board of Directors—Mr. Semaan F. Bassil*".

Mr. Alain C. Tohmé

Deputy General Manager – Head of Commercial Banking Division. M.B.A. from Boston College (United States). Has worked in the banking sector since 1985. Worked at Byblos Bank Europe from 1985 to 1997. Has worked at the Bank in Beirut since 1997.

Mr. Nicolas S. Saliby

Assistant General Manager – Head of Credit Risk Management Division. B.A. in Management from Université du Saint Esprit, Kaslik (Lebanon). Has worked at the Bank since 1968.

Mr. Shadi A. Hanna

Assistant General Manager – Head of Treasury. B.A. of Science from the American University of Beirut (Lebanon). B.A. in Political Science from the Lebanese University (Lebanon). Has worked in the banking sector since 1970. Worked at Crédit Libanais from 1970 to 1971. Has worked at the Bank since 1971.

Mr. Alan F. Wanna, CFA

Assistant General Manager – Head of Finance and Administration Division. Masters in Money and Banking from the American University of Beirut (Lebanon). Has worked in the banking sector since 1992. Worked at British Bank of the Middle East from 1992 to 1993. Has worked at the Bank since 1993.

Mr. Fadi N. Nassar

Assistant General Manager – Head of Business Line (Commercial Banking Division). Civil engineer. M.B.A. from McGill University (Canada). Has worked in the banking sector since 1990. Worked at Bank of Boston (Canada) from 1990 to 1991 and at the National Bank of Canada from 1991 to 1995. Has worked at the Bank since 1995.

Mr. Philippe A. Saleh

Assistant General Manager – Head of Corporate Risk Management. DEA in Business Administration from Paris IX - Dauphine University (France). Has worked in the banking sector since 1980. Worked at Citibank from 1980 to 1988 and at Saudi National Commercial Bank from 1995 to 1998. Worked at the Bank from 1988 to 1995, before rejoining the Bank in 1998.

Mr. Raffoul E. Raffoul

Assistant General Manager – Head of Organization, Strategy and Operational Support Services. Qualified as Certified Public Accountant and Certified Internal Auditor. M.B.A. from the American University of Beirut (Lebanon). Has 16 years of international experience in accounting and auditing. Worked at Ernst & Whitney Beirut from 1987 to 1989, at Metalloplastica Holdings Lagos, Nigeria from 1987 to 1992, at Tilloston Corporation (USA) from 1994 to 1995 and at Ernst & Young Beirut from 1995 to 1999. Has worked at the Bank since 1995.

Mrs. Joumana F. Chelala

Assistant General Manager – Head of Consumer Banking. M.B.A. from the Lebanese American University (Lebanon). Masters in Marketing from *Ecole Supérieure des Affaires* (Lebanon). Has worked at the Bank since 1992.

Mrs. Renalda Hayek

Assistant General Manager – Head of Corporate Human Resources. Doctorate in Business Administration and Organizational Behaviour from Newport University. M.B.A. from Newport University. B.A. in Human Resources from London School of Economics. B.A. in Organizational Behaviour from the University of London. Has worked more than 18 years in the field of HR Management and Organizational Development and has occupied several HR Management positions in several institutions, including Cellis (France Telecom Mobile Liban) and Holcim Liban. Lecturer in Organizational Behaviour and Human Resources at Lebanese American University, Lebanese Canadian University and St. Joseph University. Has worked at the Bank since October 2008.

Mr. Walid J. Kazan

Senior Manager – Head of Internal Audit. Qualified as Chartered Accountant, Certified Internal Auditor. Certification in Control Self Assessment. Graduate Diploma in Chartered Accountancy from Concordia University (Canada). E.M.B.A. from *Ecole Supérieure des Affaires* (Lebanon). Worked at Ammar Cousineau Telio Hadid (Canada) from 1996 to 1997. Worked at Deloitte & Touche L.L.P. (Canada) from 1997 to 2000. Worked at National Bank Financial (Canada) from 2000 to 2002. Has worked at the Bank since 2002.

Compensation

In 2008, the aggregate compensation (excluding bonuses) paid to the Senior Managers of the Bank was LBP 6,262 million (U.S.$4.15 million), which constituted 5.1% of the aggregate compensation paid to all of the Bank's employees for such period.

Conflicts of Interest

There are no potential conflicts of interest between any duties of the members of the Board of Directors and Senior Managers of the Bank owed to the Bank and their private interests and/or other duties.

Employees and Training

The Bank values its human resources as an asset with a high return on investment. During 2008, the Bank recruited 401 employees, of which 245 were recruited by the Bank in Lebanon, eight for the Bank's branch in Erbil, 23 by Byblos Bank Africa, 79 by Byblos Bank Syria, nine by Byblos Bank Europe, two by Nigeria's representative office, 11 by ADIR Lebanon and 24 by ADIR Syria.

The Bank's turnover rate is low (about 3.7% in 2008) primarily due to its competitive compensation and benefits policies, as well as its strategy of promoting personnel from within to fill higher-level vacancies.

Management of the Bank's human resources is largely centralised at the Bank's Head Office in Beirut. The Human Resources Department is responsible for establishing and supervising the implementation of human resources strategy covering recruitment and staff development, compensation and benefits, training, performance and career management and personnel administration and communication, across all operations of the Bank. The Bank's policies, as reflected in a separate personnel policies and procedures manual adopted by each of the Bank and its affiliates, respectively, are in full compliance with all applicable local labour laws, tax regulations and social security rules

In 2008, the Bank implemented an integrated performance management system, developed in consultation with People Soft, which coordinates the Bank's strategy and operations and establishes key performance indicators for each function within the Bank.

Training ranges from induction programs and on-the-job training to in-house and external technical courses and local and overseas seminars. The principal programs offered in 2007 and 2008 comprised training in new systems and procedures, sales and customer services, leadership and management skills, legal aspects of banking operations, retail products and anti-money laundering. In addition, the Bank ran training programs for senior personnel, who in turn lead further training sessions for other employees, as well as individualized training programs for selected employees.

In Beirut, the Bank is a party to the Collective Work Contract, which is an agreement between the Association of Lebanese Banks and the Syndicate of Bank Employees. This contract is renewable on a yearly basis and supersedes labour laws to the extent it affords greater benefits to staff, principally in terms of minimum basic salaries, working hours, vacation and leave entitlement, education allowances for children of employees, family allowances, health care and end of service indemnity. Management believes the Bank's relationship with its employees is good. Apart from countrywide strikes, the banking sector has experienced very few strikes during the past eight years and the Bank itself has experienced no strikes other than sector-wide strikes.

Board Committees

The Bank has three Board committees, as follows:

- The Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Committee See "*—Overview of the Bank—Loans Approval Procedures— Risk, Compliance, Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Committee*";

- the Audit Committee; and

- the Nomination, Compensation, Remuneration and Communication Committee ("*NCRCC*").

The Audit Committee

The Audit Committee is composed of four directors, each of whom is required to be independent and appointed from amongst the non-executive directors. Audit Committee members serve for a period of three years. As at the date of this Offering Circular, the members of the Audit Committee are Mr. Moussa A. Maksoud (appointed as Chairman of the Audit Committee by the Board), Mr. Bassam A. Nassar, Dr. Samir A. Makdessi and Mr. Abdelhadi A. Shayif.

The Audit Committee meets at least four times a year. Two of these meetings are held at the same time as the preparation of the interim and year-end accounts. The principal focus of the other two meetings (or any other additional meetings) is to review the Bank's management control and internal audit functions and performance. The Audit Committee's function is to oversee the Internal Audit Division of the Bank.

The objective of the Audit Committee is to facilitate the effective surveillance by the Board of Directors of the implementation of the general strategy of the Bank.

The Audit Committee's oversight extends to the activities of the Bank in Lebanon, in addition to the Bank's foreign subsidiaries, including Byblos Invest Bank S.A.L. and Adonis Brokerage House S.A.L.

The Audit Committee assists the Board of Directors in the oversight of:

- the integrity of the Bank's financial statements;

- the assets and income of the Bank;

- the recommendation for the appointment of the external auditors and confirmation of their independence;

- the performance of the Bank's internal audit function and external auditor; and

- the compliance with the Bank's ethical standards, policies, plans and procedures, and with applicable laws and regulations.

The Audit Committee exists also to facilitate communication between the Directors, the Management Committee, Internal Audit, the Bank's statutory auditors and the Lebanese Banking Control Commission members.

The Audit Committee submits a report on the tasks accomplished to the Board of Directors once a year at the meeting of the latter preceding the Annual General Meeting of the shareholders. The Audit Committee is authorized by the Board of Directors to obtain outside legal or other independent professional advice and to ensure the attendance of advisers with relevant experience and expertise if it considers this necessary.

NCRCC

The NCRCC is comprised of three board members.

The NCRCC meets twice a year and at such additional times as may be necessary. The function of the NCRCC is to assist the Board in fulfilling its responsibilities with respect to matters involving compensation, remuneration and employee benefits of the General Manager and other senior executives of the Bank. The committee also establishes the principles for the selection of the candidates to the Board of Directors and identifies candidates for the election or re-election to the Board of Directors as well as nominees for each Board committee.

The NCRCC also assists in the development of communication strategies to the Bank's shareholders and assists with the positive information flow within the Bank.

As at the date of this Offering Circular, the members of the NCRCC are Mr. Abdelhadi A. Shayif (appointed as Chairman of the NCRCC by the Board), Mr. Ahmad T. Tabbara, Dr. Nasser H. Saidi.

Committees

In addition to the Board Committees, the Bank operates through a number of management level committees, as follows:

The Management Committee

The Management Committee is comprised of the Vice-Chairman (who acts as chairman of the Management Committee), the Head of the Group Commercial Banking Division (who acts as vice-chairman of the Management Committee), the Head of the Group International Banking Division, the Head of the Group Credit Risk Management Division, the Head of the Group Consumer Banking Division, the Head of the Group Finance and Administration Division, the Head of the Group Financial Markets Division, the Head of the Group Risk Management Division and the Head of the Group Organization, Strategy & Operational Support Services.

The Management Committee meets weekly at the Head Office of the Bank and has numerous functions and responsibilities with regards to the activities and operations of the Bank, including (among others) reviewing the financial performance of the Bank, overseeing and ensuring proper execution of the Bank's policies and procedures, setting the Bank's objectives and presenting them to the Board of Directors, recommending special business development projects (such as acquisitions, the opening of overseas subsidiaries or branches, entering into partnership agreements and similar significant transactions), and approving any organizational changes and significant capital expenditures.

Internal Audit Management Committee

The Internal Audit Management Committee is composed of the Head of the Group Internal Audit Division (who acts as chairman of the Internal Audit Management Committee), the Head of the Group Risk Management

Division (who acts as vice-chairman of the Internal Audit Management Committee), the Vice-Chairman, the Head of the Group Consumer Banking Division, and the Head of the Group Finance and Administration Division.

The Internal Audit Management Committee meets at the Bank's Head Office on an as-needed basis or upon the request of the President, provided that the Internal Audit Management Committee must meet at least once each quarter. The Internal Audit Management Committee is responsible for overseeing the development of the annual audit year plan and following up on its implementation, reviewing drafts of the annual and semi-annual audit reports prior to their submission to the Board of Directors and reviewing Banking Control Commission reports and taking appropriate action in respect of noted items. The Internal Audit Management Committee has also a disciplinary authority to address any clear violations of banking procedures.

Human Resources Committee

The Human Resources Committee (the "*HRC*") is composed of the Vice-Chairman (who acts as chairman of the HRC), the Head of the Group Commercial Banking Division (who acts as vice-chairman of the HRC), the Head of the Group Consumer Banking Division, the Head of the Group Credit Risk Management Division, the Head of the Group Organization, Strategy & Operational Support Services, the Head of the Group Human Resources Division and the Head of the Workforce Administration Department.

The HRC meets at least quarterly at the Head Office of the Bank. The HRC's mission is to ensure that the Human Resources Division's business plans, policies, procedures and activities are aligned with the Bank's overall mission, objectives and strategy. The HRC also manages and approves the Bank's grading and salary scale and approves the selection of training programs and seminars.

Banking Technology Committee

The Banking Technology Committee is composed of the Head of the Group Organization, Strategy & Operational Support Services (who acts as the chairman of the Banking Technology Committee), the Head of Management Information Systems and International Coordination Department (who acts as vice-chairman of the Committee), the Vice-Chairman, the Head of the Group Commercial Banking Division, the Head of the Group Finance and Administration Division, the Head of the Group Banking Technology Division, the Head of the Group Consumer Banking Division and the Head of the Group Risk Management Division.

The Banking Technology Committee meets monthly at the Bank's Head Office. The Banking Technology Committee establishes and monitors the Banking Technology Division's policies and procedures, covering all aspects of IT management, including the identification and implementation of new systems, user acceptance procedures, IT security and IT-related disaster recovery procedures.

International Committee

The International Committee is composed of the Group Organization, Strategy & Operational Support Services (who acts as chairman of the International Committee), the Head of the Group Finance & Administration (who acts as vice-chairman of the Committee), the Vice-Chairman, the Head of the Group Commercial Banking Division, the Head of the Group Risk Management Division and the Head of the Group Consumer Banking Division.

The International Committee meets once a month. The International Committee is mainly responsible for guiding and steering the expansion of the Bank in foreign countries, ensuring that sufficient support is provided by the Bank itself to its overseas banking affiliates and following-up on the overall performance of the overseas banking affiliates on a quarterly basis.

Credit Committees

The Bank has a number of credit committees with varying levels of authority for the approval of credit applications, including the AML/CFT Committee, the CCC, the MMCC, the Loan Recovery Committee, the Retail Credit Committee, the Small Lending Credit Committee and the Branch Credit Committee.

Risk Management Committees

The Bank currently has five senior management committees dealing with risk related issues: the Risk Committee, the ALCO, the Operational Risk Management Committee, the AMLC and the Information Security Committee.

Risk Committee

The Risk Committee is composed of the Head of the Group Risk Management Division (who acts as chairman of the Risk Committee), the Head of the Group Credit Risk Management Division (who acts as vice-chairman of the Risk Committee), the Vice-Chairman, the Head of the Group Commercial Banking Division and the Head of the Group Finance and Administration Division.

The Risk Committee meets monthly at the Bank's Head Office to review and monitor credit risk and policies. The Risk Committee also ensures that the Bank conforms to applicable Basel requirements and will oversee the Bank's implementation of policies designed to align the Bank's profile with the new Basel II norms.

Assets and Liabilities Management Committee (ALCO)

The ALCO is composed of the Head of the Group Finance and Administration Division (who acts as chairman of the ALCO), the Head of the Group International Banking Division (who acts as vice-chairman of the ALCO), the Vice-Chairman, the Chairman/General Manager of Byblos Invest Bank S.A.L., the Head of the Group Commercial Banking Division, the Head of the Group Consumer Banking Division, the Head of the Group Risk Management Division, the Head of the Treasury Department, and the Head of the Financial Institutions Department.

The ALCO meets weekly at the Bank's Head Office. Its main responsibilities involve managing the assets and liabilities of the Bank; developing strategies and risk assessment policies on the basis of the Bank's main objectives of controlling and limiting liquidity risk, interest rate risk, foreign currency risk and market risk in trading activity; monitoring compliance with approved regulatory ratios (capital adequacy and liquidity); and managing the Bank's securities portfolio and capital.

Operational Risk Management Committee

The Operational Risk Management Committee is composed of the Head of the Group Risk Management Division (who acts as chairman of the Operational Risk Management Committee), the Head of the Group Organization Strategy & Operational Support Services (who acts as vice-chairman of the Operational Risk Management Committee), the Vice-Chairman, the Head of the Group Consumer Banking Division, the Head of the Group Credit Risk Management Division and the Head of the Group Finance and Administration Division.

The Operational Risk Management Committee meets on a quarterly basis or more frequently depending on the urgency of the agenda items to be discussed. The Operational Risk Management Committee is mainly responsible for reviewing operational risk calamities; approving new products or an activities proposals involving high operational risks; setting risk tolerance for residual risks; approving the operational risk management framework, policies, and standards; approving economic capital allocation for operational risk; and supporting the creation of operational risk awareness culture within the Bank.

Anti-Money Laundering and Compliance Committee (AMLC)

The AMLC is composed of the Head of the Group Risk Management Division (who acts as chairman of the AMLC), the Head of the Group Consumer Banking Division (who acts as vice-chairman of the AMLC), the Vice-Chairman, the Head of the Group International Banking Division, the Head of the Group Operations Division and the Head of the Compliance Unit.

The AMLC is responsible for ensuring that the Bank is in compliance with anti-money laundering laws (including, in Lebanon, Law No. 318 dated 20 April 2001 and Central Bank Decision No. 7818 dated 18 May 2001) and that the Bank's internal anti-money laundering procedure and "Know Your Customer" policy is comprehensive and clear and followed by all Bank staff. The AMLC reviews all reports made by the Compliance Unit and decides whether to report any suspicious activity to the Special Investigation Commission of the Banking Control Commission.

The Committee meets at least once every four months at the Bank's Head Office or more frequently if required, or when any member calls for a meeting concerning a suspicious transaction or customer.

Information Security Committee

The Information Security Committee is composed of the Head of the Group Risk Management Division (who acts as chairman of the Information Security Committee), the Head of the Group Banking Technology Division (who acts as vice-chairman of the Information Security Committee) and the Vice-Chairman.

The Information Security Committee meets on a quarterly basis, or whenever deemed necessary. The Information Security Committee is mainly responsible for ensuring strategic alignment of information security for supporting organization objectives; executing appropriate measures to manage and mitigate risks and reduce potential impacts on information resources; measuring, monitoring and reporting information security governance metrics; and optimising information security investments in support of organizational objectives.

Corporate Governance

As at the date of this Offering Circular, the Bank is in compliance with applicable corporate governance rules of Lebanon.

THE BANKING SECTOR AND BANKING REGULATION IN LEBANON

Role of the *Banque du Liban*

Banque du Liban was created by the Law implemented by Decree No. 13513 dated 1 August 1963. *Banque du Liban* is a legal public entity with administrative and financial autonomy. It is considered a commercial institution in its relations with third parties. It is headquartered in Beirut and has branches in Tripoli, Jounieh, Saida, Zahle, Bikfaya, Aley, Tyre, Nabatiye and Baalbek. *Banque du Liban* is managed by a Governor assisted by four Vice-Governors, collectively constituting the Governorship of *Banque du Liban*. The Board of *Banque du Liban* is chaired by the Governor and composed of the Vice-Governors, the Director-General of the Ministry of Finance and the Director-General of the Ministry of Economy and Trade.

The Governor is appointed for six calendar years by decree from the Council of Ministers, acting on the proposal of the Minister of Finance. The Vice-Governors are appointed for five calendar years by decree from the Council of Ministers on the proposal of the Minister of Finance, after consultation with the Governor.

Banque du Liban's primary role is to safeguard the currency and promote monetary stability, thereby creating a sound environment for economic and social progress. *Banque du Liban* also advises the Government on various economic and financial matters. In conducting its monetary management function, *Banque du Liban* utilises a wide range of instruments, including reserve requirements on Lebanese Pound deposits with commercial banks, liquidity requirements on U.S. Dollar deposits with commercial banks and treasury bill repurchase and swap agreements with commercial banks, as well as Lebanese Pound and U.S. Dollar-denominated certificates of deposit issued by *Banque du Liban*.

As a result of high inflation prior to 1992, the Lebanese economy became substantially dollarised. Despite the decline in the rate of inflation, the proportion of foreign currency deposits (primarily in U.S. Dollars) remains high as a share of total deposits, at 69.57% as at December 31, 2008.

Banking Sector

As at December 31, 2008, there were 53 active commercial banks (including nine branches of foreign banks in Lebanon), with 860 operational branches in Lebanon, 45 financial institutions, 12 investment banks and 13 specialised medium-and long-term credit banks. Foreign banks are well represented in Lebanon and maintain branches in Lebanon or equity stakes in several Lebanese banks.

Unlike the banking sector in some other emerging market countries, the banking sector in Lebanon is generally acknowledged to be stable and financially strong, and plays a critical role in the economy as a whole.

The banking sector currently offers services related to short-term and, increasingly, medium-term financing. As medium-term funds become available to Lebanese banks (by way of loans from international organisations, such as the International Finance Corporation, the EIB and Proparco / *Agence Française de Développement*, or the issuance of debt securities on the international capital markets), commercial banks have begun to offer a variety of medium-term loans, such as residential mortgage loans, other consumer loans and several types of loans to corporate investors.

From March 1995, commercial banks were required to meet a minimum capital adequacy ratio of 8.0% in line with the Basel I Accord. In September 1999, *Banque du Liban* required banks to raise their capital adequacy ratios to 10.0% by December 31, 2000 and 12.0% by December 31, 2001. Law No. 192 dated January 4, 1993 facilitated bank mergers by, among other things, making banks eligible for soft loans from *Banque du Liban*. Such law was renewed until the year 2003. Pursuant to Law No. 675 dated February 14, 2005 published in the Official Gazette No. 8 dated February 24, 2005, the law facilitating bank mergers was reinstated for an indefinite period. Law No. 675 provided that the mechanism and criteria for granting soft loans to banks shall be set out by a Council of Ministers' Decree. During the past years, the capital of commercial banks in Lebanon has increased substantially. As at December 31, 2008, the average capital adequacy ratio was approximately 22% according to statistics compiled by *Banque du Liban*.

In addition, Parliament passed legislation to revitalise specialised banks (for housing, agriculture and industry). The Lebanese Republic's participation in the shareholding of these banks has been reduced to a minority stake.

In addition, Parliament passed laws relating to the listing of bank shares on stock exchanges and several banks currently list their eligible shares on the BSE.

The Bank considers the banks in Lebanon with customer deposits in excess of U.S.$2.0 billion to be its main competitors. The following tables set forth the rankings for selected criteria of the Alpha Group banks in Lebanon in as at December 31, 2007 and 2008, respectively:

Ranking by Customer Deposits

	December 31, 2007			**December 31, 2008**		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	21,555,905	21.02	1	26,031,076	22.28	1
BLOM Ban k S.A.L.	20,708,516	20.19	2	22,775,650	19.49	2
Byblos Bank S.A.L. [(1)]	**10,948,108**	**10.67**	**3**	**12,607,550**	**10.81**	**3**
Bankmed S.A.L.	10,538,379	10.28	4	11,208,895	9.59	4
Fransabank S.A.L.	9,306,113	9.07	5	10,778,950	9.23	5
Banque Libano Française S.A.L.	7,571,670	7.38	6	8,081,695	6.92	6
Bank of Beirut S.A.L.	5,480,780	5.34	7	6,078,606	5.20	7
Crédit Libanais S.A.L.	4,819,537	4.70	8	5,819,884	4.98	8
Lebanese Canadian Bank S.A.L.	4,523,276	4.41	9	5,296,703	4.53	9
B.B.A.C. S.A.L.	3,721,022	3.63	10	4,275,261	3.66	10
Société Générale de Banque au Liban (SGBL) S.A.L.	3,392,638	3.31	11	3,887,694	3.33	11
Total	**102,565,944**	**100.00**		**116,841,294**	**100.00**	

Source: Bankdata.

Notes:
(1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Offering Circular because the figures used by Bankdata are unaudited.

Ranking by Net Profits

	December 31, 2007			**December 31, 2008**		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
BLOM Bank S.A.L.	308,586	25.59	1	379,298	23.57	1
Bank Audi S.A.L. – Audi Saradar Group.	301,909	25.03	2	359,532	22.34	2
Bybos Bank S.A.L. [(1)]	**149,519**	**12.40**	**3**	**183,960**	**11.44**	**3**
Fransabank S.A.L.	91,703	7.60	4	134,842	8.38	4
Banque Libano-Française S.A.L.	83,933	6.96	5	107,501	6.68	5
Bankmed S.A.L.	60,646	5.03	7	106,197	6.60	6
Bank of Beirut S.A.L.	66,360	5.50	6	100,006	6.22	7
Cr é dit Libanais S.A.L.	46,048	3.82	8	78,519	4.88	8
Société Générale de Banque au Liban (SGBL) S.A.L.	19,955	1.65	11	66,299	4.12	9
Lebanese Canadian Bank S.A.L.	45,355	3.76	9	50,096	3.11	10
B.B.A.C. S.A.L.	32,025	2.66	10	42,877	2.67	11
Total	**1,206,039**	**100.00**		**1,609,082**	**100.00**	

Source: Bankdata.

Notes:
(1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Offering Circular because the figures used by Bankdata are unaudited.

Ranking by Total Assets

	December 31, 2007			December 31, 2008		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	26,107,626	20.57	1	30,770,524	21.46	1
BLOM Bank S.A.L.	25,067,014	19.75	2	26,930,126	18.79	2
Byblos Bank S.A.L. (1)	**14,299,830**	**11.27**	**3**	**16,941,252**	**11.83**	**3**
Bankmed S.A.L.	13,769,431	10.84	4	14,402,931	10.05	4
Fransabank S.A.L.	10,897,694	8.59	5	12,783,928	8.92	5
Banque Libano-Française S.A.L.	9,049,296	7.13	6	9,842,143	6.87	6
Bank of Beirut S.A.L.	7,914,807	6.24	7	8,755,834	6.11	7
Crédit Libanais S.A.L.	5,692,783	4.49	8	6,713,357	4.68	8
Lebanese Canadian Bank S.A.L.	5,303,464	4.18	9	6,243,090	4.35	9
Société Générale de Banque au Liban (SGBL) S.A.L.	4,349,803	3.43	11	5,081,964	3.54	10
B.B.A.C. S.A.L.	4,456,017	3.51	10	4,901,432	3.42	11
Total	**126,907,765**	**100.00**		**143,354,471**	**100.00**	

Source: Bankdata.

Notes:
(1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Offering Circular because the figures used by Bankdata are unaudited.

Ranking by Shareholders' Equity[(1)]

	December 31, 2007			December 31, 2008		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	2,749,257	25.43	1	2,955,951	23.87	1
BLOM Bank S.A.L.	2,097,523	19.40	2	2,180,944	17.61	2
Byblos Bank S.A.L. (2)	**1,148,248**	**10.62**	**3**	**1,624,370**	**13.10**	**3**
Fransabank S.A.L.	780,508	7.22	5	1,119,656	9.04	4
Bankmed S.A.L.	1,111,407	10.28	4	1,089,109	8.80	5
Bank of Beirut S.A.L.	695,208	6.43	7	769,766	6.22	6
Banque Libano-Française S.A.L.	743,392	6.87	6	759,307	6.13	7
Crédit Libanais S.A.L.	544,775	5.04	8	580,288	4.69	8
Société Générale de Banque au Liban (SGBL) S.A.L.	242,381	2.24	11	467,387	3.77	9
Lebanese Canadian Bank S.A.L.	344,313	3.18	10	444,826	3.59	10
B.B.A.C. S.A.L.	355,976	3.29	9	400,660	3.24	11
Total	**10,812,988**	**100.00**		**12,382,592**	**100.00**	

Source: Bankdata.

Notes:
(1) Based on the calculation of Bankdata, revaluation variance of other fixed assets and subordinated loans are not included in shareholders' equity for purposes of these rankings.
(2) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Offering Circular because the figures used by Bankdata are unaudited.

Ranking by Loans and Advances

	December 31, 2007			December 31, 2008		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	7,684,632	26.84	1	9,248,783	25.34	1
BLOM Bank S.A.L.	4,179,307	14.60	2	5,247,448	14.38	2
Bankmed S.A.L.	3,103,573	10.84	4	4,706,365	12.89	3
Byblos Bank S.A.L. (1)	**3,366,013**	**11.75**	**3**	**4,199,400**	**11.51**	4
Banque Libano-Française S.A.L.	2,503,789	8.74	5	3,002,255	8.22	5
Fransabank S.A.L	2,156,208	7.53	6	2,584,947	7.08	6
Bank of Beirut S.A.L.	1,606,695	5.61	7	2,157,433	5.91	7
Crédit Libanais S.A.L.	1,150,331	4.02	9	1,498,705	4.11	8
Lebanese Canadian Bank S.A.L.	908,252	3.17	10	1,469,542	4.03	9
Société Générale de Banque au Liban (SGBL) S.A.L.	1,231,984	4.30	8	1,465,570	4.01	10
B.B.A.C. S.A.L.	744,974	2.60	11	916,865	2.51	11
Total	**28,635,758**	**100.00**		**36,504,577**	**100.00**	

Source: Bankdata.

Notes:

(1) Certain figures provided in this table may differ slightly from the Bank's audited financial information set forth elsewhere in this Offering Circular because the figures used by Bankdata are unaudited.

Banking Regulations

Banking activities in Lebanon are governed by the Code of Commerce, the Code of Money and Credit and *Banque du Liban* Decisions. Regulations are set out by *Banque du Liban* and the Banking Control Commission, which was established in 1967 and has the responsibility of supervising banking activities and ensuring compliance with regulations and legislation.

The Banking Control Commission undertakes both off-site reviews and on-site examinations of Lebanese banks to assess, *inter alia*, compliance with banking laws and regulations, reliability of bank reporting, levels of liquidity and capital adequacy and loan-to-deposit ratios.

Banks regularly submit reports to *Banque du Liban*, including daily lists of foreign exchange transactions undertaken, weekly reports on the portfolio of treasury bills held, periodic financial information on customers and interbank deposits and audited financial statements. Banks also submit regular reports to the Banking Control Commission mainly on their lending portfolio and on some details of their financial statements. Furthermore, banks, like all joint stock companies registered in Lebanon, must have their by-laws and minutes of certain shareholders' meetings, as well as minutes of board of directors meetings whose objects relate to, or otherwise affect, third parties, registered with the Register of Commerce.

Related Party Transactions

Transactions with related parties are governed by the Code of Commerce, the Code of Money and Credit and *Banque du Liban* Decision No. 7776 dated February 21, 2001, as amended, which collectively provide that a transaction with a related party must be formally authorised by a general meeting of the bank's shareholders and approved by the bank's board of directors. As amended effective November 13, 2003, Decision No. 7776 provides that advances and credit facilities to directors, managers and companies having common directors with a bank may not exceed 5.0% of shareholders equity; however, *Banque du Liban* has provided a phase-in compliance for banks exceeding such limit during which such advances and credit facilities should be reduced to 10.0% as at December 31, 2004 and 5.0% as at December 31, 2005, 2.0% of which may be granted without having to meet the conditions specified in the Code of Money and Credit, including, among other things, the formal prior approval of the general meeting of the bank's shareholders.

Banque du Liban Decision No. 7156, dated November 10, 1998, provides that inter-bank deposits among banks and foreign affiliated companies (whether or not financial institutions) may not exceed 25.0% of Tier I Capital.

Reserve Requirements

Pursuant to Decision No. 7835, dated June 2, 2001, as amended, all banks operating in Lebanon, except investment banks and commercial banks making medium and long term loans, must maintain a compulsory reserve in cash with *Banque du Liban* equal to (i) 25.0% of the weekly average of the sum of Lebanese Pound-denominated demand deposits and (ii) 15.0% of the weekly average of the sum of Lebanese Pound-denominated term deposits.

On September 27, 2001, *Banque du Liban* issued Decision No. 7935, as amended, implementing Decision No. 7926, dated September 20, 2001, pursuant to which all banks operating in Lebanon must maintain in cash with *Banque du Liban* an interest-bearing deposit to the extent of 15.0% of all foreign currency-denominated deposits, notes, certificates of deposit, banks' certificates and other debt instruments and loans granted by the financial sector with a remaining time to maturity of one year or less, against payment of interest at the rate applied by *Banque du Liban* on foreign currency-denominated deposits.

On December 16, 2002, *Banque du Liban* amended Decision No. 7926, dated September 20, 2001, pursuant to which all banks operating in Lebanon must subscribe to Lebanese treasury bills or eurobonds issued by the Lebanese Republic, which do not bear interest and have a maturity of two years. The aggregate amount of such Lebanese treasury bills or eurobonds subscribed to by each bank must equal 10.0% of the relevant bank's deposits in all currencies as at October 31, 2002. Subscription was effected in five equal instalments on each of January 17, 2003, February 18, 2003, March 18, 2003, April 18, 2003 and May 16, 2003; all such securities subscribed to fulfil these mandatory obligations have now matured without any obligation to reinvest. Under this Decision, subscriptions were permitted to be made in either cash (in Lebanese Pounds or U.S. Dollars) or in Lebanese treasury bills or eurobonds. Thereafter, *Banque du Liban* issued certificates of deposit, which the banks were permitted to purchase in satisfaction of their subscription obligations.

Pursuant to *Banque du Liban* Decision No. 6101 dated February 8, 1996, as amended, the Central Council of *Banque du Liban* may grant, on a case-by-case basis, to commercial banks making medium- and long-term loans the same reserve requirement concessions and exemptions as those granted to "specialised banks" governed by Decree Law No. 50 dated July 15, 1983.

Banque du Liban Decision No. 7693 dated October 18, 2000, as amended, provides that all banks operating in Lebanon must maintain a minimum of 10.0% of all foreign currency-denominated deposits, debt securities, certificates of deposits, banks' certificates and other debt instruments and loans granted by the financial sector with a remaining time-to-maturity of one year or less, in liquid assets consisting of (i) cash in a bank's vaults, (ii) cash deposited with *Banque du Liban* and (iii) cash deposited with other banks with a remaining time-to-maturity less than or equal to one year.

Banque du Liban Decision No. 7694 dated October 18, 2000, as amended, provides that all banks operating in Lebanon must also maintain at all times a minimum of 40.0% of their Tier I Capital denominated in Lebanese Pounds, in particular after provisions and distribution of profits, in liquid assets, consisting of (i) cash in the bank's vaults, (ii) cash deposited with *Banque du Liban*, (iii) cash deposited with other banks with a remaining time-to-maturity equal to or less than one year and (iv) Lebanese treasury bills with a remaining time-to-maturity of one year or less.

Capital Adequacy

Pursuant to *Banque du Liban* Decision No. 6939, dated March 25, 1998, all banks operating in Lebanon are required to maintain a minimum capital adequacy ratio of 12.0% as from December 31, 2001.

During the past years, the capital of commercial banks in Lebanon has increased substantially. As at December 31, 2007 (the most recent available), the average capital adequacy ratio was approximately 22% according to statistics compiled by *Banque du Liban*.

Banque du Liban Decision No. 6938, dated March 25, 1998, was amended on September 8, 2005 to provide that the aggregate amount of preferred shares (convertible and non-convertible into ordinary shares) and financial instruments that are deemed part of a bank's Tier I Capital according to the applicable regulations cannot exceed 49.0% of the bank's Tier I Capital; that the aggregate amount of preferred shares (non-convertible into ordinary shares) and financial instruments that are deemed part of a bank's Tier I Capital according to the applicable regulations cannot exceed the sub-limit of 35.0% of the bank's Tier I Capital; and that the aggregate amount of financial instruments that are deemed part of a bank's Tier I Capital according to the applicable regulations cannot exceed the sub-limit of 15.0% of the bank's Tier I Capital. The excess above these limits of preferred shares (convertible and non-convertible) and financial instruments, which would otherwise form part of the bank's Tier I Capital, will be included in the bank's Tier II Capital.

Pursuant to *Banque du Liban* Decision 9302 dated April 1, 2006, as amended, adopted with respect to the application of the Basel II International Convention regarding Capital Adequacy, all banks operating in Lebanon must apply the Basel II International Convention for the calculation of capital adequacy on a consolidated and non-consolidated basis, where applicable, in accordance with the standards set forth in Decision 9302 and any subsequent decisions adopted in that regard starting from January 1, 2008. In addition, as of December 31, 2006, Lebanese banks must include reserves for unspecified banking risk in the calculation of their capital adequacy ratio. Pursuant to Article 7 of *Banque du Liban* Decision No. 9302, banks operating in Lebanon were required to appoint an expert in risk management to be in charge of applying the Basel II International Convention and notify the Banking Control Commission of the name of such person and contact details prior to April 30, 2006.

On September 24, 2007, *Banque du Liban* Decision No. 6938 dated March 25, 1998 was amended to introduce an additional category of capital, called Tier III Capital, that consists of subordinated debt issued initially for a minimum of two years. Tier III Capital can only be used to support market risk in the trading book of the bank; this means that any capital requirement arising in respect of credit, operational and counterparty risk, including the credit counterparty risk in both trading and banking books, needs to be met by the existing definition of capital base (*i.e.*, Tier I and Tier II). The use of Tier III Capital to support market risk is limited to 250.0% of the amount of residual Tier I Capital. This means a minimum of 28.5% of market risk must be covered by residual Tier I Capital to maintain this ratio. Tier II Capital may be substituted for Tier III Capital up to the limit of 250.0% in so far as the overall limits for Tier II with regard to Tier I are not breached.

Pursuant to *Banque du Liban* Basic Decision No. 9957 ("*Decision 9957*") dated July 21, 2008, relating to the assessment of the capital adequacy of Lebanese banks, the senior executive management of Lebanese banks is required, in addition to meeting the Pillar I (*i.e.*, minimum capital requirements under Basel II) requirements, to establish a documented mechanism for the assessment of the bank's capital adequacy. The assessment of such capital adequacy shall be carried out in accordance with certain guidelines, including, *inter alia*, (i) the risks to which the bank is exposed, such as credit risk, market risk, operational risk, interest rate risk, credit concentration risk, liquidity risk and strategic risk; (ii) the future capital needs of the bank; and (iii) the periodic monitoring of the sufficiency of the bank's capital to cover the minimum requirements to counter any risks or potential negative changes.

The Banking Control Commission shall periodically ensure that the assessment of a bank's capital adequacy is carried out in accordance with Decision 9957 by reviewing and evaluating all the qualitative (*i.e.*, corporate governance, risk management and internal control regulations) and quantitative (*i.e.*, the calculation of the capital requirements in accordance with Pillar I and Pillar II) elements adopted by a bank in its capital adequacy assessment process. The Banking Control Commission shall have the right to instruct the bank to increase its shareholders' equity should it deem the foregoing qualitative and quantitative elements to be weak or inadequate, although any such increase of shareholders' equity shall not exempt the bank from rectifying such weaknesses or inadequacies.

Corporate Governance

Banque du Liban Decision No. 9382 dated July 26, 2006, adopted in implementation of the Basel II International Convention regarding the banks' corporate governance, has outlined the general guidelines for the banks' corporate governance, regarding, *inter alia,* (i) the directors' competence to hold their positions, (ii) the board of directors' role in specifying the strategic goals and corporate values of the bank and to ensure implementation thereof, (iii) the board of directors' duty to clearly provide for responsibilities and accountability and to ensure that such responsibility and accountability are thoroughly applied and (iv) the transparent management of the bank.

Pursuant to *Banque du Liban* Basic Decision No. 9956 dated July 21, 2008, the board of directors of each Lebanese bank is required to establish an audit committee comprised of at least three non-executive directors, one of whom shall have experience in accounting, financial management or auditing. This audit committee shall, *inter alia*, assist the board of directors in the performance of its duties, in particular with respect to: (i) assessing the qualifications and independence of each of the auditors and the internal audit unit; (ii) monitoring the accuracy of the bank's financial statements and reviewing the disclosure criteria adopted by the bank; (iii) reviewing the sufficiency and effectiveness of the bank's internal control regulations and procedures; (iv) following up on the implementation of the proposed corrections included in any reports issued by the internal audit unit and the auditors; and (v) monitoring the bank's compliance with applicable *Banque du Liban* and Banking Control Commission regulations.

In addition, the audit committee shall, separate from its duty to assist the board of directors, independently supervise the internal audit activities, assess the performance, independence and objectivity of the auditors and review the internal control regulations and procedures, including the anti-money laundering procedures and the prevention of terrorism financing procedures, in order to ensure their sufficiency and effectiveness.

Lebanese banks are required to establish an audit committee before June 30, 2009 and to inform the Banking Control Commission of the names of its members. The Bank established its Audit Committee on July 19, 2004, being the first among the Lebanese banks to do so.

Credit Limits

Banque du Liban Decision No. 7055 dated August 13, 1998, as amended by Intermediary Decision No. 9456 dated November 9, 2006, sets the maximum allowable weighted credit limit for loans to a single borrower (or a group of related borrowers) at (i) 20.0% of a bank's shareholders' equity with respect to loans extended to borrowers (or a group of related borrowers) resident in Lebanon the proceeds of which are to be used in Lebanon, (ii) 20.0% of a bank's shareholders' equity with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings of A+ and above and (iii) 10.0% of a bank's shareholders' equity with respect to loans extended to resident borrowers or non-resident borrowers (or a group of related borrowers) the proceeds of which are to be used in countries with sovereign ratings below A+, provided that (x) the aggregate exposure for countries rated from A to BBB- is not to exceed 200.0% of the bank's shareholders' equity and the aggregate exposure to each of these countries is not to exceed 50.0% of the bank's shareholders' equity or (y) the aggregate exposure for countries rated below BBB- is not to exceed 100.0% of the bank's shareholders' equity and the aggregate exposure to each of these countries is not to exceed 25.0% of the bank's shareholders' equity. Intermediary Decision No. 9456 gave non-compliant banks until December 31, 2007 to comply with its provisions

Foreign Exchange Trading

Banque du Liban Decision No. 6568, dated April 24, 1997, as amended, prohibits Lebanese banks from maintaining at any time (i) net trading positions against Lebanese Pounds in an amount greater than 1.0% of Tier I Capital and (ii) global positions greater than 40.0% of Tier I Capital.

Lebanese banks, however, are allowed, under Decision No. 6568, to hold a structural foreign exchange position up to 60.0% of Tier I Capital denominated in Lebanese Pounds after making certain adjustments.

Loan Classification

Banque du Liban Decision No. 7159, dated November 10, 1998, as amended, introduces specific rules relating to loan classification and provisioning in accordance with the Basel Committee regulations. Specifically, it divides loan facilities into five categories: ordinary/regular loans, loans to be followed-up and regularised, sub-standard loans, doubtful loans and bad or ailing loans. See "*Overview of the Bank—Loan Classifications*".

Provision for Bad Debt and Doubtful Loans

The Banking Control Commission requires specific provisions to be established for identified credit losses. Full or partial provisions must be made in respect of non-performing loans in accordance with applicable *Banque du Liban* regulations. Furthermore, non-performing loans must be put on a non-accrual basis and any interest subsequently received booked on a cash basis, as and when received. Non-performing loans are those as to which the relevant Central Credit Department has determined that the borrower may be unable to meet principal and/or interest repayment obligations, or performance is otherwise unsatisfactory, unless the loans are adequately secured and/or are in the process of liquidation. See "*Overview of the Bank—Provisions for Loan Losses*".

Reserves for General Banking Risk

Pursuant to *Banque du Liban* Basic Decision No. 7129 dated October 15, 1998, banks operating in Lebanon are required to allocate on a yearly basis a general reserve (to be included in Tier I Capital) for unspecified banking risks out of net profits in an amount equal to a minimum of 0.2% and a maximum of 0.3% of risk-weighted assets. The accumulated reserve for unspecified banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from the Decision's issuance and 2.0% of risk-weighted assets within 20 years from the Decision's issuance, in each case, from 2008, as calculated in accordance with Basel II ratios.

Accounting Standards

Effective in 1997, all Lebanese banks are required to prepare their financial statements in accordance with International Financial Reporting Standards (IFRS). The Banking Control Commission has issued instructions which correspond to International Financial Reporting Standards; for instance, the recognition of interest on classified loans only on a cash basis, guidelines for the effects of hyper-inflation, the recording of exchange gains and losses arising from revaluation of foreign exchange positions and a statement of non-monetary assets acquired in settlement of debts at current price.

There are also certain restrictions on lending to shareholders and directors and on investments in subsidiaries and affiliates.

Banque du Liban Decision No. 6576 dated April 24, 1997, requires Lebanese banks to prepare consolidated financial statements effective July 1, 1997. Consolidated financial statements must include all companies (financial and non-financial) under a bank's exclusive control (evidenced by ownership of 50% and/or exclusive control over management). Companies in which the bank has joint control (evidenced by direct or indirect ownership ranging from 20.0% up to 50.0%) should be presented using the "equity method".

DESCRIPTION OF THE SHARE CAPITAL OF BYBLOS BANK S.A.L.

Capital Structure

As of the date of this Offering Circular, the Bank's share capital is LBP 511,363,536,000, consisting of (i) a single class of 217,112,557 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up; (ii) 2,000,000 Series 2008 Preferred Shares, with a par value of LBP 1,210 per share, which were issued on August 29, 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, U.S.$100.00 per share, all of which are fully paid-up; and (iii) 206,023,723 Priority Shares, with a par value of, and which were issued at a price of, LBP 1,210 per share, all of which are fully paid up. All the Bank's Common Shares, Priority Shares and Series 2008 Preferred Shares are listed on the BSE.

Form and Settlement

All of the Bank's Common Shares, Priority Shares and Series 2008 Preferred Shares are in registered form. Interests in the Common Shares, Priority Shares and any Preferred Shares are shown only on, and transfers thereof may be effected, subject as provided herein, only through, the book-entry system maintained by Midclear S.A.L. ("*Midclear*"), a joint stock company organized under the laws of Lebanon, which is 99% owned by *Banque du Liban* and which acts as the central depositary and clearing house in Lebanon.

Changes in Share Capital

The share capital of the Bank may be increased only with the approval of the Bank's shareholders at an Extraordinary General Meeting, following a recommendation of the Board of Directors, and the authorization of *Banque du Liban*. The Bank's shareholders at the relevant Extraordinary General Meeting also determine the conditions of issue of the new shares. Increases in share capital may be effected either by the issue of new shares, by incorporation of free reserves or by any other legally authorized means. New shares may be issued for cash or for assets contributed in kind. Under Lebanese law, the share capital of the Bank may not be reduced in any circumstances; however, in common with other Lebanese banks, the Bank is authorized to buy back its own listed shares and cancel them subject to certain conditions.

The Bank has undertaken the following changes affecting its share capital over the past five years:

- On March 24, 2003, the Bank's shareholders adopted resolutions at an Extraordinary General Meeting authorizing the increase of the share capital of the Bank through the issuance of 1,000,000 Series 2003 Preferred Shares, with a par value of LBP 1,200 per share. The Series 2003 Preferred Shares were issued on May 30, 2003 pursuant to Law N° 308 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, U.S.$100 per Series 2003 Preferred Share.

- On May 12, 2005, the Bank's shareholders adopted resolutions at an Extraordinary General Meeting authorizing the increase of the share capital of the Bank through the issuance of 206,023,723 Priority Shares, with a par value of LBP 1,200 per share. The Priority Shares were issued on December 10, 2005 pursuant to Article 109 of the Lebanese Code of Commerce at a price equal to their par value.

- On January 16, 2006, the Bank's shareholders adopted resolutions at an Extraordinary General Meeting authorizing the listing of all of the Bank's issued shares on the BSE and cancelling the requirement of prior approval by the Board of Directors of a transfer of unlisted shares to a non-shareholder. On March 6, 2006, the Bank announced the approval by the BSE of such listing. Effective trading in the newly listed Common Shares, Series 2003 Preferred Shares and Priority Shares commenced on March 7, 2006 in accordance with BSE circular number 211/2006 dated March 6, 2006.

- On January 24, 2008, the Bank's shareholders adopted resolutions at an Extraordinary General Meeting authorizing the increase of the share capital of the Bank by LBP 14,506,600,800 (U.S.$9,622,952) to LBP 508,963,536,000 through the issuance of an aggregate of 12,088,834 new Common Shares. These shares were issued as a result of the conversion of Fiduciary Notes in a nominal amount of U.S.$27 million, together with accrued interest thereon.

- On July 18, 2008, the Bank's shareholders adopted resolutions at an Extraordinary General Meeting authorising the increase of the share capital of the Bank through the issuance of 2,000,000 Series 2008

Preferred Shares, with a par value of LBP 1,200 per share. The Series 2008 Preferred Shares were issued on August 29, 2008 pursuant to Law 308 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, U.S.$100.00 per Series 2008 Preferred Share.

- On February 6, 2009, the Bank entered into a depositary agreement with The Bank of New York Mellon (acting as depositary) and established a GDR Program pursuant to which holders of Common Shares were given the option to deposit their Common Shares for the issuance of GDSs at a ratio of 50 Common Shares per GDS. GDSs, representing 23.94% of the Common Shares, were issued under the GDR Program and admitted to trading on the LSE's Main Market on February 19, 2009, making the Bank the first Lebanese bank to obtain a listing on the Official List of the United Kingdom Listing Authority in 12 years.

- In May 2009, the Bank exercised its call option on the Series 2003 Preferred Shares in order to redeem all of the Series 2003 Preferred Shares at the time outstanding at a price equal to U.S.$100.00 per share in accordance with the terms thereof. As a result, all of the Series 2003 Preferred Shares have been redeemed and cancelled and were de-listed from the BSE on May 27, 2009.

No other changes in the Bank's share capital have been effected in the last five years.

Dividends

At the General Meeting of Shareholders held on May 22, 2009, the Bank's shareholders approved the distribution of dividends out of the Bank's net income in 2008 (before taxes of 5%) of LBP 157.9 (U.S.$0.105) per Common Share, LBP 205.9 (U.S.$0.137) per Priority Share (comprised of the regular dividend of LBP 157.9 (U.S.$0.105) per Priority Share plus the priority dividend equivalent to 4% of the nominal value of the Priority Share as provided in the terms of the Priority Shares) and U.S.$12 per Series 2003 Preferred Share and U.S.$3.35 per Series 2008 Preferred Share (reflecting the remaining period from the issue date to year-end 2008; for the year 2009 and for the subsequent years, a payment of U.S.$8 per Series 2008 Preferred Share is expected to be made). Total dividends paid in respect of 2008 represented 57.1% of net income for that year.

Directors' Interests

The interests of the Directors of the Bank in the share capital of the Bank held directly as at May 31, 2009 are set out in the table below (for information with respect to interests of the Directors of the Bank held indirectly as at such date, see "—*Principal Shareholders*"):

Director	**Number of Shares**	**Percentage Ownership[1]**
Dr. Francois Semaan Bassil	15,262,808	3.59
Mr. Bassam Albert Nassar	500	—
Mr. Semaan Francois Bassil	2,417,386	0.57
Mr. Faisal Mohmad Ali Tabsh	243,114	0.06
Mr. Hassan Najib Mounla	500	—
Mr. Ahmad Toufic Tabbara	1,000	—
Mr. Samir Anis Khoury Makdessi	1,000	—
Mr. Moussa Antoine Maksoud	220,388	0.05
Mr. Nasser Hassan Saidi.	500	—
Mr. Abdelhadi Ben Ali Ben Seif Shayif.	500	—
Mr. Arthur Garabet Nazarian.	500	—
Total	**18,148,196**	**4.27**

Notes:

(1) Percentage of total share capital consisting of 217,112,557 Common Shares, 2,000,000 Series 2008 Preferred Shares and 206,023,723 Priority Shares as at the date of this Offering Circular.

(2) Dr. François Semaan Bassil and Mr. Semaan François Bassil are father and son, respectively.

Other Related Party Transactions

No Director of the Bank has an interest in any contract, arrangement or transaction entered into by the Bank or its subsidiaries, which is or was unusual in its nature or conditions or significant in relation to the business of the

Bank and which was effected during the current or immediately preceding fiscal year, or was effected during an earlier fiscal year and remains in any respect outstanding or unperformed.

Principal Shareholders

Byblos Invest Holding S.A. Luxembourg is the largest shareholder of the Bank, with an ownership interest, as at the date of this Offering Circular constituting 37.10% of the outstanding paid-up capital of the Bank. Byblos Invest Holding S.A. Luxembourg is majority owned and controlled by Dr. François Bassil, the Chairman of the Board of Directors and General Manager of the Bank, and his family. Mr. Bassam Nassar, a Director of the Bank, owns an additional 25.81% of the share capital of Byblos Invest Holding S.A. Luxembourg.

The table below sets forth the principal shareholders of the Bank as at May 31, 2008, the number of shares held by each and the percentage ownership interests represented thereby. All other shareholders of the Bank, which numbered approximately 5,000 as at May 31, 2009, each owns less than 1.00% of the Bank's total outstanding share capital.

Name	Total Shares[1]	Percentage Ownership[1]
Byblos Invest Holding S.A. Luxembourg[2]	157,730,397	37.10%
The Bank of New York Mellon[3]	51,976,100	12.23%
Anasco Holding Company S.A.[4]	18,159,475	4.27%
Dr. François Semaan Bassil	15,262,808	3.59%
Mr. Rami Rifaat El Nimr	11,154,361	2.62%
Frabas Corporation[5]	7,399,100	1.74%
Vectra Holding S.A.L[6]	6,646,082	1.56%
BLOM Invest S.A.L.	6,268,146	1.47%
Blakeney LP	6,052,866	1.42%
Mr. Ali Hassan Dayekh.	5,354,412	1.26%
Blakeney Investors SICAV	4,247,788	1.00%

Notes:

(1) Percentage of total share capital consisting of 217,112,557 Common Shares, 2,000,000 Series 2008 Preferred Shares and 206,023,723 Priority Shares as at the date of this Offering Circular.

(2) A Luxembourg holding company, the principal shareholders of which are Dr. François S. Bassil, FRABAS Corporation and Anasco Holding Company. Dr. Bassil holds a majority of the outstanding shares.

(3) The Bank of New York Mellon is the depositary bank for the Global Depositary Receipt Pogram.

(4) A Luxembourg holding company, the principal shareholders of which are Bassam A. Nassar, Nouhad H. Nassar, Sana A. Nassar and Roula A. Nassar.

(5) A Panama holding company of which Dr. François S. Bassil is a principal shareholder.

(6) A Lebanese holding company, previously named *Société Electricité de Jbeil S.A.L.*, of which Dr. François S. Bassil is a principal shareholder.

To the Bank's knowledge, there are no arrangements in place, the operation of which may at a subsequent date result in a change in control of the Bank. None of the Bank's shareholders has voting rights different from any other holders of its shares.

Description of the Series 2009 Preferred Shares

For additional information regarding the terms of the Series 2009 Preferred Shares, which are being offered pursuant to this Offering Circular, see "Summary", as well as the proposed resolutions of the shareholders authorizing the increase in the Bank's share capital and the issuance of the Series 2009 Preferred Shares, a copy of which is available, in Arabic, for review by applicants at the Head Office of the Bank located at the address indicated on the back cover to this Offering Circular.

General

The shareholders of the Bank are expected to authorize the issuance of 1,000,000 (subject to increase) Series 2009 Preferred Shares, with a par value of LBP 1,210 per share. It is expected that the Series 2009 Preferred Shares will be issued on or about September 4, 2009 on the terms and subject to the conditions described in this Offering Circular. Issuance of the Series 2009 Preferred Shares is subject to approval by the Extraordinary General Meeting of Shareholders of the Bank and *Banque du Liban*, acting through its Central Council.

Distributions

Distributions, when declared, shall be paid annually after the relevant Ordinary General Meeting of Shareholders (or such other shareholders' meeting) at which the annual accounts of the Bank for the relevant year are approved and at which the amount and payment of such Distributions are approved.

It is the intention of the Board of Directors of the Bank to recommend to the Bank's shareholders that they approve annual Distributions out of Unconsolidated Distributable Net Income of the Bank for the relevant year. All payments of Distributions, however, are subject to (i) the availability of sufficient Unconsolidated Distributable Net Income of the Bank for the relevant year to cover such Distributions and distributions in respect of the Bank's Series 2008 Preferred Shares and any other preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 2009 Preferred Shares; (ii) the Bank's continued compliance with all applicable *Banque du Liban* and Banking Control Commission ratios and regulations at the time imposed with respect to payments related to the net profits of the Bank and to verification of such compliance by the Banking Control Commission; and (iii) the approval of the payment of such Distributions out of Unconsolidated Distributable Net Income for the relevant year by the Ordinary General Meeting of Shareholders of Bank; it being understood that, in each year, the Bank's General Meeting is obligated to approve the distribution of Unconsolidated Distributable Net Income for the relevant year, if available, except when the Bank would be prevented from making such distribution by virtue of law or regulations of mandatory application.

The actual date on which a Distribution shall be made shall be determined by a resolution of the Ordinary General Meeting of Shareholders (or such other shareholders' meeting), and is expected to be approximately one week after the date of such Ordinary General Meeting (or other meeting). The date of a Distribution will be made public no later than three days prior to such Distribution through publication in local newspapers of general circulation.

In the event, however, that Unconsolidated Distributable Net Income for the relevant year is insufficient to pay Series 2008 Distributions and Series 2009 Distributions (and distributions in respect of any future series of preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 2009 Preferred Shares) at their respective stated annual rate, such amounts of Distributions shall be decreased in proportion to the available net profits, if any. In any event, the amount of Distributions payable to holders of Series 2008 Preferred Shares and holders of Series 2009 Preferred Shares may not exceed Unconsolidated Distributable Net Income for the Year

Unless otherwise provided under applicable laws, holders of Series 2009 Preferred Shares have no right to participate in any distribution in respect of the Bank's capital other than annual Distributions, as and when declared and approved, and, upon liquidation, the Liquidation Preference. See "*—Liquidation Preference*".

Ranking

The Series 2009 Preferred Shares shall rank *pari passu* with the Series 2008 Preferred Shares and any future series of preferred shares of the Bank that may at the time be outstanding and that, by their terms, rank *pari passu* with the Series 2009 Preferred Shares, in respect of: (i) the right to receive distributions (other than as to the amounts thereof); (ii) the right to receive payments out of the assets of the Bank upon dissolution, liquidation or winding up of the Bank (other than as to the amounts thereof); and (iii) the right to subscribe to newly issued preferred shares of the Bank, if any. In the event the assets of the Bank available for distribution to its shareholders upon any dissolution, liquidation or winding-up of the Bank are insufficient to cover the Liquidation Preference and the liquidation preferences payable to the holders of Series 2008 Preferred Shares or any future series of preferred shares of the Bank that may at the time be outstanding and rank *pari passu* with the Series 2009 Preferred Shares, the amounts payable to such holders will be reduced on a *pro rata* basis.

Notwithstanding the foregoing, the Series 2008 Preferred Shares and the Series 2009 Preferred Shares shall be separately governed by their respective specific terms in respect of distributions, liquidation preferences and otherwise.

The Series 2009 Preferred Shares shall rank senior to the Bank's Common Shares and Priority Shares in respect of the right to receive Distributions and the right to receive the Liquidation Preference and any other payments out of the assets of the Bank upon dissolution, liquidation or winding up of the Bank, but will rank junior to debt and other similar obligations of the Bank such that, in the event of the dissolution, liquidation or winding up of the Bank, the holders of debt and other similar obligations of the Bank would be entitled to be repaid prior to the payment of any amounts to holders of Series 2009 Preferred Shares.

The Series 2009 Preferred Shares are not secured, nor covered by any guarantee from the Bank or any related party, and do not benefit from any other arrangement that legally or economically enhances the preference or seniority of their claims.

Liquidation Preference

In the event of any dissolution, liquidation or winding-up of the Bank, the holders of the Series 2009 Preferred Shares shall be entitled, on a *pro rata* basis with the Series 2008 Preferred Shares and any other preferred shares of the Bank that may at the time be outstanding, determined on the basis of the par values of the respective classes of shares, to be paid out of the assets of the Bank available for distribution to its shareholders, before any payment shall be made on the Common Shares or the Priority Shares of the Bank, an amount per share equal to the sum of (i) the Lebanese Pound equivalent of U.S.$100.00 per Series 2009 Preferred Share, plus (ii) all declared but unpaid Distributions in respect of the Series 2009 Preferred Shares.

The Liquidation Preference will be subject to adjustment to reflect the occurrence of an Adjustment Event, but will not be adjusted to reflect any other event.

Following payment of the Liquidation Preference, holders of Series 2009 Preferred Shares will not be entitled to any further participation or claim in any remaining distributable assets of the Bank; provided, however, that, if the Bank is liquidated, the surplus, if any, remaining, after (i) payment of the Bank's debts, liquidation expenses (including liquidation preferences in respect of all series of preferred shares of the Bank at the time outstanding) and all of the Bank's other remaining obligations and (ii) distribution in full of the par value of the Common Shares, will be distributed pro rata among all holders of shares of the Bank, irrespective of the class thereof.

Voting Rights

Except in the limited circumstances described below and reflecting applicable Lebanese law, the holders of Series 2009 Preferred Shares shall not have voting rights.

Holders of Series 2009 Preferred Shares shall have the right to participate in discussions regarding, and to vote (on a *pro rata* basis with all holders of shares of the Bank, irrespective of the class thereof, including Common Shares, Priority Shares and Series 2008 Preferred Shares, as well as any future series of preferred shares of the Bank at the time outstanding, determined on the basis of the par values of the respective classes of shares) in respect of, the following: (i) amendments to the object or legal form of the Bank; (ii) a capital increase by way of a contribution in kind of assets; and (iii) the dissolution, liquidation or winding-up of the Bank or a merger or acquisition scheme in which the Bank is a party.

In addition, pursuant to applicable Lebanese law, including, in particular, Law No. 308, holders of Series 2009 Preferred Shares shall have the right to participate in discussions regarding, and to vote on a *pro rata* basis with all holders of shares of the Bank, irrespective of the class thereof, including, without limitation, Common Shares, Priority Shares and Series 2008 Preferred Shares, as well as any future series of preferred shares of the Bank at the time outstanding, determined on the basis of the par values of the respective classes of shares (provided that, in compliance with article 117 of the Lebanese Code of Commerce, holders shall have the right to two votes per share in respect of any shares owned by them for two years or longer), on all matters that come before the shareholders of the Bank in the event that (i) Distributions are not paid in full for three consecutive financial years or (ii) the Bank shall be in default in the provision of any rights or benefits attaching to the Series 2009 Preferred Shares. Such voting rights shall continue in effect until the end of the financial year in which all accrued and unpaid Distributions are paid in full for the current financial year and for all the preceding financial years and any default with respect to other rights or benefits attaching to the Series 2009 Preferred Shares is cured.

Law No. 308 further provides for the automatic establishment of an assembly of holders of Series 2009 Preferred Shares to protect the interests of such holders, which may designate a representative that may attend shareholder meetings, but not participate in discussions regarding, or vote in respect of, matters presented to the shareholders, except under the limited circumstances described above.

Call Option

Subject to compliance with applicable *Banque du Liban* and Banking Control Commission ratios and regulations, including the availability of free reserves for the purpose, and to verification of such compliance by the Banking Control Commission, the Bank may, at its option, redeem and cancel all or any part (but not less than 25%, each time, of the original issue size or, if less, 100% of the Series 2009 Preferred Shares then remaining outstanding) of the Series 2009 Preferred Shares at the time outstanding (i) at any time after the Issue Date, if a Regulatory Event shall occur and (ii) within 60 days following the date of the Ordinary General Meeting of Shareholders (or such other shareholders' meeting) held to approve the annual accounts of the Bank for the year 2014 and for each subsequent year thereafter, in its sole discretion, in each case, at a price equal to U.S.$100.00 per share (subject to adjustment to reflect the occurrence of an Adjustment Event, but not any other event), plus any declared but unpaid Distributions in respect of the Series 2009 Preferred Shares, provided that no Distributions shall be payable in respect of any Series 2009 Preferred Shares for the year in which such Series 2009 Preferred Shares are redeemed and cancelled.

Certain matters relating to the redemption of the Series 2009 Preferred Shares may require *Banque du Liban* approval.

In the case of redemption and cancellation of a part only of the Series 2009 Preferred Shares at the time outstanding, such redemption and cancellation will be on a *pro rata* basis.

Upon any redemption of Series 2009 Preferred Shares, such Series 2009 Preferred Shares shall be cancelled and all required actions shall be taken in order to reflect such cancellation, including the adjustment of the par value of each of the remaining shares then constituting the outstanding share capital of the Bank, irrespective of the class thereof, or the distribution of free Common Shares to holders of the remaining shares of the Bank, so that the Bank's total capital shall remain unchanged.

Holders of Series 2009 Preferred Shares do not have the benefit of any put option or other right to require the Bank to repurchase Series 2009 Preferred Shares and, although the Bank has the right to redeem and cancel the Series 2009 Preferred Shares as described herein, it has no obligation to do so and its ability to do so may be restricted by applicable ratios and regulations of *Banque du Liban* and the Banking Control Commission.

Transfers of Series 2009 Preferred Shares

There are no restrictions imposed by *Banque du Liban* on the transfer of Series 2009 Preferred Shares.

Description of the Common Shares

The following is a summary of certain terms and conditions of the Bank's Common Shares and the rights relating thereto.

General

As of the date of this Offering Circular, the Bank's common share capital consists of 217,112,557 Common Shares, with a par value LBP 1,210 per share, all of which are fully paid-up. All of the Bank's Common Shares are listed on the BSE. The Bank's Common Shares, including those represented by the Global Depositary Shares, were issued pursuant to Articles 103 and 104 of the Lebanese Code of Commerce.

Payment of Dividends

Net income in each financial year (after deduction for depreciation and reserves), are increased or reduced, as the case may be, by any profit or loss of the Bank carried forward from prior years, less any appropriation to legal reserves, any write-back of provisions for structural foreign exchange positions and any net write-back of provisions for doubtful loans no longer required, is available for distribution to the shareholders of the Bank as dividends, subject to the requirements of Lebanese law and the Bank's By-laws.

The Bank is legally required to establish and maintain a legal reserve to which an amount equal to 10.0% of the annual net profits after taxation must be transferred each year until such reserve reaches one-third of the Bank's share capital. The legal reserve is distributable only upon the liquidation of the Bank. The Bank is also legally required to set aside a minimum of 0.2% and a maximum of 0.3% of the Bank's risks-weighted assets as a reserve for unspecified banking risks, which forms an integral part of the Bank's Tier I Capital. Pursuant to Central Bank Decision 7129, the accumulated reserve for unspecified banking risks must be equivalent to 1.25% of risk-weighted assets within 10 years from Decision 7129's issuance and 2.0% of risk-weighted assets within 20 years from Decision 7129's issuance.

The Bank's By-laws provide that, after allocation of 10.0% to the legal reserve, the Bank's shareholders, acting in a General Meeting, have the authority to allocate net profits among the following categories in order of priority:

(i) amounts required to establish reserves for unspecified banking risks;

(ii) amounts required to establish statutory reserves, if provided for in the Bank's By-laws;

(iii) profits required to be set apart and not distributed pursuant to applicable Central Bank and Banking Control Commission regulations;

(iv) the payment of distributions in respect of the preferred shares, as and when approved by the shareholders of the Bank, pursuant to a resolution adopted at the General Meeting of Shareholders (or such other shareholders' meeting) at which the relevant annual accounts of the Banks are approved;

(v) the payment of distributions in respect of the Priority Shares;

(vi) the establishment of additional special or general reserves and/or amounts to be carried forward to the following year in accordance with a decision of the Bank's shareholders pursuant to a resolution adopted at a General Meeting; and

(vii) the distribution of the balance to holders of Common Shares, on a *pro rata* basis.

Payment of dividends shall be made on the dates specified by the Board of Directors; provided that the General Meeting of shareholders may, upon recommendation of the Board of Directors, withhold the payment of dividends or reduce the amount thereof. Under Lebanese law, dividends not claimed within five years of the date of payment become barred by the statute of limitations; half of these unclaimed dividends revert to the Bank and the other half to the Government.

Liquidation Rights

If the Bank is liquidated, the assets of the Bank remaining after payment of its debts, liquidation expenses (including the Liquidation Preference in respect of the preferred shares) and all of its remaining obligations will be distributed first to repay in full the par value of the Common Shares. The surplus, if any, will be distributed *pro rata* among all holders of shares based of the Bank, irrespective of the class thereof.

Restrictions on Transfer of Common Shares

In accordance with Law No. 308/01 of the Republic dated 3 April 2001, relating to the issuance by banks of shares and dealings therein, the issuance by banks of bonds and the ownership by banks of real property ("*Law 308*"), any transfer of Common Shares requires the approval of the Central Bank in the event that (i) such transfer of shares would result in the transferee owning, directly or indirectly, 5.0% or more of the outstanding share capital of the bank (excluding preferred shares) or voting rights relating thereto, whichever is higher; (ii) the transferee owns at the time of the transfer 5.0% or more of the outstanding share capital of the bank (excluding preferred shares) or voting rights relating thereto, whichever is higher; or (iii) either the transferee or the transferor is a current or elected member of the bank's board of directors irrespective of the number of transferred shares.

Attendance and Voting at Shareholders' Meetings

In accordance with Lebanese law, there are three types of General Meetings of shareholders: constituent, ordinary and extraordinary.

The constituent General Meeting takes place only once, at the call of the founders, and takes all resolutions concerning the constitution of the Bank.

Ordinary General Meetings ("*Ordinary General Meetings*") are required for matters such as the election and remuneration of directors, the appointment and remuneration of statutory auditors, the approval or modification of the annual accounts, the declaration of dividends, the creation of reserves and the issue of debentures and bonds.

Extraordinary General Meetings are required for approval of matters such as amendments to the By-laws, mergers (including the transfer of the Bank's assets and liabilities to the resulting company of such a merger), modifications of the form or object of the Bank, increases in share capital (including pursuant to a waiver of preferential subscription rights), the creation of a new class of shares, the issue of bonds convertible into or exchangeable for shares, the extension or reduction of the duration of the Bank and the liquidation of the Bank prior to the end of its statutory term. Resolutions proposing a modification of the Bank's form or object require a quorum of at least three-quarters of the Bank's voting capital. Resolutions put forward at an Extraordinary General Meeting proposing other changes require a quorum of at least two-thirds of the Bank's voting capital. If the requisite quorum is not satisfied at the first General Meeting, holders of at least one-half of the Bank's voting capital must be present or represented at the second General Meeting and at least one-third of the Bank's voting capital must be present or represented at any subsequent General Meetings.

Resolutions proposed at Extraordinary General Meetings are passed by an affirmative vote of at least two-thirds majority vote of the Bank's voting capital present or represented at a duly constituted Extraordinary General Meeting. Any amendment to the By-laws is subject to the approval of the Central Bank.

The Board of Directors is required to convene an annual Ordinary General Meeting, which must be held within six months of the end of the Bank's financial year, for approval of the annual accounts and reports of the Board of Directors. The quorum required for the annual Ordinary General Meeting is one-third of the capital (pursuant to Article 198-1 of the Code of Commerce). If the quorum is not present, the Ordinary General Meeting is adjourned. Upon recommencement of the adjourned General Meeting, there is no quorum requirement and the resolutions of that General Meeting will be valid regardless of the portion of capital represented (pursuant to Article 198-2 of the Code of Commerce). Resolutions are adopted by an affirmative vote of the absolute majority of the Bank's voting capital present or represented at a duly constituted Ordinary General Meeting. Other Ordinary or Extraordinary General Meetings may be convened at any time during the year. General Meetings may be convened by the Board of Directors, or, if the Board of Directors fails to call such a meeting, by the Bank's statutory auditors or by a court-appointed agent.

At least 16 days before the date set for any General Meeting, a notice must be published in two local daily newspapers. This period may be reduced to eight days for meetings convened for the second or third time following a previous inquorate General Meeting. Where only eight days' notice is given, the notice must be published twice, with an interval of one week, in the *Official Gazette* and in an economic newspaper and a daily local newspaper. Such a notice must state the agenda of the previous inquorate Meeting and the results of that Meeting.

The notice of any General Meeting must state the date, time, venue and agenda for such General Meeting. The agenda for a General Meeting must be drawn up by the Board of Directors or the person that has convened the General Meeting (auditor, special director or liquidator). No action may be taken at any General Meeting on any matter not listed on the agenda for that General Meeting. However, the Board of Directors or the person convening a General Meeting may add to the agenda a proposal made by shareholders representing one-fifth of the share capital, provided that the proposal is made in writing.

At the request of shareholders representing at least one-fifth of the Bank's share capital, the Board of Directors of the Bank must, within two months following the date of the request, convene a General Meeting. The agenda of such a meeting must state the items that the requesting shareholders wish to discuss.

If the annual Ordinary General Meeting is not called, any shareholder has the right to petition the President of the Tribunal of Commerce in the city of the Head Office of the Bank to appoint a special director. The reasons for not convening the annual Ordinary General Meeting, and the consequences of the failure to convene, will be discussed with the special director.

Attendance and exercise of voting rights at Ordinary General Meetings and Extraordinary General Meetings are subject to certain conditions. Each holder of Common Shares has the right to vote at General Meetings. Voting occurs by a show of hands or by any other method agreed by shareholders at a General Meeting. Each Common Share confers on the holder thereof the right to one vote; any fully paid Common Share that has been registered in the name of the same shareholder for at least two years prior to any General Meeting shall carry two votes.

A shareholder may appoint a proxy to vote on his behalf. With the exception of legal representatives of incapacitated shareholders, such proxies must themselves be holders of Common Shares.

A shareholder may not vote in person, or by proxy, on any matter in which it has a vested interest or in respect of a dispute between itself and the Bank.

A request by any shareholder for a secret ballot must be granted where resolutions concern personal matters, such as the dismissal of Board members or the determination of potential liability of directors.

A General Meeting held in accordance with Lebanese law represents all holders of Common Shares, whether present or not, and its resolutions shall be binding on all such shareholders, including absent or dissenting shareholders.

Resolutions of General Meetings must be signed by the Chairman of the Board of Directors, the Secretary and two scrutineers and are recorded in a special register. This register is kept at the Head Office of the Bank and every holder of Common Shares has the right to consult it.

Preferential Allocation Rights

In the event of an increase in the share capital of the Bank, the Code of Commerce and the By-laws confer on existing holders of Common Shares a priority right for allocation, upon subscription, to be allocated newly-issued Common Shares (but not preferred shares), for cash on a *pro rata* basis.

Existing holders of Common Shares may decide at an Extraordinary General Meeting to waive such preferential allocation rights for new Common Shares in whole or in part, or that new Common Shares shall not be offered for subscription in proportion to Common Shares already held. Any allotment of newly-issued Common Shares following such a waiver, whether to persons who are not existing shareholders or preferentially to a particular class of existing shareholders, is subject to a process of verification by an expert appointed by the court. In the case of an issue to persons who are not existing shareholders, this verification process applies to all of the newly-issued Common Shares. In the case of an issue to existing shareholders, only the portion of newly-issued Common Shares not offered to existing holders of Common Shares is subject to the verification process (pursuant to Article 113 of the Lebanese Code of Commerce and Article 18 of the By-laws). Failure to comply with this verification process will render a capital increase null and void (pursuant to Article 113 of the Code of Commerce).

Where preferential allocation rights have not been waived at the relevant Extraordinary General Meeting, holders of Common Shares may nevertheless individually elect to refrain from exercising their preferential right, may assign their preferential right to a third party or may expressly waive their preferential right. In the event of a waiver, the newly-issued Common Shares may be offered for subscription to third parties.

Repurchase of Common Shares

Pursuant to Lebanese law and Central Bank regulations, Lebanese banks may acquire up to 10.0% of their own shares listed on any stock exchange, with the approval of the Central Bank and subject to certain conditions.

Form of Common Shares

The Common Shares are in registered form. Interests in the Common Shares are shown only on, and transfers thereof may be effected (subject as provided herein) only through, the book-entry system maintained by Midclear and its participants, including the Bank.

Description of the Priority Shares

The following is a summary of certain terms and conditions of the Bank's Priority Shares and the rights relating thereto.

General

As of the date of this Offering Circular, the Bank's priority share capital consists of 206,023,723 Priority Shares, with a par value of LBP 1,210 per share, which were issued on December 10, 2005 at a price equal to their par value.

Mandatory conversion to common shares

Pursuant to Article 6 of the Bank's By-laws, the Priority Shares will, on the date of the Ordinary General Meeting of shareholders of the Bank (or such other shareholders' meeting) at which the annual accounts of the Bank for the year 2010 are approved, be converted to Common Shares.

Distributions

Priority shares, such as the Priority Shares, are a form of equity, which offer holders thereof a higher level of periodic distributions than common or ordinary shares. Holders of Priority Shares have the right to receive distributions, on a non-cumulative basis, if (i) the Bank has sufficient unconsolidated distributable net income for the relevant year available for the payment of such distributions; (ii) the Bank is in compliance with applicable ratios and regulations at the time imposed by the Central Bank and the Banking Control Commission in respect of the payment of dividends or other distributions; and (iii) such distributions have been declared by the Board of Directors of the Bank and approved by the shareholders of the Bank pursuant to a resolution adopted at the General Meeting (or such other shareholders' meeting) at which the annual accounts of the Bank for the relevant year are approved and at which the amount and payment of such distributions are approved.

Distributions on the Priority Shares, when declared, are payable on the date determined by a resolution of the General Meeting. Under Lebanese law, distributions on the Priority Shares not claimed within five years of the date of payment become barred by statute of limitations; half of these unclaimed distributions revert to the Bank, while the balance is paid over to the Government.

Holders of Priority Shares have the right to participate in any distribution in respect of the Bank's capital as and when declared and approved, on the same basis as the holders of Common Shares, as well as to receive the priority distribution described above as and when declared.

Distributions in respect of the Priority Shares are payable on account of five financial years starting from the year 2005 until the year 2010 inclusive, on a *pro rata* basis, in an aggregate amount per priority shares equal to the sum of (i) the amount equal to 4.0% of the nominal value per Priority Share plus (ii) the amount equal to the per share dividend on the common shares. Distributions in respect of the Priority Shares on account of the financial year 2005 were calculated on *pro rata* basis for the period during 2005 starting form the date of issuance thereof until the end of 2005.

Ranking

Priority Shares rank senior to the Common Shares, but junior to the Series 2003 Preferred Shares and Series 2008 Preferred Shares in respect of the right to receive distributions and rank junior to debt and other obligations of the Bank such that, in the event of the liquidation, dissolution or winding up of the Bank, holders of debt instruments and other similar obligations and holders of Series 2003 Preferred Shares and Series 2008 Preferred Shares will be entitled to be repaid prior to the payment of any amounts to holders of Priority Shares.

The Priority Shares are neither secured, nor covered by any guarantee from the Bank or any related party, and do not benefit from any other arrangement that legally or economically enhances the preference or seniority of their claims.

Rights and Obligations

Except as set forth above, Priority Shares are entitled to the same rights and subject to the same obligations of the Bank's common shares.

Description of the Series 2008 Preferred Shares

The principal terms of the Series 2008 Preferred Shares are identical to the principal terms of the Series 2009 Preferred Shares, except that, subject to the same conditions applicable to the payment of distributions in respect of the Series 2009 Preferred Shares, distributions in respect of the Series 2008 Preferred Shares shall be payable on account of year 2008 and subsequent, on a *pro rata* basis, at a fixed amount of U.S.$8.00 per Series 2008 Preferred Share.

Description of the GDSs

The following is a summary of certain terms and conditions of the Bank's GDSs and the rights relating thereto.

General

On February 6, 2009, the Bank entered into a depositary agreement with The Bank of New York Mellon (acting as depositary) and established a GDR Program pursuant to which holders of Common Shares were given the option to deposit their Common Shares for the issuance of GDSs at a ratio of 50 Common Shares per GDS. GDSs, representing 23.94% of the Common Shares, were issued under the GDR Program and admitted to trading on the LSE's Main Market on February 19, 2009, making the Bank the first Lebanese bank to obtain a listing on the Official List of the United Kingdom Listing Authority in 12 years.

Dividends

The GDSs are entitled to any dividends the Bank may declare or pay on the underlying Common Shares. While dividends on the Common Shares are paid in Lebanese Pounds, persons in whose name GDSs are registered ("*Owners*") will receive payments of such dividends in U.S. Dollars, subject to the fees and expenses of the Depositary and any applicable withholding tax.

Distributions subject to Withholding Tax

As at the date of this Offering Circular, dividends paid to the Depositary as holder of the Common Shares underlying the GDSs are subject to withholding tax in Lebanon at the rate of 5.0%, as long as shares of the Bank representing at least one-third of the Bank's outstanding share capital or GDSs representing at least 20% of the Bank's outstanding share capital are listed for trading on the BSE.

Voting Rights

Owners have the right to instruct the Depositary with regard to the exercise of the voting rights or the solicitation of consents attaching to the Common Shares underlying the GDSs (the "*Deposited Shares*"). The Bank will notify the Depositary of any resolution to be proposed at any general meeting of the Bank's shareholders (a "*General Meeting*") and the Depositary will vote or cause to be voted the Deposited Shares subject to and in accordance with the specified notice and other procedure requirements and subject to applicable law.

To the extent permitted by Lebanese law, the Depositary may directly attend the meeting and exercise or cause to be exercised the voting rights in respect of the Deposited Shares so that a portion of the Deposited Shares will be voted directly by the Depositary for and a portion of the Deposited Shares will be voted directly by the Depositary against any resolution specified in the agenda for the relevant meeting in accordance with the voting instructions it has received and the Depository will abstain from voting any Deposited Shares in respect of which no voting instructions have been received.

If the Depositary elects not to directly attend the General Meeting or if the Depositary is not permitted by Lebanese law itself to exercise voting rights in respect of the Deposited Shares as contemplated by above, the Depositary will, unless restricted under Lebanese law, issue three proxies to existing shareholders of the Bank designated by the Chairman of the Bank for the purpose, as follows: (a) a proxy covering the number of

Deposited Shares for which instructions have been received to vote for a resolution and instructing the proxy to vote that number of Deposited Shares for the resolution; (b) a proxy covering the number of Deposited Shares for which instructions have been received to vote against a resolution instructing the proxy to vote that number of Deposited Shares against the resolution; and (c) a proxy covering the number of Deposited Shares for which no voting instructions have been received and instructing the proxy to abstain from voting that number of Deposited Shares in respect of the resolution.

If the Depositary is not permitted by Lebanese law to exercise voting rights in respect of the Deposited Shares as contemplated above, the Depositary will, if and as requested in writing by the Bank's Board of directors, either (i) exercise the voting rights in respect of the Deposited Shares as directed by the Board or (ii) give a proxy to a person designated by the Board to vote in respect of the Deposited Shares in his or her discretion.

Information Furnishing Requirements

Pursuant to applicable Lebanese law and regulations, a Lebanese bank must take necessary steps to provide the Banking Control Commission at least twice a year with a list identifying any person who owns, directly or indirectly through beneficial ownership: (i) GDSs representing 5% or more of the bank's outstanding GDSs, (ii) each holder of any number of GDSs, if such person also owns 5% or more of the bank's outstanding shares and (iii) GDSs, whose GDSs and shares (combined) representing 5% or more of the Bank's outstanding share capital. In order to permit the Bank to fulfil this obligation, Owners and persons owning any beneficial interest in the GDSs ("*Beneficial Owners*") will be required to provide certain identifying information to the Depositary with respect to their direct or indirect ownership of any shares of the Bank or GDSs, who, in turn, will provide such information received by it to the Bank.

Withdrawal Restrictions

Common Shares may be withdrawn from the GDR Program at any time. Any such withdrawal, however, will constitute a transfer of shares under Lebanese law and therefore be subject to the prior approval of (i) the Central Bank in the event that (x) such transfer of shares would result in the transferee owning, directly or indirectly, 5.0% or more of the outstanding share capital of the Bank (excluding preferred shares) or voting rights relating thereto, whichever is higher, (y) the transferee owns at the time of the transfer 5.0% or more of the outstanding share capital of the Bank (excluding preferred shares) or voting rights relating thereto, whichever is higher, or (z) either the transferee or the transferor is a current or elected member of the Board, irrespective of the number of transferred shares; and (ii) any other regulatory authority having jurisdiction over the Bank or any of its subsidiaries whose approval shall then be required for the transfer of shares.

Admission and Listing

GDSs, representing 23.94% of the Common Shares, were issued under the GDR Program and admitted to trading on the LSE's Main Market. On February 19, 2009, the Bank listed its GDSs on the Official List of the United Kingdom Listing Authority, making it the first Lebanese bank to list in London for 12 years. Application has also been made to list the GDSs (which are currently listed on the Over-the-Counter Market on the BSE) on the BSE.

Settlement

The GDSs settle through the book-entry systems of Euroclear, Clearstream and Midclear.

TAXATION

The following is a summary of the principal Lebanese tax consequences for holders of Series 2009 Preferred Shares. This summary only addresses the tax consequences with respect to the purchase, ownership and sale of the Series 2009 Preferred Shares. This summary is not intended to be a comprehensive description of all relevant tax considerations, and each applicant should consult its own tax advisor before making a decision to purchase Series 2009 Preferred Shares. The following is based on the tax laws of Lebanon as in effect on the date hereof. For advice relating to the tax consequences to holders of Series 2009 Preferred Shares in countries outside Lebanon, including countries in which they may be resident or domiciled, applicants are urged to consult their own tax advisors on the consequences of such acquisition, ownership and sale, including specifically the tax consequences under Lebanese law, laws of their countries of residence and any tax treaty between Lebanon and their countries of residence.

Withholding Tax on Distributions

Under current Lebanese law, distribution of dividends is subject to withholding tax at the rate of 10% on any dividend payment and any other distributions to holders, which tax rate will be reduced by 50% in the case of a company listed on the BSE. As at the date of this Offering Circular, the Bank's share capital is listed on the BSE, and therefore, the withholding tax applicable to Distributions on the Series 2009 Preferred Shares is 5%.

In principle, this tax is due irrespective of the nationality or domicile of the beneficiary of the dividends. However, the application of tax treaties aimed at avoiding double taxation between Lebanon and other countries, when applicable, may reduce this tax.

The Bank does not have any obligation to reimburse holders of Series 2009 Preferred Shares for any taxes withheld from Distributions (if any) paid to such holders.

Taxation of Capital Gains

Capital gains made in connection with the sale of shares of Lebanese joint stock companies, such as the Bank, are subject to the following:

- gains on the sale of shares held by individuals (resident and non-resident) and foreign non-resident companies holding minority interests are currently not subject to tax on moveable assets;

- gains on the sale of shares held by Lebanese holding companies are tax exempt if held for a minimum period of two years; otherwise, they are subject to capital gains tax, currently at a rate of 10%;

- gains on the sale of shares held by Lebanese companies, the object of which includes the trading of shares and securities, are subject to corporate tax, currently at a rate of 15%; and

- gains on the sale of shares held by Lebanese companies outside the normal course of their business (as non-current equity securities) are subject to capital gains tax at the rate of 10%.

Stamp Duties

The Law promulgated by Decree N° 5439 dated November 20, 1982 granted an exemption to all contracts of transfers of shares, bonds or treasury bills from the stamp duty imposed by the Law promulgated by Decree N° 67 dated August 5, 1967. Accordingly, there is no stamp duty imposed in the Lebanese Republic upon any holder in connection with the transfer of Series 2009 Preferred Shares.

PLACEMENT OF THE SERIES 2009 PREFERRED SHARES

Placement

The Series 2009 Preferred Shares are being offered for sale directly by the Bank to Eligible Investors in offshore transactions outside the United States, on a when, as and if issued basis, subject to prior sale or withdrawal, cancellation or modification. An Eligible Investor is required to sign a Purchase Application, substantially in the form of Exhibit B hereto or an earlier version thereof as may have been previously made available to it by the Bank, as a condition to making an investment in the Series 2009 Preferred Shares. See "*Subscription Timetable and Procedures*".

Selling Restrictions

The Series 2009 Preferred Shares have not been and will not be registered under the laws of any jurisdiction, nor has any other action been taken, nor will any action be taken, by the Bank or any other person that would permit a public offering of the Series 2009 Preferred Shares or the possession, circulation or distribution of this Offering Circular or any amendment or supplement hereto or thereto, or any other offering material relating to the Bank or the Series 2009 Preferred Shares, in any country or jurisdiction where action for any such purpose may be required. The offer and sale of Series 2009 Preferred Shares, and the delivery of this Offering Circular, are restricted by law in certain jurisdictions and Series 2009 Preferred Shares may not be offered or sold, and this Offering Circular may not be distributed, in any jurisdiction under circumstances where such offer, sale or distribution would be prohibited or restricted by law.

The Bank will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it offers, sells or delivers the Series 2009 Preferred Shares or possesses or distributes this Offering Circular. The Bank does not, however, represent that the Series 2009 Preferred Shares may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, and neither assumes any responsibility for facilitating any such sale.

Without limiting the foregoing, prospective purchasers of Series 2009 Preferred Shares should be aware of the following restrictions:

United States of America

The Series 2009 Preferred Shares have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, any U.S. Person, except in accordance with Regulation S under the Securities Act or pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S.

The Bank will not offer, sell or deliver the Series 2009 Preferred Shares within the United States or to, or for the account of, any U.S. Person, as part of its distribution at any time, except in accordance with Regulation S under the Securities Act or pursuant to another available exemption from the registration requirements of the Securities Act.

United Kingdom

The Bank agrees that:

(i) it has not offered or sold and, prior to the date six months after the Issue Date, will not offer or sell any Series 2009 Preferred Shares to persons in the United Kingdom except to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom within the meaning of the U.K. Regulations;

(ii) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 of the United Kingdom) received by it in connection with the issue or sale of any Series 2009 Preferred Shares in circumstances in which section 21(1) of the Financial Services and Markets Act 2000 of the United Kingdom does not apply; and

(iii) it has complied and will comply with all applicable provisions of the Financial Services and Markets Act 2000 of the United Kingdom with respect to anything done by it in relation to the Series 2009 Preferred Shares in, from or otherwise involving the United Kingdom.

GENERAL INFORMATION

1. It is expected that the creation and issue of the Series 2009 Preferred Shares will be authorized by a resolution adopted by an Extraordinary General Meeting of the shareholders of the Bank adopted on August 1, 2009. All consents, approvals, registrations, authorizations, notifications and other orders of regulatory authorities required to be obtained prior to the Issue Date under the laws and regulations of the Lebanese Republic in connection with the issue, offer and sale of the Series 2009 Preferred Shares have been or, prior to the Issue Date, will be obtained.

2. There are no litigation or arbitration proceedings against or affecting the Bank or its assets, nor is the Bank aware of any pending or threatened proceedings, which have a materially adverse effect on it or its operations or which are or might be material in the context of the issue of the Series 2009 Preferred Shares.

3. Ernst & Young p.c.c. and Semaan, Gholam & Co. have audited the consolidated financial statements of the Bank for the years ended December 31, 2008 and 2007 and have given and have not withdrawn their written consent to the distribution of this Offering Circular with the inclusion herein of their reports and references to their names in the form and context in which these appear.

Exhibit A

GLOSSARY OF DEFINED TERMS

For the purposes of this Offering Circular, the following terms shall have the meanings set forth below:

"*Adjustment Event*" means, any stock split or reverse stock split affecting the Series 2009 Preferred Shares.

"*Aggregate Issue Price*" means, with respect to the Series 2009 Preferred Shares subscribed for by an Eligible Investor, the amount, in U.S. Dollars, equal to the product of the number of such Series 2009 Preferred Shares times the Issue Price.

"*Bank*" means Byblos Bank S.A.L., a bank incorporated in the Lebanese Republic with limited liability, together with, where appropriate in the context, the Bank's consolidated subsidiaries: Byblos Bank Europe S.A., Byblos Bank Africa Ltd., Byblos Bank Syria S.A., Byblos Bank Armenia CJSC, Byblos Invest Bank S.A.L., Adonis Insurance & Reinsurance Co. (ADIR) S.A.L., Adonis Insurance & Reinsurance (ADIR) Syria, Adonis Brokerage House S.A.L. and Byblos Management S.A.L. (Holding) and, beginning in 2009, Byblos Ventures S.A.L. (Holding).

"*Bankdata*" means Bankdata Financial Services WLL**.**

"*Banque du Liban*" means *Banque du Liban*, the Central Bank of the Lebanese Republic.

"*Basel Accord*" means the guidelines of the Committee on Banking Regulation and Supervisory Practices of the Bank for International Settlements.

"*By-laws*" means the by-laws of the Bank as amended to reflect the resolutions adopted by the shareholders of the Bank at the Extraordinary General Meeting expected to be held on August 1, 2009 to authorize the issuance of the Series 2009 Preferred Shares and as further amended or supplemented from time to time.

"*Common Shares*" means the Common Shares of the Bank, with a par value of LBP 1,210 per share.

"*Confirmation EGM*" means the General Meeting of Shareholders of the Bank held to confirm and verify the due issuance of the Series 2009 Preferred Shares, which is expected to be held on September 4, 2009.

"*Distributions*" has the meaning assigned to such term on the front cover of this Offering Circular, subject to adjustment to reflect the occurrence of an Adjustment Event.

"*Eligible Investor*" means any person, other than a U.S. Person and the Directors and General Managers of the Bank, their immediate families and any person acting on their behalf.

"*Escrow Agent*" means the Bank, in its capacity as escrow agent for the Aggregate Issue Price paid by each applicant in connection with its subscription for Preferred Shares.

"*Final Allotment Date*" means the first business day following the final date of the Official Subscription Period, which is expected to be September 1, 2009 and on which the Bank shall finally accept or reject each Purchase Application and allot the Series 2009 Preferred Shares to Eligible Investors.

"*Issue Date*" means September 4, 2009 or such other date as shall be determined by the Bank following the fulfillment of all conditions precedent to the issuance of the Series 2009 Preferred Shares.

"*Issue Premium*" means the balance of the Issue Price in excess of the par value of each Preferred Share, which shall constitute Tier I Capital.

"*Issue Price*" means U.S.$96.00 per share.

"*Issuer*" means the Bank.

"*Law No. 308*" means Law No. 308 of the Lebanese Republic, dated April 3, 2001, relating to the issuance by banks of shares and dealings therein, the issuance by banks of bonds and the ownership by banks of real property.

"*Lebanese Pounds*" means the official currency of the Lebanese Republic.

"*Liquidation Preference*" means, in respect of any Series 2009 Preferred Share, the amount, in Lebanese Pounds, which the holder of such Share shall be entitled to be paid out of the assets of the Bank available for distribution to its shareholders, before any payment shall be made on the Common Shares, in the event of any dissolution, liquidation or winding-up of the Bank, which shall equal the sum of (i) the Lebanese Pound equivalent (calculated on or about the date of distribution of the Liquidation Preference) of U.S.$100.00 (subject to adjustment to reflect the occurrence of an Adjustment Event**,** plus (ii) all declared but unpaid Distributions in respect of such Series 2009 Preferred Share.

"*Midclear*" means Midclear S.A.L., a joint stock company organized under the laws of the Lebanese Republic, which is 99% owned by *Banque du Liban* and which acts as the central depositary and clearing house in the Lebanese Republic.

"*Official Subscription Period*" means the period from and including August 21, 2009 through and including August 31, 2009 at 1:00 p.m., Beirut time, or such other period as the Bank shall designate for the purpose of receiving subscriptions for Series 2009 Preferred Shares following receipt of approval from *Banque du Liban* for the issuance thereof.

"*Priority Shares*" means *the 206,023,723 priority shares issued by the Bank in December 2005.*

"*Purchase Application*" means a purchase application, in the prescribed form, for the subscription of Series 2009 Preferred Shares, a copy of which is attached to this Offering Circular as Exhibit B.

"*Regulation S*" means Regulation S under the Securities Act of 1933, as amended.

"*Regulatory Event*" means a change in applicable law or regulation (including regulations published by *Banque du Liban* or the Banking Control Commission), or in the official interpretation or application thereof, which, in the opinion of the Bank, would be reasonably likely to result (i) in the Aggregate Issue Price for the Series 2009 Preferred Shares not being included in the Bank's Tier I Capital or (ii) in the Bank not being permitted to maintain the Issue Premium in U.S. Dollars.

"*Securities Act*" means the U.S. Securities Act of 1933, as amended.

"*Series 2008 Preferred Shares*" means the 8.00% Non-Cumulative Redeemable Series 2008 Preferred Shares of the Bank, with a par value of LBP 1,210 per share, offered by the Bank in August 2008.

"*Series 2009 Preferred Shares*" means the 8.00% Non-Cumulative Redeemable Series 2009 Preferred Shares of the Bank, with a par value of LBP 1,210 per share, being offered by this Offering Circular.

"*Subscription Escrow Account*" means the account maintained by the Escrow Agent captioned "*Series 2009 Preferred Share Subscription Escrow Account*", Category No. 1159, for purposes of receiving and holding the Aggregate Issue Price paid by each Eligible Investor in respect of the Series 2009 Preferred Shares.

"*Tier I Capital*" means the Bank's Tier I capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of *Banque du Liban*, which are based generally on the Basel Accord, being paid-up share capital, issue premium, shareholders' cash contributions to capital (effectively a pre-payment of capital booked in a foreign currency until such time as it is converted into local currency share capital), legal and statutory reserves (including reserves for unspecified banking risks, but excluding reserves allocated for liquidation of real properties), retained earnings non-cumulative perpetual preferred shares, funds allocated for investment in real properties and financial instruments that (i) are issued and fully paid, (ii) are eligible to cover the Bank's losses on a going concern basis, (iii) have non-cumulative revenues and (iv) are permanent, subject to early redemption at the issuer's discretion after five years from their issue date and by the exchange of such instruments for equivalent financial instruments.

"*Tier II Capital*" means the Bank's Tier II capital, as determined in accordance with International Financial Reporting Standards and applicable rules and regulations of *Banque du Liban*, which are based generally on the Basel Accord, being preferred shares (other than preferred shares, which are both perpetual and non-cumulative), certain subordinated loans and any favorable change in fair value of available-for-sale securities, the revaluation surplus of the bank's properties, subject to *Banque du Liban*'s approval, and general provisions for unspecified risks.

"*Tier III Capital*" means the Bank's Tier III capital that consists of subordinated debt that is issued initially for a minimum of two years.

"*U.K. Regulations*" means the Public Offers of Securities Regulations 1995 of the United Kingdom.

"*Unconsolidated Distributable Net Income*" means, for any year, the Bank's net income for such year, calculated after deduction of legal reserves and reserves for unspecified banking risks, as shown on the Bank's audited unconsolidated financial statements for such year, as approved by the Bank's shareholders at the annual Ordinary General Meeting of Shareholders (or such other shareholders' meeting) held to approve the annual accounts of the Bank for such year.

"*U.S. Dollars*" means the official currency of the United States.

"*United States*" and "*U.S. Persons*" have the meanings assigned to such terms in Regulation S.

Exhibit B

FORM OF PURCHASE APPLICATION

1.Applicant Information.

Applicant Name: ____(“*Applicant*”)

Address:____(Street)

____

____

(City) (Country)

Telephone Number:_____________ Telecopy Number:_____________________

____

Jurisdiction of Organization/Country of Residence: ____

(If signing on behalf of a corporation or other legal entity)
Authorized Signatory: ____
(Name) (Title)

Holder of Byblos Bank S.A.L. Series 2008 Preferred Shares: Yes ___________ No ____________

If Yes, number of Series 2008 Preferred Shares held as of the date of this Purchase Application: _________

If Yes, Midclear Shareholder No.: _______________

If No, please complete the New Shareholder Information Sheet attached hereto as Annex B[1].

2.Application to Purchase Series 2009 Preferred Shares

A. Acknowledgment. The Applicant acknowledges that Byblos Bank S.A.L., a Lebanese banking institution (the “*Issuer*”), intends to issue, in September 2009 (the “*Issue Date*”), up to U.S. $100,000,000 (subject to increase to U.S.$200,000,000) of its Non-Cumulative Redeemable Series 2009 Preferred Shares (the “*Series 2009 Preferred Shares*”), the indicative terms of which are set forth in the term sheet dated May 26, 2009, a copy of which is attached hereto (the “*Term Sheet*”). The Applicant acknowledges having received the Term Sheet and hereby represents that it has carefully reviewed and fully understands the contents thereof. The Applicant further acknowledges that, upon issuance, the Series 2009 Preferred Shares will have such terms and conditions as will be described in an offering circular relating to the issue, offer and sale of the Series 2009 Preferred Shares (the “*Offering Circular*”), which is expected to be delivered to prospective purchasers in July 2009 and which will supersede the Term Sheet in its entirety.

The Applicant acknowledges that neither the Issuer nor any other person is acting as an adviser to the Applicant in connection with its application to purchase Series 2009 Preferred Shares or has made any recommendation, representation or warranty, express or implied, regarding the Series 2009 Preferred Shares or the advisability of an investment therein.

B. Application to Purchase Series 2009 Preferred Shares. [To be completed by the Applicant]. Subject to paragraphs C., D.(ii) and D.(iii) below, and on and subject to all other terms and conditions set forth

[1] Please note that an Applicant that is already a holder of Common Shares or Series 2008 Preferred Shares need not complete the New Shareholder Information Sheet.

herein, the Applicant hereby offers to purchase that amount of Series 2009 Preferred Shares as is indicated below at the issue price for the Series 2009 Preferred Shares specified below (complete as appropriate):

U.S. $________________ of Series 2009 Preferred Shares.
[insert amount]

Issue Price: U.S. $96 per share.

C. Minimum Purchase. The Applicant acknowledges and agrees that the minimum subscription amount to the Series 2009 Preferred Shares is U.S. $5,000.

D. Acceptance, Termination, Etc. The Applicant acknowledges and agrees that:

i) This Purchase Application shall be deemed accepted only upon execution by the Applicant, payment of the Purchase Price (*as defined below*) and acceptance by, or on behalf of, the Issuer, such acceptance to be evidenced by delivery of a fully-executed copy of this Purchase Application to the Applicant; provided that, if this Purchase Application is submitted by a holder of the Issuer's outstanding U.S. $8.00 Non-Cumulative Redeemable Series 2008 Preferred Shares issued in 2008 (the "*Series 2008 Preferred Shares*") exercising its first priority subscription rights, this Purchase Application shall be automatically accepted absent any manifest error or defect. Holders of Series 2008 Preferred Shares have the right to subscribe, on a first priority basis, to the issue of Series 2009 Preferred Shares, *pro rata* to their holdings of Series 2008 Preferred Shares, at a rate of one (1) Series 2009 Preferred Share for each two (2) Series 2008 Preferred Shares held by such holder (assuming an issue size of the Series 2009 Preferred Shares of US.$100,000,000). The Issuer will allocate Series 2009 Preferred Shares on a first priority basis to all holders of Series 2008 Preferred Shares exercising their priority subscription rights, including, if applicable, the Applicant, *pro rata* to their holdings of Series 2008 Preferred Shares. Any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares exercising their first priority subscription rights will be further allocated, on a second priority basis, among holders of Series 2008 Preferred Shares wishing to subscribe to additional Series 2009 Preferred Shares and only thereafter to other subscribers. The Applicant understands that, if it is not a holder of Series 2008 Preferred Shares exercising its priority subscription rights, it will not receive any allocation of Series 2009 Preferred Shares unless and until all applications submitted by holders of Series 2008 Preferred Shares (whether exercising their first or second priority subscription rights) have been filled, and that, thereafter, any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares (whether exercising their first or second priority subscription rights) will be allocated in the sole discretion of the Issuer. If the aggregate amount of Series 2009 Preferred Shares subscribed for by the Applicant and other similarly situated applicants (*i.e.*, applicants exercising or not exercising first or second (as the case may be) priority subscription rights, as the case may be) to purchase Series 2009 Preferred Shares exceeds the maximum aggregate amount of Series 2009 Preferred Shares being offered, the Series 2009 Preferred Shares will be allocated among the Applicant and such other applicants in the sole discretion of the Issuer prior to the Issue Date.

ii) Whether or not this Purchase Application has been accepted by, or on behalf of, the Issuer, the Applicant may rescind its agreement to purchase Series 2009 Preferred Shares by giving written notice to the Issuer, within three business days following the date of publication by the Issuer in two widely-distrihbuted Lebanese newspapers, which publication is expected to be made approximately one week prior to the Issue Date, that the Offering Circular, in preliminary or final form, relating to the offering of the Series 2009 Preferred Shares and describing the final terms thereof, has been made available at the Issuer's Head Office and branches, if (but only if) the final terms of the Series 2009 Preferred Shares as described in the Offering Circular are substantially and adversely different from the terms described in the Term Sheet. The Issuer shall bear no responsibility as a result of the Applicant's failure to retrieve or review the Offering Circular.

iii) The Issuer may, in its sole discretion, reject this Purchase Application in whole or in part and/or terminate the offering of the Series 2009 Preferred Shares at any time and for any reason whatsoever; the Issuer shall terminate the offering in the event that *Banque du Liban* or the Extraordinary General Meeting of Shareholders of the Issuer fails to approve the issue of Series 2009 Preferred Shares. In any such event, the Applicant shall have no right to purchase Series 2009 Preferred Shares from the Issuer at any time. In addition, if this Purchase Application has been accepted, the Issuer retains the right to reduce, in its sole discretion, the number of Series 2009 Preferred Shares allocated to the Applicant.

E. Payment. The Applicant represents that it has transferred funds to Byblos Bank S.A.L., as escrow agent (in such capacity, the "*Escrow Agent*"), for credit to the "Series 2009 Preferred Shares Subscription Account", Category No. 1159, in an amount equal to the amount specified in Paragraph B. above (the "*Purchase Price*"). In the event that the offering of the Series 2009 Preferred Shares is terminated or if this Purchase Application is rejected, in whole or in part, the Purchase Price received by the Escrow Agent from the Applicant (or a corresponding portion thereof) will be promptly refunded to the Applicant, together with interest, if any, earned thereon by transfer to the account identified below. It is expected that the Escrow Agent will invest the funds received by it hereunder in respect of the Purchase Price for the Series 2009 Preferred Shares subscribed hereby, together with all other subscription monies received by it in respect of subscriptions for Series 2009 Preferred Shares, in overnight U.S. dollar deposits at standard call rates paid by the Escrow Agent for such deposits for the benefit of the Applicant and the other applicants to purchase Series 2009 Preferred Shares covered by this Purchase Application on the Issue Date and/or transfer the Purchase Price to the subscription account maintained at *Banque du Liban*. Subject to paragraphs D.(ii) and D.(iii) above, and the other terms and conditions set forth herein, the Applicant hereby irrevocably instructs the Escrow Agent to apply the Purchase Price received by it hereunder, on behalf of the Applicant, to purchase the Series 2009 Preferred Shares covered by this Purchase Application on the Issue Date and/or to transfer the Purchase Price to the subscription account maintained at *Banque du Liban*. The Applicant shall be entitled to receive its *pro rata* share of the interest, if any, earned on the escrowed funds from and including the value date as of which the Purchase Price is deposited by it hereunder to but excluding the Issue Date (or such earlier date on which funds shall be returned to the Applicant in the event this Purchase Application is rejected, in whole or in part, or the offering is terminated) promptly following the Issue Date (or such earlier date, as the case may be).

Account to which the Purchase Price (or part thereof) shall be transferred in the event the offering is terminated or this Purchase Application is rejected, in whole or in part, and/or to which interest shall be paid:

Bank.________________________________

Account No.:__________________________

In favor of:___________________________

F. Delivery of Series 2009 Preferred Shares. The Applicant acknowledges that the Series 2009 Preferred Shares will be delivered, upon issuance, by deposit to the Midclear account of Byblos Bank S.A.L. (Account No. 39/20) and the Applicant hereby instructs Byblos Bank S.A.L. to hold the Series 2009 Preferred Shares purchased by it hereunder in custody for the benefit of the Applicant in accordance with its standard custody arrangements. At any time after the Issue Date, the Applicant may request that Byblos Bank S.A.L. arrange for the transfer of the custody of such Series 2009 Preferred Shares to another participant or sub-custodian with Midclear.

G. Representations and Undertakings.

i) The Applicant hereby makes the representations and warranties set forth in Annex I hereto to, and for the benefit of, the Issuer on the date hereof and on and as of the Issue Date. The Applicant understands that the Series 2009 Preferred Shares will be sold to the Applicant in reliance on such representations and warranties.

ii) If applicable, the Applicant hereby agrees and undertakes, as promptly as possible after request by the Issuer, to complete and furnish to the Issuer all information requested by *Banque du Liban* in connection with the acceptance of the Applicant as a new shareholder of the Issuer (including, without limitation, all information requested on the New Shareholder Information Sheet attached hereto); the Applicant represents, for the benefit of *Banque du Liban* and the Issuer that all such information will be true, accurate and complete.

iii) The Applicant hereby grants each of Messrs Moussa Maksoud and Alain Wanna, and each other person whom shall be appointed by either of them at the relevant time, each acting singly, a power of attorney to complete, execute and deliver, on behalf of the Applicant, any and all application, subscription forms and other documents necessary or appropriate for the acceptance of the Applicant by *Banque du Liban* as a shareholder of the Issuer, and the registration of the Applicant as a shareholder of the Issuer.

iv) By purchasing Series 2009 Preferred Shares, the Applicant will be deemed to grant each of Messrs Moussa Maksoud and Alain Wanna, and each other person whom shall be appointed by either of them at the relevant time, each acting singly, a separate power of attorney (x) to attend and vote in any General Meeting of the Shareholders of the Issuer (whether Ordinary or Extraordinary), as well as any meeting of the association of holders of Series 2009 Preferred Shares; and (y) to complete, execute and deliver, on behalf of the Applicant, any and all documents and other instruments, and to take all such actions, as shall be necessary or appropriate in connection with any redemption of Series 2009 Preferred Shares held by the Applicant.

v) The Applicant understands that, in addition, the resolutions to be adopted at the Extraordinary General Meeting of Shareholders of the Issuer held to authorize the issuance of the Series 2009 Preferred Shares and the by-laws of the association of holders of Series 2009 Preferred Shares are expected to grant authorization to the Issuer to the effect that, upon exercise of the call option, in whole or in part, the Issuer shall be authorized to take any and all action necessary to effect the redemption of the Series 2009 Preferred Shares, which are the subject of such exercise, and to cancel such Series 2009 Preferred Shares, including directing and authorizing Midclear to effect such redemption and cancellation. Midclear shall be entitled to rely exclusively on the Issuer's instructions to effect such redemption and cancellation. As between the Issuer and each holder, the redemption shall be effective upon cash payment to such holder of the amount payable to it upon exercise of the call, as determined by the Issuer, pursuant to instructions received from the holder (or, failing receipt of such instructions, pursuant to the instructions in effect for the payment to such holder of the last distribution made by the Issuer in respect of the Series 2009 Preferred Shares).

vi) The Applicant further acknowledges that its purchase and ownership of Series 2009 Preferred Shares shall constitute its authorization and direction to Midclear and its participants, including the Issuer, to disclose the Applicant's ownership of Series 2009 Preferred Shares, together with the number of Series 2009 Preferred Shares held by it and such other relevant information concerning the Applicant and its interest in the Series 2009 Preferred Shares as may be necessary in connection with any exercise by the Issuer of its call option in respect of the Series 2009 Preferred Shares held by such Applicant.

3. General.

A. Modification. This Purchase Application may not be modified, discharged or terminated orally, but only by an instrument in writing, signed by the party against which enforcement is sought.

B. Defined Terms. Capitalized terms used herein without otherwise being defined shall have the meanings assigned to them in the Term Sheet.

C. Counterparts. This Purchase Application may be executed in multiple counterpart copies, each of which shall be considered an original and all of which shall constitute one and the same instrument, binding on all parties hereto, notwithstanding that all the parties are not signatories to the same counterpart.

D. Successors and Assigns. Except as otherwise provided herein, this Purchase Application shall be enforceable by and against the successors and assigns of the parties hereto, and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns. This Purchase Application is not transferable or assignable by the Applicant.

E. Applicable Law. This Purchase Application shall be governed by and construed in accordance with the laws of the Republic of Lebanon.

F. Controlling Language. This Purchase Application has been prepared in both English and Arabic. In case of any inconsistency between the English-language Purchase Application and the Arabic-language Purchase Application, the English-language version shall prevail.

The undersigned has executed this Purchase Application on this _____________ day of _ _______, 2009.

[This form must be signed in triplicate.]

Signed by the Applicant:______________________________

Print Name & Title of Person Signing on behalf of Applicant:___________________________

If applicable, authentication of the Applicant's signature by the relevant branch manager of the Issuer on and as of this ______________________________________ day of __________________, 2009. This authentication shall not constitute, in any way, acceptance of the foregoing Purchase Application.

By____
Name:
Title:

The foregoing Purchase Application is hereby Accepted in respect of the amount of Preferred Shares indicated below on and as of this ___ day of _______________________ 2009 by:

BYBLOS BANK S.A.L.

By__________________________
Name:
Title:

Amount of Series 2009 Preferred Shares in respect of which subscription is accepted:

U.S. $_______________________

ANNEX I

REPRESENTATIONS AND WARRANTIES OF THE APPLICANT

1. The Applicant is a sophisticated investor with sufficient knowledge and experience in business and financial matters in general, and regarding the political and economic conditions prevailing in Lebanon in particular, and is capable of independently investigating and evaluating the risks involved in purchasing and owning investments such as the Series 2009 Preferred Shares.

2. The Applicant is purchasing Series 2009 Preferred Shares as contemplated by this Purchase Application solely on the basis of its own independent appraisal of the economic, political and social conditions prevailing in Lebanon and in the Middle East region, the financial condition and results of operations of the Issuer and the terms and conditions of the Series 2009 Preferred Shares (as set forth in the Term Sheet), as well as all such other information and matters as the Applicant deems appropriate in determining whether to purchase Series 2009 Preferred Shares, without relying upon any representation or warranty, express or implied, made to it by the Issuer or any other person with respect thereto; the Applicant shall carefully review and consider all such other information and matters (including, without limitation, the Offering Circular) as the Applicant deems appropriate in determining whether to purchase Series 2009 Preferred Shares; and the Applicant shall continue to be solely responsible for making its own independent appraisal of all such matters in the future; all without relying on the Issuer or any other person to confirm or inquire on its behalf as to the adequacy or completeness of any information or to assess or keep under review on its behalf any such information or the status of the Series 2009 Preferred Shares.

3. The Applicant understands that the Issuer operates principally in Lebanon and, accordingly, its financial condition and results of operations are affected by the economic, political and social conditions prevailing in Lebanon and in the Middle East region. As a result, the Series 2009 Preferred Shares are instruments reflecting general Lebanese sovereign risk, as well as the particular risk of the Issuer. Lebanon's debt obligations have been assigned non-investment grade ratings by the principal international rating agencies. Lebanon's below-investment grade credit ratings, large budget deficit and other fiscal weaknesses make Lebanon susceptible to future adverse effects similar to those suffered by other emerging market countries and affect, and are likely to continue to affect, the Issuer's financial condition, including its ability to generate profits.

4. The Applicant understands that the prevailing and widely-reported global credit crisis and international financial and securities market turmoil are continuing and that, accordingly, there is a general lack of liquidity and significant price volatility in the global securities markets. Such lack of liquidity and price volatility may result in investors suffering losses on the Series 2009 Preferred Shares in secondary resales (if any), even if there is no decline in the financial condition or performance of the Issuer. Moreover, although Lebanese banks appear to have been less affected by the current global credit crisis to date, systemic risk within the financial system and the related general deterioration in global economic conditions could result in a significant decline in the recoverability and value of the Issuer's assets and in its financial performance and, accordingly, could have an adverse impact on the market price of the Series 2009 Preferred Shares.

5. The Applicant further understands that the terms and conditions of the Series 2009 Preferred Shares will provide that distributions in respect of the Series 2009 Preferred Shares may be paid only out of unconsolidated distributable net income of the Issuer. The historical results achieved by the Issuer are not necessarily indicative of future results and there can be no assurance that the Issuer will realize positive unconsolidated distributable net income for any particular period.

6. The Applicant understands that the actual amount of distributions payable in respect of the Series 2009 Preferred Shares for any year and the date on which such distributions shall be paid are subject to the approval of the Issuer's shareholders at the Ordinary General Assembly of Shareholders at which the relevant annual accounts of the Issuer are approved.

7. The Applicant understands that the Series 2009 Preferred Shares are subject to redemption and cancellation at the option of the Issuer only (i) at any time after the Issue Date if a Regulatory Event shall occur and (ii) within 60 days following the date of the Ordinary General Assembly of Shareholders held to approve the annual accounts of the Issuer for the year 2014, and for each subsequent year thereafter, in its sole discretion, in each case, at a price equal to U.S.$100.00 per Series 2009 Preferred Share (subject to adjustment) plus any declared but unpaid distributions on the Series 2009 Preferred Shares, provided that no distributions shall be payable in respect of any Series 2009 Preferred Shares for the year in which such Series 2009 Preferred Shares are redeemed and cancelled. Holders of Series 2009 Preferred Shares will not have the benefit of any put option or other right to require the Bank to repurchase Series 2009 Preferred Shares and, although the Bank has the right to redeem and cancel the Series 2009 Preferred Shares as

described herein, it has no obligation to do so and its ability to do so may be restricted by applicable ratios and regulations of *Banque du Liban* and the Banking Control Commission.

8. The Applicant understands that holders of the Issuer's Series 2008 Preferred Shares have the right to subscribe, on a first priority basis, to the issue of Series 2009 Preferred Shares, *pro rata* to their nominal holdings of Series 2008 Preferred Shares, at a rate of one (1) Series 2009 Preferred Share for each two (2) Series 2008 Preferred Shares held by such holder (assuming an issue size of the Series 2009 Preferred Shares of U.S.$100,000,000). The Issuer will allocate Series 2009 Preferred Shares on a first priority basis to all holders of Series 2008 Preferred Shares exercising their first priority subscription rights, including, if applicable, the Applicant, *pro rata* to their holdings of Series 2008 Preferred Shares. Any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares exercising their first priority subscription rights will be further allocated, on a second priority basis, among holders of Series 2008 Preferred Shares wishing to subscribe to additional Series 2009 Preferred Shares and only thereafter to other subscribers. The Applicant understands that, if it is not a holder of Series 2008 Preferred Shares exercising its priority subscription rights, it will not receive any allocation of Series 2009 Preferred Shares unless and until all applications submitted by holders of Series 2008 Preferred Shares (whether exercising their first or second priority subscription rights) have been filled, and that, thereafter, any Series 2009 Preferred Shares not subscribed by holders of Series 2008 Preferred Shares (whether exercising their first or second priority subscription rights) will be allocated in the sole discretion of the Issuer. If the aggregate number of Series 2009 Preferred Shares subscribed for by the Applicant and other similarly situated applicants (*i.e.*, applicants exercising or not exercising first or second (as the case may be) priority subscription rights, as the case may be) exceeds the maximum aggregate number of Series 2009 Preferred Shares being offered, the Series 2009 Preferred Shares will be allocated among the Applicant and such other applicants in the sole discretion of the Issuer prior to the Issue Date.

9. The Series 2009 Preferred Shares have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "*Securities Act*"), and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. Persons (as defined in Regulation S under the Securities Act), unless the Series 2009 Preferred Shares are registered under the Securities Act or an exemption from the registration requirements thereof is available; the offer and sale of the Series 2009 Preferred Shares are also subject to restrictions in the United Kingdom and in certain other jurisdictions; and the Applicant is responsible for informing itself about and observing all such restrictions that are applicable to it.

10. The Applicant is not a U.S. person, as defined in Regulation S under the Securities Act, was outside the United States when it made this Purchase Application and will be outside the United States when it purchases the Series 2009 Preferred Shares.

11. The Applicant is an Eligible Investor (*i.e.*, a person other than a U.S. person or the directors and general managers of the Issuer, their immediate families or any person acting on behalf of any such person).

12. The Applicant understands that, although in accordance with applicable regulations the Bank intends to list the Series 2009 Preferred Shares on the BSE, it is expected that such listing will not be effected until some time after the Issue Date and the Series 2009 Preferred Shares will not be listed on any international stock exchange; there currently is no secondary market for the Series 2009 Preferred Shares; the Issuer does not intend to make a market in the Series 2009 Preferred Shares; and, accordingly, the purchase of Series 2009 Preferred Shares is suitable only for, and should be made only by, investors who can bear the risks of no liquidity and the financial and other risks associated with such an investment.

ANNEX II

NEW SHAREHOLDER INFORMATION SHEET

Please deliver copies of the following documents (as applicable):

1- Copy of ID or Passport/Commercial registry.
2- Copy of Family ID.
3- Copy of Company's Authorized Signatories.
4- Copy of Company's By-laws.

For Individuals / For Companies	
Full Name of the Applicant (as written on your Passport or other ID) / Legal Name of the Company:	______________________
If Applicant is a Married Woman, please provide Maiden Name in Arabic:	(الاسم) ،(اسم الأب)، (اسم العائلة قبل الزواج) ، متأهلة (اسم العائلة بعد الزواج) ______________________
Title (Mr., Dr., Sheikh, Prince, Reverend, etc.):	______________________
Mother's Name:	______________________
Date of Birth / Incorporation: (dd/mm/yy)	______________________
Place of Birth / Jurisdiction of Incorporation:	______________________
Register No. / Commercial Register No.:	______________________

For Companies	
Type of Company (Holding Company, Bank, Financial Institution, etc.):	______________________
Share Capital:	______________________
Principal Shareholders, Partners or Other Members of the Company and number of shares (please provide shareholding of 5% or more)	[Please attach appropriate list]

For Individuals	
Sex:	______________________
Nationality:	______________________
Name of Spouse (First name, Father's name and Family name (before marriage if female)):	______________________
Date/Place of Birth of Spouse:	______________________
Spouse's Mother's Name:	______________________
Name of Minor Children	______________________
Date/Place of Birth of Each Minor Child	______________________

INDEX TO FINANCIAL STATEMENTS

Audited Consolidated Financial Statements of Byblos Bank S.A.L.
as at and for the Year ended December 31, 2008

ERNST & YOUNG

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C.R. 61

SEMAAN, GHOLAM & CO.

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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

We have audited the accompanying consolidated financial statements of Byblos Bank SAL (the Bank) and its subsidiaries (the Group), which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Ernst & Young

Semaan, Gholam & Co.

Semaan, Gholam & Co.

23 April 2009
Beirut, Lebanon

CONSOLIDATED INCOME STATEMENT
Year ended 31 December 2008

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

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

Byblos Bank SAL

CONSOLIDATED BALANCE SHEET

At 31 December 2008

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

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

Dr François Bassil	Mr Alain Wanna
Chairman/ General Manager	Financial and Administrative Manager

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

CONSOLIDATED BALANCE SHEET
At 31 December 2008

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

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

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2008

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

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

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

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2008

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

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

1 CORPORATE INFORMATION

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Subsidiary	*Percentage of ownership*		*Principal activity*	*Country of incorporation*
	2008 %	*2007* %		
Byblos Bank Europe SA	**99.95**	99.95	Banking activities through its head office in Brussels (Belgium) and two branches in London and Paris	Belgium
Adonis Insurance and Reinsurance Co. (ADIR) SAL	**63.95**	63.95	Insurance activities	Lebanon
Adonis Brokerage House SAL	**99.40**	99.40	Insurance brokerage	Lebanon
Byblos Invest Bank SAL	**99.99**	99.99	Investment banking activities	Lebanon
Byblos Bank Africa *	**56.86**	65.00	Banking activities	Sudan
Byblos Bank Syria S.A.	**41.50**	41.50	Banking activities	Syria
Byblos Bank Armenia CJSC *	**65.00**	100.00	Banking activities	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	**76.00**	76.00	Insurance activities	Syria
Byblos Management SAL (Holding) **	**99.98**	-	Investment activities	Lebanon

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments – initial recognition and subsequent measurement

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments and financial assets (continued)

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets and financial liabilities

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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

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

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

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

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

(ii) Held to-maturity financial investments

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

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

(iii) Available-for-sale financial investments

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

(iii) Available-for-sale financial investments (continued)
In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. Future interest income is based on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of interest and similar income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the income statement, the impairment loss is reversed through the income statement.

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

Key-money	10 - 15 years

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

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

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

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

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

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

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

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgments

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

Classification of investments

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

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

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

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

All other investments are classified as available for sale.

Impairment of investments

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

Estimation uncertainty

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

Impairment losses on loans and advances

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

Collective impairment provisions on loans and advances

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

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

Impairment of available-for-sale investments

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Fair value of financial instruments

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

4 BUSINESS COMBINATION

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

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

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

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

4 BUSINESS COMBINATION (continued)

Cash outflow on acquisition of the subsidiary is as follows:

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

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

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

5 INTEREST AND SIMILAR INCOME

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

6 INTEREST AND SIMILAR EXPENSE

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

7 NET FEES AND COMMISSION INCOME

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

8 NET TRADING INCOME

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

9 NET GAIN OR LOSS ON FINANCIAL ASSETS

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

10 OTHER OPERATING INCOME

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

11 CREDIT LOSS EXPENSE

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

12 IMPAIRMENT LOSSES ON FINANCIAL INVESTMENTS

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

13 PERSONNEL EXPENSES

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

14 OTHER OPERATING EXPENSES

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

15 TAXATION

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

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

16 EARNINGS PER SHARE

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

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

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

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

16 EARNINGS PER SHARE (continued)

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

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

17 CASH AND BALANCES WITH CENTRAL BANKS

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

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

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

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

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

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

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

18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS

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

18 DUE FROM BANKS AND FINANCIAL INSTITUTIONS (continued)

Doubtful banks and registered exchange companies

Following is the movement in the balances of doubtful banks and registered exchange companies and related provisions during the year:

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

19 FINANCIAL ASSETS GIVEN AS COLLATERAL AND REVERSE REPURCHASE AGREEMENTS

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

20 DERIVATIVE FINANCIAL INSTRUMENTS

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

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

20 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

21 FINANCIAL ASSETS HELD FOR TRADING

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

21 FINANCIAL ASSETS HELD FOR TRADING (continued)

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

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

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

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

22 NET LOANS AND ADVANCES TO CUSTOMERS

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

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

22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

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

Breakdown of loans and advances to customers by economic sector

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

22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

In accordance with the Banking Control Commission Circular No. 240, bad loans and related provisions and unrealized interest which fulfill certain requirements have been transferred to off balance sheet accounts. The gross balance of these loans amounted to LL 121,244 million as of 31 December 2008 (2007: LL 113,690 million).

22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

Bad and doubtful loans (net)

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

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

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

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

22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

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

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

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

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

General provision for credit losses

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

22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of general provision during the years ended 31 December

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

Provision for country risk

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

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

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

22 NET LOANS AND ADVANCES TO CUSTOMERS (continued)

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

23 BANK ACCEPTANCES

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

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

24 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS

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

24 AVAILABLE-FOR-SALE FINANCIAL INSTRUMENTS (continued)

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

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

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

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

25 FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES

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

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

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

25 FINANCIAL ASSETS CLASSIFIED AS LOANS AND RECEIVABLES (continued)

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

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

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

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

26 HELD TO MATURITY FINANCIAL INSTRUMENTS

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

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

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

26 HELD TO MATURITY FINANCIAL INSTRUMENTS (continued)

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

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

27 PROPERTY AND EQUIPMENT

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

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

27 PROPERTY AND EQUIPMENT (continued)

The cost of buildings at 31 December 2008 and 2007 include the revaluation differences of properties valued during prior years in accordance with law 282 dated 30 December 1993, and approved by the Central Committee of the Bank of Lebanon.

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

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

28 INTANGIBLE ASSETS

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

29 OTHER NON-CURRENT ASSETS HELD FOR SALE

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

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

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

30 OTHER ASSETS

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

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

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

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

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

30 OTHER ASSETS (continued)

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

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

31 DUE TO CENTRAL BANKS

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

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

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

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

32 DUE TO BANKS AND FINANCIAL INSTITUTIONS

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

33 CUSTOMERS' DEPOSITS

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

34 DEBT ISSUED AND OTHER BORROWED FUNDS

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

34 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

Certificates of deposit issued by the Bank

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

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

Maturity: 1 July 2009

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

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

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

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

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

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

- The notes mature on 4 August 2010,

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

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

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

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

34 DEBT ISSUED AND OTHER BORROWED FUNDS (continued)

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

- The notes mature on 12 September 2009,
- The notes benefit during the period of the investment from interest at an annual rate of 8% exempted from taxes and payable quarterly during the first two years starting 12 December 2006,
- 95% of the initial investment is guaranteed at maturity, with an interest rate of 16% for the third year if the performance of the index of five commodities is positive.

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

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

35 CURRENT TAX LIABILITY

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

36 OTHER LIABILITIES

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

36 OTHER LIABILITIES (continued)

a) Other Creditors

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

37 PROVISIONS FOR RISKS AND CHARGES

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

Provision for foreign currency fluctuation

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

38 END OF SERVICE BENEFITS

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

39 SUBORDINATED NOTES

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

a) Convertible subordinated notes

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

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

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

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

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

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

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

Conversion of subordinated notes into shares

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

39 SUBORDINATED NOTES (continued)

b) Subordinates notes

On 1 July 2002, the Bank issued 100,000 notes at US$ 1,000 each maturing on 30 June 2012 with an annual yield not to exceed 15% of the principal amount, detailed as follows:

- Annual yield of 9% computed and paid quarterly, starting 1st July 2002
- 5% of the Bank's net income, after adding the provision constituted to settle this balance and deducting taxes

In accordance with the decision of the ordinary general assembly held on 20 April 2006, the Bank redeemed 68,831 subordinated notes on 7 June 2006 for a consideration of US Dollars 1,060 per note, i.e. with a premium of US Dollars 60 per note constituting 6% of the nominal value.

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

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

40 SHARE CAPITAL

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

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

Ordinary shares

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

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

40 SHARE CAPITAL (continued)

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

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

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

Series 2003 Preferred Shares

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

Series 2008 Preferred Shares

Number of shares:	2,000,000
Share's issue price:	US$ 100
Share's nominal value:	LL 1,200
Issue premium :	US$ (000) 195,790 calculated in US$ as the difference between USD 100 and the counter value of the par value per share (LL 1,200).
Benefits:	Non-cumulative annual dividends of US$ 8.00 per share, subject to the availability of non-consolidated distributable net profits.
Repurchase right:	Redeemable (at a date subsequent to the approval of 2013 accounts by the general assembly) at the Bank's option at the issue price plus any declared but unpaid distributions for all the years preceding the year of the call, with the condition that at least 25% of the original number of the preferred shares are called each time.

Listing of shares
As of 31 December 2007, all of the Bank's common, preferred and priority shares were listed on Beirut Stock Exchange.

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

40 SHARE CAPITAL (continued)

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

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

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

41 REVALUATION RESERVE OF REAL ESTATE

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

42 AVAILABLE-FOR-SALE RESERVE

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

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

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

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

43 CAPITAL RESERVES

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

43 CAPITAL RESERVES (continued)

Reserves appropriated for capital increase

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

General reserve

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

Reserve for general banking risks

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

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

Other capital reserve

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

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

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

44 OTHER RESERVE

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

45 MINORITY INTERESTS

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

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

46 CASH AND CASH EQUIVALENTS

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

47 RELATED PARTY TRANSACTIONS

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

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

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

47 RELATED PARTY TRANSACTIONS (continued)

Compensation of the key management personnel of the Group

	2008			*2007*		
	Chairman & Board members LL million	***Senior Management LL million***	***Total LL million***	*Chairman & Board members LL million*	*Senior Management LL million*	*Total LL million*
Salaries and allowances	**3,660**	**6,262**	**9,922**	2,644	5,352	7,996
Bonuses	**4,674**	**2,564**	**7,238**	3,758	1,887	5,645
Attendance fees	**592**	**77**	**669**	375	77	452

48 COMMITMENTS AND CONTINGENT LIABILITIES

Credit-related commitments

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

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

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

The Group has the following credit-related commitments:

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

Operating lease committements

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

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

49 SEGMENTAL INFORMATION

The business segments are distinctive components of the Group that have different risks and rates of returns and which offer different products and services. The geographical operating segments offers products and services through a specific economic environment and are subject to risks and returns that differ from other economic environment and is considered the primary segments.

a- Primary Segment Information – Geographical Segments

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

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

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

b- Secondary Segment Information – Business Segments

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

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

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

50 CONCENTRATION OF ASSETS, LIABITLITIES AND OFF BALANCE SHEET ITEMS

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

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

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

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

51 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

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

51 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

51 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

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

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

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

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

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

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

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

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

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

52 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

53 RISK MANAGEMENT

The Group risk management was established as a function handling the measurement and management of the risks. The Group risk management is broadly following the guidelines of the Basel 2 text to measure and assess the risks identified under the pillars 1 and 2, i.e., the credit, operational, and market risks, as well as, the interest rate risk in the banking book, the liquidity risk, and credit concentration.

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

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

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

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

The RMC is entrusted with the responsibility of managing the credit and reputational risks. It has to frame policies and procedures relating to management of such risks and ensure that these are being complied with. The RMC decisions are all advised to the Management Committee for information and implied endorsement.

53 RISK MANAGEMENT (continued)

Risk Governance (continued)
The ALCO has the responsibility of managing the balance sheet (assets and liabilities) in terms of the liquidity and interest rates, ensure compliance with regulatory ratios, manage market risk and manage capital efficiently. The ORMC is entrusted with the responsibility of managing the operational risks of the Group. The AML ensures that the Group is in compliance with anti-money laundering laws, internal and regulatory requirements. The ISC is responsible for alignment of the security program with organizational objectives.

54 CREDIT RISK

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

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

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

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

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

54 CREDIT RISK (continued)

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

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

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

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

54 CREDIT RISK (continued)

Maximum credit risk concentration exposure

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

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

54 CREDIT RISK (continued)

Maximum credit risk concentration exposure (continued)

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

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

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

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

	2007					
	Less than 90 days LL million	*91 to 180 days LL million*	*181 to 365 days LL million*	*366 to 720 days LL million*	*More than 720 days LL million*	*Total LL million*
Loans and advances to customers and related parites						
- Commercial loans	17,047	9,027	700	-	-	26,774
- Other customer loans	45,352	6,364	4,117	5,710	7,333	68,876
Total	62,399	15,391	4,817	5,710	7,333	95,650

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

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

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

55 LIQUIDITY RISK

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

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2008 and 2007 based on contractual undiscounted repayment obligations. Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay. The table does not reflect the expected cash flows that are in line with the Group's deposit retention history.

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

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

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

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

55 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

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

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

Maturity analysis of assets and liabilities

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

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

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

55 LIQUIDITY RISK (continued)

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

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

56 INTEREST RATE RISK AND MARKET RISK

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

56 INTEREST RATE RISK AND MARKET RISK (continued)

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2008, including the effect of hedging instruments. The sensitivity of equity is calculated by revaluing fixed rate available-for-sale financial assets, including the effect of any associated hedges, and swaps designated as cash flow hedges, at 31 December 2008 for the effects of the assumed changes in interest rates. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

		2008		*2007*	
Currency	***Increase in interest rate***	***Net effect on interest income LL million***	***Net effect on shareholders equity LL million***	*Net effect on interest income LL million*	*Net effect on shareholders equity LL million*
LBP	**+0.5%**	**(11,550)**	**(10,230)**	(6,455)	(2,565)
Other currencies	**+0.5%**	**(7,105)**	**(1,292)**	(8,555)	(18,463)
		(18,655)	**(11,522)**	(15,010)	(21,028)

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

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

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

56 INTEREST RATE RISK AND MARKET RISK (continued)

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

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

56 INTEREST RATE RISK AND MARKET RISK (continued)

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

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

57 CURRENCY RISK

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

Group's sensitivity to currency exchange rates

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

		2008		*2007*	
Currency	***Change in currency rate %***	***Effect on profit before tax LL million***	***Effect on equity LL million***	*Effect on profit before tax LL million*	*Effect on equity LL million*
US Dollar	**+5**	**(17,712)**	**13,514**	(4,654)	73,481
Euro	**+5**	**(2,283)**	**2,399**	(560)	1,418
GBP	**+5**	**12**	**-**	(116)	-
Other currencies	**+5**	**5,862**	**1,952**	6,400	1,117
		(14,121)	**17,865**	1,070	76,016

57 CURRENCY RISK (continued)

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

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

57 CURRENCY RISK (continued)

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

58 EQUITY PRICE RISK

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

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

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

59 OPERATIONAL RISK

Operational risk is the risk of loss arising form systems failure, human error, fraud or external events. When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

60 PREPAYMENT RISK

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

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

61 CAPITAL MANAGEMENT

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

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

61 CAPITAL MANAGEMENT (continued)

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

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

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

62 LEGAL CLAIMS

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

63 DIVIDENDS PAID AND PROPOSED

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

64 COMPARATIVE INFORMATION

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

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