IMPORTANT: You must read the following before continuing. The following disclaimer applies to the Prospectus following this page, whether received by e-mail or otherwise received as a result of electronic communication, and you are therefore advised to read this disclaimer page carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions.

THIS PROSPECTUS IS BEING FURNISHED TO YOU SOLELY FOR YOUR INFORMATION AND MAY NOT BE REPRODUCED OR REDISTRIBUTED, FORWARDED OR PASSED ON IN WHOLE OR IN PART, DIRECTLY OR INDIRECTLY, TO ANY OTHER PERSON. THE DISTRIBUTION OF THIS PROSPECTUS AND TRANSFER OF GLOBAL DEPOSITARY SHARES IN CERTAIN JURISDICTIONS MAY BE RESTRICTED BY LAW AND PERSONS INTO WHOSE POSSESSION THIS DOCUMENT COMES SHOULD INFORM THEMSELVES ABOUT, AND OBSERVE, ANY SUCH RESTRICTIONS. BY ACCEPTING THIS DOCUMENT, YOU AGREE TO BE BOUND BY THE FOREGOING LIMITATIONS.

THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OF, OR AN INVITATION TO PURCHASE, GLOBAL DEPOSITARY SHARES IN ANY JURISDICTION. NO ONE HAS TAKEN ANY ACTION THAT WOULD PERMIT A PUBLIC OFFERING TO OCCUR IN ANY JURISDICTION. THE GLOBAL DEPOSITARY SHARES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION IN THE UNITED STATES, AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED WITHIN THE UNITED STATES AT ANY TIME. NEITHER THE U.S. SECURITIES AND EXCHANGE COMMISSION, NOR ANY STATE SECURITIES COMMISSION NOR ANY OTHER REGULATORY AUTHORITY, HAS APPROVED OR DISAPPROVED THE SECURITIES OR PASSED UPON OR ENDORSED THE MERITS OF THE PROGRAMME OR THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

BANQUE DU LIBAN, THE CENTRAL BANK OF LEBANON, HAS NOT PASSED UPON AND TAKES NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE MERITS OF THE GLOBAL DEPOSITARY SHARES.

Confirmation of your Representation: In order to be eligible to view the Prospectus, you must be outside the United States (within the meaning of Regulation S under the Securities Act). By accessing the Prospectus, you shall be deemed to have represented to us (a) that you are a person outside the United States and (b) that you consent to delivery of the Prospectus by electronic transmission.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus to any other person.

The Prospectus has been transmitted to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently Byblos Bank S.A.L., nor any person who controls it nor any director, officer, employee nor agent of any such person nor any affiliate of any such person accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from Byblos Bank S.A.L.

This document relating to Byblos Bank S.A.L. (the "**Bank**") comprises a prospectus (the "**Prospectus**") for the purposes of Article 5 of EU Directive 2003/71/EC (the "**Prospectus Directive**"). This document has been approved as a Prospectus by the Financial Services Authority (the "**FSA**") under section 87A of the FSMA and relates to all the Global Depositary Shares (the "**GDSs**").

Prospective GDS holders should rely only on the information in this Prospectus. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been authorised by the Bank. Without prejudice to any obligation of the Bank to publish a supplementary prospectus pursuant to section 87G of the FSMA or paragraph 3.4 of the Prospectus Rules made under section 73A of the Financial Services and Markets Act 2000 (the "**FSMA**"), the publication of this document does not, under any circumstances, create any implication that there has been no change in the affairs of the Bank since, or that the information contained herein is correct at any time subsequent to, the date of this Prospectus.

BYBLOS BANK SAL

(incorporated in Lebanon with limited liability)
List of Banks No 39. Commercial Registry: Beirut 14150

Introduction to the Official List and Admission to Trading on the London Stock Exchange of up to 2,000,000 Global Depositary Shares

Pursuant to an agreement dated 6 February 2009 (the "**Deposit Agreement**") between the Bank and The Bank of New York Mellon, as depositary (the "**Depositary**"), holders of the Bank's common shares, par value LBP 1,200 per share (the "**Shares**" or "**Common Shares**"), may deposit their Common Shares for the issuance of GDSs at a ratio of 50 Common Shares per GDS. GDSs are expected to be delivered through the book-entry facilities of Midclear S.A.L. ("**Midclear**"), Euroclear Bank S.A./N.V., as operator of the Euroclear System, ("**Euroclear**") and Clearstream Banking, *société anonyme* ("**Clearstream**"), initially on or about 19 February 2009 (the "**Programme**"). See "*Clearing and Settlement*".

Applications have been made (i) to the United Kingdom Listing Authority (the "**UKLA**") in its capacity as competent authority under FSMA for a block listing of up to 2,000,000 GDSs, consisting of up to 937,500 GDSs to be issued on or about 19 February 2009 and up to 1,062,500 additional GDSs to be issued from time to time against the deposit of Common Shares of the Bank with the Depositary, and to have the GDSs admitted to the Official List of the UKLA, and (ii) to the London Stock Exchange plc (the "**LSE**") for the GDSs to be admitted to trading on the LSE's regulated market for listed securities (which is a regulated market for purposes of the Markets in Financial Instruments Directive 2004/39/EC). It is expected that the GDSs will be admitted to trading and that dealings on the LSE of the GDSs will commence on 19 February 2009. The Bank intends to make an application to the Beirut Stock Exchange (the "**BSE**") to list and admit to trading the GDSs. See "*Clearing and Settlement*".

The GDSs involve certain risks. See "*Risk Factors*" for a discussion of certain factors that should be considered in connection with the GDSs.

The GDSs 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 in the United States or to U.S. persons. The GDSs are being issued upon deposits of Common Shares in offshore transactions outside the United States in accordance with Regulation S under the Securities Act ("**Regulation S**").

The contents of this document are not to be construed as legal, business or tax advice. Each prospective GDS holder should consult his, her or its own solicitor, independent financial adviser or tax adviser for legal, financial or tax advice.

The date of this Prospectus is 16 February 2009.

IMPORTANT NOTICE

This Prospectus contains information provided by the Bank in connection with its applications for a block listing of the GDSs and their admission to trading on the LSE. The Bank accepts responsibility for the information contained in this Prospectus. The information under the heading "*The Banking Sector and Banking Regulation in Lebanon*" and certain similar information relating to Lebanon and the Lebanese banking sector throughout this Prospectus are given as general information and have been reproduced from publicly-available information. See "*Information from Public Sources*". The Bank confirms that, as far as it is aware and is able to ascertain from publicly-available information, no facts have been omitted that would render the reproduced information inaccurate or misleading, but the Bank accepts responsibility only for the accurate extraction of such information from publicly-available sources. To the best of the knowledge and belief of the Bank, having taken all reasonable care that such is the case, the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

No person may reproduce or distribute this Prospectus, in whole or in part, or disclose any of its contents or use any information herein for any purpose other than the Application.

Holders of Common Shares wishing to obtain GDSs must make their own examination of the Bank and the terms of this Prospectus, including the risks involved. See "*Risk Factors*".

The distribution of this Prospectus and the transfer of GDSs in certain jurisdictions may be restricted by law. The Bank requires persons into delivery and whose possession this Prospectus comes to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or an invitation to purchase, GDSs in any jurisdiction. No one has taken any action that would permit a public offering to occur in any jurisdiction.

The GDSs have not been and will not be registered under the Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States at any time. Neither the U.S. Securities and Exchange Commission, nor any state securities commission nor any other regulatory authority, has approved or disapproved the securities or passed upon or endorsed the merits of the Programme or the accuracy or adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

BANQUE DU LIBAN, THE CENTRAL BANK OF LEBANON (THE "**CENTRAL BANK**"), HAS NOT PASSED UPON AND TAKES NO RESPONSIBILITY FOR THE INFORMATION CONTAINED IN THIS PROSPECTUS OR FOR THE MERITS OF THE GDSs.

Participation in the Programme is suitable only for, and should be made only by, sophisticated investors who can bear the risks of limited liquidity and who understand and can bear the financial and other risks of participating in the Programme for an indefinite period of time.

FORWARD-LOOKING STATEMENTS

Certain statements in this Prospectus constitute "forward-looking statements" within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. These statements appear in a number of places in this Prospectus and include statements regarding the Bank's intent, belief or current expectations or those of the Bank's Management (as defined below) with respect to, among other things:

- statements regarding the Bank's results of operations, financial condition, future economic performance and any plans regarding its business;
- statements regarding the Bank's competitive position and the effect of such competition on its results of operations;
- statements regarding trends affecting the Bank's financial condition or results of operations;
- statements of the Bank's plans, including those related to new products or services and anticipated customer demand for these products or services and potential acquisitions;
- statements regarding the Bank's growth and investment programs, the relevant anticipated capital expenditure and the success of its investments programs;
- statements regarding the Bank's intentions to contain costs, increase operating efficiency and promote best practices;
- statements of assumptions;
- statements regarding the impact of the on-going global financial and market crisis;
- statements regarding the potential impact of regulatory actions on the Bank's business, competitive position, financial condition and results of operations; and
- statements regarding the possible effects of adverse determinations in litigation, investigations, contested regulatory proceedings and other disputes.

These forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "is expected to", "will", "will continue", "should", "approximately", "would be", "seeks", or "anticipates" or similar expressions or comparable terminology, or the negatives thereof. Such forward-looking statements are not guarantees of future performance and involve risks and uncertainties and that actual results, performance or achievements of the Bank may differ materially from those expressed or implied in the forward-looking statements as a result of various factors. The information contained in this Prospectus, including, without limitation, the information under "*Risk Factors*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of the Bank*" and "*The Banking Sector and Banking Regulation in Lebanon*", identifies important factors that could cause such differences. In addition, many other factors could affect the Bank's actual financial results or results of operations and could cause actual results to differ materially from those in the forward-looking statements. The Bank does not undertake to update any forward-looking statements made herein.

PRESENTATION OF INFORMATION

Information in this Prospectus relates to Byblos Bank S.A.L., a bank incorporated in Lebanon with limited liability, and its consolidated subsidiaries: Byblos Bank Europe S.A. ("**Byblos Bank Europe**"), Byblos Bank Africa Ltd. ("**Byblos Bank Africa**"), Byblos Bank Syria S.A. ("**Byblos Bank Syria**"), Byblos Bank Armenia CJSC ("**Byblos Bank Armenia**"), Byblos Invest Bank S.A.L. ("**Byblos Invest Bank**"), Adonis Insurance & Reinsurance Co. (ADIR) S.A.L. ("**ADIR Lebanon**"), Adonis Insurance & Reinsurance (ADIR) Syria ("**ADIR Syria**")and Adonis Brokerage House S.A.L. ("**Adonis Brokerage House**") (collectively, the "**Subsidiaries**"). References to "**Management**" are to the Bank's senior management team. References to the "**Government**" are to the government of the Lebanese Republic (the "Republic" or "Lebanon"). References to the "**Common Shares**" are to the common shares, the terms of which are described under "*Description of the Share Capital of the Bank—Description of Common Shares*". References to the "**Series 2003 Preferred Shares**" are to the non-cumulative redeemable preferred shares issued by the Bank on 30 April 2003, the terms of which are described under "*Description of the Share Capital of the Bank—Description of the Series 2008 Preferred Shares and the Series 2003 Preferred Shares—Description of the Series 2003 Preferred Shares*"; references to the "**Series 2008 Preferred Shares**" are to the non-cumulative redeemable preferred shares issued by the Bank on 29 August 2008, the terms of which are described under "*Description of the Share Capital of the Bank—Description of the Series 2008 Preferred Shares and the Series 2003 Preferred Shares—Description of the Series 2008 Preferred Shares*" (and, together with the Series 2003 Preferred Shares, the "**Preferred Shares**"); and references to the "**Priority Shares**" are to the non-cumulative priority shares issued by the Bank on 10 December 2005, the terms of which are described under "*Description of the Share Capital of the Bank—Description of the Priority Shares*". References to "**SMEs**" are to small- and medium-sized enterprises.

Financial information included in this Prospectus has, unless otherwise indicated, been derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2005, 2006 and 2007 and the Bank's unaudited consolidated financial statements as at and for the nine-month periods ended 30 September 2007 and 2008. The Bank's consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee and the general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission of Lebanon (the "**Banking Control Commission**"), and include the results of the Bank and its consolidated subsidiaries named above. Ernst & Young p.c.c. and Semaan, Gholam & Co. have audited the consolidated financial statements of the Bank as at and for the years ended 31 December 2005, 2006 and 2007. As used in this Prospectus, references to "**IFRS**" are to International Financial Reporting Standards.

The Bank maintains its accounts in Lebanese Pounds. Accordingly, U.S. Dollar amounts stated in this Prospectus have been translated from Lebanese Pounds at the rate of exchange prevailing at the relevant balance sheet date, in the case of balance sheet data, and at the average rate of exchange for the relevant period, in the case of income statement data, and are provided for convenience only. In each case, the relevant rate for both balance sheet data and income statement data was LBP 1,507.5 per USD 1.00, as, throughout the periods covered by this Prospectus, the Central Bank has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1,507.5 per USD 1.00.

In this Prospectus:

- references to "**USD**" or "**U.S. Dollars**" are to the United States Dollar, the lawful currency of the United States;

- references to "**EUR**" or "**Euros**" refer to the currency established for participating member states of the European Union as of the beginning of stage three of the European Monetary Union on January 1, 1999; and

- references to "**LBP**" or "**Lebanese Pounds**" are to the Lebanese Pound, the lawful currency of Lebanon.

Certain figures included in this Prospectus have been subject to rounding adjustments and substantially all figures herein are approximations of the actual figures. Accordingly, figures shown as totals in certain tables may not represent an exact arithmetic aggregation of the figures that precede them. Certain currency amounts stated in this Prospectus, other than those in USD or LBP, have been calculated based on a relevant recent exchange rate published in the Financial Times, London.

Certain statistical and other information relating to the Lebanese banking sector generally and to the Bank's competitive position in its market and the relative positions of its primary competitors in the sector in particular are generally based on information made available from Bankdata Financial Services WLL ("**Bankdata**"), Central Bank statistics and the Bank's internal sources. Bankdata numbers may differ in certain respects from the Bank's own financial statements.

INFORMATION FROM PUBLIC SOURCES

Certain information included in the sections "*Risk Factors—Considerations Relating to Lebanon*", "*Management's Discussion and Analysis of Financial Condition and Results of Operations*", "*Description of the Bank*" and "*The Banking Sector and Banking Regulation in Lebanon*" has been extracted from information and data publicly released by official sources and other sources that are believed to be reliable, including Central Bank and Bankdata figures. Throughout this Prospectus, the Bank has also set forth certain statistics, including market shares, from official sources and other sources it believes to be reliable, including its own sources and estimates. Such information, data and statistics may be approximations or estimates or use rounded numbers. The Bank has not independently verified such information, data or statistics, does not guarantee their accuracy and completeness and accepts no responsibility in respect of such information, data and statistics, other than that this information has been accurately reproduced and that, accordingly, as far as the Bank is aware and is able to ascertain from information published, no facts have been omitted that would render the reproduced information inaccurate or misleading.

TABLE OF CONTENTS

SUMMARY

This summary should be read as an introduction only to this Prospectus and any decision to deposit Common Shares for issuance of GDSs should be based on consideration of this document as a whole by prospective GDS holders. Prospective GDS holders should note that if a claim relating to the information contained in this document is brought by such holders before a court, such holders bringing the claim might, under the national legislation of the EEA States, have to bear the costs of translating the document before legal proceedings are initiated. Civil liability attaches to those persons who are responsible for this summary, including any translation of this summary, but only if the summary is misleading, inaccurate or inconsistent when read together with other parts of this Prospectus.

Overview

The Bank is one of the leading banks in Lebanon providing a full range of banking services through its extensive branch network, which is the third largest in the country. Through its overseas banking and other subsidiaries, the Bank also conducts a wide range of commercial banking and financial activities in Europe and the Middle East and North Africa ("**MENA**") region. As at 31 December 2007, the Bank had 2,101 employees, approximately 312,000 active accounts and 75 branches (73 branches in Lebanon, one in Limassol, Cyprus and one in Erbil, Iraq). As at 30 September 2008, the Bank had 2,281 employees, approximately 336,000 active accounts and 91 branches (75 in Lebanon, one in Limassol, Cyprus, one in Erbil, Iraq, and 14 other international branches each owned by the Bank's subsidiaries). As at 30 September 2008, 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, the Bank's 65.0%-owned subsidiary, had one branch in Khartoum, Sudan; and Byblos Bank Syria, the Bank's 41.5%-owned subsidiary, had two branches in Damascus (Abou Remmaneh and Mazzeh) and one branch in each of Aleppo, Homs, Tartous and Latakia. 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 three other branches in Malatia, Vanadzor and Abovyan. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC. In June 2008 the European Bank for Reconstruction & Development (the "**EBRD**") and the Organization of Petroleum Exporting Countries ("**OPEC**") Fund for International Development ("**OFID**") acquired interests in Byblos Bank Armenia of 25.0% and 10.0%, 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.

As at 30 September 2008, according to Bankdata, based on unaudited financial statements of banks operating in the Republic provided to Bankdata by such banks, the Bank ranked third among all banks operating in the Republic in terms of net profits of LBP 119,179 million (USD 79 million), total assets of LBP 16,372,585 million (USD 10,861 million), total shareholders' equity (excluding subordinated loans)) of LBP 1,506,784 million USD 1,000 million), total deposits of LBP 12,118,729 million (USD 8,039 million), and aggregate customer loans of LBP 4,142,705 million (USD 2,748 million).

During the three-year period from 1 January 2005 to 31 December 2007, total assets of the Bank increased at an average annual compounded rate of 10.8% from LBP 10,504,505 million (USD 6,968 million) to LBP 14,295,902 million (USD 9,483 million), customer deposits increased at an average annual compounded rate of 9.8% from LBP 8,254,350 million (USD 5,476 million) to LBP 10,931,048 million (USD 7,251 million), net customer advances increased at an average annual compounded rate of 18.5% from LBP 2,020,869 million (USD 1,341 million) to LBP 3,366,013 million (USD 2,233 million) and total equity increased at an average annual compounded rate of 19.2% from LBP 874,113 million (USD 580 million) to LBP 1,479,393 million (USD 981 million), while net income increased at an average annual compounded rate of 22.7% from LBP 80,898 million (USD 54 million) to LBP 149,518 million (USD 99 million). The Bank had total assets of LBP 16,941,252 million (USD 11,238 million), customer deposits of LBP 12,607,550 million (USD 8,363 million), net customer advances of LBP 4,199,400 million (USD 2,786 million) and total equity of LBP 1,910,443 million (USD 1,267 million) as at 31 December 2008, with net income of LBP 183,960 million (USD 122 million) for the year then ended.

The Bank has a high level of nominal liquidity, with cash, placements with the Central Bank, interbank deposits and investments in Lebanese treasury bills and other marketable securities representing 71.8% of total assets as at 31 December 2007 and 73.7% as at 30 September 2008. As at and for the year ended 31 December 2007, the Bank's capital adequacy ratio was 20.54% (excluding net income for 2007), its return on average assets was

1.12% and its return on average equity was 13.41%. As at and for the nine-month period ended 30 September 2008, the Bank's capital adequacy ratio was 22.08% (excluding net income for the nine-month period ended 30 September 2008), its return on average assets was 1.04% and its return on average equity was 11.94%.

Competitive Strengths

The Bank believes that an investment in the GDSs represents an attractive proposition for investors due to, among other things, the Bank's positioning to benefit from domestic growth opportunities, its diversified regional exposure combined with strong local expertise, established strong track record of growth and profitability, expanding customer deposit base, well-developed risk management systems and conservative policies and prudent expansionary strategy and successful track record of integrating acquired businesses and stable, as well as its experienced and highly-reputable management team.

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 capital structure optimization. The Bank's related medium- and long-term key strategies are to:

- strengthen its platform and consolidate its leading positions in the Lebanese market;
- continue to expand in regional growth markets;
- enhance earnings stability through an improved business mix and risk profile;
- enhance cost efficiency and profitability; and
- diversify further the Bank's funding structure.

Risk Factors

The Bank's business, operating results and financial condition could be materially and adversely affected by a number of risks, including (without limitation) considerations relating to Lebanon (such as risks relating to political and military conditions in Lebanon and the region and local, regional and international social and civil unrest, prices and inflation, the status of the Government's privatisation program, refinancing risk and Lebanon's budget deficit and macroeconomic instability, debt ratings, foreign exchange risk and monetary policy, as well as general risks relating to emerging markets); considerations relating to the Bank and the Lebanese banking industry (such as risks relating to the recent market turmoil and on-going financial crisis, the Bank's financial condition, exposure to Lebanese Government risk, plans for regional and international expansion, acquisitions and divestitures and operations in Sudan and Syria, currency and devaluation considerations, liquidity and maturity mismatching, interest rate sensitivity, international capital adequacy reform, competition, litigation against certain Lebanese banks (not including the Bank) and effecting service of process and enforcing liabilities and foreign judgements); and considerations relating to the GDSs (such as risks relating to price volatility and illiquidity, dilution, voting rights of GDS holders and the ranking of the Common Shares).

Summary of the Programme

GDSs .... Subject to the provisions of the Deposit Agreement, shareholders may deposit their Common Shares for issuance of GDSs, with each GDS representing 50 Common Shares.

Upon issue, the GDSs will initially be evidenced by a Master Global Depositary Receipt (the "**Master GDR**"), issued in registered form pursuant to the Deposit Agreement. Accordingly, GDSs will be held initially in book-entry form.

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. Since October 1992, the Central Bank has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1,507.5 per USD 1.00.

Distributions subject to Withholding Tax................................ As at the date of this Prospectus, 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 .... The Deposit Agreement provides that 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 following:

(i) the Bank shall give the Depositary notice of any such General Meeting or solicitation not less than 25 days prior to the meeting date or date for giving proxies or consents (or, if later, on the same day on which the meeting is convened or the date for giving proxies or consents is fixed). Upon receipt of notice of any General Meeting of holders of Shares or other Deposited Shares, if requested in writing by the Bank, the Depositary shall mail to the Owners a notice, the form of which notice shall be in the sole discretion of the Depositary (subject to minimum requirements of Lebanese law and other securities laws then applicable to the Bank);

(ii) upon the written request of an Owner, subject to the provisions described below, the Depositary shall vote or cause to be voted the amount of Shares or other Deposited Securities represented by those GDSs in accordance with the instructions set forth in such request;

(iii) 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;

(v) 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 paragraph (iii) 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;

(v) if the Depositary is not permitted by Lebanese law to exercise voting rights in respect of the Deposited Shares as contemplated by either paragraph (iii) or paragraph (iv) 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.

By continuing to hold GDSs, all Owners shall be deemed to have agreed to the above provisions as they may be amended from time to time in order to conform to applicable Lebanese law and regulations.

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 direct or indirect ownership of any shares or GDSs, who, in turn, will provide such information received by it to the Bank.

Withdrawal Restrictions	Common Shares may be withdrawn from the Programme 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	Applications have been made to the UKLA for a block listing of up to 2,000,000 GDSs, consisting of up to 937,500 GDSs to be issued on or about 19 February 2009 and to the LSE for the GDSs to be admitted to trading on the LSE's regulated market for listed securities. It is expected that the GDSs will be admitted to trading and that dealings on the LSE of the GDSs will commence on 19 February 2009. The Bank intends to make an application to list the GDSs on the BSE.
Settlement	Euroclear, Clearstream and Midclear.
Trading Symbols	London Stock Exchange (GDSs): ....BYB Beirut Stock Exchange (Common Shares):........BYB
Security Numbers for GDSs	ISIN: ....US12431A1016 CUSIP: ....12431A 101 Common Code: 041291036

RISK FACTORS

All of the information set forth in this Prospectus and, in particular, the following risks relating to the GDSs should be carefully considered. These risk factors and others, including risk factors that the Banks is not aware of or currently considers immaterial, individually or collectively, could have a material adverse effect on the Bank's business, liquidity, results of operations, financial conditions and prospects and on the market price of GDSs. This Prospectus contains forward-looking statements. Actual results and the timing of certain events could differ materially from those projected in the forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Prospectus. See "Forward-Looking Statements".

Considerations Relating to Lebanon

The Bank operates in Lebanon and, accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, 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 neighbours and continued internal stability.

A combination of internal and external factors led to a heavily militarised 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 Government authority, substantial physical and infrastructure damage and a large public sector deficit and capital outflows. The post-conflict era has been characterised by large reconstruction and institution-building efforts, which have resulted in continued 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.

Lebanon witnessed a series of significant events during the last four years, including the assassination of the former Prime Minister, Mr. Rafik Hariri, the adoption of a series of United Nations ("**U.N.**") 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, a campaign of assassinations and attempted assassinations of other political leaders and public figures in the Republic, Israeli air attacks during the military conflict in July and August 2006, clashes between members of a fundamentalist militia and the Lebanese Army, which occurred around the Nahr-El Bared Palestinian refugee camp in Northern Lebanon and surrounding areas between May and September 2007 and the stalemate regarding the presidential election.

The political effects of the withdrawal of the Syrian army from Lebanon, which was completed on 26 April 2005, the assassination of Mr. Rafik Hariri and other political figures and journalists, the possible continuation of bombing and assassinations of public figures, the U.N. reports on the Hariri assassination and the sporadic confrontations in the disputed "Shebaa Farms" area between the "Hizbollah" party and Israeli troops, continuous tensions between a coalition of supporters of the Government and of the parliamentary majority (the "**March 14 Coalition**") and the opposition and related sectarian tension, specifically between the Shiite and Sunni communities, may have an impact on the political stability and economic outlook of the Republic, especially in light of the upcoming parliamentary elections scheduled to be held on 7 June 2009.

On 13 February 2008, Imad Moghnieh, believed to be a senior commander in Hizbollah, was killed in Damascus. In response, the leader of Hizbollah publicly threatened to wage open war on Israel.

At its meeting held on 5 May 2008, the Council of Ministers adopted a series of resolutions, including:

- increasing the minimum wage from LBP 300,000 per month to LBP 500,000 per month;
- reassigning the Chief of Security of the Rafik Hariri International Airport to another position; and

- declaring that the telecommunications network operated by Hizbollah on the territory of the Republic is illegal and unconstitutional.

The General Labour Confederation called for a national strike and a demonstration to press for further increases in the minimum wage. The strike, which took place on 7 May 2008, degenerated into protests against the Council of Ministers' resolutions by opposition supporters, who blocked a number of roadways, including access to Rafik Hariri International Airport. Armed clashes between supporters of the opposition led by Hizbollah and of the March 14 Coalition took place in Beirut, Northern Lebanon, the Bekaa Valley and the Chouf Mountains and resulted in the deaths of 65 persons and 200 other injuries.

On 14 May 2008, the Council of Ministers rescinded the resolutions relating to the reassigning of the Airport Chief of Security and the declarations regarding Hizbollah's telecommunications network.

On 15 May 2008, following negotiations initiated by an Arab ministerial committee established by the Arab League, an agreement was concluded in Beirut between the principal political factions regarding containment of the Lebanese crisis. This agreement provided, in pertinent part, as follows:

- that Michel Suleiman be elected as President;

- that the parties commit to abstain from having recourse to or resuming the use of weapons and violence in order to record political gains; and

- that the parties agree to initiate a dialogue on promoting the Republic's authority over all of the Republic's territory and its relationship with the various Lebanese factions in order to ensure the security of the Republic and its citizens.

Between 16 May 2008 and 21 May 2008, the Lebanese National Dialogue Conference, which was attended by all the principal political factions in the Republic, was held in Doha, Qatar under the sponsorship of the Emir of Qatar and the Arab League and the guidance of the Arab ministerial committee.

On 21 May 2008, the parties entered into and announced an agreement (the "**Doha Agreement**") providing for the following:

- the election of the Commander in Chief of the Army, General Michel Suleiman, as President of the Republic;

- the formation of a Government of 30 ministers, including 16 ministers representing the March 14 Coalition, 11 ministers representing the opposition and three ministers representing the President;

- the adoption for the 2009 Parliamentary elections of new smaller electoral constituencies in conformity with the 1960 electoral law, with certain amendments;

- further to the initial agreement reached in Beirut, (i) the prohibition of the use of weapons or violence in any dispute whatsoever and under any circumstances, in order to ensure respect for the framework of the Lebanese political system and to restrict the security and military authority over Lebanese nationals and residents to the Republic alone so as to ensure civil peace and (ii) the implementation of the law and the upholding of the sovereignty of the Republic throughout the territory of the Republic so as not to have regions that serve as safe havens for outlaws and to provide for the referral of all those who commit crimes and contraventions to the Lebanese judiciary; with the related dialogue to be resumed under the authority of the newly-elected President and the newly-formed Government with the participation of the Arab League; and

- the reassertion of the commitment of the Lebanese political factions to immediately abstain from resorting to the rhetoric of treason or political or sectarian incitement.

Following the conclusion of the Doha Agreement, the opposition ended its 18-month sit-in in downtown Beirut.

On 25 May 2008, General Michel Suleiman was elected President by an affirmative vote of 118 out of Parliament's 127 members.

On 28 May 2008, following mandatory parliamentary consultations, 68 members of Parliament nominated the incumbent Mr. Fouad Siniora as President of the Council of Ministers and President Suleiman has appointed Mr. Siniora to this position.

On 7 July 2008, in a deal mediated by the U.N, Hizbollah and Israel agreed (principally) to exchange five Lebanese detainees held in Israeli prisons and the remains of Hizbollah and Palestinian fighters for the two Israeli soldiers (or their remains) whose capture by Hizbollah sparked the Israeli war on Lebanon in July 2006 (the "**July War**"). The exchange of the five Lebanese detainees and the remains of the two Israeli soldiers took place on 16 July 2008.

On 11 July 2008, after seven weeks of negotiations, the new Government was formed in accordance with the formula of the Doha Agreement, with 16 ministers representing the March 14 Coalition, 11 ministers representing the opposition and three ministers representing the President. The composition of the new 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 mobilisation 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 laws and personal status laws and the dismissal of ministers.

On 12 August 2008, the Government obtained a vote of confidence from Parliament on the basis of the policy declaration prepared by the Government. The policy declaration includes, among other provisions:

- an acknowledgment that the Government's term is limited in light of the upcoming parliamentary elections;

- the adoption of a new electoral law;

- an acknowledgment of the right of the Lebanese Army and Resistance (*i.e.*, Hizbollah) to liberate the Shebaa Farms, the Kfarshouba Hills and the Lebanese part of Ghajar and to defend Lebanon's territory and territorial waters against enemies;

- the establishment of good relations with Syria on the basis of mutual respect and the recognition of the independence and sovereignty of both countries;

- the implementation of the economic and other reforms submitted by Lebanon at the Paris III Conference, as well as reforms included in the draft budgets for 2006, 2007 and 2008, including the privatisation plans;

- the reduction of the public debt and the budget deficit, improving the living conditions of Lebanese citizens and creating new jobs by attracting Arab and foreign investments;

- the strengthening and development of economic ties with the European Union and the acceleration of Lebanon's accession to the World Trade Organization; and

- the promotion of a balanced and sustainable development plan and the building of a modern economy whose cornerstone would be a dynamic private sector, capable of competing in the international arena.

Pursuant to the Lebanese Constitution, a new Government is to be formed after the Parliamentary elections to be held on 7 June 2009 on the basis of the new electoral law adopted by Parliament further to the Government's policy declaration (Law No. 25 dated 8 October 2008, as amended by Law No. 59 dated 27 December 2008).

On 8 September 2008, a reconciliation agreement was signed in Tripoli between the leaders of rival factions in the North to end the sectarian clashes in this region. The agreement provides for the deployment of the Lebanese armed forces, the return of displaced persons under military protection, the payment of compensation for material losses and the supply of temporary shelter for residents whose homes have been damaged. The agreement also commits the parties to refrain from all forms of armed violence.

On 10 September 2008, a senior member of the Lebanese Democratic Party was assassinated in a car bomb explosion in the mountain village of Bayssour. On 29 September 2008, a car bomb targeting a military bus in Northern Lebanon resulted in the death of seven people (including five soldiers) and several other injuries.

On 14 October 2008, the minimum wage of private sector employees was raised from LBP 300,000 to LBP 500,000 and the basic salaries of such employees were increased by LBP 200,000 retroactively to 1 May 2008, by virtue of Decree No. 500, while Decree No. 501 raised the daily transportation allowance for employees subject to Lebanese Labour Law from LBP 6,000 to LBP 8,000 as of 1 November 2008.

On 18 December 2008, Parliament elected five members to the Constitutional Council. The Council of Ministers has not, to date, appointed the five remaining members. The Constitutional Council has the authority to, *inter alia*, adjudicate disputes arising in connection with presidential and Parliamentary elections.

On 31 December 2008, the minimum wage of public sector employees was raised from LBP 300,000 to LBP 500,000 and the basic salaries of such employees were increased by LBP 200,000 retroactively to 1 May 2008, by virtue of Law No. 63.

On 8 January 2009, three rockets were fired from Lebanon into northern Israel and Israel responded with a few artillery shells into southern Lebanon. Hizbollah denied any involvement in the firing of the rockets and the Government condemned both the attack and the retaliation.

There can be no assurance that further terrorist acts will not occur in the future. Such terrorist acts could further destabilise Lebanon and increase internal divisions within the Government as it considers responses to such instability and unrest. The Government's response to the U.N. reports and to the continuing assassination of public figures has led to internal political divisions and ultimately the suspension of the formation of a Cabinet. Violent acts, arising from and leading to instability and unrest, have had in the past and could continue to have a material adverse effect on investment and confidence in, and the performance of, the Lebanese economy, and may have an impact on the internal stability of Lebanon.

Local, Regional and International Social and Civil Unrest

Lebanon is located in a region that has been subject to ongoing political and security concerns. Political instability in the Middle East has increased since the terrorist attacks of 11 September 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 Republic. Political uncertainty in certain neighbouring countries, such as Syria, may affect Lebanon and, accordingly, the Bank.

As a result of the political turmoil and social instability in Lebanon and the surrounding region, Lebanon has experienced frequent social and civil unrest, which has, on occasion, escalated into violence, sometimes of a general nature and more often with particular political or civil targets. The social, political and economic conditions behind this unrest, which have, at times, adversely affected the banking sector in Lebanon, including the Bank, are not likely to be resolved in the near future and, accordingly, could continue to materially adversely affect the Bank's business, liquidity, results of operations, financial condition and prospects. The Bank cannot be certain that social and civil disturbances will not occur in the future. If these were to occur, such disturbances could lead to further political and economic instability as well as loss of confidence in business investment in Lebanon both generally and in the banking sector in particular.

Moreover, the impact, if any, on Lebanon and, accordingly, the Bank of the military action and political developments affecting Iraq and the surrounding region and the ensuing reconstruction efforts in that country 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 120.0% 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% in 2004 and decreasing back to (0.7%) in 2005. This marked the first prolonged return to relative price stability. However, inflation in 2006 stood at 5.6%, mainly due to shortages of supply and consequent price increases as a result of the July War. In 2007, the Central

Administration of Statistics ("**CAS**") estimated the 2007 inflation figure at 9.3% on an end-of-period basis. The IMF, based on data from the Central Bank, estimated inflation at 6.0% on an end-of-period basis and 4.1% on a period average basis. In 2007, the increase in inflation 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 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 IMF estimated inflation 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 the inflation rates will not rise in the future. Significant inflation could have a material adverse effect on the Republic's economy and the ability to service the Republic's debt, including the Notes.

Failure to Implement Privatisation Program

The Government has developed, and has begun implementing, an economic reform program of which privatisation is an essential component. Disagreements among political parties and the July War have contributed to delay the implementation of the program. There is no assurance that some of these obstacles will not persist.

In May 2000, Parliament adopted a privatisation law, which sets the framework for the privatisation of state-owned enterprises. The privatisation law established a Higher Council for Privatisation and provides that the proceeds from privatisation will be applied towards debt repayment. Plans for privatisation included, *inter alia*, the electricity, water and telecommunications sectors. However, due to political interference and disagreements within the executive branch of the Government, the Republic's privatisation program has not been successfully implemented.

The Government has relaunched the privatisation program and reactivated the Higher Council for Privatisation; however, there can be no assurance that the privatisation program will be successful or will not be further delayed.

Refinancing Risk

The Republic has large amounts of domestic and international debt. Net public sector domestic debt was LBP 30,724 billion and public sector external debt was LBP 31,868 billion as of the end of 2008. The Republic has a high net public debt to GDP ratio, at 142% as of the end of 2008. In the recent past, in order to meet its debt service obligations, the Republic has relied on international financial assistance provided in particular following the Paris II Conference and the Paris III Conference.

The Republic faces significant debt maturities in the coming years, with approximately LBP 39,949 billion (USD 26.5 billion) maturing in the remainder of 2009 and 2010, and may have to rely in part on financing from the domestic and international capital markets and on international financial assistance in order to reduce its debt service payments.

On 25 January 2007, the "International Conference for Support to Lebanon", known as the Paris III Conference, was held in Paris at the invitation of the President of France. It was attended by representatives of 36 countries and 14 multilateral and supranational institutions, including the United Nations, the EU, the World Bank, the International Monetary Fund and the Arab League, and resulted in pledges of financial assistance to Lebanon of approximately USD 7.6 billion. The Government is actively pursuing finalisation and collections of these pledges.

Some of the promised international assistance from the Paris III Conference may largely depend on the willingness and ability of the Republic to implement its reform program, which it submitted to the Paris III Conference. The implementation of some significant aspects of the reform program submitted by the prior Government during the Paris III Conference, such as privatisation and securitisation, has been delayed in the past because of differences in views among political leaders and the inability of Parliament to meet and vote on draft laws. The current reform program may also be delayed because of ongoing political disputes.

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 has increased from approximately 46.0% in 1992 to approximately 167% as at 31 December 2006 before decreasing to 156% as at 31 December 2007 and 142% as at 31 December 312008. As such 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 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 Republic's expenditures and increased the Republic's budget deficit. Transfers to EDL from the Treasury amounted to approximately USD 910 million, USD 981 million and USD 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 the Central Bank's ability to achieve monetary policy targets, including foreign exchange stability. Central Bank data indicate that the proportion of foreign currency deposits as a share of total deposits was 76.0% as at 31 December 2007. Due to the intervention of the Central Bank 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 USD 3.6 billion in long-term, low-interest financing extended by participants of the Paris II Conference and USD 7.6 billion in long-term, low-interest financing extended by participants of the Paris III Conference. As at 31 December 2004, gross foreign currency assets (excluding gold reserves) at the Central Bank were approximately USD 9.5 billion, as compared to USD 10.2 billion as at 31 December 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 the Central Bank on the foreign exchange markets. Foreign currency reserves (excluding gold reserves) at the Central Bank were approximately USD 9.8 billion as at 31 December 2005. As at 31 December 2007, gross foreign currency assets (excluding gold reserves) at the Central Bank were approximately USD 9.8 billion, as compared to USD 10.2 billion as at 31 December 2006.

Sovereign Debt Ratings

As at the date of this Prospectus, the foreign currency obligations of the Republic 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	B3	Positive
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 organisation 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 organisation; each should be evaluated independently from the other.

The Standard & Poor's Rating Services ("**Standard & Poor's**") ratings referred to above indicate that securities issued by Lebanon (and similarly-rated securities generally) are generally regarded as having significant speculative characteristics, and that the Republic's capacity or willingness to meet its financial commitment on such securities will be dependent upon favourable business, financial and economic conditions.

The Moody's Investor Services Limited ("**Moody's**") ratings referred to above indicate that securities issued by Lebanon (and similarly-rated securities generally) are 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 securities over a long period may be small.

The Fitch IBCA Ltd. ("**Fitch**") ratings referred to above signal that, in respect of securities issued by Lebanon (and similarly-rated securities generally), a 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, favourable business and economic environment.

The Rating and Investment Information Inc. ratings referred to above indicate that securities issued by Lebanon (and similarly-rated securities generally) are generally regarded as having a questionable creditworthiness and that there are factors that require constant attention.

On 31 January 2008, Standard & Poor's lowered its long-term sovereign credit ratings of the Republic to CCC+ (Stable Outlook) from B-, but removed it from CreditWatch with negative implications. On 4 August 2008, Standard & Poor's raised its long-term sovereign credit ratings of the Republic to B- (Stable Outlook). In a report dated 5 August 2008, Standard & Poor's indicated that its raising of Lebanon's long-term ratings reflected the easing of tensions within Lebanon and the conclusion of the Doha Agreement, which Standard & Poor's believes will support Lebanon's immediate political stability, reducing the risk that depositors will withdraw funds from the Lebanese banking sector, and in turn lessening the Government's near-term financing risks.

Standard & Poor's further indicated that its stable outlook balances Lebanon's political and fiscal pressures against the likelihood of third-party support and the country's economic resilience, but warned that it may further lower Lebanon's ratings should political tensions escalate to the extent that they seem likely to shake the long-documented resilience of depositors in the Lebanese banking sector. The ratings could be raised if the political compact strengthens to the point where the Government begins to make progress in advancing the program of economic reforms pledged at the Paris III Conference.

On 7 February 2008, Moody's issued a press release affirming the Republic's sovereign ratings and stating that a downgrade was not imminent. On 28 March 2008, Moody's changed its outlook for the Republic's sovereign rating from "negative" to "stable". On 9 May 2008, Moody's affirmed Lebanon's sovereign ratings at B3 despite the increased political tension, stating that there are a number of supporting credit factors that justify maintaining Lebanon's current rating. Moody's noted that the Lebanese government is not in default, nor has it ever defaulted, defying many observers' past expectations and indicating a strong willingness to repay, and that the Central Bank has a large stock of foreign currency reserves with which to boost confidence, offset potential capital outflows and protect the exchange rate. On 11 December 2008, Moody's again changed its outlook of the Republic's sovereign rating from "stable" to "positive", noting the proven resilience of the public finances in Lebanon to shocks and the improvement in the Republic's political and economic environments since the Doha Agreement.

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. The Central Bank intervenes when necessary in order to maintain orderly conditions in the foreign exchange market.

The Central Bank's exchange rate policy since October 1992 has been to anchor the Lebanese Pound nominal exchange rate to the U.S. Dollar. The Central Bank 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 was 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 the Central Bank in the foreign exchange markets. Foreign currency reserves (excluding gold reserves) at the Central Bank were approximately USD 8,611 million as at 31 July 2005. Similarly, the period of the July War saw significant conversions from the Lebanese Pound to foreign currency deposits resulting in a decline in the Central Bank's foreign currency reserves, from USD 11,020 million at the end of June 2006 to USD 10,563 million at the end of July 2006, as it intervened in the foreign exchange markets. The decline in the Central Bank's foreign currency reserves reversed as hostilities ended, reaching USD 10,868 million at the end of August 2006. Foreign currency reserves were aided by deposits from Saudi Arabia and Kuwait. As at 31 December 2008, gross foreign currency reserves (excluding gold reserves) at the Central Bank were approximately USD 17,062 million.

Although the authorities expect to continue to direct their monetary policy towards maintaining stability in the exchange rate, there can be no assurance that the Central Bank will continue to be willing or able to maintain a stable currency, through intervention in the exchange markets or otherwise. Lebanon's economy is highly dollarized. Central Bank's data indicate that the proportion of foreign currency deposits as a share of total deposits stood at approximately 76%, 77% and 70% as at 31 December 2006, 2007 and 2008, respectively.

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 the Central Bank'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.

Furthermore, 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.

Emerging Markets

Investing in securities involving emerging market risk, such as Lebanese risk, generally involves a higher degree of risk than investments in securities of issuers from more developed countries. These higher risks include, but are not limited to, higher volatility, limited liquidity and changes in the regulatory, tax and political environment that may affect the ability of investors to receive their expected return, if any, on their investments. Lebanon's below-investment grade credit ratings, large budget deficit and other weaknesses characteristic of emerging market economies make it susceptible to future adverse effects similar to those suffered by other emerging market countries. There can be no assurance that the market for securities reflecting Lebanese risk, such as the GDSs, will not be affected negatively by events elsewhere, especially in emerging markets.

Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risk involved and investors are urged to consult with their own legal and financial advisors before making an investment in the GDSs. Accordingly, investors should exercise particular care in evaluating the risks involved and must consider those risks in deciding whether an investment in the GDSs is appropriate.

Considerations Relating to the Bank and the Lebanese Banking Industry

Recent Market Turmoil

The prevailing and widely-reported global credit crisis and international financial and securities market turmoil continue at the date of this Prospectus, and, accordingly, there is a general lack of liquidity and significant price volatility in the secondary market for instruments similar to the GDSs. Such lack of liquidity and price volatility may result in investors suffering losses on the GDSs in secondary resales, even if there is no decline in the performance of the assets of the Bank. Moreover, although Lebanese banks appear to be less affected by the current global credit crisis, 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 Bank's assets and in the market price of the GDSs. In addition, the global financial crisis may have adverse effects on the 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 Republic, which may impact Lebanese banks' assets and profitability and which would in turn impact their ability to finance Government debt.

The Bank's Financial Condition

An investment in the GDSs constitutes an investment in the equity of the Bank. Holders will not have creditor rights against the Bank in respect of the GDSs.

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 the Central Bank. The composition of the Bank's investment and trading portfolio and placements with the Central Bank remained relatively stable as at 31 December 2006 and 2007, with Lebanese and other governmental treasury bills and bonds and placements with the Central Bank (in both Lebanese Pounds and foreign currency) comprising 46.9% of the Bank's interest-earning assets at the end of 2007. In addition, in 2007, 50.6% of the Bank's revenues (interest income, commissions received, profit on financial operations and other income) derived from government securities and Central Bank 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 the Central Bank 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 characterised by instability. Such political and social unrest that may characterise 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.

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 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 9.7% and 0.5% of the Bank's consolidated net income for 2007. 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 "*Description 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 organisations 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. In 2003, the United States enacted the Syria Accountability and Lebanese Sovereignty Restoration Act of 2003, which authorises 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

The Central Bank has been successful during the past several years in maintaining a stable rate of exchange. However, there can be no assurance that the Central Bank 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 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.

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 utilised 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, characterised 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 the Central Bank, 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, one 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 realises 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 Central Bank Decision No. 9302 dated 1 April 2006, as amended, adopted with respect to the application of the Basel II International Convention regarding Capital Adequacy ("**Decision 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 1 January 2008 in accordance with the standards set forth in Decision 9302 and any subsequent decisions adopted in that regard. In addition, since 31 December 2006, Lebanese banks include reserves for unspecified banking risk in their calculation of their capital adequacy ratio. Pursuant to Article 7 of Decision 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 30 April 2006; the Bank has fulfilled these requirements.

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 150.0% 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 Republic is competitive. As at 31 December 2007, there were 44 commercial banks (with 847 operational branches in Lebanon), 43 financial institutions and 12 specialised medium- and long-term credit banks, as well as 10 branches of foreign banks, licensed by the Central Bank 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 the 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.

Litigation Against Certain Lebanese Banks (Not Including the Bank)

In July 2008, a complaint was filed against American Express Bank and a number of Lebanese banks (not including the Bank), in New York State Court by several plaintiffs, most of whom are citizens of the State of Israel. The plaintiffs, who allege injury arising from the 2006 conflict between Israel and Lebanon, further allege that the defendants, in providing banking and correspondent banking services for certain entities alleged to be customers of the Bank, acted negligently and in violation of certain laws. The plaintiffs also allege that the entities for which the banking services at issue were provided were affiliated with, or controlled by, Hizbollah. On August 15, 2008, American Express removed the action to the United States District Court for the Southern District of New York, and the defendant Lebanese banks consented to this removal. The Bank understands that strong jurisdictional defenses are available to the defendants and that the defendants intend to contest vigorously all of the allegations against them.

Service of Process; Enforcement of Liabilities and Foreign Judgements

Legal recourse against the Bank may be limited. The Bank is a joint stock company organised under the laws of Lebanon. Moreover, most of the members of the Board of Directors and executive officers of the Bank and certain of the experts named herein are residents of Lebanon and the substantial majority of the assets of the Bank and of such persons are located in Lebanon. As a result, it may not be possible to effect service upon the Bank or such persons outside Lebanon or to enforce judgements obtained against such parties outside Lebanon. Enforcement of such foreign judgements in Lebanon is subject to the satisfaction of various conditions (including that such judgements not be contrary to public policy in Lebanon) and also involves the payment of significant court and related fees, which may be as high as 3.0 percent of the amount claimed. Court costs and fees in connection with a direct action brought in Lebanese courts may at each level of prosecution or appeal also be as high as 3.0 percent of the amount claimed.

Considerations Relating to the GDSs

Price Volatility and Illiquidity; Dilution

The GDSs may experience significant volatility in their market price and may decline in value. Prior to their listing and admission to trading, there has been no prior public market for the GDSs, although the Common Shares have been listed and traded on the BSE. In addition, an active market may not develop for the GDSs on the LSE or the BSE. In particular, the Lebanese securities markets have from time to time experienced significant price fluctuations, which are heightened by lower overall trading volumes than the volumes that typically characterise larger, more established markets.

Furthermore, sales, or the possibility or perceived possibility of sales, of substantial numbers of Common Shares or GDSs in the public market subsequent to their listing and admission to trading could have an adverse effect on the market prices of the GDSs. Any subsequent equity offerings by the Bank may dilute the percentage ownership of the Bank's shareholders.

Voting Rights of GDS Owners

Although the terms of the GDSs provide that Owners have the right to direct the Depositary to vote the Deposited Shares represented by their GDSs, such Owners must follow certain procedures in order to exercise these voting rights. While the Central Bank has indicated in its Decision 7431 (as defined below), and, accordingly, the terms of the GDSs provide, that the Depositary must vote in accordance with instructions received from Owners, including by voting both for and against a resolution in accordance with instructions received from Owners, and by abstaining from voting any Deposited Shares for which no voting instructions have been received, there is no legal precedent in Lebanon upholding the exercise by a single shareholder of voting rights on a split basis and some scholars have opined that split voting is not permissible. Accordingly, there can be no assurance that a Lebanese court would enforce the requirement that the Depositary vote in accordance with instructions received from Owners if this means that the Depositary must vote on a split basis. In the event that the voting rights provisions were deemed to violate applicable Lebanese law, some or all of the Owners (and, accordingly, the Beneficial Owners) could be effectively disenfranchised as the Depositary might be required to vote the Deposited Shares as directed by the Board of Directors.

Ranking of the Common Shares

The Preferred Shares rank senior to the Common Shares underlying the GDSs in respect of the right to receive distributions and the Preferred Shares have the right to receive the liquidation preference out of the assets of the Bank in the event of any liquidation, dissolution or winding up of the Bank. Moreover, although the Priority Shares generally rank *pari passu* with the Common Shares, holders of Priority Shares have a right to receive a priority distribution in excess of the Common Share dividend, for a period of five years from the issue date of the Priority Shares on 10 December 2005. See "*Description of the Share Capital of the Bank—Description of the Priority Shares*". There are no restrictions on the Bank's ability to issue additional series of preferred shares or priority shares.

DIVIDEND POLICY

Dividend Policy

The GDSs will be entitled to any dividends the Bank may declare or pay, including dividends paid with respect to 2009, if any. While dividends on the Common Shares are paid in Lebanese Pounds, Owners will receive any payments of dividends in U.S. Dollars, subject to the fees of the Depositary and any applicable withholding tax. See "*Description of the Global Depositary Shares*".

Payments of dividends in respect of the Bank's Common Shares and of distributions in respect of the Preferred Shares and Priority Shares are subject to recommendation by the Bank's Board of Directors and approval by a General Meeting of the Bank's shareholders. So long, however, as any Preferred Shares (or newly-issued preferred shares, if any) or any Priority Shares (or newly-issued priority shares, if any) shall be outstanding, the Bank is restricted from declaring or paying any dividend upon its Common Shares during any fiscal year unless and until full distributions at the time due and payable in respect of all such Preferred Shares (and other preferred shares, if any) and Priority Shares (or other priority shares, if any) shall have been paid or declared and set apart during that fiscal year. The determination to pay any dividends in respect of the Common Shares, and the amounts thereof, will depend upon, among other things, the Bank's earnings, its financial condition and cash requirements, priority rights for distribution, government regulations and policies and such other factors as may be deemed relevant by the Board of Directors and shareholders from time to time.

Market Price and Dividends Paid

The following tables set forth the high and low sales prices of the Common Shares and Priority Shares, respectively, as reported on the BSE, and the cash dividends paid by the Bank on the Common Shares and Priority Shares with respect to the periods indicated. For a recent trading price of the Common Shares, see the cover page of this Prospectus.

Common Shares:

Period	High	Low	Common Share Dividend[(1)]	
	(*USD*)		(*LBP*)	(*USD*)
2000	2.3750	1.6250	250.00	0.1658
2001	1.7500	1.0625	250.00	0.1658
2002	1.7813	1.0625	236.84	0.1568
2003	2.0625	1.2500	157.89	0.1047
2004	1.8100	1.4500	157.89	0.1047
2005	2.7800	1.4500	157.89	0.1047
2006	4.0000	1.4500	157.89	0.1047
2007	2.6000	1.6500	157.89	0.1047
2008	3.2300	1.5800	—	—
January 2009[(1)]	1.6800	1.6000	—	—

Note:
(1) Before taxes at a rate of 5.0%. As at 5 February 2009, the market price of the Common Shares was USD 1.79 per Share.

Priority Shares:

Period	High	Low	Priority Share Dividend[1]	
	(*USD*)		(*LBP*)	(*USD*)
2005[2]	2.5100	2.1600	11.8400	0.0079
2006	4.0000	1.6000	205.8900	0.1366
2007	2.5900	1.6900	205.8900	0.1366
2008	3.1000	1.5400	—	—
January 2009	1.7000	1.6200	—	—

Notes:

(1) Before taxes at a rate of 5.0%. As at 5 February 2009, the market price of the Priority Shares was USD 1.65 per Share.

(2) The Priority Shares were issued on 20 December 2005 and earned dividends in 2005 from 10 December 2005 through 31 December 2005.

At the General Meeting of shareholders held on 14 May 2008, the Bank's shareholders approved the distribution of dividends out of the Bank's net income in 2007 (before taxes of 5.0%) of LBP 157.9 (USD 0.105) per Common Share, LBP 205.9 (USD 0.137) per Priority Share (comprised of the regular dividend of LBP 157.9 (USD 0.105) per Priority Share plus the priority dividend equivalent to 4.0% of the nominal value of the Priority Share as provided in the terms of the Priority Shares) and USD 12.00 per Series 2003 Preferred Share. Total dividends paid in respect of 2007 represented 62.2% of net income for that year.

CAPITALISATION AND CAPITAL ADEQUACY

Capitalisation

The following table sets forth the unaudited long-term liabilities and shareholders' equity of the Bank and its consolidated subsidiaries, including Byblos Invest Bank S.A.L., Adonis Insurance & Reinsurance S.A.L., Byblos Bank Europe S.A., Byblos Bank Africa Ltd., Adonis Brokerage House S.A.L. and Byblos Bank Syria S.A., as at 30 September 2008.

	As at 30 September 2008	
	(LBP million)	*(USD thousand)*
	(unaudited)	
Long-term liabilities		
Senior long-term debt[(1)]	457,547	303,514
Subordinated long-term debt.	299,153	198,443
End of services indemnities	25,738	17,073
Total long-term liabilities	**782,438**	**519,030**
Shareholders' equity		
Share capital	511,363	339,213
Treasury shares	(1,242)	(824)
Revaluation variance recognised in complementary shareholders' equity	1,978	1,312
Reserve and premiums	807,723	535,803
Cumulative changes in fair values	(51,146)	(33,928)
Retained earnings – profit	12,090	8,020
Net results for the financial period – profit	111,775	74,146
Revaluation variance of other fixed assets	3,711	2,462
Foreign currency translation reserve	21,404	14,198
Minority interest[(2)]	92,839	61,585
Total shareholders' equity	**1,510,495**	**1,001,987**
Total capitalisation	**2,292,933**	**1,521,017**

Notes:

(1) Includes long-term debt that matures within one year.

(2) Including minority interest in profit for the financial period of LBP 7,413 million for the nine-month period ended 30 September 2008.

Except as described under "*Management's Discussion and Analysis of Financial Condition and Results of Operation—Recent Developments; Current Trends*", there has been no material change in the capitalisation of the Bank since 30 September 2008.

Capital Adequacy

As of the date of this Prospectus, 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 1,200 per share, all of which is fully paid-up; (ii) 1,000,000 Series 2003 Preferred Shares, with a par value of LBP 1,200 per share, which were issued on 1 May 2003 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up; (iii) 2,000,000 Series 2008 Preferred Shares, with a par value of LBP 1,200 per share, which were issued on 29 August 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up; and (iv) 206,023,723 Priority Shares, with a par value of, and which were issued at a price of, LBP 1,200 per share, and which will be automatically converted into Common Shares following the fifth anniversary of their issue on 10 December 2010, all of which are fully paid up. See "*Description of the Share Capital of the Bank*".

The Bank's capital policy aims at maintaining a consistently high level of capitalisation that is in line with its key competitors in Lebanon. Capital needed for expansion is obtained from both internal and external sources.

The following table presents the Bank's capital base and capital adequacy ratios as at 31 December 2005, 2006 and 2007 and 30 September 2008, respectively:

	As at 31 December				As at 30 September	
	2005	2006	2007		2008	
	(LBP million)		*(LBP million)*	*(USD thousand)*	*(LBP million)*	*(USD thousand)*
					(unaudited)	
Tier I[1]	851,795	902,117	874,317	579,978	1,266.125	839,884
Tier II[2][3]	152,573	48,965	350,465	232,481	241,252	160,034
Total capital base	**1,004,368**	**951,082**	**1,224,782**	**812,459**	**1,507,377**	**999,918**
Risk-weighted assets						
Balance sheet items	3,425,492	3,969,630	5,145,012	3,412,944	6,220,771	4,126,548
Off-balance sheet items	531,572	679,046	744,558	493,902	533,955	354,199
Total risk-weighted assets	**3,957,064**	**4,648,676**	**5,889,570**	**3,906,846**	**6,754,726**	**4,480,747**
Capital adequacy ratios						
Total capital[4]	25.04%	20.17%	20.54%	—	22.08%	—
Tier I Capital	21.53%	19.41%	14.85%	—	18.74%	—

Notes:

(1) Tier I Capital comprises mainly paid-up share capital (excluding goodwill and intangible fixed assets), issue premium, shareholders' cash contributions to capital, reserves, retained earnings and reserves for unspecified banking risks.

(2) Tier II Capital comprises subordinated loans and revaluation reserves recognised in the complementary shareholders' equity.

(3) Excluding LBP 3,711 million (USD 2,462 thousand) representing revaluation of fixed assets not accepted by the Central Bank as Tier II Capital for the calculation of certain regulatory ratios.

(3) Capital adequacy ratio based on total capital is calculated after the deduction of net contributions in non-subsidiary financial institutions from total capital base.

As at 31 December 2007, based on total capital (Tier I Capital and Tier II Capital) of LBP 1,224,782 billion (USD 812 million), the Bank's capital adequacy ratio was 20.54% (excluding net income for 2007), as compared to 20.17% as at 31 December 2006 and 25.04% as at 31 December 2005 (in each case, excluding net income for the relevant year), and as compared to the minimum capital adequacy ratio of 12.00% required by the Central Bank. The Bank's higher capital adequacy ratio as at year-end 2007, as compared to year-end 2006, reflected principally the increase in Tier II Capital following the issuance of a USD 200,000,000 6.5% convertible subordinated loan in November 2007.

A portion of the Bank's capital is hedged in foreign currency, in compliance with applicable Central Bank regulations, in order to moderate the effect of an adverse movement of the Lebanese Pound exchange rate. As at 31 December 2007, 50.7% of the Bank's LBP Tier I Capital (on an unconsolidated basis) was hedged in foreign currency, as compared to 52.1% as at 31 December 2006 and 33.9% as at 31 December 2005.

As at and for the nine-month period ended 30 September 2008, based on total capital (Tier I Capital and Tier II Capital) of LBP 1,507,377 (USD 1,000 million), the Bank's capital adequacy ratio was 22.08% (excluding net income for the nine-month period ended 30 September 2008), as compared to the minimum capital adequacy ratio of 12.00% required by the Central Bank.

SELECTED FINANCIAL INFORMATION AND OPERATING DATA

The following tables contain summary historical financial information derived from the Bank's audited consolidated financial statements as at and for the years ended 31 December 2005, 2006 and 2007, which were audited by Ernst & Young p.c.c. and Semaan, Gholam & Co., and from the Bank's unaudited consolidated financial statements as at and for the nine-month periods ended 30 September 2007 and 2008. The Bank's financial statements have been prepared in accordance with IFRS. The Bank maintains its accounts in Lebanese Pounds. Accordingly, U.S. Dollar amounts stated in this Prospectus have been translated from Lebanese Pounds at the rate of exchange prevailing at the relevant balance sheet date, in the case of balance sheet data, and at the average rate of exchange for the relevant period, in the case of income statement data, and are provided for convenience only. In each case, the relevant rate for both balance sheet data and income statement data was LBP 1,507.5 per USD 1.00, as, throughout the periods covered by this Prospectus, the Central Bank has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1,507.5 per USD 1.00. Banking sector information has been derived from Central Bank statistics, Bankdata and the Bank's internal sources.

The following summary financial and other information should be read in conjunction with the information contained in the Bank's financial statements and related notes thereto appearing elsewhere in this Prospectus and with the information set forth in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

Balance Sheet Data

	As at 31 December				As at 30 September	
	2005	2006	2007		2008	
	(LBP million) (audited)	*(LBP million) (audited)*	*(LBP million) (audited)*	*(USD thousand) (unaudited)*	*(LBP million) (unaudited)*	*(USD thousand) (unaudited)*
Assets						
Cash and balances with central banks	2,720,961	2,506,877	2,612,812	1,733,209	4,118,610	2,732,080
Lebanese and other governmental treasury bills and bonds	3,667,788	4,174,808	4,265,036	2,829,211	4,103,368	2,721,969
Bonds and financial assets with fixed income	162,417	86,383	122,316	81,138	411,892	273,229
Shares, securities and financial assets with variable income	35,818	38,648	117,867	78,187	114,315	75,831
Banks and financial institutions	2,093,825	2,368,851	3,242,599	2,150,978	2,801,145	1,858,139
Loans to customers (net)	2,243,108	2,637,722	3,366,013	2,232,844	4,142,703	2,748,062
Bank acceptances	205,274	284,106	265,415	176,063	325,004	215,591
Tangible fixed assets (including revaluation variance approved by the Central Bank)	180,026	189,398	243,737	161,683	259,058	171,846
Intangible fixed assets	1,449	1,324	1,199	795	1,750	1,161
Other assets	2,814	3,091	2,733	1,813	3,019	2,003
Regularisation and other debit accounts	31,433	55,550	56,175	37,264	90,920	60,312
Total assets	**11,344,913**	**12,346,758**	**14,295,902**	**9,483,185**	**16,371,784**	**10,860,222**
Liabilities and shareholders' equity						
Liabilities						
Banks and financial institutions	960,197	953,960	1,069,112	709,195	1,504,501	998,011
Customer deposits	8,510,975	9,461,489	10,931,048	7,251,110	12,118,729	8,038,958
Engagements by acceptances	205,274	284,106	265,415	176,063	325,004	215,591
Certificates of deposits	120,857	121,000	121,093	80,327	119,281	79,125
Debt under financial instruments(1)	145,963	152,519	148,779	98,693	146,353	97,083
Other liabilities	127,990	155,559	161,042	106,827	204,325	135,539
Regularisation accounts and other credit accounts	24,379	37,490	50,799	33,697	89,462	59,345
Provisions for risks and charges	52,448	46,718	65,510	43,456	55,434	36,772
Subordinated notes	152,988	47,835	331,145	219,665	299,002	198,343
Total liabilities	**10,301,071**	**11,260,676**	**13,143,943**	**8,719,033**	**14,862,091**	**9,858,767**
Shareholders' equity						
Share capital	494,456	494,456	494,456	327,997	511,363	339,213
Revaluation variance recognised in the complementary shareholders' equity	1,978	1,978	1,978	1,312	1,978	1,312
Reserves for general banking risk	39,859	48,159	56,916	37,755	73,359	48,663
Other reserves and premiums	314,509	343,592	389,121	258,123	734,364	487,140
Cumulative change in fair values	21,190	(12,250)	(46,244)	(30,676)	(51,146)	(33,928)
Retained earnings – profit (loss)	4,704	18,824	11,127	7,381	12,090	8,020
Net results of the financial period - profit	102,094	115,389	142,550	94,561	111,775	74,146
Revaluation variance of other fixed assets	3,711	3,711	3,711	2,462	3,711	2,462
Foreign currency translation reserve	4,580	11,638	21,669	14,374	21,404	14,198
Treasury shares	—	(366)	(947)	(628)	(1,242)	(824)
Minority interest(2)	56,761	60,951	77,622	51,491	92,839	61,585
Total shareholders' equity	**1,043,842**	**1,086,082**	**1,151,959**	**764,152**	**1,510,495**	**1,001,987**
Total liabilities and shareholders' equity	**11,344,913**	**12,346,758**	**14,295,902**	**9,483,185**	**16,372,586**	**10,860,754**

Notes:

(1) Comprised of index-linked notes, commodity-linked notes and equity-linked notes issued by the Bank. See "*Management's Discussion and Analysis of Financial Information and Results of Operation—Funding and Liquidity—Long-Term Funding Sources*".

(2) Of which minority interest in results of the financial period – profit was LBP 2,529 million (USD 1,678 thousand), LBP 3,298 million (USD 2,188 thousand) and LBP 6,968 million (USD 4,622 thousand) as at 31 December 2005, 2006 and 2007, respectively, and LBP 7,404 million (USD 4,911 thousand) as at 30 September 2008.

Income Statement Data

	For the years ended 31 December				For the nine-month periods ended 30 September		
	2005	2006	2007		2007	2008	
	(LBP million) (audited)	*(LBP million) (audited)*	*(LBP million) (audited)*	*(USD thousand) (unaudited)*	*(LBP million) (unaudited)*	*(LBP million) (unaudited)*	*(USD thousand) (unaudited)*
Total interest and similar income	661,004	811,188	924,687	613,391	692,372	758,874	503,399
Total interest and similar charges	(482,979)	(584,265)	(657,862)	(436,393)	(483,148)	(507,512)	(336,658)
Net interest margin	178,025	226,923	266,825	176,998	209,224	251,362	166,741
Net provisions less recoveries on loans	(24,869)	(10,282)	(4,761)	(3,158)	(14,073)	(16,751)	(11,112)
Net interest received	153,156	216,641	262,064	173,840	195,151	234,611	155,629
Net non-interest income	70,407	73,592	93,313	61,899	55,747	79,262	52,578
Net profit from financial operations	52,625	24,858	27,799	18,440	11,158	16,722	11,093
Staff expenses and charges	(72,819)	(81,978)	(98,366)	(65,251)	(72,917)	(91,590)	(60,756)
General expenses and depreciation	(76,374)	(86,754)	(99,718)	(66,148)	(74,243)	(91,623)	(60,778)
Profit for the period before tax	126,995	146,359	185,092	122,781	114,896	147,382	97,766
Income tax	(22,372)	(27,672)	(35,574)	(23,598)	(23,541)	(28,203)	(18,708)
Net income for the period (after taxes)	104,623	118,687	149,518	99,183	91,355	119,179	79,057
Attributable to:							
Equity holders of the parent	102,094	115,388	142,550	94,561	87,864	111,775	74,146
Minority interests	2,529	3,298	6,968	4,622	3,491	7,404	4,911
Average number of Common Shares during the period	205,023,723	204,969,556	204,955,557	—	205,136,279	217,319,153	—
Average number of priority shares during the period	11,853,420	205,987,585	205,838,523	—	206,136,424	206,144,982	—
Dividends on preferred shares	(18,168)	(18,168)	(18,168)	(12,052)	(13,626)	(13,626)	(9,000)
Priority distribution of 4.0% on Priority Shares	(569)	(9,887)	(9,880)	(6,554)	(7,421)	(7,421)	(4,922)
Earnings per Common Share	384.35	212.51	278.73	0.18	170.95	231.74	0.154
Earnings per Priority Share	432.35	260.51	326.73	0.22	206.95	267.74	0.178

Cash Flow Data[1]

	For the years ended 31 December			
	2005	2006	2007	
	(LBP million) (audited)	*(LBP million) (audited)*	*(LBP million) (audited)*	*(USD thousand) (unaudited)*
Cash from operating activities	149,335	2,118,996	961,267	637,656
Cash from investing activities	(129,224)	(1,342,933)	(624,465)	(414,238)
Cash from financing activities	297,708	(200,928)	219,794	145,800
Net effect of foreign exchange rates	(4,194)	8,795	11,791	7,821,822
Cash and cash equivalents – beginning of the year / period	1,985,368	2,298,993	2,882,923	1,912,386
Increase in cash and cash equivalents	313,625	583,930	568,387	377,039040
Cash and cash equivalents – end of the year / period	2,298,993	2,882,923	3,451,310	2,289,426

Note:

(1) The Bank does not calculate cash flow data for interim financial periods and, accordingly, no such data is given for the nine-month periods ended 30 September 2007 and 2008.

Financial Ratios

	As at and for the years ended 31 December			As at and for the nine-month period ended 30 September 2008[1]
	2005	2006	2007	
		(%)		*(unaudited)*
Liquidity ratios				
Net liquid assets in LBP to deposits in LBP[2][3]	108.65	115.24	104.15	105.76
Net liquid assets in foreign currency to deposits in foreign currency[2][4]	80.44	74.85	77.16	71.12
Net liquid assets to deposits[2][5]	90.29	86.49	83.92	81.94
Loans in LBP to deposits in LBP	10.05	12.22	14.35	10.90
Loans in foreign currency to deposits in foreign currency	35.11	34.22	36.29	44.77
Loans to deposits	26.36	27.88	30.79	34.18
Capital adequacy ratios				
Total capital adequacy ratio prior to distribution of dividends	27.46	22.72	23.08	23.85
Tier I Capital adequacy ratio prior to distribution of dividends	24.17	21.96	17.38	20.51
Total capital adequacy ratio after distribution of dividends	25.04	20.17	20.54	22.08
Tier I Capital adequacy ratio after distribution of dividends	21.53	19.41	14.85	18.74
Profitability ratios				
Operating cost to net operating income ratio[6][7]	49.56	51.86	51.06	52.75
Operating cost to average assets ratio[6]	1.37	1.42	1.49	1.19
Return on average shareholders' equity[8]	13.49	11.18	13.41	11.94
Return on average assets	0.96	1.00	1.12	1.04
Asset quality ratios				
Doubtful loans to gross loans[9]	10.47	8.14	4.66	3.11
Net doubtful loans to gross loans[9]	1.72	0.72	0.22	(0.34)
Provisions to doubtful loans (including unrealised interest on doubtful loans)[10]	83.61	91.11	95.23	110.82
Provisions to gross loans (including all unrealised interest)[10]	10.24	8.73	5.40	4.26
Income structure				
Net interest income over net income[7][11]	59.13	69.74	68.78	72.37
Net commissions income over net income[7]	23.84	24.40	23.98	23.23
Net interest margin	1.70	2.00	2.10	2.30

Notes:

(1) Ratios based on income statement data are annualised.

(2) Net liquid assets are equal to cash and balances with central banks and governmental treasury bills and bonds, plus bonds with fixed income, plus amounts due from banks and financial institutions, less amounts due to banks and financial institutions.

(3) Calculated by dividing net liquid assets in Lebanese Pounds by deposits from customers in Lebanese Pounds.

(4) Calculated by dividing net liquid assets in foreign currency by deposits from customers in foreign currency.

(5) Calculated by dividing net liquid assets by deposits from customers.

(6) Cost equals operating costs (general expenses plus staff expenses), plus depreciation and amortisation of tangible and intangible fixed assets.

(7) Net income equals net interest received before net provisions, plus revenues from shares and financial assets with variable income, plus net commissions, plus net income from financial operations, plus other operating income minus other operating costs.

(8) Based on shareholders' equity including minority interest and based on the weighted average number of outstanding shares during the year.

(9) Doubtful loans are those as to which the Central Credit Department of the Bank has determined that the borrower may be unable to meet principal or interest repayment obligations, or performance is otherwise unsatisfactory, unless the loans are adequately secured or are in the process of liquidation. See "*Risk Management, Internal Controls and Compliance—Lending Policies—Loan Classifications*".

(10) The Bank included general provisions of LBP 13,584 million as at 31 December 2005, LBP 15,918 million as at 31 December 2006 and LBP 21,271 million as at 31 December 2007 and LBP 39,128 million as at 30 September 2008 in calculating the above ratios, but excluded general provisions allocated for the retail loan portfolio of LBP 20,427 million as at 31 December 2005, LBP 23,254 million as at 31 December 2006 and LBP 20,630 million as at 31 December 2007 and LBP 20,630 million as at 30 September 2008.

(11) Net interest income before net provisions.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Basis of Presentation

The following presentation has been prepared by Management using for comparison purposes (i) the audited consolidated financial statements of the Bank as at and for the years ended 31 December 2005, 2006 and 2007, together with the notes thereto, and (ii) the unaudited consolidated financial statements of the Bank as at and for the nine-month periods ended 30 September 2007 and 2008, which are included elsewhere in this Prospectus. Such presentation should be read in conjunction with such financial statements and notes and the selected financial information appearing elsewhere herein. See "*Selected Financial Information and Operating Data*".

The consolidated financial statements have been prepared in accordance with standards issued or adopted by the International Accounting Standards Board and interpretations issued by the International Financial Reporting Interpretations Committee, the general accounting plan for banks in Lebanon and the regulations of the Central Bank and the Banking Control Commission and include the results of the Bank and its consolidated subsidiaries, Byblos Bank Europe, ADIR Lebanon, and Adonis Brokerage House (from 31 December 2003); Byblos Invest Bank and Byblos Bank Africa (from 31 December 2005); Byblos Bank Syria (from 31 December 2005); and Byblos Bank Armenia and ADIR Syria (from 31 December 2007). The Bank maintains its accounts in Lebanese Pounds. Accordingly, U.S. Dollar amounts stated in this Prospectus have been translated from Lebanese Pounds at the rate of exchange prevailing at the relevant balance sheet date, in the case of balance sheet data, and at the average rate of exchange for the relevant period, in the case of income statement data, and are provided for convenience only. In each case, the relevant rate for both balance sheet data and income statement data was LBP 1,507.5 per USD 1.00, as, throughout the periods covered by this Prospectus, the Central Bank has maintained its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1,507.5 per USD 1.00. Banking sector information has been derived from Central Bank statistics, Bankdata and the Bank's internal sources.

Ernst & Young p.c.c. and Semaan, Gholam & Co. have audited the consolidated financial statements of the Bank for each of the years ended 31 December 2005, 2006 and 2007.

Overview of the Principal Activities of 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 is the third largest in the country. Through its overseas banking and other subsidiaries, the Bank also conducts a wide range of commercial banking and financial activities in Europe and the MENA region. As at 31 December 2007, the Bank had 2,101 employees, approximately 312,000 active accounts and 75 branches (73 in Lebanon, one in Limassol, Cyprus and one in Erbil, Iraq), while, as at 30 September 2008, the Bank had 2,281 employees, approximately 336,000 active accounts and 91 branches (75 in Lebanon, one in Limassol, Cyprus, one in Erbil, Iraq, and 14 in other international jurisdictions, each owned by the Bank's subsidiary organised in the respective jurisdiction). As at 30 September 2008 Byblos Bank Europe, the Bank's 99.95%-owned subsidiary had its main branch in Brussels, had one branch in London and one branch in Paris; Byblos Bank Africa, the Bank's 65.0%-owned subsidiary, had one branch in Khartoum, Sudan; and Byblos Bank Syria, the Bank's 41.5%-owned subsidiary, had two branches in Damascus (Abou Remmaneh and Mazzeh) and one branch in each of Aleppo, Homs, Tartous and Latakia. 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 three other branches in Malatia, Vanadzor and Abovyan. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC. In June 2008, the EBRD and OFID acquired interests in Byblos Bank Armenia of 25.0% and 10.0%, 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 selected 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.

As at 30 September 2008, according to Bankdata, based on unaudited financial statements of banks operating in the Republic provided to Bankdata by such banks, the Bank ranked third among all banks operating in the Republic in terms of net profits (net income) (LBP 119,179 million (USD 79 million)), total assets (LBP 16,372,585 million (USD 10,861 million)), total shareholders' equity (excluding subordinated loans) (LBP 1,506,784 million (USD 1,000 million)), total deposits (LBP 12,118,729 million (USD 8,039 million)) and total customer loans (LBP 4,142,703 million (USD 2,748 million)).

During the three-year period from 1 January 2005 to 31 December 2007, total assets of the Bank increased at an average annual compounded rate of 10.8% from LBP 10,504,505 million (USD 6,968 million) to LBP 14,295,902 million (USD 9,483 million), customer deposits increased at an average annual compounded rate of 9.8% from LBP 8,254,350 million (USD 5,476 million) to LBP 10,931,048 million (USD 7,251 million), net customer advances increased at an average annual compounded rate of 18.5% from LBP 2,020,869 million (USD 1,341 million) to LBP 3,366,013 million (USD 2,233 million) and total equity increased at an average annual compounded rate of 19.2% from LBP 874,113 million (USD 580 million) to LBP 1,479,393 million (USD 981 million), while net income increased at an average annual compounded rate of 22.7% from LBP 80,898 million (USD 54 million) to LBP 149,518 million (USD 99 million). The Bank had total assets of LBP 16,941,252 million (USD 11,238 million), customer deposits of LBP 12,607,550 million (USD 8,363 million), net customer advances of LBP 4,199,400 million (USD 2,786 million) and total equity of LBP 1,910,443 million (USD 1,267 million) as at 31 December 2008, with net income of LBP 183,960 million (USD 122 million) for the year then ended.

The Bank has a high level of nominal liquidity, with cash, placements with the Central Bank, interbank deposits and investments in Lebanese treasury bills and other marketable securities representing 71.8% of total assets as at 31 December 2007 and 73.7% as at 30 September 2008. As at and for the year ended 31 December 2007, the Bank's capital adequacy ratio was 20.54% (excluding net income for 2007), its return on average assets was 1.12% and its return on average equity was 13.41%. As at and for the nine-month period ended 30 September 2008, the Bank's capital adequacy ratio was 22.08% (excluding net income for the nine-month period ended 30 September 2008), its return on average assets was 1.04% and its return on average equity was 11.94%.

Principal Factors Affecting the Bank's Results of Operations and Financial Condition

The Bank conducts most of its operations in Lebanon and, accordingly, its financial condition, results of operations and business prospects are closely related to the overall political, social and economic situation in Lebanon, which, in turn, is tied to the military situation in Lebanon and the Middle East and internal stability. In addition, the Bank has operations in Belgium, France, the United Kingdom, Cyprus, Sudan, Syria (from 31 December 2005) and Armenia (from December 2007) and, accordingly, is affected by similar factors in these jurisdictions, as well as global economic and monetary conditions, including local and financial market conditions, fluctuations in interest rates, the effects of foreign exchange rate fluctuations, regulation, including changes in accounting policies, and competition. In addition, changes in the Bank's organisational structure, including as a result of acquisitions, as well as the implementation of the Bank's regional expansion strategy may have material effects on the Bank's results of operations, financial conditions and prospects.

The following is a discussion of the most significant factors affecting the Bank's business, results of operations, financial condition and prospects:

Lebanese Economy and the Banking Sector

The following table sets forth certain key economic indicators for Lebanon as at and for the years ended 31 December 2005, 2006 and 2007, respectively:

	As at and for the years ended 31 December			Percentage Change
	2005	**2006**	**2007**	**(2006-2007)**
		(USD million)		
Estimated GDP growth rate *(%)*	1.1	0.0	4.0	-
Estimated inflation *(%)*	(0.7)	5.6	9.3[(1)]	66
Balance of payments	747	2,795	2,037	(27.1)
Trade deficit	5,221	7,115	9,000	27
Budget deficit	(2,798)	(4,564)	(3,838)	(16)
LBP/USD	1,507.50	1,507.50	1,507.50	0.0
Gross public debt	38,464	40,366	42,033	4
Gross foreign currency reserves (excluding gold reserves) (USD)	9.845	10,207	9,778	(4.2)
Banking sector assets	68,538	72,271	82,254	14

Note:

(1) The CAS estimated the 2007 inflation figure at 9.3% on an end-of-period basis, while the IMF, based on data from the Central Bank, estimated inflation at 6.0% on an end-of-period basis and 4.1% on a period average basis

In 2005, in the aftermath of former Prime Minister Hariri's assassination, the real economy of the Republic grew at a slower pace than in recent prior years, as reflected in a wide range of economic sectors, including real GDP growth at 1.1%. The first half of 2006 was characterised by a strong revival of the Lebanese economy with real GDP growth estimated at approximately 5.0% to 6.0%. However, the impact of the July War on the economy, as well as the political tensions that followed the war, negatively impacted economic growth. Real growth for 2006, which was preliminarily estimated at (5.0%), has been revised upward to 0.0%. Real GDP growth in 2007 is estimated at 4.0%, which was higher than initially forecasted at the beginning of 2007. In 2007, CAS estimated the 2007 inflation figure at 9.3% on an end-of-period basis, while the IMF, based on data provided by the Central Bank, estimated inflation at 6.0% on an end-of-period basis and 4.1% on a period-average basis, as compared to approximately 5.6% in 2006 and (0.7%) in 2005, respectively. In 2007, the increase in inflation 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 Republic) and the worldwide increase in oil and other commodity prices.

The first part of 2006 registered strong growth in tourism activities; however, the July War and subsequent political tensions led to a slight decrease in tourism for the year, with a total of 1,062,635 tourists in 2006, as compared to 1,139,524 tourists in 2005. The number of tourists visiting Lebanon in 2007 decreased by 4.3%, as compared to 2006, to approximately 1.0 million tourists in light of the political and security developments.

Following the assassination of former Prime Minister Mr. Rafik Hariri in February 2005, the Lebanese economy slowed and gross foreign currency reserves held by the Central Bank decreased. A significant portion of customer deposits across the sector were converted from Lebanese Pounds to foreign currency, as a result of which the dollarisation level increased to 79.2% as at March 2005, as compared to 69.0% prior to the assassination. Total private sector deposits increased by 121.5% as at 31 December 2007, as compared to such total deposits as at 31 December 2006. In addition, the Central Bank defended against increasing pressures on the Lebanese Pound by intervening on the foreign exchange markets, which led to a decrease in its foreign currency reserves from USD 9.7 billion as at 30 January 2005 to USD 7.6 billion as at 31 March 2005. To offset pressure on foreign exchange reserves and to enhance confidence in the monetary and financial systems, on 25 April 2005, the Central Bank issued Euro deposit certificates in an aggregate nominal amount of USD 2 billion, having a maturity of 10 years and a coupon of 10%, payable semi-annually. By the end of 2005, gross foreign currency reserves (excluding gold) had increased to USD 9.9 billion. During the first half of 2006, the dollarisation rate continued to decrease reaching 72.7% at the end of June 2006. However, the July War and ensuing political tensions resulted in an increase in the dollarisation level to 76.2% by the end of December 2006 and 77.3% by the end of December 2007.

Despite the July War and the political tensions that followed during the remainder of 2006, the balance of payments registered a surplus of USD 2,794 million by the end of December 2006, as compared to a surplus of USD 747 million as at 31 December 2005, mainly as a result of the Kingdom of Saudi Arabia and the Kuwait deposits at the Central Bank totalling USD 1.5 billion, as well as other inflows following the war. Despite an increase in the trade balance deficit in 2007, the balance of payments continued to register a surplus, standing at USD 2,037 million, as a result of the increases in the capital and financial accounts.

The trade deficit was approximately USD 9,000 million in 2007, as compared to USD 7,115 million in 2006, representing an increase of 27.0%. The larger deficit in 2007 was due to a 26% increase in imports to USD 11,815 million, which was only partially offset by a 23.0% increase in exports to USD 2,816 million.

Gross foreign currency reserves (excluding gold reserves) at the Central Bank were USD 8,611 million as at 31 July 2005. Similarly, the period of the July War saw significant conversions from the Lebanese Pound to foreign currency deposits resulting in a decline in the Central Bank's foreign currency reserves from USD 11,020 million at the end of June 2006 to USD 10,563 million at the end of July 2006 as the Central Bank intervened in the foreign exchange markets. The decline in the Central Bank's foreign currency reserves reversed as hostilities ended, reaching USD 10,868 million at the end of August 2006. As at 31 December 2007, gross foreign currency reserves (excluding gold reserves) at the Central Bank were USD 9,778 million. Foreign currency reserves have been increased by deposits from Saudi Arabia and Kuwait following the July War.

The performance of the banking sector continued to improve in 2007 and in the first 11 months of 2008, as compared to 2006 and 2005. Total banking sector assets in Lebanon increased by 10.8% in 2007, as compared to 2006, after having increased by 8,4% in 2006, as compared to 2005, while the total share capital of Lebanese banks increased by 8,3% in 2007, as compared to 2006, after having increased by 36,0% in 2006, as compared to 2005. Total loans made by the banking sector increased by 11,2% in 2007, as compared to 2006, after having increased by 13,5% in 2006, as compared to 2005. Similarly, customer deposits increased by 10,2% in 2007, as compared to 2006, after having increased by 6,2% in 2006, as compared to 2005. As at 31 December 2007, 77,3% of total customer deposits were held in U.S. Dollars, as compared to 76,2% and 73,1% as at 31 December 2006 and 2005, respectively.

As at 30 November 2008, total banking sector assets had increased a further 11.5%, while customer deposits had increased a further 12.3%, in each case, as compared to 31 December 2007. Customer deposits held in U.S. Dollars comprised 70.0% of total banking sector deposits as at 30 November 2008, as compared to 77.3% as at 31 December 2007, primarily because customer deposits in Lebanese Pounds increased by 50.3% as at 30 November 2008, as compared to 31 December 2007, while deposits in foreign currencies increased by only 1.2% between the same dates.

As at 30 November 2008, total loans made by the banking sector increased by 20.9%, as compared to 31 December 2007, while the dollarisation rate of sector loans remained relatively constant at 86.8% and 86.5% as at 30 November 2008 and 31 December 2007, respectively. Total share capital of Lebanese banks increased by 15.7% as at 30 November 2008, as compared to 31 December 2007.

The performance of the BSE also continued to improve in 2007 and in the first 11 months of 2008, as compared to 2006 and 2005. Market capitalisation continued to grow strongly in 2007, increasing to USD 10,894 million as at 31 December 2007, from USD 8,304 million and USD 4,917 million as at 31 December 2006 and 2005, respectively. Nevertheless, liquidity in the BSE decreased in 2007, as the value of shares traded for the year fell to USD 994 million from USD 2,031 million in 2006 and USD 924 million in 2005.

Aggregate turnover increased 104.0% to USD 1.67 billion for the eleven months ended 30 November 2008, as compared to USD 0.82 billion in the same period in 2007. Notwithstanding this increase in trading volumes, market capitalization decreased between the same periods by 6.0% to USD 9.88 billion, reflecting the overall deterioration of global market conditions. At the same time, however, the market liquidity ratio improved to 16.9% for the eleven months ended 30 November 2008, as compared to 7.8% for the same period in 2007.

Throughout 2005, 2006 and 2007, the Central Bank continued its policy of pegging the value of the Lebanese Pound to the U.S. Dollar at a fixed rate of LBP 1,507.5 per USD 1.00.

Interest Rates and Financial Market Conditions

The Bank's net interest margin and net interest spread and, thus, the Bank's results of operations, may be materially affected by the level of, and changes in, interest rates (including changes in the difference between the levels of prevailing short-term rates and long-term rates), as well as a mismatch with respect to the maturity of interest-earning assets and interest-bearing liabilities, in any given period. Both the Bank's interest income and interest expense are impacted by fluctuations in interest rates, which affect the amounts payable by the Bank on its interest-bearing liabilities, as well as the level of income received by the Bank on its interest-earning assets, including loans and securities held in the Bank's investment portfolio. In particular, in a rising interest rate environment, the Bank's bad debts are likely to increase.

Fluctuations in interest rates also affect returns on and market values of the Bank's fixed income investments. Higher-yielding fixed-income securities tend to be called during sustained periods of lower interest rates and the proceeds from maturing securities may only be reinvested at lower rates; conversely, in periods of higher or increasing interest rates, the Bank's interest income may increase as more attractive investment opportunities are available. During periods of rising interest rates, however, prices of fixed income securities tend to decrease and realised gains upon their sale are reduced, while unrealised gains are higher in periods of falling interest rates.

Returns on the Bank's equity investments are also subject to stock market volatility.

Impact of Exchange Rate Fluctuations

The Bank's reporting currency is the Lebanese Pound. The Bank receives some revenues and incurs some costs, however, in other currencies, including the U.S. Dollar, the Euro, the Sudanese Dinar (from December 2005), the Syrian Pound (from December 2005) and the Armenian Dram (from December 2007); and the Bank's results are, accordingly, affected by movements in the exchange rates of these currencies against the Lebanese Pound.

In 2007, the Bank derived approximately 8.4% of its consolidated gross operating income from its operations outside Lebanon and the Bank expects that the contribution of its foreign operations to the Bank's revenues will increase, particularly as it expands its businesses in other foreign jurisdictions, as contemplated by its growth strategy. See "*Description of the Bank—The Bank's Objectives and Strategies*". The Euro generally appreciated in value against the Lebanese Pound in 2006 and 2007, but depreciated some in 2005. The Sudanese Dinar appreciated in value against the Lebanese Pound in 2005, 2006 and 2007, while the Syrian Pound has remained relatively stable over recent years. The Lebanese Pound is pegged to the U.S. Dollar at a rate of LBP 1,507.5 per USD 1.00. The Bank does not generally hedge any of its potential exposures to currency fluctuations (except that a portion of the Bank's share capital is hedged in foreign currency to the extent permitted by law. See "*Capitalisation and Capital Adequacy*").

Regulation

In recent years, the markets in which the Bank operates have faced increased regulation and scrutiny. Most notably, OFAC administers the Sudanese Sanctions Regulations and certain transaction regulations, which impose sanctions on Sudan and Syria, respectively, prohibiting U.S. persons from engaging in certain transactions, including investments, with the Sudanese government and the Syrian government, respectively, and (in Sudan) with certain private parties, as well as other parties designated by OFAC as Specially Designated Nationals.

In 2003, the United States enacted the Syria Accountability Act, which contemplated the potential imposition of a number of sanctions on Syria, some of which have already been imposed, including a general prohibition of U.S. exports to Syria, except for food and medicine, and a prohibition of flights from Syria to the United States. Finally, if relations between Syria and Lebanon continue to deteriorate, it is possible that the Bank's operations in Syria may be affected.

Competition

The Bank competes with global, national and local banks and financial institutions both in Lebanon and abroad. Although the Lebanese market is not as competitive as other, more developed banking sectors, in many of the markets where the Bank currently operates or intends to expand, the banking industry is highly competitive in terms of both price and service. Some of the Bank's competitors are larger than the Bank and may have greater financial, technical and operating resources, as well as more developed international banking experience and expertise. Competition on the basis of price may adversely affect the Bank's margins and, thus, its business, results of operations, financial condition and prospects.

Recent Developments; Current Trends

The following discussion and analysis has been prepared based on the Bank's unaudited consolidated balance sheet and income statement as at and for the year ended 31 December 2008, with 2007 comparative data derived from the Bank's audited consolidated financial statements as at and for the year ended 31 December 2007 and from the Bank's unaudited consolidated financial statements as at and for the nine-month period ended 30 September 2008. Such financial information as at and for the year ended 31 December 2008 and as at and for the nine-ninth period ended 30 September 2008 remains subject to year-end audit adjustments.

Except as disclosed in this section below under the caption "—*Financial Condition*" on pages 32 and 33, there has been no significant change in the financial or trading position of the Bank since 30 September 2008.

Overview of December Results

The following table sets forth unaudited summary information relating to the Bank's consolidated financial condition and results of operations as at and for the year ended 31 December 2008, together with comparative data as at and for the year ended 31 December 2007 and as at and for the nine-month period ended 30 September 2008:

Balance Sheet Data	**As at**					
	31 December 2007		**30 September 2008**		**31 December 2008**	
	LBP million	*USD million*	*LBP million*	*USD million*	*LBP million*	*USD million*
			(unaudited)		*(unaudited)*	
Net loans and advances to customers	3,366,013	2,233	4,142,703	2,748	4,199,400	2,786
Total assets	14,295,902	9,483	16,371,784	10,860	16,941,252	11,238
Total customer deposits	10,931,048	7,251	12,118,729	8,039	12,607,550	8,375
Shareholders' equity	1,151,959	764	1,510,495	1,002	1,617,952	1,073

Income Statement Data	**For the years ended 31 December**			
	2007		**2008**	
	LBP million	*USD million*	*LBP million*	*USD million*
			(unaudited)	
Net interest income	266,825	177.0	355,692	235.9
Net non-interest income	121,112	80.3	143,556	95.2
Other operating expenses	198,084	(131.4)	233,323	(154.7)
Net income	149,518	99.2	183,960	122.0

Financial Condition

The Bank's total assets increased to LBP 16,941,252 million (USD 11,238 million) as at 31 December 2008, as compared to LBP 16,371,784 million (USD 10,860 million) as at 30 September 2008 and LBP 14,295,902 million (USD 9,483 million) as at 31 December 2007, primarily reflecting the increase in loans and advances to customers to LBP 4,199,400 million (USD 2,786 million) as at 31 December 2008, as compared to LBP 4,142,703 million (USD 2,748 million) as at 30 September 2008 and LBP 3,366,013 million (USD 2,233 million) as at 31 December 2007. Customer deposits increased to LBP 12,607,550 million (USD 8,375 million) as at 31 December 2008, as compared to LBP 12,118,729 million (USD 8,039 million) as at 30 September 2008 and LBP 10,931,048 million (USD 7,251 million) as at 31 December 2007. The increases both in the size of the Bank's loan portfolio (by 1.4%) and in the Bank's total assets (by 3.5%) as at 31 December 2008, as compared to 30 September 2008, primarily reflected the relative stabilization of the political situation in Lebanon following the Doha Agreement and the related increase in customer deposits (by 4.0%) over the three-month period.

The Bank's total shareholders' equity increased to LBP 1,617,952 million (USD 1,073 million) as at 31 December 2008, as compared to LBP 1,151,959 million (USD 764 million) as at 31 December 2007 and LBP 1,510,495 million (USD 1,002 million) as at 30 September 2008. The increase in shareholders' equity (by 7.1%)

as at 31 December 2008, as compared to 30 September 2007, primarily reflected the issuance of the Series 2008 Preferred Shares in August 2008.

Results of Operations

The Bank's net income was LBP 183,960 million (USD 122 million) for the year ended 31 December 2008, as compared to LBP 149,518 million (USD 99.2 million) for the year ended 31 December 2007, primarily reflecting increases in both net interest income to LBP 355,692 million (USD 235.9 million) for the year ended 31 December 2008 from LBP 266,825 million (USD 177.0 million) for the year ended 31 December 2007 and non-interest income to LBP 143,556 million (USD 95.2 million) for the year ended 31 December 2008 from LBP 121,112 million (USD 80.3 million) for the year ended 31 December 2007, which were only partially offset by an increase in operating expenses to LBP 233,323 million (USD 154.7 million) for the year ended 31 December 2008 from LBP 198,084 million (USD 131.4 million) for the year ended 31 December 2007. The year-on-year increase in non-interest income was primarily attributable to an increase in net commission income to LBP 105,095 million (USD 69.7 million) for the year ended 31 December 2008 from LBP 93,029 million (USD 61.7 million) for the year ended 31 December 2007, partially offset by a decrease in net income from financial operations to LBP 25,025 million (USD 16.6 million) for the year ended 31 December 2008 from LBP 29,380 million (USD 19.5 million) for the year ended 31 December 2007. The year-on-year increase in total operating expenses reflected increases in both staff expenses and other operating expenses in line with market conditions.

Notwithstanding the decline, in line with global trends, in average interest rates received on loans and customer advances in 2008, as compared to 2007, which outpaced the decrease in average interest rates paid on customer deposits over the year due to competitive pressures, net interest income after provisions increased from LBP 262,064 million (USD 174 million) for the year ended 31 December 2007 to LBP 349,529 million (USD 232 million) for the year ended 31 December 2008. Net provisions for doubtful loans increased by 29.5% to LBP 6,163 million (USD 4.1 million) for 2008, as compared to LBP 4,761 million (USD 3.2 million) for 2007, reflecting additional provisions for doubtful loans of LBP 12,976 million (USD 8.6 million) taken in 2008, partially offset by the write-back of LBP 6,812 million (USD 4.5 million) in provisions for doubtful loans no longer required, as compared to additional provisions for doubtful loans of LBP 13,808 million (USD 9.2 million) for 2007, partially offset by the write-back of LBP 9,047 million (USD 6.0 million) in provisions for doubtful loans no longer required. Non-performing loans were covered by specific and general provisions and reserved interest at the rate of 101.3% as at 31 December 2008, as compared to 95.2% as at 31 December 2007. The improvement in coverage ratios is due to the increase in provision levels coupled with the increasing quality of the loan portfolio.

For the year-ended 31December 2008, the Bank realised a return on average equity of 13.27% and a return on average assets of 1.18%, as compared to 13.41% an 1.12%, respectively, in 2007. The continued improvement in the Bank's return on average equity, as compared to 2007, was primarily attributable to the year-on-year increase in the Bank's net income by 23.0%, relative to the year-on-year increases in the Bank's total assets by 18.5% and shareholders' equity by 29.1%. The slightly lower return on average equity for 2008, as compared to 2007, largely reflected the issuance of the Series 2008 Preferred Shares in August 2008. In line with the Bank's continuing efforts to control costs through the centralization and automation of the processing of banking operations, the Bank's cost-to-income ratio improved to 46.7% for 2008, as compared to 51.1% for 2007.

Nine-Month Periods ended 30 September 2008 and 2007

Overview

The following tables set forth summary information relating to the Bank's consolidated financial condition and results of operations as at 31 December 2007 and as at and for the nine-month periods ended 30 September 2007 and 2008, respectively:

	As at 31 December 2007		As at 30 September 2008		31 December 2007/ 30 September 2008
	(LBP million)	*(USD thousand)*	*(LBP million)*	*(USD thousand)*	*(% change)*
			(unaudited)		
Balance sheet data					
Net loans and advances to customers	3,366,013	2,232,844	4,142,703	2,748,062	23.1%
Total assets	14,295,902	9,483,185	16,371,784	10,860,222	14.5%
Total customer deposits	10,931,048	7,251,110	12,118,729	8,038,958	10.9%
Shareholders' equity	1,151,959	764,152	1,510,495	1,001,987	31.1%

	For the nine-month periods ended 30 September				
	2007		2008		2007/2008
	(LBP million)	*(USD million)*	*(LBP million)*	*(USD million)*	*(% change)*
	(unaudited)		*(unaudited)*		
Income statement data					
Net interest income	209,224	138,789	251,362	166,741	20.1
Net non-interest income	66,905	44,381	95,984	63,671	43.5
Staff expenses	72,917	48,369	91,590	60,756	25.6
Other operating expenses[(1)]	74,243	49,249	91,623	60,778	23.4
Net income	91,355	60,600	119,179	79,057	30.5

Note:

(1) Includes general expenses and depreciation.

The Bank's total assets increased by 19.4% to LBP 16,371,784 million (USD 10,860 million) as at 30 September 2008 from LBP 14,295,902 million (USD 9,483 million) as at 31 December 2007. This asset growth was primarily a result of an increase of 10.9% in customer deposits, as well as an increase of 31.1% in total equity following the issuance of the USD 200 million 6.5% convertible subordinated loan in November 2007 and the issuance of the 2008 Preferred Shares in August 2008. Net loans and advances to customers increased by 23.1% to LBP 4,142,703 million (USD 2,748 million) as at 30 September 2008 from LBP 3,366,013 million (USD 2,233 million) as at 31 December 2007. 32.0% of the increase in net loans and advances to customers was generated from the Bank's subsidiaries abroad, with the remaining increase deriving from the Bank's operations in Lebanon in both commercial and retail lending. According to the Alpha Group Report Sep-2008, issued by Bankdata showing the comparative financial highlights of commercial banks operating in Lebanon holding deposits greater than USD 2 billion (the "**Alpha Group**"), the Bank had a market share of Alpha Group assets of 11.7% as at 30 September 2008, as compared to 11.3% as at 31 December 2007, a market share of customer deposits of 10.7% as at 30 September 2008, as compared to 10.7% as at 31 December 2007, and a market share of net customers' loans of 13.5% as at 30 September 2008, as compared to 10.7% as at 31 December 2007. The Bank's capital adequacy ratio as at 30 September 2008 was 22.1% (excluding net income for the relevant period), compared to 20.5% as at 31 December 2007. The minimum capital adequacy ratio imposed by the Central Bank is set at 12.0%. The Bank's shareholders' equity increased by 31.1% to LBP 1,510,495 million (USD 1,002 million) as at 30 September 2008 from LBP 1,151,959 million (USD 764 million) as at 31 December 2007.

Net Income

The Bank's net income after taxes increased by 30.5% to LBP 119,179 million (USD 79.1 million) for the nine-month period ended 30 September 2008, as compared to LBP 91,355 million (USD 60.6 million) for the same period in 2007, primarily reflecting the increase of 25.8% in total operating income, which more than offset the increase of 24.5% in total operating expenses.

The Bank has a high level of nominal liquidity, with cash, placements with the Central Bank, interbank deposits and investments in Lebanese treasury bills and other marketable securities representing 71.8% of total assets as at 31 December 2007 and 73.7% as at 30 September 2008. As at and for the year ended 31 December 2007, the Bank's capital adequacy ratio was 20.54% (excluding net income for 2007), its return on average assets was 1.12% and its return on average equity was 13.41%. As at and for the nine-month period ended 30 September 2008, the Bank's capital adequacy ratio was 22.08% (excluding net income for the nine-month period ended 30 September 2008), its return on average assets was 1.04% and its return on average equity was 11.94%.

Earnings per Common Share were LBP 231.74 (USD 0.154) for the nine-month period ended 30 September 2008, as compared to LBP 170.95 (USD 0.113) for the nine-month period ended 30 September 2007, reflecting an increase of 35.6 %. Earnings per Priority Share were LBP 267.74 (USD 0.178) for the nine-month period ended 30 September 2008, as compared to LBP 206.95 (USD 0.137) for the nine-month period ended 30 September 2007, reflecting an increase of 29.4%.

Net Operating Income

The Bank's net operating income (before net provisions for doubtful loans) increased by 25.8% to LBP 347,345 million (USD 230 million) for the nine-month period ended 30 September 2008, from LBP 276,129 million (USD 183 million) for the same period in 2007. This increase was due to the increase by 31.7% in net commissions received from LBP 61,264 million (USD 40.6 million) for the nine-month period ended 30 September 2007 to LBP 80,691 million (USD 53.5 million) for the nine-month period ended 30 September 2008, as well as the increase by 20.1% in net interest income from LBP 209,223 million (USD 138.8 million) for the nine-month period ended 30 September 2007 to LBP 251,361 million (USD 166.7 million) for the nine-month period ended 30 September 2008.

Net Interest Income

The Bank's net interest income (before net provisions for doubtful loans) increased by 20.1% to LBP 251,361 million (USD 167 million) for the nine-month period ended 30 September 2008, as compared to LBP 209,223 million (USD 139 million) for the same period in 2007. The Bank's net interest income (after net provisions for doubtful loans) increased by 20.2% to LBP 234,611 million (USD 156 million) for the nine-month period ended 30 September 2008, as compared to LBP 195,151 million (USD 129 million) for the same period in 2007. The increases in net interest income, both before and after provisions, principally reflected the 9.6% increase in interest income received by the Bank for the nine-month period ended 30 September 2008, as compared to the same period in 2007, while interest expense increased between the periods by only 5.0%. Despite the increase in net interest income in nominal terms, net interest income as a percentage of total net operating income (in each case, before net provisions for doubtful loans) decreased to 72.4% for the nine-month period ended 30 September 2008, as compared to 75.8% for the same period in 2007, while the share of net commissions and net profits on financial operations increased to 23.2% and 4.8%, respectively, for the nine-month period ended 30 September 2008, as compared to 22.2% and 4.1% for the nine-month period ended 30 September 2007.

Interest and Similar Income

The following table sets forth a breakdown of the Bank's interest and similar income for the nine-month periods ended 30 September 2007 and 2008, respectively:

	For the nine-month periods ended 30 September				
	2007		**2008**		**2007/2008**
	(LBP million) (unaudited)	*(%)*	*(LBP million) (unaudited)*	*(%)*	*(% change)*
Lebanese and other governmental treasury bills and bonds	269,095	38.9	288,197	38.0	7.1
Deposits and similar accounts with banks and financial institutions (including foreign-denominated deposits maintained at the Central Bank)	227,693	32.9	223,348	29.4	(1.9)
Bonds and other financial assets with fixed income	7,443	1.1	16,978	2.2	128.1
Loans to customers	188,141	27.2	230,351	30.4	22.4
Total	**692,372**	**100.0**	**758,874**	**100.0**	**9.6**

Interest and similar income increased by 9.6% to LBP 758,873 million (USD 503 million) for the nine-month period ended 30 September 2008, as compared to LBP 692,372 million (USD 459 million) for the same period in 2007. The increase was primarily a result of a 22.4% increase in interest earned on loans to customers, as well as a 7.1% increase in interest income from Lebanese and other governmental treasury bills and a 128.1% increase in interest income from bonds and fixed income securities, in each case, between the same periods.

As a percentage of total interest and similar income, interest income earned on loans to customers increased to 30.4% of total interest and similar income for the nine-month period ended 30 September 2008, as compared to 27.2% for the same period in 2007. This increase was primarily a result of the increase in loans to customers as a percentage of total interest-earning assets. Interest income from Lebanese and other governmental treasury bills and bonds decreased to 38.0% for the nine-month period ended 30 September 2008, as compared to 38.9% for the same period in 2007.

Interest on bonds and other financial instruments with fixed income increased to 2.2% of total interest income for the nine-month period ended 30 September 2008, as compared to 1.1% for the same period in 2007, primarily as a result of the increase in the share of bonds and other financial instruments out of total interest-earning assets to 1.8% for the nine-month period ended 30 September 2008 from 0.8% for the same period in 2007.

Interest income from deposits in banks and financial institutions (including foreign currency-denominated deposits maintained at the Central Bank) decreased by 1.9% for the nine-month period ended 30 September 2008, as compared to the same period in 2007, to represent 29.4% of total interest and similar income for the nine-month period ended 30 September 2008, as compared to 32.9% for the same period in 2007. These decreases were primarily due to the decrease in the average return on placements with banks and financial institutions.

The following table sets forth a breakdown of the Bank's average interest-earning assets for the nine-month periods ended 30 September 2007 and 2008, respectively (where the average balances are calculated by adding the balances as at the beginning and end of the relevant period and dividing by two):

	As at 30 September				
	2007		2008		2007/2008
	(LBP million) (unaudited)	*(%)*	*(LBP million) (unaudited)*	*(%)*	*(% change)*
Average interest-earning assets					
Cash and central bank deposits	2,693,301	21.7	3,365,711	23.1	25.0
Interest-bearing deposits with banks and financial institutions (excluding the Central Bank)	2,709,518	21.9	3,021,872	20.7	11.5
Lebanese and other governmental treasury bills and bonds	4,023,583	32.5	4,184,202	28.7	4.0
Bonds and financial assets with fixed income	100,601	0.8	267,104	1.8	164.4
Loans to customers	2,865,309	23.1	3,754,358	25.7	31.0
Total	**12,392,312**	**100.0**	**14,593,247**	**100.0**	**17.8**

Average interest-earning assets increased by 17.8% to LBP 14,593,247 million (USD 9,680 million) for the nine-month period ended 30 September 2008, as compared to LBP 12,392,312 million (USD 8,220 million) for the nine-month period ended 30 September 2007. This increase primarily reflected the overall growth in the Bank's customer deposits and the higher level of international lending activity through the Bank's subsidiaries.

Average loans to customers increased by 31.0% to LBP 3,754,358 million (USD 2,490 million) for the nine-month period ended 30 September 2008, as compared to LBP 2,865,309 million (USD 1,901 million) for the nine-month period ended 30 September 2007. As a result of this increase, loans to customers represented 25.7% of total interest-earning assets for the nine-month period ended 30 September 2008, as compared to 23.1% for the nine-month period ended 30 September 2007. The increase primarily reflected the Bank's increased lending activity both in Lebanon and through its international subsidiaries in line with the Bank's strategy to increase loans as a share of the total balance sheet.

Average Lebanese and other governmental treasury bills and bonds increased by 4.0% to LBP 4,184,202 million (USD 2,776 million) for the nine-month period ended 30 September 2008, as compared to LBP 4,023,583 million (USD 2,669 million) for the nine-month period ended 30 September 2007, while cash and central bank deposits increased by 25.0% to LBP 3,365,711 million (USD 2,233 million) for the nine-month period ended 30 September 2008, as compared to LBP 2,693,301 million (USD 1,787 million) for the nine-month period ended

30 September 2007. This increase in cash and central bank deposits primarily reflected higher investments in LBP-denominated certificates of deposit issued by the Central Bank of Lebanon, which, in turn, resulted from the increased conversions of customer deposits from U.S. Dollars to Lebanese Pounds.

As a result of the relatively lower increase in cash and central bank deposits in nominal terms, the share of average Lebanese and other governmental treasury bills and bonds as a percentage of total average interest-earning assets decreased to 28.4% for the nine-month period ended 30 September 2008, as compared to 28.7% as at 31 December 2007, while average cash and central bank deposits rose to 23.1% of total average interest-earning assets for the nine-month period ended 30 September 2008, as compared to 21.7% for the nine-month period ended 30 September 2007.

Average interest-bearing deposits with banks and financial institutions (excluding the Central Bank) increased by 11.5% to LBP 3,021,872 million (USD 2,005 million) for the nine-month period ended 30 September 2008, as compared to LBP 2,709,518 million (USD 1,797 million) for the nine-month period ended 30 September 2007, while average interest-bearing deposits with banks and financial institutions (excluding the Central Bank) represented 20.7% of total average interest-earning assets for the nine-month period ended 30 September 2008, as compared to 21.9% for the nine-month period ended 30 September 2007.

Average bonds and financial assets with fixed income represented 1.8% of total average interest-earning assets for the nine-month period ended 30 September 2008, as compared to 0.8% for the nine-month period ended 30 September 2007.

Interest and Similar Charges

The following tables set forth, respectively, a breakdown of the Bank's interest and similar charges and a breakdown of the Bank's average interest-bearing liabilities, in each case, for the nine-month periods ended 30 September 2007 and 2008, respectively (where the average balances are calculated by adding the balances as at the beginning and end of the relevant period and dividing by two):

	For the nine-month periods ending 30 September				
	2007		**2008**		**2007/2008**
	(LBP million) (unaudited)	*(%)*	*(LBP million) (unaudited)*	*(%)*	*(% change)*
Interest and similar charges					
Deposits and similar accounts from banks and financial institutions	40,067	8.3	46,010	9.0	14.8
Deposits from customers and other credit balances including related parties	425,841	88.1	428,403	84.4	0.6
Certificates of deposits	5,822	1.2	5,830	1.2	0.1
Index and equity linked notes	6,903	1.4	6,792	1.4	(1.6)
Subordinated loans	4,515	1.0	20,477	4.0	353.5
Total	**483,148**	**100.0**	**507,512**	**100.0**	**5.0**

	For the nine-month periods ending 30 September				
	2007		**2008**		**2007/2008**
	(LBP million) (unaudited)	*(%)*	*(LBP million) (unaudited)*	*(%)*	*(% change)*
Average interest-bearing liabilities					
Deposits and similar accounts from banks and financial institutions	943,276	8.3	1,170,122	8.8	24.0
Deposits from customers including related parties	10,045,542	88.8	11,524,889	86.8	14.7
Certificates of deposits	120,067	1.1	120,188	0.9	0.1
Index and equity linked notes	150,899	1.3	147,566	1.1	(2.0)
Subordinated loans	47,597	0.4	315,074	2.4	556.3
Total	**11,307,381**	**100.0**	**13,277,839**	**100.0**	**17.4**

Interest and similar charges increased by 5.0% to LBP 507,512 million (USD 337 million) for the nine-month period ended 30 September in 2008, as compared to LBP 483,148 million (USD 320 million) for the same period of 2007. This increase was primarily a result of a 17.4% period-on-period increase in the Bank's average interest-bearing liabilities, partially offset by the decrease in the average cost of funds from 5.7% for the nine-month period ended 30 September 2007 to 5.1% for the same period in 2008.

Interest on customer deposits constituted 84.4% of total interest and similar charges for the nine-month period ended 30 September 2008, as compared to 88.1% for the same period in 2007. In nominal terms, interest paid on customer deposits increased by 0.6% to LBP 428,403 million (USD 284 million) for the nine-month period ended 30 September 2008, from LBP 425,841 million (USD 282 million) for the same period in 2007. The increase in 2008, as compared to 2007, reflected principally a 14.7% increase in the average amount of customer deposits over the period.

Net Provisions for Doubtful Loans

Net provisions for doubtful loans increased by 19.0% to LBP 16,750 million (USD 11 million) for the nine-month period ended 30 September 2008, as compared to LBP 14,073 million (USD 9 million) for the same period in 2007. This increase in net provisions reflected additional provisions for doubtful loans of LBP 20,827 million (USD 14 million) for the nine-month period ended 30 September 2008, partially offset by the write-back of LBP 4,076 million (USD 2.7 million) in provisions for doubtful loans no longer required, as compared to additional provisions for doubtful loans of LBP 19,710 million (USD 13 million) for the nine-month period ended 30 September 2007, partially offset by the write-back of LBP 5,637 million (USD 3.7 million) in provisions for doubtful loans no longer required. Non-performing loans were covered by specific and general provisions and reserved interest at the rate of 110.82% as at 30 September 2008, as compared to 105.10% as at 30 September 2007. The improvement in coverage ratios is due to the increase in provision levels coupled with the increasing quality of the loan portfolio.

Net Non-Interest Income

The following table sets forth a breakdown of the Bank's net non-interest income for the nine-month periods ended 30 September 2007 and 2008, respectively:

	For the nine-month periods ended 30 September				
	2007		**2008**		**2007/2008**
	(LBP million) (unaudited)	*(%)*	*(LBP million) (unaudited)*	*(%)*	*(% change)*
Net commissions	61,264	91.6	80,691	84.1	31.7
Dividends received	—	—	—	—	—
Net income from financial operations	11,158	16.6	16,722	17.4	49.9
Net other income	(5,517)	(8.2)	(1,429)	(1.5)	(74.1)
Total	**66,905**	**100.0**	**95,984**	**100.0**	**43.5**

Net non-interest income increased by 43.5% to LBP 95,984 million (USD 64 million) for the nine-month period ended 30 September 2008, as compared to LBP 66,905 million (USD 44 million) for the same period in 2007. This increase was largely attributable to higher commissions on letters of credit, letters of guarantee and loans and retail products, as well as an increase in net income from financial operations.

Operating Expenses

The Bank incurred total operating expenses of LBP 183,213 million (USD 122 million) for the nine- month period ended 30 September 2008, as compared to LBP 147,160 million (USD 97,619 thousand) for the same period in 2007, reflecting a 24.5% increase.

The following table sets forth a breakdown of the Bank's operating expenses for the nine-month periods ended 30 September 2007 and 2008, respectively:

	For the nine-month periods ended 30 September				
	2007		2008		2007/2008
	(LBP million) (unaudited)	*(%)*	*(LBP million) (unaudited)*	*(%)*	*(% change)*
Salary expenses and employee benefits	72,917	49.6	91,590	50.0	25.6
General operating expenses	60,072	40.8	76,978	42.0	28.1
Depreciation and amortisation	14,171	9.6	14,645	8.0	3.3
Total	**147,160**	**100.0**	**183,213**	**100.0**	**24.5**

The increase in total operating expenses for the nine-month period ended 30 September 2008, as compared to the same period in 2007, was primarily attributable to the 28.1% increase in general operating expenses and the 25.6% increase in staff expenses and employee benefits, in each case, between the same periods. Salary expenses and employee benefits represented 50.0% and 49.6% of total operating expenses for the nine-month periods ended 30 September 2008 and 2007, respectively, while general operating expenses grew as a percentage of total operating expenses to 42.0% for the period ended 30 September 2008, as compared to 40.8% for the same period in 2007.

The table below shows the principal components of general operating expenses for the nine-month periods ended 30 September 2007 and 2008, respectively:

	For the nine-month periods ended 30 September		
	2007	2008	2007/2008
	(LBP million) (unaudited)		*(% change)*
5% tax on interest	2,518	3,030	20.3
Taxes and similar charges	2,859	4,884	70.8
Insurance of deposits	3,643	4,016	10.2
Rent of bank premises	3,684	4,663	26.6
Professional fees	3,853	6,456	67.6
Telecommunications and postage expenses.	5,856	6,910	18.0
Board of directors remuneration	610	650	6.5
Repairs and maintenance	7,132	10,249	43.7
Electricity and oil	2,817	3,882	37.8
Travelling and representation	2,575	2,939	14.1
Insurance	180	595	231.2
Publicity	6,077	6,482	6.7
Subscriptions	1,980	2,294	15.8
Bonuses	6,711	8,791	31.0
Legal charges	1,545	1,862	20.5
Guarding fees	729	886	21.5
Printings and stationery	2,322	2,576	10.9
Management fees	3,123	4,062	30.1
Others	1,857	1,723	-7.2
Total	**60,072**	**76,949**	**28.1**

Years ended 31 December 2005, 2006 and 2007

Overview

The following tables set forth summary information relating to the Bank's consolidated financial condition and results of operations as at and for the years ended 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005	**2006**	**2007**		**2005/2006**	**2006/2007**
	(LBP million)		*(LBP million)*	*(USD thousand)*	*(% change)*	
Balance sheet data						
Net loans to customers	2,243,108	2,637,722	3,366,013	2,232,844	17.6	27.6
Total assets	11,344,913	12,346,758	14,295,902	9,483,185	8.8	15.8
Total customer deposits	8,510,975	9,461,489	10,931,048	7,251,110	11.2	15.5
Shareholders' equity	1,043,842	1,086,082	1,151,959	764,152	4.0	6.1

	For the years ended 31 December					
	2005	**2006**	**2007**		**2005/2006**	**2006/2007**
	(LBP million)		*(LBP million)*	*(USD thousand)*	*(% change)*	
Income statement data						
Net interest income	178,025	226,923	266,825	176,998	27.5	17.6
Net non-interest income	123,032	98,450	121,112	80,339	(20.0)	23.0
Staff expenses	(72,819)	(81,978)	(98,366)	(65,251)	12.6	20.0
Other operating expenses[(1)]	(76,374)	(86,754)	(99,718)	(66,148)	13.6	14.9
Net income	104,623	118,687	149,518	99,183	13.4	26.0

Note:
(1) Includes general expenses and depreciation.

The Bank ranked third in the Lebanese banking sector in terms of net profits, total assets, customer deposits and customer loans and fourth in terms of shareholders' equity as at 31 December 2007, 2006 and 2005.

As at 31 December 2007, the Bank had total assets of LBP 14,295,902 million (USD 9,483 million), as compared to LBP 12,346,758 million (USD 8,190 million) as at 31 December 2006 and LBP 11,344,913 million (USD 7,526 million) as at 31 December 2005, reflecting increases of 15.8% and 8.8%, respectively. This asset growth in 2006 and in 2007 was primarily a result of year-on-year increases of 11.2% and 15.5%, respectively, in customer deposits, which led to corresponding year-on-year increases in loans to customers. Specifically, total loans to customers were LBP 3,366,013 million (USD 2,233 million) as at 31 December 2007, as compared to LBP 2,637,722 million (USD 1,750 million) as at 31 December 2006 and LBP 2,243,108 million (USD 1,488 million) as at 31 December 2005, reflecting year-on-year increases of 27.6% and 17.6%, respectively. Furthermore, according to Bankdata, the Bank had a market share of total banking sector assets of 9.4% as at 31 December 2007, 9.3% as at 31 December 2006 and 9.7% as at 31 December 2005, as well as a market share of total banking sector customer deposits of 9.0%, 9.0% and 8.9% and a share of total banking sector net customers' loans of 9.5%, 9.7% and 9.5%, in each case as at year-end 2005, 2006 and 2007, respectively. The Bank's capital adequacy ratio, as at 31 December 2007, was 20.54%, compared to 20.17% as at 31 December 2006 and 25.04% as at 31 December 2005. The minimum capital adequacy ratio imposed by the Central Bank is set at 12.0%. As at 31 December 2007, the Bank's shareholders equity were LBP 1,151,959 million (USD 764 million), as compared to LBP 1,086,082 million (USD 720 million) as at 31 December 2006 and LBP 1,043,842 million (USD 692 million) as at 31 December 2005, reflecting increases of 6.1% and 4.0%, respectively.

These improvements in the Bank's results for 2007, as compared to 2006 and 2005, were achieved primarily as a result of improved interest margins, the higher level of loans to customers as a percentage of total interest-earning assets and a reduced cost-to-income ratio, as well as the overall increase in the size of the Bank's balance sheet.

Net Income

In 2007, the Bank maintained its position for the fifth consecutive year as the third most profitable bank in Lebanon, with net income after taxes of LBP 149,518 million (USD 99 million), as compared to LBP 118,687 million (USD 79 million) in 2006, reflecting an increase of 26.0%. Net income for 2006 had increased by 13.4% from LBP 104,623 million (USD 69 million) in 2005.

In 2007, the Bank realised a return on average equity of 13.41% and a return on average assets of 1.12%, as compared to 11.18% and 1.00%, respectively, in 2006 and 13.49% and 0.96%, respectively, in 2005. The improvements in the Bank's return ratios in 2007, as compared to 2006, were primarily attributable to the year-on-year increase in the Bank's net income by 26.0%, relative to the year-on-year increases in the Bank's total assets by 15.8% and shareholders' equity by 6.1%. The lower return on average equity in 2006, as compared to 2005, largely reflected the issuance of the Priority Shares on 20 December 2005 and the calculation of the return ratio in 2005 on the basis of the weighted number of Priority Shares in issue for the last 10 days of 2005, while the return ratio in 2006 was calculated using total equity outstanding, including the full number of Priority Shares.

Earnings per Common Share increased by 31.2% to LBP 278.73 (USD 0.184) for the year ended 31 December 2007, as compared to LBP 212.51 (USD 0.141) for the same period in 2006, after having decreased by 44.7% from LBP 384.35 (USD 0.255) in 2005. The increase in earnings per Common Share in 2007, as compared to 2006, primarily reflected the corresponding year-on-year increase in net income by 26.0%. The decrease in earnings per Common Share from 2005 to 2006 was primarily a result of the dilution effect following the issuance of the Priority Shares evidencing the capital increase that took place on 20 December 2005. Earnings per Priority Share increased by 25.4% to LBP 326.73 (USD 0.217) for the year ended 31 December 2007, as compared to LBP 260.51 (USD 0.173) for the same period in 2006. Earnings per Priority Share were LBP 432.35 (USD 0.287) in 2005, although this level of earnings largely reflected the calculation of the per share earnings on the basis of the weighted number of Priority Shares in issue for only the last 10 days of 2005.

Net Operating Income

The Bank's net operating income (before net provisions for doubtful loans) increased by 19.2% to LBP 387,937 million (USD 257 million) in 2007, from LBP 325,373 million (USD 216 million) in 2006, which in turn had increased by 8.1% from LBP 301,057 million (USD 200 million) in 2005.

Net Interest Income

In 2007, net interest income (before net provisions for doubtful loans) increased by 17.6% to LBP 266,825 million (USD 177 million) from LBP 226,923 million (USD 151 million) in 2006. In 2006, net interest income (before net provisions for doubtful loans) increased by 27.5% from LBP 178,025 million (USD 118 million) in 2005. As a result, net interest income as a percentage of total net operating income (before net provisions for doubtful loans) had increased to 69.7% and 68.8%, respectively, in 2006 and 2007, as compared to 59.1% in 2005. After taking into account provisions for doubtful loans, net interest income increased by 21.3% in 2007, as compared to 2006, and 41.5% in 2006, as compared to 2005. These year-on-year increases in net interest income, both before and after provisions, principally reflected the fact that interest income received by the Bank increased by 14.0% in 2007, as compared to 2006, and 22.7% in 2006, as compared to 2005, while interest expense increased year-on-year by only 12.6% and 21.0%, respectively. The larger year-on-year increases in net interest income after provisions (as compared to the increases in net interest income before provisions) primarily reflected the decreases in such provisions by 53.7% in 2007, as compared to 2006, and by 58.7% in 2006, as compared to 2005. See "*—Net Provisions for Doubtful Loans*".

Interest and Similar Income

The following table sets forth a breakdown of the Bank's interest and similar income for the years ended 31 December 2005, 2006 and 2007, respectively:

	For the years ended 31 December					
	2005	2006	2007		2005/2006	2006/2007
	(LBP million)		*(LBP million)*	*(USD thousand)*	*(% change)*	
Interest and similar income						
Lebanese and other governmental treasury bills and bonds	240,972	321,600	360,924	239,419	33.5	12.2
Deposits and similar accounts with banks and financial institutions	232,796	292,849	309,254	205,144	25.8	5.6
Bonds and other financial assets with fixed income	20,806	6,267	10,032	6,655	(69.9)	60.1
Loans to customers	166,430	190,139	242,220	160,677	14.3	27.4
Loans to related parties	—	333	2,257	1,497	—	577.8
Total	**661,004**	**811,188**	**924,687**	**613,392**	**22.7**	**14.0**

Interest and similar income increased by 14.0% to LBP 924,687 million (USD 613 million) in 2007, from LBP 811,188 million (USD 538 million) in 2006. Interest and similar income in 2006 had increased by 22.7% from LBP 661,004 million (USD 438 million) in 2005. The increase in interest and similar income in 2007, as compared to 2006, was primarily a result of an increase of 27.4% in interest earned on loans to customers and a 12.2% increase in interest income from Lebanese and other governmental treasury bills. The increase in interest and similar income in 2006, as compared to 2005, was primary a result of an increase of 33.5% in interest income from Lebanese and other governmental treasury bills, as well as an increase of 25.8% in interest income from deposits and similar accounts with banks and financial institutions and an increase of 14.3% in interest on loans to customers.

As a percentage of total interest income, interest income from Lebanese and other governmental treasury bills and bonds decreased to 39.0% in 2007, as compared to 39.6% in 2006, after having increased from 36.5% of total interest income in 2005. This higher share of total interest income in 2006 was due mainly to the increase in the Bank's holdings of these securities as at 31 December 2006, as compared to 31 December 2005. Interest income from deposits and similar accounts with bank and financial institutions, as a percentage of total interest income, remained relatively stable in 2007 as the Bank's holdings of Lebanese government securities increased by only 2.2% as at 31 December 2007, as compared to 31 December 2006, in line with the Bank's strategy to reduce relative exposure to the Lebanese Government.

Interest income earned on loans to customers increased to 26.4% of total interest income in 2007, as compared to 23.5% in 2006, after having decreased from 25.2% of total interest income in 2005. The increase in the share of interest income from loans to customers in 2007, as compared to 2006, was primarily a result of an increase of the share of loans to customers as a percentage of total interest-earning assets, coupled with the year-on-year increase in interest rates. The decrease in the share of interest income from loans to customers in 2006, as compared to 2005, was primarily a result of the lower increase in year-on-year interest rates applicable to loans to customers, as compared to rates charged on other interest-earning assets.

Interest on bonds and other financial instruments with fixed income was 1.1% of total interest income for the year ended 31 December 2007, as compared to 0.9% for 2006 and 3.1% for 2005. The higher share of total interest income represented by these fixed income instruments in 2007, as compared to 2006, primarily reflected the improvement in the overall yield on the portfolio as a result of the replacement of lower-yielding financial instruments with higher-yielding instruments, as the average amount of financial instruments with fixed income held by the Bank decreased by 16.1% in 2007, as compared to 2006. The decrease in the share of total interest income represented by interest on bonds and other financial instruments in 2006, as compared to 2005, principally resulted from the decrease by 51.2% in the average amount of such instruments held by the Bank, as well as the lower average rates earned on such instruments, in each case, in 2006, as compared to 2005.

Interest income from deposits in banks and financial institutions (including foreign currency-denominated deposits maintained at the Central Bank) increased by 5.6% in 2007, as compared to 2006, after having increased by 25.8% in 2006, as compared to 2005, and represented 33.4% of total interest income in 2007, as compared to 36.1% in 2006 and 35.2% in 2005. This year-on-year increase in interest income from deposits in banks and financial institutions in 2007, as compared to 2006, reflected primarily the year-on-year increase in the average volume of such deposits, partially offset by the lower year-on-year average rates paid thereon. The year-on-year increase in interest income from deposits in banks and financial institutions in 2006, as compared to 2005, resulted primarily from the increased volume of such deposits between the two years and continued high rates across the period.

The following table sets forth a breakdown of the Bank's average interest-earning assets for 2005, 2006 and 2007, respectively (where the average balances are calculated by adding the balances as at the beginning and end of the relevant period and dividing by two):

	For the years ended 31 December					
	2005	**2006**	**2007**		**2005/2006**	**2006/2007**
	(LBP million)		*(LBP million)*	*(USD million)*	*(% change)*	
Average interest-earning assets						
Cash and central bank deposits	3,134,996	2,613,919	2,559,845	1,698	(16.6)	(2.1)
Interest-bearing deposits with banks and financial institutions	1,874,241	2,231,338	2,805,725	1,861	19.1	25.7
Lebanese and other governmental treasury bills and bonds	3,058,740	3,921,298	4,219,922	2,799	28.2	7.6
Bonds and financial assets with fixed income	254,838	124,400	104,350	69	(51.2)	(16.1)
Loans to customers	2,131,989	2,440,415	3,001,868	1,992	14.5	23.0
Total	**10,454,804**	**11,331,370**	**12,691,709**	**8,419**	**8.4**	**12.01**

Average interest-earning assets increased by 12.0% to LBP 12,691,709 million (USD 8,419 million) in 2007, as compared to LBP 11,331,370 million (USD 7,517 million) in 2006, after having increased by 8.4% in 2006 from LBP 10,454,804 million (USD 6,935 million) in 2005. The year-on-year growth in average interest-earning assets in both 2007 and 2006 primarily reflected the overall growth in the Bank's customer deposits.

Average Lebanese and other governmental treasury bills and bonds increased by 7.6% to LBP 4,219,922 million (USD 2,799 million) in 2007, as compared to LBP 3,921,298 million (USD 2,601 million) in 2006, after having increased by 28.2% in 2006 from LBP 3,058,740 million (USD 2,029 million) in 2005, while average cash and central bank deposits decreased by 2.1% to LBP 2,559,845 million (USD 1,698 million) in 2007, as compared to LBP 2,613,919 million (USD 1,734 million) in 2006, after having decreased by 16.6% in 2006 from LBP 3,134,996 million (USD 2,080 million) in 2005. Average cash and central bank deposits represented 20.2% of total average interest-earning assets in 2007, as compared to 23.1% in 2006 and 30.0% in 2005. In 2007, loans to customers represented 23.7% of total average interest-earning assets and bonds and other financial assets with fixed income represented 0.8% of total average interest-earning assets, as compared to 21.5% and 1.1%, respectively, in 2006 and 20.4% and 2.4%, respectively, in 2005, in line with the Bank's objective to increase loans as a percentage of total assets. Average deposits with banks and financial institutions (excluding the Central Bank) were LBP 2,805,725 million (USD 1,861 million), and represented 22.1 % of average interest-earning assets, in 2007, as compared to LBP 2,231,338 million (USD 1,480 million), and 19.7% of average interest-earning assets, in 2006 and LBP 1,874,241 million (USD 1,243 million), and 17.9% of average interest-earning assets, in 2005.

Interest and Similar Charges

The following tables set forth, respectively, a breakdown of the Bank's interest and similar charges and a breakdown of the Bank's average interest-bearing liabilities, in each case, for 2005, 2006 and 2007, respectively (where the average balances are calculated by adding the balances as at the beginning and end of the relevant period and dividing by two):

	For the years ended 31 December					
	2005	2006	2007		2005/2006	2006/2007
	(LBP million)		*(LBP million)*	*(USD thousand)*	*(% change)*	
Interest and similar charges						
Deposits and similar accounts from banks and financial institutions	28,149	49,092	51,782	34,350	74.4	5.5
Deposits from customers and other credit balances including related parties	422,727	505,872	580,432	385,030	19.7	14.7
Certificates of deposits	7,796	7,785	7,784	5,164	(0.1)	(0.0)
Index, equity and commodity linked notes	6,214	9,024	9,195	6,100	45.2	1.9
Subordinated loans	18,093	12,492	8,669	5,751	(30.9)	(30.6)
Total	**482,979**	**584,265**	**657,862**	**436,395**	**21.0**	**12.6**

	As at 31 December					
	2005	2006	2007		2005/2006	2006/2007
	(LBP million)		*(LBP million)*	*(USD million)*	*(% change)*	
Average interest-bearing liabilities						
Deposits and similar accounts from banks and financial institutions	847,505	957,079	1,011,536	671	12.9	5.7
Deposits from customers including related parties	8,382,663	8,986,232	10,196,268	6,764	7.2	13.5
Certificates of deposits	120,857	120,928	121,047	80	0.1	0.1
Index, equity and commodity linked notes	109,478	149,242	150,649	100	36.3	0.9
Subordinated loans	154,029	100,412	189,490	126	(34.8)	88.7
Total	**9,614,532**	**10,313,893**	**11,668,990**	**7,741**	**7.3**	**13.1**

Interest and similar charges increased by 12.6% to LBP 657,862 million (USD 436 million) in 2007, as compared to LBP 584,265 million (USD 387 million) in 2006, after having increased by 21.0% in 2006 from LBP 482,979 million (USD 283 million) in 2005. This year-on-year increase in interest and similar charges in 2007 was primarily a result of the increase by 13.1% in the average interest-bearing liabilities over the same period, while the average cost of funds remained relatively stable at 5.7% and 5.6% for the years ended 31 December 2006 and 2007, respectively. The increase in interest and similar charges in 2006, as compared to 2005, primarily reflected the increase in the average cost of funds by 64 basis points in 2006 to 5.66%, as compared to 2005, as well as the increase by 7.3% in average interest-bearing liabilities over the same period.

Interest on customer deposits constituted 88.2% of total interest and similar charges in 2007, as compared to 86.6% in 2006 and 87.5% in 2005. In nominal terms, interest paid on customer deposits increased by 14.7% to LBP 580,432 million (USD 385 million) in 2007, from LBP 505,872 million (USD 336 million) in 2006, which in turn reflected a 19.7% increase from LBP 422,727 million (USD 280 million) in 2005. This year-on-year increase in 2007, as compared to 2006, reflected principally a 13.5% increase in the average amount of customer deposits and an increase by six basis points in the average cost of customer deposits from 5.63% in 2006 to 5.69% in 2007. The increase in interest on customer deposits in 2006, as compared to 2005, was primarily the result of the increase by 59 basis points in the average cost of customer deposits from 5.04% in 2005, as well as the increase by 7.2% in the average amount of customer deposits.

Net Provisions for Doubtful Loans

Net provisions for doubtful loans decreased by 58.7% to LBP 4,761 million (USD 3 million) for the year ended 31 December 2007, as compared to LBP 10,282 million (USD 7 million) in 2006, after having decreased by 53.7% in 2006 from LBP 24,869 million (USD 17 million) in 2005. Net provisions for the year ended 31 December 2007 reflected the establishment of additional provisions for doubtful loans of LBP 13,808 million

(USD 9.2 million) in 2007, partially offset by the write-back of LBP 9,047 million (USD 6 million) in provisions for doubtful loans no longer required, as compared to additional provisions for doubtful loans of LBP 18,885 million (USD 13 million) established in 2006, partially offset by the write-back of LBP 8,603 million (USD 5.7 million) in provisions for doubtful loans no longer required in 2006, and additional provisions for doubtful loans of LBP 32,627 million (USD 22 million) established in 2005, partially offset by the write back of LBP 7,758 million (USD 5 million) in provisions for doubtful loans no longer required in 2005. Non-performing loans were covered by specific and general provisions and reserved interest at the rate of 95.23% as at 31 December 2007, as compared to 91.11% as at 31 December 2006 and 83.61% as at 31 December 2005. The improvement in the coverage ratio is due to the increase in provision levels coupled with the increasing quality of the loan portfolio.

Net Non-Interest Income

Net non-interest income increased by 23.0% to LBP 121,112 million (USD 80 million) for the year ended 31 December 2007, as compared to net non-interest income of LBP 98,450 million (USD 65 million) for the year ended 31 December 2006, after having decreased by 20.0% from LBP 123,032 million (USD 82 million) for the year ended 31 December 2005. This year-on-year increase in net non-interest income in 2007 was largely attributable to higher commissions on letters of credit and letters of guarantee, loans and retail products. This year-on-year decrease in net non-interest income in 2006 was primarily attributable to the corresponding year-on-year decrease by 51.2% in net income from financial operations largely due to the July War, partially offset by the increase by 10.6% in net commissions over the same period.

The following table sets forth a breakdown of the Bank's net non-interest income for the years ended 31 December 2005, 2006 and 2007, respectively:

	For the years ended 31 December					
	2005	**2006**	**2007**		**2005/2006**	**2006/2007**
	(LBP million)		*(LBP million)*	*(USD thousand)*	*(% change)*	
Net commissions	71,786	79,393	93,029	61,711	10.6	17.2
Net income from financial operations	52,952	25,848	29,380	19,489	(51.2)	13.7
Other income	(1,706)	(6,791)	(1,297)	(860)	(298.1)	80.9
Total	**123,032**	**98,450**	**121,112**	**80,340**	**(20.0)**	**23.0**

Net commissions were LBP 93,029 million (USD 62 million) for the year ended 31 December 2007, as compared to LBP 79,393 million (USD 53 million) for the year ended 31 December 2006 and LBP 71,786 million (USD 48 million) for the year ended 31 December 2005, reflecting year-on-year increases of 17.2% and 10.6% in 2007 and 2006, respectively. This year-on-year increase in 2007 was primarily attributable to the increase in commissions on trade finance activities, which grew by 34.0 % to LBP 44,148 million (USD 29 million), and 36.5% of total net commissions, in 2007 from LBP 32,948 million (USD 22 million), and 33.5% of total net commissions, in 2006. Portfolio commissions and commissions related to traditional banking activities also increased in 2007, as compared to 2006, by 109.1% and 31.7%, respectively. Net commissions represented 76.8% of total non-interest income and 24.0% of total operating income for the year ended 31 December 2007, as compared to 80.6% and 24.4%, respectively, for the year ended 31 December 2006, and 58.3% and 23.8%, respectively, for the year ended 31 December 2005. The 10.6% year-on-year increase in net commissions in 2006, as compared to 2005, was largely attributable to profits received from Islamic products, which grew by 105.5% over the period, partially offset by the decrease by 5.0% in commissions on trade finance activities primarily as a result of the blockade imposed on Lebanese transportation facilities during the July War.

Net income from financial operations was LBP 29,380 million (USD 20 million), and represented 24.3% of total non-interest income and 7.6% of total operating income, for the year ended 31 December 2007, as compared to LBP 25,848 million (USD 17 million), and 26.3% of total non-interest income and 7.9% of total operating income, for the year ended 31 December 2006 and LBP 52,952 million (USD 35 million), and 43.0% of total non-interest income and 18.0% of total operating income, for the year ended 31 December 2005. The lower levels of net financial income in 2007 and 2006, as compared to 2005, primarily resulted from decreases in both prices of Lebanese financial instruments (including both Eurobonds and equities) and trading volumes.

Operating Expenses

The Bank incurred total operating expenses of LBP 198,084 million (USD 131 million) for the year ended 31 December 2007, as compared to LBP 168,732 million (USD 112 million) for the year ended 31 December 2006, reflecting a 17.4% year-on-year increase. Total operating expenses for the year 2006 had increased by 13.1% from LBP 149,193 million (USD 99 million) for the year ended 31 December 2005.

The following table sets forth a breakdown of the Bank's operating expenses for the years ended 31 December 2005, 2006 and 2007, respectively:

	For the years ended 31 December					
	2005	**2006**	**2007**		**2005/2006**	**2006/2007**
	(LBP million)		*(LBP million)*	*(USD thousand)*	*(% change)*	
Salary expenses and employee benefits	72,819	81,978	98,366	65,251	12.6	20.0
General operating expenses	58,902	68,791	81,182	53,852	16.8	18.0
Depreciation and amortisation	17,472	17,963	18,536	12,296	2.8	3.2
Total	**149,193**	**168,732**	**198,084**	**131,399**	**13.1**	**17.4**

The increase in total operating expenses for the year ended 31 December 2007, as compared to 2006, was primarily attributable to the 20.0% year-on-year increase in salary expenses and employee benefits and the 18.0% year-on-year increase in general operating expenses. Salary expenses and employee benefits grew as a percentage of total operating expenses to 49.7% for the year ended 31 December 2007 from 48.6% for the year ended 31 December 2006, while general operating expenses as a percentage of total operating expenses were relatively stable for the years ended 31 December 2007 and 2006.

The increase in total operating expenses for the year ended 31 December 2006, as compared to 2005, was primarily attributable to the 16.8% year-on-year increase in general operating expenses and the 12.6% year-on-year increase in salary expenses and employee benefits. Salary expenses and employee benefits, as a percentage of total operating expenses, were relatively stable in 2006 and 2005 at 48.6% and 48.8%, respectively, although general operating expenses grew as a percentage of total operating expenses to 40.8% for the year ended 31 December 2006 from 39.5% for the year ended 31 December 2005.

Financial Condition

As at 30 September 2008, the Bank's total assets were LBP 16,372,586 million (USD 10,860 million), reflecting a 14.5% increase as compared to total assets of LBP 14,295,902 million (USD 9,483 million) as at 31 December 2007, which were 15.8% higher than total assets of LBP 12,346,758 million (USD 8,190 million) as at 31 December 2006, which were, in turn, 8.8% higher than total assets of LBP 11,344,913 million (USD 7,526 million) as at 31 December 2005. These increases in total assets as at 30 September 2008, as compared to 31 December 2007, and as at 31 December 2007, as compared to 31 December 2006, primarily reflected increases in placements with banks and financial institutions from LBP 2,368,851 million (USD 1,571 million) as at 31 December 2006 to LBP 3,242,599 million (USD 2,151 million) as at 31 December 2007 and to LBP 2,801,146 (USD 1,858 million) as at 30 September 2008 and in loans and advances to customers from LBP 2,637,722 million (USD 1,750 million) as at 31 December 2006 to LBP 3,366,013 million (USD 2,233 million) as at 31 December 2007 and to LBP 4,142,705 million (USD 2,748 million) as at 30 September 2008. In addition, shares, securities and financial assets with variable income increased from LBP 38,648 million (USD 26 million) as at 31 December 2006 to LBP 117,867 million (USD 78 million) as at 31 December 2007 and to LBP 114,315 million (USD 76 million) as at 30 September 2008 and tangible fixed assets increased from LBP 189,398 million (USD 125 million) as at 31 December 2006 to LBP 243,737 million (USD 162 million) as at 31 December 2007 and to LBP 259,058 million (USD 172 million) as at 30 September 2008. Bonds and other financial assets with fixed income increased from LBP 86,383 million (USD 57 million) as at 31 December 2006 to LBP 122,316 million (USD 81 million) as at 31 December 2007 and to LBP 411,892 million (USD 272 million) as at 30 September 2008 and bank acceptances decreased from LBP 284,106 million (USD 188 million) as at 31 December 2006 to LBP 265,415 million (USD 176 million) as at 31 December 2007 and increased again to LBP 325,004 million (USD 216 million) as at 30 September 2008.

The increase in total assets as at 31 December 2006, as compared to 31 December 2005, primarily reflected increases in Lebanese treasury bills and other governmental bills from LBP 3,667,788 million (USD 2,433 million) as at 31 December 2005 to LBP 4,174,808 million (USD 2,769 million) as at 31 December 2006, loans and advances to customers from LBP 2,243,108 million (USD 1,488 million) as at 31 December 2005 to LBP 2,637,722 million (USD 1,755 million) as at 31 December 2006 and bank acceptances from LBP 205,274 million (USD 136 million) as at 31 December 2005 to LBP 284,106 million (USD 188 million) as at 31 December 2006. In addition, cash and central bank deposits decreased from LBP 2,720,961 million (USD 1,805 million) as at 31 December 2005 to LBP 2,506,877 million (USD 1,662 million) as at 31 December 2006 and bonds and financial instruments with fixed income decreased from LBP 162,417 million (USD 107 million) as at 31 December 2005 to LBP 86,383 million (USD 57 million) as at 31 December 2006. Shares, securities and financial instruments with variable income increased from LBP 35,818 million (USD 24 million) as at 31 December 2005 to LBP 38,648 million (USD 26 million) as at 31 December 2006 and tangible fixed assets increased from LBP 180,026 million (USD 119 million) as at 31 December 2005 to LBP 189,398 million (USD 125 million) as at 31 December 2006.

As at 30 September 2008, 31 December 2007, 2006 and 2005, 69.8%, 71.6%, 74.0% and 76.2%, respectively, of total assets were comprised of cash and central bank deposits, placements with banks, Lebanese and other governmental treasury bills and bonds and other fixed income securities. Cash and deposits at the Central Bank represented 25.2% of total assets as at 30 September 2008, 18.3% of total assets as at 31 December 2007, 20.3% of total assets as at 31 December 2006 and 24.0% of total assets as at 31 December 2005. Placements with prime banks and financial institutions located mainly in Organisation for Economic Co-operation and Development ("**OECD**") countries represented 17.1% of total assets as at 30 September 2008, as compared to 22.7% of total assets as at 31 December 2007, 19.2% as at 31 December 2006 and 18.1% as at 31 December 2005, and Lebanese and other governmental treasury bills bonds represented 25.1% of total assets as at 30 September 2008, as compared to 29.8% as at 31 December 2007, 33.8% as at 31 December 2006 and 32.3% as at 31 December 2005. As at 30 September 2008, 49.6% of amounts held at the Central Bank were denominated in foreign currency, as compared to 72.5% as at 31 December 2007, 61.4% as at 31 December 2006 and 49.6% as at 31 December 2005. Placements with banks and financial institutions were also denominated primarily in foreign currency, with such placements in foreign currency constituting 98.8%, 98.4%, 99.3% and 97.0% of total placements as at 30 September 2008, 31 December 2007, 2006 and 2005, respectively. Loans and advances to customers comprised 25.3% of total assets as at 30 September 2008, as compared to 23.5% as at 31 December 2007, 21.4% as at 31 December 2006 and 19.7% as at 31 December 2005.

Customer deposits were LBP 12,118,727 million (USD 8,038 million) as at 30 September 2008, as compared to LBP 10,931,048 million (USD 7,251 million) as at 31 December 2007, LBP 9,461,489 million (USD 6,276 million) as at 31 December 2006 and LBP 8,510,975 million (USD 5,646 million) as at 31 December 2005, reflecting increases of 10.9% (during the first nine months), 15.5% and 11.2%, respectively. Average customer deposits were LBP 11,524,888 million (USD 7,645 million) for the nine-month period ended 30 September 2008, and LBP 10,196,268 million (USD 6,764 million), LBP 8,986,232 million (USD 5,961 million) and LBP 8,382,663 million (USD 5,561 million) for the years ended 31 December 2007, 2006 and 2005, respectively.

Shareholders' equity increased from LBP 1,043,842 million (USD 693 million) as at 31 December 2005 to LBP 1,086,032 million (USD 720 million) as at 31 December 2006, to LBP 1,151,959 million (USD 764 million) as at 31 December 2007 and further to LBP 1,506,783 million (USD 1,000 million) as at 30 September 2008, reflecting increases of 4.0%, 6.1% and 30.7%, respectively. These increases primarily resulted from the issuance of the Series 2008 Preferred Shares in the aggregate amount of USD 200 million in August 2008.

Funding and Liquidity

The Bank's sources of funds are comprised of Central Bank loans, deposits from banks and financial institutions, customer deposits, liabilities under financial instruments, subordinated loans and shareholders' equity.

The primary source of funds for the banking sector in Lebanon is customer deposits, which represented 81.8% of total funding for the sector as at 31 December 2007 and 81.9% as at 30 September 2008. The Bank's funding objectives are maturity extension, cost effectiveness, growth and stability. To fulfil its objectives, the Bank is concentrating its efforts on generating a higher volume of small deposits through its branch network and its specialised savings programs, and is investigating ways in which it may develop new saving schemes to ensure stable and low-cost funding. See "*Description of the Bank—General Banking Operations—Retail Banking*". In addition, the Bank issues certificates of deposit and 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 31 December 2005, 2006 and 2007 and as at 30 September 2008 for the Bank's Lebanese Pound-based funds and U.S. Dollar-based funds, respectively:

	As at 31 December			As at 30 September
	2005	**2006**	**2007**	**2008**
		(LBP million)		*(LBP million) (unaudited)*
Lebanese Pound-based funds				
Loans from the Central Bank	84,574	34,555	36,535	38,025
Banks and financial institutions	674	31,905	13,741	63,732
Sight deposits	674	1,361	1,464	5,868
Time deposits	—	30,544	12,277	57,864
Total LBP placements from banks	**85,248**	**66,460**	**50,276**	**101,757**
Customer deposits				
Sight deposits	256,262	198,891	174,289	197,595
Time deposits	576,606	465,741	405,082	764,742
Saving deposits	2,139,024	2,059,502	2,159,474	2,808,934
Net creditor accounts/debtor accounts and cash collateral	—	—	—	825
Related party deposits	1,328	2,226	1,260	13,896
Total LBP customer deposits	**2,973,220**	**2,726,360**	**2,740,105**	**3,785,992**
Paid up capital	494,456	494,456	494,456	511,363
Reserves and premiums	178,787	198,192	220,087	256,477
Retained earnings	5,473	18,359	10,673	12,770
Net income for the year[1]	94,521	106,340	124,920	91,048
Foreign currency translation reserve	4,580	11,638	1,116	1,115
Revaluation variance accepted a supplementary capital.	1,978	1,978	1,978	1,978
Treasury shares.	—	(366)	(947)	(1,242)
Cumulative changes in fair value.	6,344	8,791	9,715	13,733
Minority interest	7,142	7,937	8,666	9,209
Total LBP capital funds	**793,281**	**847,325**	**870,664**	896,451
Total LBP funds	**3,851,749**	**3,640,145**	**3,661,045**	**4,784,200**

Note:
(1) Before dividend distributions.

	As at 31 December			As at 30 September
	2005	2006	2007	2008
		(USD thousand)		*(USD thousand) (unaudited)*
U.S. Dollar-based funds				
Loans from central banks	6,628	28,212	16,196	89,151
Banks and financial institutions	498,734	445,102	498,520	560,020
Sight deposits	82,028	99,535	130,406	71,988
Time deposits	416,706	345,567	368,114	488,032
Total foreign currency placements from banks	**505,362**	**473,315**	**514,716**	**649,171**
Customer deposits				
Sight deposits	557,470	588,859	751,605	1,053,627
Time deposits	1,045,559	1,199,496	1,535,062	1,157,646
Saving deposits	2,062,545	2,652,662	3,090,190	3,293,135
Related party deposits	7,896	26,730	56,604	23,112
Total foreign currency customer deposits	**3,673,469**	**4,467,747**	**5,433,461**	**5,527,520**
Certificates of deposit	77,957	77,954	77,921	77,920
IFC loans	14,871	8,156	4,895	3,265
Arab Trade Finance	4,135	2,096	1,986	15,659
Loans from FMO	9,643	7,500	5,357	3,214
GSM Program (The Bank of New York)	14,148	1,926	642	—
Proparco	18,775	17,478	15,196	13,863
OFID	3,182	2,273	1,364	455
European Investment bank	9,773	73,550	73,865	181,270
Govco Incorporated New York.	—	—	45,000	43,393
Agence Française de Développement	—	—	4,893	12,948
Citibank.	—	—	5,000	4,583
Index-linked notes.	49,800	49,780	49,442	49,433
Equity-linked notes.	49,700	49,690	49,410	49,413
Commodity-linked notes	—	6,363	6,367	6,370
Unamortised front end fees and cost of issuance.	(5,942)	(7,464)	(10,110)	(11,355)
Accruals	6,032	7,546	8,920	7,117
Total foreign currency debt	**252,034**	**296,848**	**340,148**	**457,548**
Subordinated notes[1]	102,260	31,731	31,781	31,603
Convertible subordinated notes[1]	—	—	187,884	166,840
Reserves and premiums	116,472	128,398	149,882	365,669
Retained earnings	(509)	308	302	(451)
Net income for the year[2]	5,024	6,003	11,694	13,749
Foreign currency translation reserve	—	—	13,634	13,459
Cumulative changes in fair value.	9,848	(13,958)	(37,121)	(43,037)
Minority interest	32,915	35,167	45,742	55,476
Total foreign currency capital funds[3]	**266,010**	**187,649**	**403,798**	603,308
Total foreign currency funds	**4,696,875**	**5,425,558**	**6,692,123**	**7,237,547**

Notes:

(1) Including accrued interest payable and up-front fees.

(2) Before dividend distributions.

(3) Excluding "Revaluation variance".

Long-Term Funding Sources

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:

Central Bank Soft Loans

The Bank has obtained soft loans from the Central Bank to finance certain of its acquisitions, including the following:

- *Banque de Beyrouth pour le Commerce S.A.L.* ("**BBC**") Merger: Following the merger of BBC into the Bank, the Bank entered into a loan agreement with the Central Bank in the principal amount of LBP 52,000 million (USD 34.5 million) in February 1998. The loan was fully drawn down in May 1998 and matured and was fully repaid on 28 May 2006. The loan bore interest at the rate of 60.0% 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 is collateralised by LBP 56,016 million (USD 37 million) in a nominal amount of two-year Lebanese treasury bills, which are held in the Bank's investment portfolio.

- Wedge Bank Middle East S.A.L. ("**Wedge Bank**") Merger: Following the merger of Wedge Bank into the Bank, the Bank entered into a loan agreement with the Central Bank in the principal amount of LBP 40,000 million (USD 27 million) in November 2001. The loan was fully drawn down and matures in November 2009. The loan bore interest at the rate equal to 60.0% of the notional interest rate on one-year Lebanese treasury bills for the first two years of the loan, while, as at the date of this Prospectus, interest is determined according to the effective yield of one-year Lebanese treasury bills traded in the primary market less 6.3%, provided that the interest does not fall below 60.0% of the notional interest rate on one-year Lebanese treasury bills traded in the international markets. The loan is collateralised by LBP 43,090 million (USD 29 million) in nominal amount of two-year Lebanese treasury bills, which are held in the Bank's investment portfolio.

International Finance Corporation

On 3 December 1999, the Bank entered into a third syndicated loan agreement with the International Finance Corporation ("**IFC**"), pursuant to which the Bank drew down USD 45 million in several instalments up to November 2001, comprised of USD 23 million in loans financed directly by the IFC (the "A" loan) and USD 22 million in loans syndicated by other investors (financial institutions) (the "B" loan). The "A" loan is subject to repayment in 14 equal semi-annual instalments beginning 15 December 2002 (ending on 15 June 2009) and bears interest on its outstanding principal balance at the rate of the London Interbank Offered Rate ("**LIBOR**") plus 2.5% per annum; all principal amortisations due to the date of this Prospectus 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 instalment having been paid on 15 June 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 USD 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

The Arab Trade Finance Program ("**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.

On 16 March 2008, the Bank renewed a USD 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 30 September 2008, the Bank had drawn down USD 15.7 million under this credit facility. This line with Arab Trade Finance program is expected to be renewed in March 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 instalments, as follows:

- in December 2000, the Bank drew down USD 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 USD 3,500,000, which also bears interest at a 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 USD 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 instalments as, follows:

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

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

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

- on 15 April 2005, the Bank drew down a further amount of USD 3,000,000, which bears interest at a rate equal to six-month LIBOR plus 2.9% with semi-annual interest (starting 30 April 2005) and capital repayments (starting 31 October 2007 and ending 30 April 2015 of USD 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 SMEs, which suffered from the July War. The Bank is allowed to draw down the loan in up to five draw-downs through the end of March 2009. As at the date of this Prospectus, two instalments 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 a rate equal to the Euro Interbank Offered Rate ("**EURIBOR**") minus 25 basis points and is repayable in April 2017; and

- 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.

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

The U.S. Department of Agriculture ("**USDA**") authorised 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 USD 10 million per year in GSM-102 credits for Lebanon.

On 28 March 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 USD 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 Commodity Credit Corporation, which issues the credit guarantees. The GSM-102 program covers credit terms of up to three years. 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 favour of the U.S. supplier. Each loan under the facility bore interest at the annual rate of six-month LIBOR plus 0.2%, which is payable semi-annually. Repayments are made in six equal semi-annual instalments 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 OFID, pursuant to which the Bank was permitted to borrow up to USD 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 instalments, 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 European Investment Bank ("**EIB**") granted the Republic 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, modernisation and rehabilitation of the industrial plants and financing for several other sectors of the economy. All APEX Global loans are managed by the Central Bank. 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 the Central Bank dated 19 November 2003, 19 February 2004 and 8 October 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 22 December 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 22 January 2006. The loan bears interest at the annual rate of 6.1%, which is payable semi-annually, and is repayable in annual instalments of principal from 23 January 2009 through 23 January 2016.

On 27 April 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 20 December 2007, the Bank signed a second finance contract with the EIB, without a state guarantee, in the amount of USD 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 10 January 2008. Each loan bears interest at the annual rate of 5.975% and is repayable in semi-annual instalments of principal from 10 January 2012 through 10 January 2018 (in the case of the 2006 loan) and 10 July 2012 through 10 July 2018 (in the case of the 2007 loan).

Netherlands Finance Development Company

In 2000, the Bank entered into a ten-year loan agreement with the Netherlands Finance Development Company ("**FMO**"), pursuant to which the Bank was permitted to borrow up to USD 15 million to finance medium and small scale enterprises. The loan was fully disbursed in November 2000 and is repayable in instalments 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 the Overseas Private Investment Corporation

In January 2007, the Bank signed an agreement with Citibank for a loan in the amount of USD 50 million in two tranches of USD 45 million ("**Tranche A**") and USD 5 million ("**Tranche B**"), each guaranteed by the Overseas Private Investment Corporation. The purpose of this loan is to provide financing to SMEs, housing loans in amounts up to USD 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 Prospectus, the Tranche A loan bears interest at a fixed annual rate of 7.100% and the Tranche B loan bears interest at a fixed annual rate of 8.525%. The Tranche A loan is repayable in 28 consecutive semi-annual instalments commencing on 22 July 2008 through its final maturity on 23 January 2022, while the Tranche B loan is repayable in 12 consecutive semi-annual instalments commencing on 22 July 2008 through its final maturity on 22 January 2014.

Certificates of Deposit

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

Index-Linked Notes

In October 2004, the Bank raised USD 50 million through the issuance of index-linked notes due October 2009. The index-linked notes bear interest at an annual rate of 7.0%, 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 95.0% of the principal amount is guaranteed at maturity, while holders also have the right to receive an unlimited additional potential return representing 50.0% of the positive performance of a portfolio of six international market indices.

Equity-Linked Notes

In August 2005, the Bank raised an additional USD 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 8.0% payable semi-annually. Interest paid on the equity-linked notes is tax exempt, based on Byblos Invest Bank's status as a specialised bank. The repayment of 95.0% 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 USD 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 8.0% payable quarterly, subject to increase to a rate of 16.0% for the third year if the performance of the index of five commodities is positive. The repayment of 95.0% of the principal amount is guaranteed at maturity.

9.0% Subordinated Participating Notes

In July 2002, the Bank issued its subordinated participating notes, in an aggregate principal amount of USD 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 9.0% per annum, payable quarterly, and may bear contingent interest, payable annually, at a rate, not exceeding 6.0% per annum, equivalent to 5.0% of the adjusted annual net income of the Bank.

In May 2006, the Bank commenced an offer to purchase, 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 106.0% 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 7 June 2006 and in accordance with the General Meeting held on 20 April 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 USD 200 million 6.5% subordinated loan, which was financed by the issuance by The Bank of New York, in its fiduciary capacity, of USD 200 million 6.5% convertible fiduciary notes, due 2012 ("**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 USD 2.25 per Common Share. In January 2008, a holder of Fiduciary Notes exercised its right to convert USD 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 (USD 9,622,952) to LBP 508,963,536,000. As at the date of this Prospectus, USD 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.

Capital Expenditure

The following table sets forth the historical capital expenditure of the Bank for the years ended 31 December 2005, 2006 and 2007, respectively:

	For the years ended 31 December		
	2005	2006	2007
		(*LBP million*)	
New buildings	11,595	11,879	47,092
Fixed assets acquired in settlement of debt	11,544	24,247	19,089
Motor vehicles	644	152	920
Furniture and equipment	7,581	10,880	22,465
Total	**31,364**	**47,158**	**89,566**

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 9,123 million (USD 6 million), exclusive of furniture and fittings. In 2008, the Bank budgeted LBP 12,000 million (USD 8 million) for the acquisition of additional new branch locations; this amount was fully utilized for the purpose during the year.

The following table shows the Bank's estimated capital expenditure requirements for 2009 and 2010:

	For the years ended 31 December[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.

Contractual Obligations, Commitments and Contingencies; Off-balance Sheet Exposure

Commitments and Contingencies

The Bank's commitments and contingent liabilities for the indicated periods, all of which are held off balance sheet, were as follows:

	As at 31 December		
	2005	**2006**	**2007**
		(*LBP million*)	
Commitments given:			
Guarantees	517,440	623,724	767,135
Letters of credit – export	144,686	205,411	392,153
Total commitments given	**662,126**	**829,135**	**1,159,288**
Financing commitments given:			
Letters of credit – import	390,527	541,477	553,901
Acceptances (reflected on balance sheet)	205,274	284,106	265,415
Funds under management and fiduciary accounts	158,948	148,900	177,875

Contingent liabilities arose principally from the Bank's normal banking activities. The Bank gave indemnities and guarantees as a normal part of its operating activities and in relation to capital market transactions. The Bank expects to satisfy any such commitments and contingent liabilities that become payable from its own funds.

Banking Financial Instruments

The Bank uses off-balance sheet financial instruments (derivatives) to meet customers' requirements for proprietary trading and to hedge interest rate risk, foreign exchange risk and other market risks. All hedging transactions are conducted within applicable limits established by the Central Bank and the Bank's own internal limits, which may be more restrictive.

The Bank may enter into forward and cross-currency swap transactions with its customers. These forward and cross-currency swap transactions enable customers to transfer, modify or reduce their foreign exchange risks.

As part of the Bank's risk management policy, the Bank covers these derivative contracts with customers, with opposite forward and cross-currency swap agreements with other financial institutions, which are designed to have substantially similar notional amounts and maturities to the original derivative contracts.

Letters of Credit and Guarantees

As part of its ordinary banking activities, the Bank issues financial and performance guarantees and letters of credit, for which it charges a fee based on the value of the letter of credit or guarantee, as applicable. Guarantees for trade finance are generally for periods not exceeding ten years and letters of credit are generally for periods not exceeding one year. The credit risk and operating risks associated with these products are similar to those arising from other loan products. The Bank follows the same appraisal process, provisioning policy, pricing methodology and minimum collateral requirements for guarantees and letters of credit as for any other loan products, although it may require deposits of varying amounts as additional collateral depending on the results of the credit analysis of the applicant for such products.

Years ended 31 December 2005, 2006 and 2007

The following table presents net cash flows from operating, investing and financing activities for the years ended 31 December 2005, 2006, and 2007.

	For the years ended 31 December			
	2005	**2006**	**2007**	
	(LBP million) (audited)	*(LBP million) (audited)*	*(LBP million) (audited)*	*(USD thousand) (unaudited)*
Cash from operating activities	149,335	2,118,996	961,267	637,656
Cash from investing activities	(129,224)	(1,342,933)	(624,465)	(414,238)
Cash from financing activities	297,708	(200,928)	219,794	145,800
Net effect of foreign exchange rates	(4,194)	8,795	11,791	7,821
Cash and cash equivalents – beginning of the year	1,985,368	2,298,993	2,882,923	1,912,386
Increase in cash and cash equivalents	313,625	583,930	568,387	377,039
Cash and cash equivalents – end of the year	2,298,993	2,882,923	3,451,310	2,289,426

Cash flows from operating activities

Cash flows from operating activities decreased by LBP 1,157,729 million (USD 768 million) in 2007 to LBP 961,267 million (USD 637 million) for the year ended 31 December 2007, as compared to LBP 2,118,996 million (USD 1,406 million) in 2006, after having increased by LBP 1,969,661 million (USD 1,307 million) in 2006 from LBP 149,335 million (USD 99 million) for the year ended 31 December 2005.

The year-on-year decrease in cash flows from operating activities in 2007, as compared to 2006, primarily reflected the increase in operating assets comprised mainly of loans to customers and placements with the Central Bank, particularly reflecting the relative political stability in Lebanon and the surrounding region. The year-on-year increase in cash flows from operating activities in 2006, as compared to 2005, was largely a result of lower investments in operating assets, particularly affected by the July War, as well as the Bank's decision to classify new investments in Eurobonds and Treasury bills as either investment securities available-for-sale or investment securities held-to-maturity, while securities in the Bank's trading portfolio matured without being replaced. This decision to classify new investments in Eurobonds and Treasury bills as investment securities was driven principally by the Bank's determination to mitigate against volatility in the Bank's income statement due to the requirement that the trading portfolio be marked to market.

Cash used in investing activities

Cash flows used in investing activities decreased by LBP 718,468 million (USD 476 million) to LBP 624,465 million (USD 414 million) for the year ended 31 December 2007, as compared to LBP 1,342,933 million (USD 890 million) for the year ended 31 December 2006, after having increased by LBP 1,213,709 million (USD 805 million) from LBP 129,224 million (USD 86 million) for the year ended 31 December 2005.

The year-on-year decrease in cash flows used in investing activities in 2007, as compared to 2006, primarily reflected lower investments in non-trading Lebanese Government securities, as compared to the level of investments in such instruments in 2006. The year-on-year increase in cash flows used in investing activities in 2006, as compared to 2005, primarily reflected the Bank's decision to classify new investments in Lebanese Government Eurobonds and Treasury bills as investment securities available-for-sale or held-to-maturity, rather than include these in the Bank's trading portfolio.

SELECTED STATISTICAL DATA FOR THE BANK

Average Balance Sheets and Interest Rates

The following table shows average balances and interest rates for the assets and liabilities and shareholders' equity of the Bank and its consolidated subsidiaries for each of the years ended 31 December 2005, 2006 and 2007. Average balances have been calculated on the basis of month-end balances.

	2005			2006			2007		
	Average balance	Interest earned	Average rate	Average balance	Interest earned	Average rate	Average balance	Interest earned	Average rate
	(LBP million)		*(%)*	*(LBP million)*		*(%)*	*(LBP million)*		*(%)*
Assets									
Interest-bearing deposits in other banks	4,941,258	232,796	4.7	4,773,897	292,849	6.1	5,280,987	309,254	5.9
Securities	254,838	20,806	8.2	124,400	6,267	5.0	104,350	10,032	9.6
Loans	2,131,989	166,430	7.8	2,440,415	190,472	7.8	3,001,868	244,477	8.1
Treasury bills	3,058,740	240,972	7.9	3,921,298	321,600	8.2	4,219,922	360,924	8.6
Total interest-earning assets	**10,386,825**	**661,004**	**6.4**	**11,260,010**	**811,188**	**7.2**	**12,607,127**	**924,687**	**7.3**
Cash	67,979	0	0.0	71,360	0	0.0	84,583	0	0.0
Premises and equipment	167,465	0	0.0	184,712	0	0.0	216,568	0	0.0
Other non-interest-bearing assets	302,441	0	0.0	329,754	0	0.0	413,054	0	0.0
Total average assets	**10,924,710**	**661,004**	**6.1**	**11,845,836**	**811,188**	**6.8**	**13,321,332**	**924,687**	**6.9**
Liabilities									
Customer deposits	8,382,663	422,727	5.0	8,986,232	505,872	5.6	10,196,269	580,432	5.7
Subordinate loans	154,029	18,093	11.8	100,411	12,492	12.4	189,490	8,669	4.6
Certificates of deposit	120,857	7,796	6.5	120,929	7,785	6.4	121,047	7,784	6.4
Index and equity linked instruments	109,478	6,214	5.7	149,241	9,024	6.1	150,649	9,195	6.1
Interest-bearing deposits due to banks	847,505	28,149	3.3	957,079	49,092	5.1	1,011,536	51,782	5.1
Total interest-bearing liabilities	**9,614,532**	**482,979**	**5.0**	**10,313,892**	**584,265**	**5.7**	**11,668,991**	**657,862**	**5.6**
Other liabilities	426,880	0	0.0	466,982	0	0.0	533,320	0	0.0
Shareholders' equity	883,298	0	0.0	1,064,962	0	0.0	1,119,021	0	0.0
Total average liabilities and equity	**10,924,710**	**482,979**	**4.4**	**11,845,836**	**584,265**	**4.9**	**13,321,332**	**657,862**	**4.9**

Loan Portfolio

As at 31 December 2007, the Bank's total loan portfolio, excluding acceptances and net of loan loss provisions, was LBP 3,366,013 million (USD 2,233 million), as compared to LBP 2,637,722 million (USD 1,750 million) as at 31 December 2006 and LBP 2,243,108 million (USD 1,488 million) as at 31 December 2005, and, as a result, the Bank ranked third among banks operating in Lebanon in terms of loans and advances.

The growth in the loan portfolio as at 31 December 2007, as compared to 31 December 2006 and 2005, primarily reflected an increase in both commercial and retail lending in Lebanon, as well as the Bank's business expansion abroad (mainly in Europe, Syria and Sudan).

Gross non-performing loans, comprised of doubtful and bad loans, represented 4.66% of the Bank's total loan portfolio as at 31 December 2007, as compared to 8.14% as at 31 December 2006, and 10.47% as at 31 December 2005, reflecting improvement in the overall quality of the Bank's loan portfolio. Gross non-performing loans were covered 95.23% by specific and general provisions (excluding general provisions allocated for the retail loan portfolio), as well as reserved interest, as at 31 December 2007, as compared to 91.11%, as at 31 December 2006 and 83.61% as at 31 December 2005. The improvement in coverage ratio is due to the increase in provision levels coupled with the increasing quality of the loan portfolio.

The Bank's loans-to-deposits ratio in all currencies increased to 30.79% as at 31 December 2007, as compared to 27.88% as at 31 December 2006 and 26.36% as at 31 December 2005. The loans-to-deposits ratio in Lebanese Pounds and in foreign currencies also both increased to 14.35% and 36.29%, respectively, as at 31 December 2007, as compared to 12.22% and 34.22%, respectively, as at 31 December 2006, and 10.05% and 35.11%, respectively, as at 31 December 2005.

Distribution of Loans by Type

The following table shows the breakdown of the loan portfolio (before provisions) by type of borrower as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Corporate	1,191,803	47.0	1,296,452	44.4	1,531,994	42.5
International	371,638	14.6	555,637	19.0	795,266	22.0
Middle market[(1)]	271,414	10.7	282,868	9.7	214,755	6.0
Syndicated loans	—	—	36,501	1.2	214,496	5.9
Retail[(2)]	598,072	23.6	651,903	22.3	765,175	21.2
Others	103,988	4.1	99,709	3.4	85,882	2.4
Total	**2,536,915**	**100.0**	**2,923,070**	**100.0**	**3,607,568**	**100.0**

Notes:

(1) Middle market includes customers granted facilities ranging between USD 50,000 and USD 500,000.

(2) Retail (consumer lending) includes residential mortgage loans, car loans, personal loans, revolving credit cards, staff loans, as well as loans granted to SMEs under the Kafalat program.

Loans extended through the Bank's international operations were LBP 795,266 million (USD 528 million) as at 31 December 2007, as compared to LBP 555,637 million (USD 369 million) as at 31 December 2006 and LBP 371,638 million (USD 246 million) as at 31 December 2005. International lending represented 22.0% of the Bank's total loan portfolio as at 31 December 2007, as compared to 19.0% as these year-on-year increases resulted mainly from the increasing business activity of Byblos Bank Syria and Byblos Bank Europe over the period, as well as lending activity for internationally-based clients booked in the Bank's head office in Lebanon. at 31 December 2006 and 14.6% as at 31 December 2005.

Total gross commercial loans increased by 26.9% to LBP 2,756,511 million (USD 1,829 million) as at 31 December 2007, as compared to LBP 2,171,458 million (USD 1,440 million) as at 31 December 2006, after having increased by 15.6% in 2006 from LBP 1,878,185 million (USD 1,246 million) as at 31 December 2005. Commercial loans represented 76.4% of the Bank's total loan portfolio gross as at 31 December 2007, as compared to 74.3% as at 31 December 2006 and 74.0% as at 31 December 2005.

The Bank had retail (consumer) loans of LBP 765,175 million (USD 508 million) outstanding as at 31 December 2007, reflecting an increase of 17.4%, as compared to LBP 651,903 million (USD 432 million) of consumer loans outstanding as at 31 December 2006. In 2006, consumer loans had increased by 9.0% from LBP 598,072 million (USD 397 million) as at 31 December 2005. Consumer lending represented 21.2% of the Bank's total loan portfolio as at 31 December 2007, as compared to 22.3% and 23.6% as at 31 December 2006 and 31 December 2005, respectively, and an estimated average of 19.0% in the Lebanese banking sector as at 31 December 2007.

In 2007, the Bank continued its campaigns to promote retail lending, particularly personal loans, revolving credit cards and auto loans for used cars. In addition, Byblos Bank Syria commenced retail lending activity in 2007. Personal loans increased by 24.4% to LBP 121,693 million (USD 81 million) as at 31 December 2007, as compared to LBP 92,758 million (USD 62 million) as at 31 December 2006, after having increased by 31.2% in 2006 LBP 74,539 million (USD 50 million) as at 31 December 2005. Personal loans represented 15.9% of total retail loans as at 31 December 2007, as compared to 14.2% and 13.4% as at 31 December 2006 and 2005, respectively. The Bank had auto loans for new and used cars of LBP 183,385 million (USD 122 million) as at 31 December 2007, which represented 24.0% of the Bank's total retail loan portfolio, as compared to LBP 142,686 million (USD 94.7 million), and 21.9% of the total retail loan portfolio, as at 31 December 2006 and LBP 125,489 million (USD 83.2 million), and 21.0% of the total retail loan portfolio, as at 31 December 2005, reflecting year-on-year increases of 28.5% and 13.7%, respectively. Outstanding balances of revolving credit cards were LBP 27,929 million (USD 19 million) as at 31 December 2007, reflecting an increase of 52.4% as compared to LBP 18,321 million (USD 12 million) as at 31 December 2006, which, in turn, had increased by 37.1% from LBP 13,364 million (USD 9 million) as at 31 December 2005.

Distribution of Loans by Type of Collateral

The following table shows the distribution of the Bank's loan portfolio (net of provisions) by type of collateral as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		**2006**		**2007**	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Loans against cash collateral and Bank guarantees	134,694	6.0	116,851	4.4	357,807	10.6
Loans against real estate	576,131	25.7	576,870	21.9	637,859	19.0
Loans with personal guarantees and unsecured loans	1,532,283	68.3	1,944,001	73.7	2,370,46	70.4
Total	**2,243,108**	**100.0**	**2,637,722**	**100.0**	**3,366,013**	**100.0**

As a percentage of total loans, loans secured by real estate (including mortgages) comprised 19.0% of the Bank's total net loans as at 31 December 2007, as compared to 21.9% as at 31 December 2006 and 25.7% as at 31 December 2005, while the share of loans secured by personal guarantees and unsecured loans was 70.4% as at 31 December 2007, as compared to 73.7% as at 31 December 2006 and 68.3% as at 31 December 2005.

Distribution of Loans by Economic Sector

	As at 31 December					
	2005		**2006**		**2007**	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Commercial	738,544	29.1	856,223	29.3	1,041,522	28.9
Manufacturing	436,340	17.2	449,262	15.4	638,231	17.7
Agriculture	81,863	3.2	96,215	3.3	84,051	2.3
Services	182,096	7.2	284,156	9.7	526,617	14.6
Construction	418,192	16.5	437,977	15.0	440,958	12.2
Retail	598,072	23.6	651,902	22.3	765,175	21.2
Others	81,808	3.2	147,334	5.0	111,014	3.1
Total	**2,536,915**	**100.0**	**2,923,070**	**100.0**	**3,607,568**	**100.0**

In recent years, the Bank has focussed its lending activities, to the extent possible, in sectors considered by Management to be least affected by economic slowdowns. As a percentage of total loans, loans to the manufacturing sector increased to 17.7% as at 31 December 2007, as compared to 15.4% as at 31 December 2006 and 17.3% as at 31 December 2005. Loans to the construction sector decreased to 12.2% as at 31 December 2007, as compared to 15.0% as at 31 December 2006 and 16.5% as at 31 December 2005, while retail loans remained relatively stable throughout the last three years at 21.2%, 22.3%, and 23.6% as at 31 December 2007, 2006 and 2005, respectively.

Distribution of Loans by Maturity

The following table shows the distribution of the Bank's loan portfolio (net of provisions) by maturity as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		**2006**		**2007**	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Up to 1 month	1,064,371	47.4	1,232,272	46.7	1,513,821	45.0
1 to 3 months	146,459	6.5	165,339	6.3	272,042	8.1
3 months to 1 year	257,187	11.5	281,457	10.7	420,035	12.5
1 year to 5 years	520,470	23.2	741,882	28.1	869,438	25.8
Over 5 years	254,621	11.4	216,772	8.2	290,677	8.6
Total	**2,243,108**	**100.0**	**2,637,722**	**100.0**	**3,366,013**	**100.0**

Analysis of Loans by Amount and Number of Borrowers

The following table shows the distribution of the Bank's loan portfolio by the number of borrowers and by the amount of exposure as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(Number of borrowers)	*(LBP million)*	*(Number of borrowers)*	*(LBP million)*	*(Number of borrowers)*	*(LBP million)*
Less than LBP 5 million	17,455	24,232	18,887	24,224	31,235	35,835
Between LBP 5 and 10 million	5,184	34,551	6,383	46,130	7,086	52,093
Between LBP 10 and 50 million	7,773	214,955	10,834	250,788	13,778	313,518
Between LBP 50 and 250 million	3,163	359,119	3,967	365,308	4,293	389,947
Between LBP 250 and 750 million	376	227,647	539	219,781	585	242,542
Between LBP 750 and 1,500 million	140	223,126	203	223,526	224	244,654
Between LBP 1,500 and 4,000 million	139	512,736	254	608,615	250	624,782
Between LBP 4,000 and 6,500 million	32	257,959	75	399,384	81	420,880
Greater than LBP 6,500 million	35	671,222	70	785,314	101	1,283,317
Total	**34,297**	**2,525,547**	**41,212**	**2,923,070**	**57,633**	**3,607,568**

Distribution of Loans by Currency

The following tables show the distribution of the Bank's loan portfolio by currency as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December 2005			
	(LBP)	*(Foreign currencies)*	*(Total)*	*(Number of borrowers)*
Less than LBP 5 million	9,106	15,126	24,232	17,455
Between LBP 5 and 10 million	10,629	23,922	34,551	5,184
Between LBP 10 and 50 million	66,647	148,307	214,954	7,773
Between LBP 50 and 250 million	150,629	208,490	359,119	3,163
Between LBP 250 and 750 million	23,489	204,158	227,647	376
Between LBP 750 and 1,500 million	12,114	211,012	223,126	140
Between LBP 1,500 and 4,000 million	32,883	479,853	512,736	139
Between LBP 4,000 and 6,500 million	0	257,959	257,959	32
Greater than LBP 6,500 million	28,445	642,778	671,223	35
Total	**333,942**	**2,191,605**	**2,525,547**	**34,297**

	As at 31 December 2006			
	(LBP)	*(Foreign currencies)*	*(Total)*	*(Number of borrowers)*
Less than LBP 5 million	9,223	15,002	24,224	18,887
Between LBP 5 and 10 million	16,295	29,835	46,130	6,383
Between LBP 10 and 50 million	83,021	167,767	250,788	10,834
Between LBP 50 and 250 million	166,267	199,042	365,308	3,967
Between LBP 250 and 750 million	34,405	185,376	219,781	539
Between LBP 750 and 1,500 million	7,791	215,734	223,526	203
Between LBP 1,500 and 4,000 million	32,878	575,737	608,615	254
Between LBP 4,000 and 6,500 million	10,528	388,855	399,384	75
Greater than LBP 6,500 million	10,277	775,038	785,314	70
Total	**370,685**	**2,552,386**	**2,923,070**	**41,212**

	As at 31 December 2007			
	(LBP)	*(Foreign currencies)*	*(Total)*	*(Number of borrowers)*
Less than LBP 5 million	10,865	24,970	35,835	31,235
Less than LBP 5 million	17,845	34,248	52,093	7,086
Between LBP 5 and 10 million	97,177	216,341	313,518	13,778
Between LBP 10 and 50 million	183,465	206,482	389,947	4,293
Between LBP 50 and 250 million	47,141	195,401	242,542	585
Between LBP 250 and 750 million	10,353	234,300	244,654	224
Between LBP 750 and 1,500 million	22,391	602,391	624,782	250
Between LBP 1,500 and 4,000 million	9,134	411,746	420,880	81
Between LBP 4,000 and 6,500 million	22,860	1,260,457	1,283,317	101
Total	**421,231**	**3,186,336**	**3,607,568**	**57,633**

As at 31 December 2007, the Bank's foreign currency lending accounted for 88.3% of its loan portfolio and was principally (84.0%) in U.S. Dollars.

The Bank limits the ratio of its foreign currency loans to deposits to a maximum of 70.0% in conformity with the limit imposed by the Central Bank. As at 31 December 2007, the Bank's foreign currency loan-to-deposits ratio was 30.81%.

The Bank's internal lending limit with respect to loans to a single borrower or group of related borrowers is 10.0% of combined Tier I and Tier II Capital.

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 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Lebanese and other governmental treasury bills and bonds						
Lebanese treasury bills in LBP	1,880,870	38.0	2,225,740	41.2	2,134,306	39.8
Lebanese governmental bonds in foreign currency	1,786,918	36.0	1,949,068	36.1	2,130,730	39.7
Bonds and financial assets with fixed income						
Corporate bonds in foreign currency	162,417	3.3	86,383	1.6	122,316	2.3
Corporate certificates of deposit in foreign currency	47,627	1.0	47,425	0.9	38,607	0.7
Central Bank certificates of deposits in LBP and foreign currency	1,038,216	21.0	1,056,224	19.5	824,184	15.3
Shares, securities and financial assets with variable income in LBP and foreign currency	35,818	0.7	38,648	0.7	117,867	2.2
Total	**4,951,866**	**100.0**	**5,403,488**	**100.0**	**5,368,010**	**100.0**

Lebanese and Other Governmental Treasury Bills and Bonds

Lebanese and other governmental treasury bills and bonds (in both LBP and foreign currency) increased, as a percentage of the Bank's total securities portfolio, to 79.5% as at 31 December 2007, as compared to 77.3% as at 31 December 2006 and 74.1% as at 31 December 2005. Investments in Central Bank certificates of deposits (in both Lebanese Pounds and foreign currency) represented 15.4% of the Bank's portfolio as at 31 December 2007, as compared to 19.6% and 21.0% as at 31 December 2006 and 2005, respectively.

The following tables show the breakdown of the Bank's portfolio of Lebanese and other governmental securities by maturity as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December 2005		
	Amount Denominated in LBP	Amount Denominated in Foreign Currency	Total Amount
		(LBP million)	
Maturity			
Up to 1 month	90,058	727	90,785
1 to 3 months	114,806	15,707	130,513
3 months to 1 year	238,793	232,664	471,457
1 year to 5 years	1,437,213	1,306,046	2,743,259
Over 5 years	—	231,774	231,774
Total	**1,880,870**	**1,786,918**	**3,667,788**

	As at 31 December 2006		
	Amount denominated in LBP	Amount denominated in foreign currency	Total Amount
		(LBP million)	
Maturity			
Up to 1 month	20,882	29,640	50,522
1 to 3 months	24,412	138,598	163,010
3 months to 1 year	227,691	116,326	344,017
1 year to 5 years	1,952,755	1,310,690	3,263,445
Over 5 years	—	353,814	353,814
Total	**2,225,740**	**1,949,068**	**4,174,808**

	As at 31 December 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**

The Bank's portfolio of securities are classified as follows:

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 International Accounting Standard 39 under the IFRS ("**IAS 39**") as set out below.

Trading Investments

Investments held for trading are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised 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 amortised 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 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 31 December 2005, 2006 and 2007, respectively:

	As at 31 December 2005					
	Held for trading	**Held to maturity**	**Available for sale**	**Loans and receivables**	**Accrued interest**	**Total**
			(LBP million)			
Central banks' certificates of deposit	—	—	—	1,006,591	31,625	1,038,216
Lebanese and other governmental treasury bills and bonds	1,859,119	1,177,070	558,948	—	72,651	3,667,788
Bonds and financial assets with fixed income	72,605	15,374	70,718	—	3,720	162,417
Shares, securities and financial instruments with variable income	22,401	—	13,417	—	—	35,818
Certificates of deposits	—	—	—	46,730	897	47,627
Total by category	**1,954,125**	**1,192,444**	**643,083**	**1,053,321**	**108,893**	**4,951,866**

	As at 31 December 2006					
	Held for trading	**Held to maturity**	**Available for sale**	**Loans and receivables**	**Accrued interest**	**Total**
			(LBP million)			
Central banks' certificates of deposit	—	—	—	1,020,267	35,957	1,056,224
Lebanese and other governmental treasury bills and bonds	1,097,240	1,799,441	1,171,204	—	106,923	4,174,808
Bonds and financial assets with fixed income	1,477	302	82,747	—	1,857	86,383
Shares, securities and financial instruments with variable income.	24,372	—	14,276	—	—	38,648
Certificates of deposits	—	—	—	46,482	943	47,425
Total by category	**1,123,089**	**1,799,743**	**1,268,227**	**1,066,749**	**145,680**	**5,403,488**

	As at 31 December 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**

Placements with Banks and Financial Institutions

The Bank places funds with other banks for a number of reasons, including liquidity management, facilitation of international money transfers and documentary credit business with correspondent banks. Limits on the aggregate amount of placements that may be made with individual institutions are established in accordance with the Bank's credit policy. Deposits with banks receive interest at prevailing rates. Most of these deposits mature within one month and, accordingly, their market values do not differ from their book values. In addition, the Bank grants loans to other banks and financial institutions for the purpose of financing trade finance activities, such as acceptances discounting and post-financing.

The following tables set forth the Bank's placements with banks and financial institutions (excluding deposits with the Central Bank), by type of account and by geographic location, respectively, as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Current accounts	107,266	5.2	120,198	5.1	177,043	5.5
Time deposits & loans	1,763,693	84.2	2,001,248	84.5	2,880,349	88.8
Fixed maturity deposits	172,953	8.3	196,551	8.3	138,238	4.3
Certificates of deposits	46,730	2.2	46,482	2.0	37,310	1.2
Accrued interest	4,656	0.2	7,670	0.3	13,080	0.4
Interest received in advance	(1,473)	(0.1)	(3,298)	(0.1)	(3,421)	(0.1)
Total	**2,093,825**	**100.0**	**2,368,851**	**100.0**	**3,242,599**	**100.0**

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Lebanon	191,471	9.1	124,090	5.3	337,368	10.4
OECD countries	1,520,648	72.6	1,774,448	74.9	1,638,599	50.6
Saudi Arabia	65,983	3.2	45,412	1.9	406,599	12.5
Other countries	315,723	15.1	424,901	17.9	860,033	26.5
Total	**2,093,825**	**100.0**	**2,368,851**	**100.0**	**3,242,599**	**100.0**

Current accounts held with banks and financial institutions represented 5.5% as at 31 December 2007, as compared to 5.1% and 5.2% as at the end of 31 December 2006 and 31 December 2005, respectively. Time deposits and loans represented 88.8% of total placements with banks and financial institutions as at 31 December 2007, as compared to 84.5% and 84.2% as at 31 December 2006 and 31 December 2005, respectively. The higher level of time deposits and loans as a percentage of total placements with banks and financial institutions as at 31 December 2007, as compared to 31 December 2006 and 2005, primarily reflected the relatively higher year-on-year increase in foreign-currency denominated customer deposits by USD 966 million, as compared to the year-on-year increase in net loans to customers denominated in foreign currency by USD 442 million, as the excess liquidity was placed in time deposits and loans with banks and financial institutions.

Placements with banks and financial institutions in Lebanon comprised 10.4% of total placements with banks and financial institutions as at 31 December 2007, as compared to 5.3% and 9.1%, respectively. The lower level of placements in Lebanon as at 31 December 2006 primarily reflected the shift of funds outside the country as a result of the July War. As at 31 December 2007, placements outside Lebanon were comprised 50.6% by placements in OECD countries, 12.5% by placements in Saudi Arabia and 26.5% by placements in other countries, as compared to 74.9%, 1.9% and 17.9%, respectively, as at 31 December 2006 and 72.6%, 3.2% and 15.1%, respectively, as at 31 December 2005. The increase in placements in Saudi Arabia and other countries (which comprise mainly Gulf countries) primarily resulted from the higher, short-term interest rates offered by banks in these jurisdictions.

Deposits and Other Funding Sources

The Bank's sources of funds are comprised of Central Bank loans, deposits from banks and financial institutions, customer deposits, liabilities under financial instruments, subordinated loans and shareholders' equity. Customer deposits comprise the substantial majority of the Bank's funding sources.

Customer deposits increased by 15.5% in 2007 to LBP 10,931,048 million (USD 7,251 million) as at 31 December 2007, as compared to LBP 9,461,489 million (USD 6,278 million) as at 31 December 2006 and LBP 8,510,975 million (USD 5,646 million) as at 31 December 2005. Customer deposits constituted 79.5% of total funding as at 31 December 2007, as compared to 80.0% as at 31 December 2006 and 77.8% as at 31 December 2005.

The number of customer accounts grew by 15.0% in 2007 to 312,267 as at 31 December 2007, compared to 271,434 as at 31 December 2006 and 239,952 as at 31 December 2005.

Following the assassination of former Prime Minister Mr. Rafik Hariri in the first quarter of 2005, customer deposits denominated in foreign currencies initially increased, reflecting general concerns that the Lebanese Pound might be devalued against the U.S. Dollar. Customers' confidence in the Lebanese Pound began to return towards the end of April 2005 and customer deposits denominated in foreign currencies began to return closer to historic levels, constituting 74.9% of total customer deposits as at 31 December 2007, as compared to 71.2% as at 31 December 2006 and 65.0% as at 31 December 2005.

Customer Deposits by Type of Accounts

The following table shows the distribution of the Bank's customer deposits by type of accounts as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Sight deposits	1,109,782	13.0	1,099,296	11.6	1,319,668	12.1
Time deposits	2,106,857	24.8	2,340,435	24.7	2.681,531	24.5
Saving deposits	5,222,841	61.4	5,926,882	62.7	6,783,846	62.1
Related parties accounts	19,600	0.2	40,773	0.4	86,590	0.8
Accrued interest	51,895	0.6	54,103	0.6	59,413	0.5
Total	**8,510,975**	**100.0**	**9,461,489**	**100.0**	**10,931,048**	**100.0**

As at 31 December 2007, the Bank's customer deposits were comprised mostly of time and savings deposits, which then comprised 86.6% of total customer deposits, as compared to 87.4% as at 31 December 2006 and 86.2% as at 31 December 2005. Time deposits decreased to 24.5% of total customer deposits as at 31 December 2007, as compared to 24.7% as at 31 December 2006 and 24.8% as at 31 December 2005, while saving deposits decreased to 62.1% as at December 2007 from 62.7% as at 31 December 2006, after having increased in 2006 from to 61.4% as at 31 December 2005.

Maturity Profile of Customer Deposits

The following table shows the distribution of the Bank's customer deposits by maturity profile as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Less than 3 months	7,564,868	88.9	8,031,067	84.9	9,458,073	86.5
3 months to 1 year	612,668	7.2	1,038,175	11.0	1,231,304	11.3
1 year to 5 years	333,439	3.9	387,489	4.1	238,031	2.2
Over 5 years	0	0.0	4,758	0.0	3,640	0.0
Total	**8,510,975**	**100.0**	**9,461,489**	**100.0**	**10,931,048**	**100.0**

Almost all of the Bank's customer deposits are short-term, with deposits having a remaining maturity of less than one year representing 97.8%, 95.8% and 96.1% of total customer deposits as at 31 December 2007, 2006 and 2005, respectively.

Maturity Profile of Funding

The following table sets out the maturity profile of the Bank's funding as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Short-term[(1)]	9,099,532	83.2	9,927,199	84.0	11,602,837	84.4
Medium-term[(2)]	678,454	6.2	781,677	6.6	964,982	7.0
Long-term[(3)]	1,156,836	10.6	1,114,009	9.4	1,185,317	8.6
Total	**10,934,822**	**100.0**	11,822,885	**100.0**	13,753,136	**100.0**

Notes:
(1) Up to 1 year.
(2) From 1 to 5 years.
(3) Over 5 years.

DESCRIPTION OF THE BANK

Overview of the Principal Activities of 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 30 September 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 31 December 2007, the Bank had 2,101 employees, approximately 312,000 active accounts and 75 branches (73 branches in Lebanon, one in Limassol, Cyprus and one in Erbil, Iraq). As at 30 September 2008, the Bank had 2,281 employees, approximately 336,000 active accounts and 91 branches (73 branches in Lebanon, one in Limassol, Cyprus and one in Erbil, Iraq and 14 other international branches owned by the Bank's subsidiaries). As at 30 September 2008, 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, the Bank's 65.0%-owned subsidiary, had one branch in Khartoum, Sudan; and Byblos Bank Syria, the Bank's 41.5%-owned subsidiary, had six branches in Abu Remaneh, Mazzeh, Homs, Tartous, Latakia and Aleppo in Syria. In September 2007, the Bank acquired a 100.0% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and three other branches in Malatia, Vanadzor and Abovyan. ITB (International Trade Bank) CJSC has been renamed Byblos Bank Armenia CJSC. In June 2008, the EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25.0% and 10.0%, 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.

As at 31 December 2007, according to Bankdata, based on unaudited financial statements of banks operating in the Republic provided to Bankdata by such banks, the Bank ranked third among all banks operating in the Republic in terms of net profit of LBP 149,518 million (USD 99 million), total assets of LBP 14,295,902 million (USD 9,483 million), total shareholders' equity (excluding subordinated loans) of LBP 1,151,959 million (USD 762 million), total deposits of LBP 10,931,048 million (USD 7,251 million) and aggregate customer loans of LBP 3,366,013 million (USD 2,233 million).

During the three-year period from 1 January 2005 to 31 December 2007, total assets of the Bank increased at an average annual compounded rate of 10.8% from LBP 10,504,505 million (USD 6,968 million) to LBP 14,295,902 million (USD 9,483 million), customer deposits increased at an average annual compounded rate of 9.8% from LBP 8,254,350 million (USD 5,476 million) to LBP 10,931,048 million (USD 7,251 million), net customer advances increased at an average annual compounded rate of 18.5% from LBP 2,020,869 million (USD 1,341 million) to LBP 3,366,013 million (USD 2,233 million) and total equity increased at an average annual compounded rate of 19.2% from LBP 874,113 million (USD 580 million) to LBP 1,479,393 million (USD 981 million), while net income increased at an average annual compounded rate of 19.6% from LBP 80,898 million (USD 54 million) to LBP 149,518 million (USD 99 million).

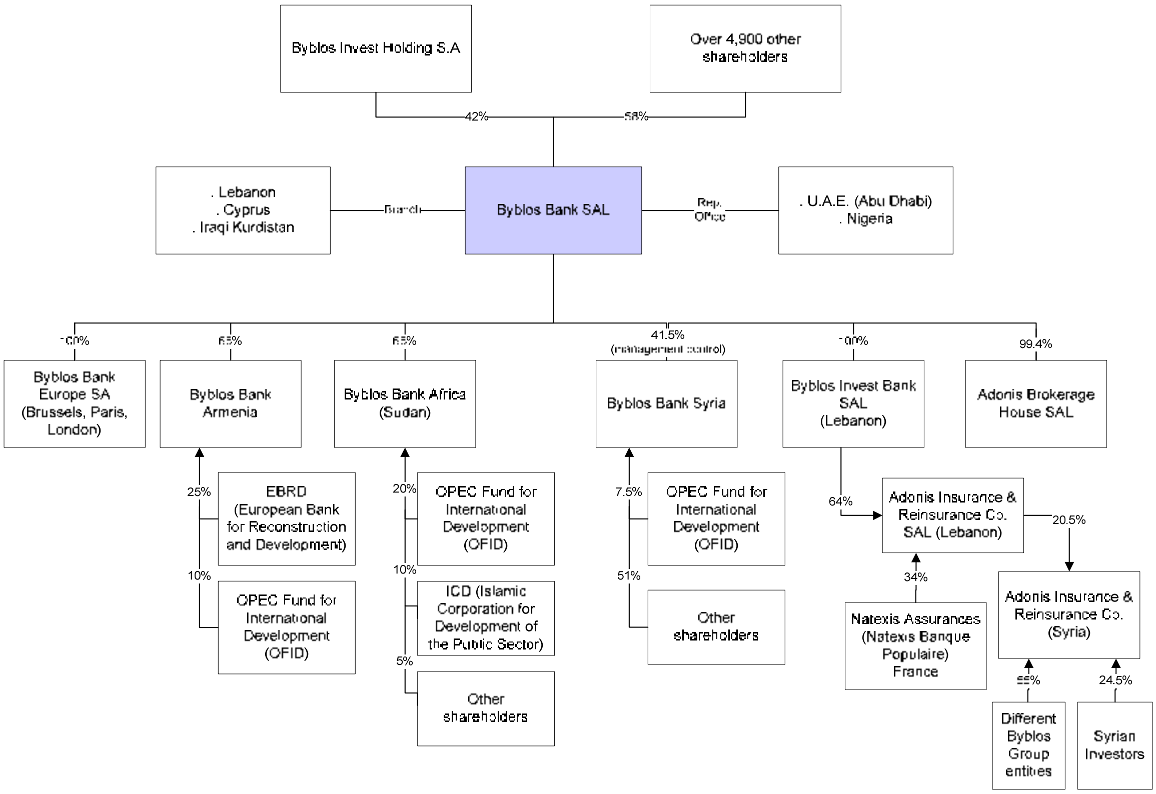
The Bank has a high level of nominal liquidity, with cash, placements with the Central Bank, interbank deposits and investments in Lebanese treasury bills and other marketable securities representing 71.7% of total assets as at 31 December 2007 and 73.7% as at 30 September 2008. As at 31 December 2007, the Bank's capital adequacy ratio was 20.54%, its return on average assets was 1.12% and its return on average equity was 13.41%.

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

Rating Agency	Tenor	Rating	Outlook
Moody's Investor Services Limited	Long-term	B3	Positive
Fitch IBCA Ltd.	Short-term (less than one year)	B	Stable
	Long-term	B-	

All of the ratings referred to above are non-investment grade and a credit rating is not a recommendation by the rating organisation 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 organisation 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 Prospectus:



History of the Bank

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 14 November 1959 as a *société anonyme libanaise* (joint stock company), pursuant to a presidential decree (No. 2511) and the Bank's capital was increased to LBP 2,000,000 effective 21 December 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). 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 SMEs and select corporate clients, while also focussing on servicing both personal and business requirements of the Lebanese expatriate community.

On 22 November 1997, the Bank acquired all of the net assets and liabilities of 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, the Central Bank provided the Bank with a "soft" loan of LBP 52,000 million (USD 35 million), which matured and was fully repaid on 28 May 2006.

On 1 January 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 centralised its business and marketing strategy and credit decision making for its global business in its head office in the Republic. See "—*Subsidiaries—Byblos Bank Europe S.A.*".

On 9 May 2001, the Bank sold 34.0% 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 Prospectus, the Bank retained a controlling interest of 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 Republic and selected Middle Eastern countries. See "*—Subsidiaries—Adonis Insurance & Reinsurance Co. (ADIR) S.A.L.*".

On 20 June 2001, the Bank acquired 100.0% of the outstanding share capital of 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, the Central Bank provided the Bank with a "soft" loan of LBP 40,000 million (USD 27 million) maturing on 15 November 2009.

In order to acquire additional large corporate clients and thereby diversify its risk and enhance returns, on 21 October 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, totalled USD 14 million; the fixed assets acquired by the Bank were valued at USD 1 million at the time of the acquisition.

On 1 July 2002, the Bank issued its USD 100 million 9.0% 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 6.0% per annum, equivalent to 5.0% of the adjusted annual net income of the Bank.

On 10 November 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 USD 100 million Series 2003 Preferred Shares. See "*Description of the Share Capital of the Bank—Description of the Series 2008 Preferred Shares and the Series 2003 Preferred Shares—Description of 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 Ltd., which commenced its operations in the beginning of 2004 and, as at the date of this Prospectus, is 65.0%-owned by the Bank. Byblos Bank Africa, located in the Al Amarat area and governed by the Sudanese law under the regulations of the Bank of Sudan, is focussing 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 "specialised 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 modernise the banking sector. As at the date of this Prospectus, the Bank has management control and a 41.5% stake in Byblos Bank Syria. OFID has a 7.5% stake, and the remaining 51.0% 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 UAE representative office.

On 16 January 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 19 September 2007, Adonis Insurance & Reinsurance ADIR Syria was established in Damascus, Syria, marking the initial step in the geographical expansion of ADIR Lebanon in the MENA region. As at the date of this Prospectus, the Bank is the main shareholder of ADIR Syria with a 40.0% stake, followed by ADIR Lebanon with a 16.0% stake and Byblos Bank Syria with a 5.0% 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 100.0% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and three other branches in Malatia, Vanadzor and Abovyan. 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, the EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25.0% and 10.0%, respectively. Management believes that 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 USD 200,000,000 6.5% subordinated loan, which was financed by the issuance by The Bank of New York, in its fiduciary capacity, of USD 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 USD 2.25 per Common Share.

In January 2008, a holder of Fiduciary Notes exercised its right to convert USD 27 million in nominal amount of Fiduciary Notes, together with accrued interest thereon, into Common Shares at a conversion price of USD 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 (USD 9,622,952) to LBP 508,963,536,000.

In August 2008, the Bank issued its USD 200 million Series 2008 Preferred Shares. See "*Description of the Share Capital of the Bank—Description of the Series 2008 Preferred Shares and the Series 2003 Preferred Shares—Description of the Series 2008 Preferred Shares*".

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

On 23 October 2008, Byblos Bank S.A.L. 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 USD 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 18 December 2008. As at the date of the acquisition, UBDR Lebanon had total assets of LBP 37,816 million (USD 25.1 million), total customer deposits of LBP 21,453 million (USD 14.2 million), total loans to customers of LBP 13,678 million (USD 9.1 million) and total equity of LBP 9,667 million (USD 6.4 million).

Competitive Strengths

The Bank has a leading market position among the Alpha Group of banks offering a full range of banking products and services in the Republic. As at 30 September 2008, according to Bankdata, based on unaudited financial statements of banks operating in the Republic provided to Bankdata by such banks, the Bank ranked third among all Lebanese banks in terms of total assets, customer deposits, net profit and net interest margin, and fourth in terms of loans and advances to customers, shareholders' equity and number of branches. The Bank believes its strong market position is attributable to a combination of the following competitive advantages:

- ***Well-positioned to benefit from domestic growth opportunities.*** The banking sector in Lebanon has proven to be resilient, even during periods of political instability, and is now poised to benefit from the current positive political climate in the country. Moreover, despite the ongoing global financial and economic crisis and related market turmoil, Lebanon appears to be generally experiencing a continuing period of economic growth and relative stability, in part as a result of its improved political climate, as well as macroeconomic factors, such as increased foreign direct investment and increasing remittance inflows, and the positive impact of historical strict banking regulations. The Bank believes that its focus on client service, strong brand awareness and extensive distribution network differentiates it from its competitors. In addition, the Bank believes that its domestic market-leading and growing retail and SME operations will benefit from the anticipated surge in retail lending (particularly housing finance) and SME lending in Lebanon, where the Bank expects that it should be able to capitalise on existing well-established, long-term client relationships, as well as its wide and regionally-diversified branch network. Furthermore, particularly given the Bank's track record in domestic acquisitions, the Bank believes it is well-positioned to benefit from the potential consolidation of the domestic banking sector, which remains highly fragmented with 54 commercial banks, many of which are family-owned and lack competitive scale.

- ***Diversified regional exposure combined with strong local expertise.*** The Bank maintains a strong international presence with operations spread across 11 countries. In 2007, 21.0% of the Bank's total assets and 17.0% of its net income were derived outside of Lebanon, compared to 8.4% and 4.7% respectively in 2003 when the Bank relaunched its international expansion plans with the commencement of operations at Byblos Bank Africa after a long period during which the Bank's only international operations were through Byblos Bank Europe and the Bank's branch in Cyprus. The Bank's proven track record of international expansion plans, together with its strong, well-established platform and extensive management expertise, enable the Bank to leverage on the potential growth opportunities prevailing in the regional markets in which it operates, where banking penetration is relatively low and competition from international banks is limited. In addition, the Bank's focus on high-quality service and efficiency standards more typical of a western bank permit the Bank to provide a complete platform of banking services to the Lebanese Diaspora in its targeted markets and better serve its international clients overall. The Bank has well-established centralised systems (such as management, treasury, risk and operations), which it believes enhance its control over, and the efficiency of, its foreign operations.

- ***Established strong track record of growth and profitability.*** The Bank's core strategy is centred on strong and profitable organic growth coupled with targeted strategic acquisitions. The Bank has a track record of consistent growth with assets growing at a compound annual growth rate ("**CAGR**") of 10.8%, loans and advances growing at a CAGR of 18.5%, customer deposits' growing at a CAGR of 9.8% and net income growing at a CAGR of 22.5%, in each case, over the three-year period ended 31 December 2007. In addition, the Bank has demonstrated improved profitability, as evidenced by the improvement in both its return on average assets and its return on average equity from 1.00% and 11.18% in 2006 to 1.12% and 13.41% in 2007, respectively. The Bank's return on average assets in 2006 also showed improvement from 0.96% in 2005, although, in an exception to the recent trend, the return on average equity in 2006 was lower than the return on average equity of 13.49% in 2005 largely reflecting the calculation of the return ratio in 2005 on the basis of the weighted number of Priority Shares in issue for the last 10 days of 2005, while the return ratio in 2006 was calculated using total equity outstanding, including the full number of Priority Shares. The Bank has also managed to maintain steady growth, despite the political turmoil in Lebanon in recent years, with deposits and net income increasing by 3.1% and 11.0%, respectively, in 2005, by 11.2% and 17.6%, respectively, in 2006 and by 15.5% and 27.6%, respectively, in 2007.

- ***Expanding customer deposit base.*** The Bank has a diversified customer base spread across its retail and commercial banking segments, backed by a wide distribution network covering all of Lebanon, as well as principal financial centres in the region with an increasing international presence. As at 31 December 2007, total customer deposits had grown by a CAGR of 13.3% since 1 January 2006, while the Bank's market share of total banking sector deposits decreased from 9.0% to 8.9% over the same period. The number of customer deposit accounts maintained by the Bank increased by a CAGR of 14.1% over the same period. The Bank believes that its large and stable customer base, combined with relatively low customer penetration rates, presents the Bank with high cross-selling opportunities.

- ***Well-developed risk management systems and applications based on conservative policies.*** The Bank applies prudent and advanced risk and balance sheet management standards, policies and procedures, which Management believes enable the Bank to properly assess and manage market and operational risks. The Bank also has integrated and centralised risk management and compliance functions, which are aligned with its business objectives and geographical footprint and, accordingly help to drive cost efficiencies. In addition, the Bank has strong and centralised corporate governance practices (evidenced by, among other things, the fact that the Bank was the first bank in Lebanon to introduce an independent audit committee), which help to ensure transparency, control and management visibility. As a result, the Bank has:

    - a history of strong capital adequacy ratios (consistently above the minimum 12.0% imposed by the Central Bank);

    - decreasing levels of non-performing loans (down from 10.47% of gross loans as at 31 December 2005 to 4.66% as at 31 December 2007 and 3.11% as at 30 September 2008), despite a substantial increase in gross loans over the corresponding period, which grew at a CAGR of 21.3% between 1 January 2005 and 30 September 2008;

    - a conservative and sound funding policy based on the use of long-term funding to finance long-term assets in order to minimise funding mismatches;

    - a proven track record of positive operational performance, even in difficult times (such as in the aftermath of the assassination of the former Prime Minister, Mr. Rafik Hariri, in February 2005 and during the Israeli war on Lebanon in July 2006); and

    - no exposure to sub-prime market loans

- ***Prudent expansionary strategy and successful track record of integrating acquired businesses.*** The Bank is pursuing a proven prudent expansionary strategy that involves it carefully assessing its options to penetrate specific markets and regions either through strategic acquisitions, alliances and partnerships or the establishment of new "greenfield" operations. The Bank has historically been able to expand its branch network through acquisitions at reasonable prices, even in competitive market conditions. It has also consistently attracted international partnerships to implement its expansion plans, with partners such as the EBRD, OFID, EIB, Natexis Assurances and others. The Bank has also historically been successful in integrating newly-acquired banks and branches into its larger network, both marketing its existing products and introducing market-tailored products through newly-acquired distribution channels, while simultaneously implementing its credit culture, control systems and efficient processes throughout its new operations.

- ***Stable, experienced and highly reputable management team.*** The Bank's Chairman, who is a co-founding member of the Bank, has an established track record of close to 50 years in the banking industry. The Bank's other core senior managers also have a long-standing commitment to the Bank, with experience in the industry ranging from 15 to 41 years. In addition, the Bank's Chairman is highly regarded within the Lebanese banking sector, currently serving his third term as President of the Association of Banks in Lebanon.

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:

- o *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);

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

- o *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 focussed on offering additional products to the Bank's existing client base; and

- o *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 UAE 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 51.06% cost-to-income ratio in 2007, 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.

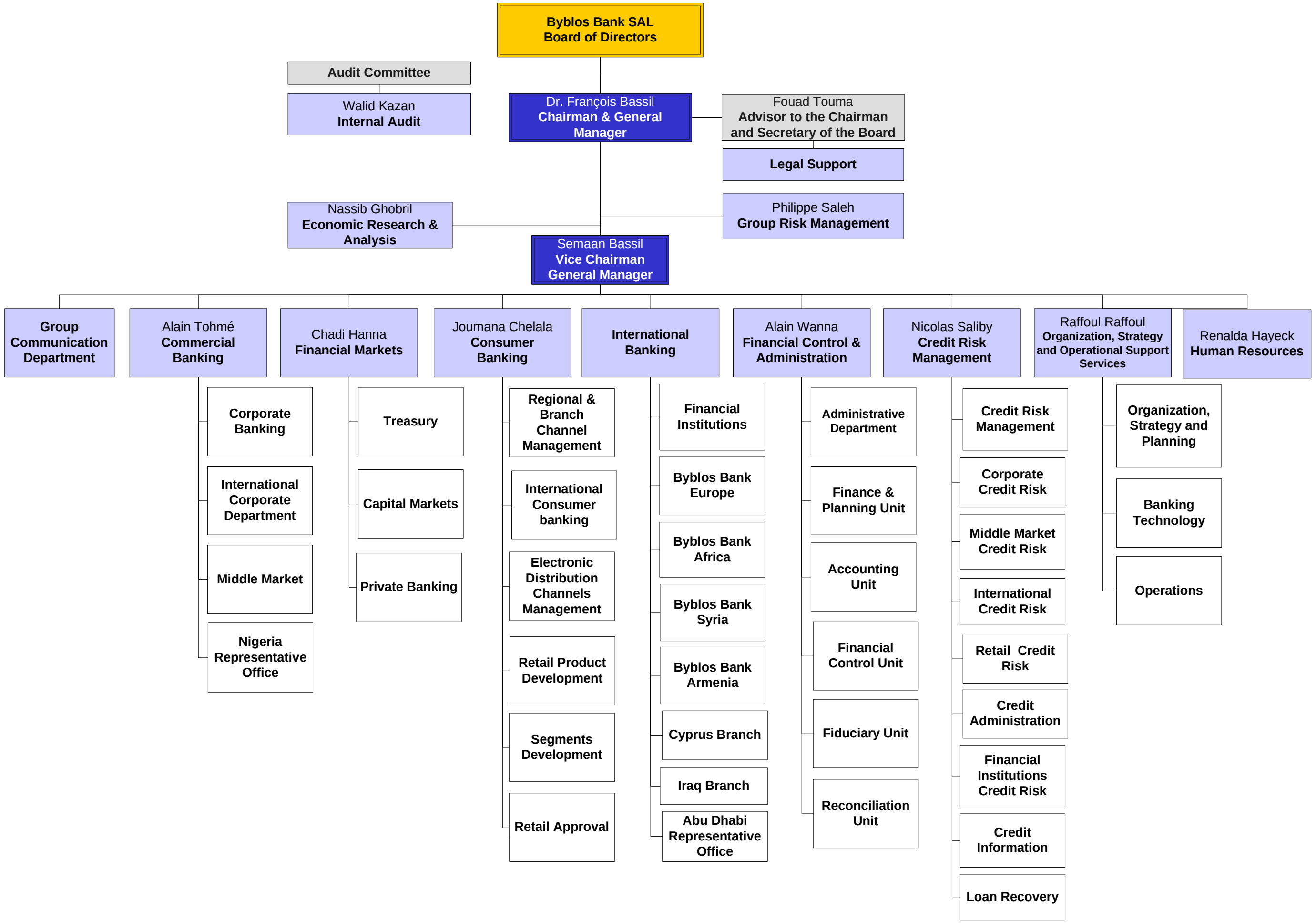
- ***Diversify further the Bank's funding structure.*** The Bank intends to continue to strengthen its balance sheet with new sources of international and other longer-term funding, thereby reducing its dependency on local market funding and on medium-term and other expensive funding sources.

Structure of the Bank

The organisational 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 reorganised and the branches were subdivided into geographic regions. Regional centres 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 Bank's Group Financial Control and Administration Division is responsible for analysing the financial performance of the Bank, planning related strategies and optimising 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.

The following chart shows the Bank's organisational structure:



General Banking Operations

The Bank provides a full range of banking services to three core sectors of the Lebanese economy: retail customers, SMEs (defined as companies with an annual turnover below USD 10 million or its equivalent in Lebanese Pounds) and large corporations (defined as companies with an annual turnover of USD 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 95 ATMs spread across Lebanon. As at 30 September 2008, the Bank had approximately 44,000 clients.

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 last paragraph under "*–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 remodelling its branch network to centralise 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 centralised 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 31 December 2007, the Bank had approximately 114,625 payment cards outstanding, including 8,800 Visa and MasterCard charge cards, 24,000 outstanding revolving credit cards, 6,150 Internet and pre-paid cards and 75,675 debit cards.

The Bank's payment cards offerings include the following:

- *charge cards*: MasterCard charge (USD), MasterCard Euro charge (EUR), MasterCard Lira Charge (LBP), MasterCard Platinum charge (USD) and Visa charge (USD);

- *revolving credit cards*: MasterCard revolving (USD), MasterCard Lira revolving (LBP) and Visa revolving (USD);

- *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 minimise the "dollarisation" 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 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 USD 2,000 to USD 15,000 (or more in exceptional cases) are granted to qualifying individuals. As at 31 December 2007, total personal loans outstanding were equivalent to USD 81 million.

The Bank has adopted a strategy to segment its personal loan portfolio into specific industries and, accordingly, offers specialised 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 31 December 2007, the Bank had outstanding residential mortgage loans of USD 220 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 USD 80,000), under the Public Housing Corporation Loan Project. As at 31 December 2007, the Bank had outstanding Public Housing Corporation-sponsored residential mortgage loans equivalent to USD 103 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 2007, the amount of car loans granted by the Bank increased by 28.2%, as compared to 2006, to reach an outstanding car loans balance of USD 122 million as at 31 December 2007, 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 USD 5,000 up to USD 50,000 for overdraft facilities or from the equivalent of USD 15,000 up to USD 50,000 loans with maturities of up to three years. As at 31 December 2007, the outstanding amount of small business loans was equivalent to USD 14 million.

Kafalat

Kafalat loans are a form of subsidised loan granted by the Bank, with the benefit of a guarantee from Kafalat Company 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 (USD 200,000) for Kafalat Basic Program loans and up to LBP 600 million (USD 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 USD 62 million as at 31 December 2007. 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 31 December 2007, the Bank had sold 31,175 outstanding insurance plans.

Commercial Banking

The Commercial Banking Division, a core activity at the Bank, encompasses the Corporate Department, the Middle Market Department 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 centralising 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 specialised relationship managers. As at 30 September 2008, the Bank had 833 corporate clients, 844 SME clients and 142 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 focussing on developing its SME portfolio. This business segment has recently been re-organised into the Middle Market Department 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 customer 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 IFC, Proparco, FMO, EIB and the 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 "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Funding and Liquidity—Long-Term Funding Sources*".

The Bank is looking to capitalise 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 specialised "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 (the "**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 Bank's strategic development to diversify its financial instruments and provide financial resources to its clients, in 2004, the 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 personalised 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 specialised, quiet and confidential environment. Private banking officers act as private money advisors and offer customised solutions, banking and brokerage services covering global markets, through the Bank's many subsidiaries and branches around the world. As of 30 September 2008, the Bank had 297 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 privatisations, 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 privatisation program expected to be conducted by the Lebanese government and has started building the necessary relationships to fulfil this goal.

The Bank has also finalised the necessary steps to raise USD 20 million (possible increase to up to USD 50 million) to set up a private equity project to be called Byblos Ventures, which Management expects to be active in Lebanon and the region beginning in 2007. Subscriptions to the first tranche of Byblos Ventures's capital were completed at the end of 2008 as follows:

Name	Number of Shares	Value of Shares in USD
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. Semaan Francois Bassil	3	300
Total	**30,000**	**3,000,000**

The Bank's strategy for Byblos Ventures will be to take strong minority stakes (preferred ownership positions of 34.0–49.0%) in carefully-selected companies, with transaction sizes of up to USD 3 million.

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 office in the United Arab Emirates.

Subsidiaries

The following table shows the Bank's equity interest in its subsidiaries as at 30 September 2008:

	As at 30 September 2008	
	Equity Interest	**Book Value**
	(%)	*(LBP million)*
Byblos Bank Europe S.A.	99.95	48,277
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	28,814
Byblos Invest Bank S.A.L.	99.99	29,998
Byblos Bank Africa Ltd.	65.00	24,497
Byblos Bank Syria S.A.	41.50	23,387
Byblos Bank Armenia CJSC	64.9974	15,408

Byblos Invest Bank S.A.L.

Byblos Invest Bank was established in October 2003 as a specialised bank pursuant to Article 1 of Decree Law 50 dated 15 July 1983. Specialised banks are governed by the Code of Money and Credit, by Decree Law No. 50/83 dated 15 July 1983 and by Central Bank Decisions No. 5996 (dated 7 September 1995), No. 6101 (dated 8 February 1996), No. 7739 (dated 21 December 2000) and No. 7835 (dated 2 June 2001).

The object of a specialised bank is restricted to the use of its funds in medium- and long-term credit applications, direct investment, acquiring equity participations not exceeding 50.0% 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. Specialised 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 capitalise 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 privatisation program.

Byblos Invest Bank is headquartered in Beirut. Byblos Invest Bank had total assets of LBP 364,506 million (USD 242 million) and total shareholders' equity of LBP 50,782 million (USD 34 million) as at 31 December 2007 and net profits of LBP 13,575 million (USD 9 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 87,369 million (USD 58 million) and total shareholders' equity of LBP 24,016 million (USD 16 million) as at 31 December 2007 and net profits of LBP 4,016 million (USD 2.7 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 Prospectus, ADIR Syria has capital of USD 25 million, with the Bank as main shareholder with a 40.0% stake, followed by ADIR Lebanon with a 16.0% stake and Byblos Bank Syria with a 5.0% stake, with the remaining shares held by high-net-worth Syrian investors.

ADIR Syria had total assets of 1,245 million Syrian pounds (USD 26 million) and total shareholders' equity of 1,244 million Syrian Pounds (USD 26 million) as at 31 December 2007.

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 1.329 million (USD 0.9 million) and total shareholders' equity of LBP 868 million (USD 0.6 million) as at 31 December 2007 and net profits of LBP 330 million (USD 219 thousand) for 2007.

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 specialises 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 538 million (USD 790 million) and total shareholders' equity of EUR 37 million (USD 55 million) as at 31 December 2007 and net profits of EUR 4 million (USD 5.6 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 headquartered in Khartoum, Sudan. Byblos Bank Africa operates under Sudanese law and the supervision of the Central Bank of Sudan. As at the date of this Prospectus, the Islamic Corporation for the Development of the Private Sector and OFID also hold stakes of 10.0% and 20.0%, 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 496 million Sudanese Guineas (USD 242 million), total shareholders' equity of 95 million Sudanese Guineas (USD 46 million) as at 31 December 2007 and net profits of 19 million Sudanese Guineas (USD 10 million) for the year then ended. Byblos Bank Africa is managed by the Bank pursuant to a management agreement dated 13 July 2003.

Byblos Bank Syria S.A.

Byblos Bank Syria became fully operational in December 2005. While, as at the date of this Prospectus, the Bank owns a 41.5% stake in Byblos Bank Syria, it also has management control pursuant to a technical assistance agreement dated 15 September 2005, and, accordingly, Byblos Bank Syria is consolidated with the Bank's financial results. As at the date of this Prospectus, the remaining share capital of Byblos Bank Syria is 51.0%-owned by high net-worth individual Syrian investors, some of whom are permitted by law to own more than 5.0% 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 modernise 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 endeavours to become a leading provider of financial services in Syria. Its operations are carried out from its head office in the Abou Remmaneh district of Damascus along with six branches in the Abou Remmaneh Mezze district of Damascus, Aleppo, Homs, Lattakia and Tartous.

Byblos Bank Syria had total assets of 17,808 million Syrian pounds (USD 371 million) and total shareholders' equity of 1,912 million Syrian Pounds (USD 40 million) as at 31 December 2007.

Byblos Bank Armenia CJSC

In September 2007, the Bank acquired a 100.0% stake in ITB (International Trade Bank) CJSC, a bank incorporated in Armenia, which has its main branch in Yerevan and three other branches in Malatia, Vanadzor and Abovyan. 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, the EBRD and OFID also acquired interests in the capital of Byblos Bank Armenia of 25.0% and 10.0%, 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 capitalise 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 5,942 million Armenian Drams (USD 20 million) and total shareholders' equity of 3,026 million Armenian Drams (USD 10 million) as at 31 December 2007.

Branch Network

The Bank's headquarters are located in the centre of the Achrafieh business district in Beirut. As at the date of this Prospectus, the Bank has 75 branches operating in Lebanon. As at 30 September, the Bank's domestic network (then consisting of 75 branches) comprised the third largest branch network in Lebanon and represented 9.0% 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 31 December 2007, the Bank had branches located in the Greater Beirut area representing 50.7% of all the Bank's branches (as compared to 54.1% in the Lebanese banking sector), whilst branches located in Mount Lebanon and North Lebanon represented 37.0% of total branches (as compared to 27.5% in the Lebanese banking sector), branches located in the Bekaa Valley representing 4.1% of total branches (as compared to 7.7% in the Lebanese banking sector) and branches located in South Lebanon represented 8.2% of total branches (as compared to 10.7% in the Lebanese banking sector).

Local branches are organised by regional centres (Beirut, Metn, Kesserwan-Jbeil, North Lebanon, Bekaa and South Lebanon). Outside Lebanon, the Bank has a branch in Limassol, Cyprus and in Erbil, Iraq and a representative office in Abu Dhabi, United Arab Emirates, as well as one branch in each of: Brussels, London and Paris through its subsidiary, Byblos Bank Europe; branches in Khartoum through its subsidiary, Byblos Bank Africa; branches in Damascus, Aleppo, Homs, Lattakia and Tartous through its subsidiary, Byblos Bank Syria; and branches in Yerevan, Abovyan 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 95 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 centralised in the head office and in the regional centres 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 organised to better support sales efforts.

Competition

The market for financial and banking services in the Republic is competitive. As at 31 December 2007, there were 44 commercial banks (with 847 operational branches in Lebanon), 43 financial institutions and 12 specialised medium- and long-term credit banks, as well as 10 branches of foreign banks, licensed by the Central Bank 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 the Republic, 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 31 December 2007, based on unaudited financial statements of banks operating in the Republic provided to Bankdata, the Bank ranked third among all banks operating in Lebanon with net profit of LBP 149,518 million (USD 99 million), total assets of LBP 14,295,902 million (USD 9,483 million), total equity (according to Bankdata calculation which excludes revaluation variance of other fixed assets and subordinated loans) of LBP 1,151,959 million (USD 762 million) total deposits of LBP 10,931,048 million (USD 7,251 million) and aggregate customer loans of LBP 3,366,013 million (USD 2,233 million). As at 30 September 2008, the Bank had total assets of LBP 16,372,586 million (USD 10,861 million), total customer deposits of LBP 12,118,729 million (USD 8,039 million) and total customer loans of LBP 4,142,703 million (USD 2,748 million).

Property

The Bank owns the property in which 52 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 located in Achrafieh, is also owned by the Bank and houses 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.

Information Systems and Technology

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 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 the Bank to implement Peoplesoft HR System, a state-of-the-art human resources system that enables the Bank 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 is able to deliver management reports, in accordance with the requirements of various Department heads, through a convenient internet interface. The Bank has made significant efforts to achieve full compliance with Basel II standards, by, among other means, 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 deployment of FinStudio in the Bank's head office is expected to be completed in 2009.

To ensure system functionality with 99.9% 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 accross 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.

Litigation

The Bank is a party, as a plaintiff and as a defendant, to a number of litigation proceedings in the ordinary course of the Bank's businesses. However, neither the Bank, nor any of its consolidated subsidiaries, are, or were during the last twelve months, involved in any government, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Bank is aware) that may have, or have had in the recent past, a significant effect on the financial position or profitability of the Bank and its consolidated subsidiaries taken as a whole.

Insurance

The Bank maintains insurance policies that 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.

Statutory Auditors

In accordance with Lebanese banking regulations, the Bank is required to have a statutory auditor selected by the shareholders at a General Meeting. Audits are concluded in accordance with International Standards on Auditing and banking regulations in Lebanon. Ernst & Young p.c.c. and Semaan, Gholam & Co., each of which is a member of the Lebanese Association of Certified Public Accountants, are the auditors of the Bank. Under applicable banking regulations in Lebanon, the auditors are appointed for a period of three years that will expire at the General Meeting of shareholders held to approve the Bank's accounts for the third year.

RISK MANAGEMENT, INTERNAL CONTROLS AND COMPLIANCE

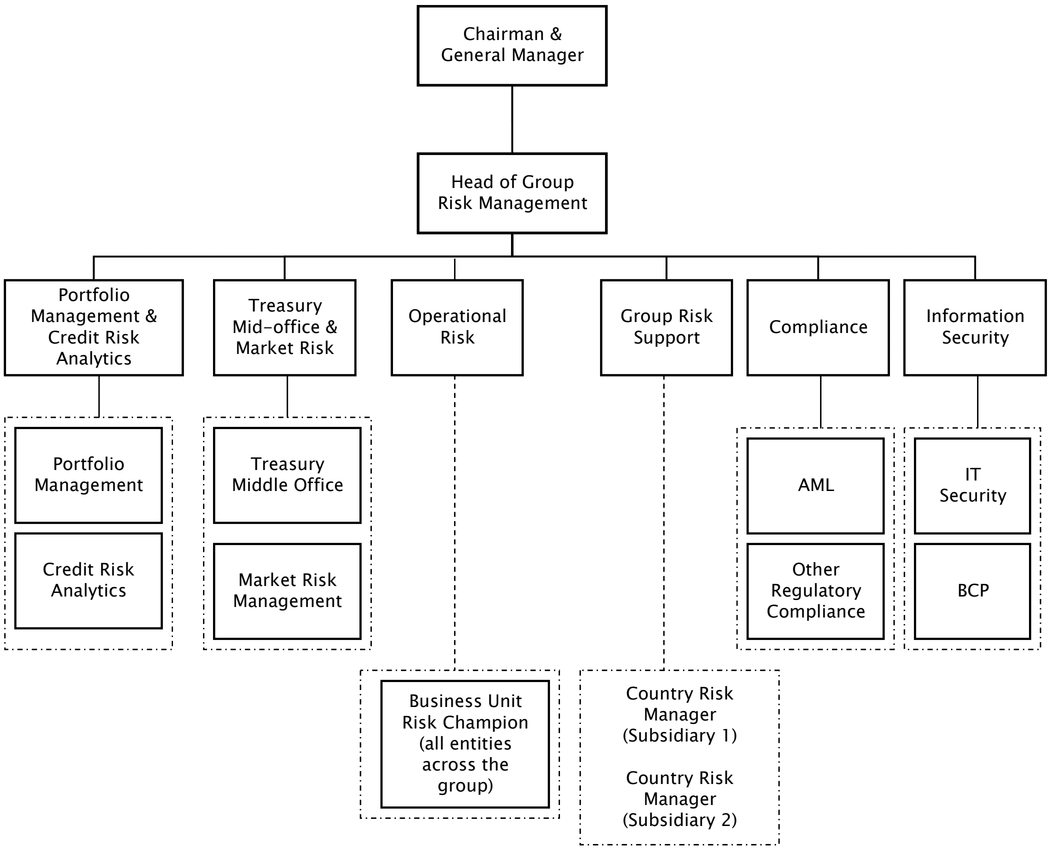
Overview and Structure

In early 2004, in response to a perceived need for a comprehensive risk management function, the Bank restructured its risk organisation and established a separate Group Risk Management Division (the "**GRMD**"). The principal objective of the GRMD is to identify, monitor and manage bank-wide risk management and to implement a set of risk management policies, including policies related to key risk exposures, losses and incidents, and early warning indicators. The primary project currently being undertaken by the GRMD relates to the implementation of the Basel II framework for specifically deriving the capital allocation and assessing risk adjusted performances. While the Bank is still developing a standardised approach for the quantification of credit operational and market risks, the GRMD is currently introducing value-at-risk limits for the market risks and testing the internal ratings-based approach for credit risks through the utilisation of Basel II compliant credit ratings systems for corporate and small and medium-sized enterprises. The GRMD 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 standardised approach. FinStudio will be implemented throughout the Bank's group for both stand-alone reporting at each subsidiary and consolidated reporting. See "*Description of the Bank—Information Systems and Technology*"

In January 2008, the GRMD established a risk management charter, which sets out the appropriate organisation structure to manage the Bank's strategic, operational and financial and compliance risks. The GRMD charter is 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 Board Risk, Anti-Money Laundering and Compliance Committee (the "**BRAMLC**"). See "*—Lending Policies—Board Risk, Anti-Money Laundering and Compliance Committee (BRAMLC)*".

The organisation chart of the GRMD is illustrated below:



Compliance with the various risk management policies is reviewed on an annual basis and any variances from the Bank's standards are reported to Management for remedial action. The Bank also updates its risk management policies annually based on an analysis of the economic trends and the operating environment in the countries in which it operates.

In addition to the BRAMLC, 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 and Compliance Committee and the Information Security Committee. See "*Management and Employees—Committees—Risk Management Committees*".

Asset and Liability Management (ALCO)

Interest rate risk management and trading activities are managed by the ALCO. The primary objectives of the ALCO are to ensure that the level of interest rate and foreign exchange risk are within the regulatory limits, to maximise the Bank's net interest income, to provide adequate liquidity and to maximise the return on the Bank's capital net of fixed assets. The ALCO is comprised of the Head of Finance and Administration Division (who acts as president of the ALCO), the Head of the International Banking Division (who acts as vice-president of the 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 categorised 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 31 December 2008, the average life of customer deposits, the Bank's primary source of funding in Lebanese Pounds, was approximately 58 days, whereas the average duration of its Lebanese treasury bill portfolio was 612 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 31 December 2008, the ratio of loans to deposits in Lebanese Pounds was 10.7%, while the ratio of loans to deposits in foreign currencies was 45.3%. At the same date, 45.2% of loans outstanding and 1.6% of customer deposits had maturities of over one year.

Liquidity Risk

Liquidity risk is the risk that an institution will be unable to meet its net funding requirements, which arise from market disruptions or credit downgrades and which may cause certain sources of funding to dissipate quickly. To guard against this risk, the Bank has diversified its funding sources and assets are managed to protect liquidity through the maintenance of sufficient balances of cash, cash equivalents and marketable securities.

The Bank believes it has sufficient liquid assets to meet foreseeable liability maturity requirements. As at 31 December 2007, the Bank's total loan portfolio (net of provisions) comprised 23.6% of total assets and liquid assets (comprised of cash, reserves and placements held with the Central Bank, Lebanese treasury bills, placements with banks and marketable securities) comprised 71.7% 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. Temporary liquidity needs are managed by maturing Lebanese treasury bills and short-term deposits with local banks, including the Central Bank. The Central Bank 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 31 December 2005, 2006 and 2007, respectively:

	As at 31 December		
	2005	**2006**	**2007**
		(%)	
Cash and banks	42.4	39.5	41.0
Lebanese treasury bills	32.3	33.8	29.8
Fixed income securities	1.4	0.7	0.9
Total	**76.1**	**74.0**	**71.7**

The Central Bank requires banks operating in Lebanon to maintain 15.0% of their term Lebanese Pound customer deposits as cash reserves with the Central Bank, which do not earn interest. Lebanese banks are also required to maintain 25.0% of their demand Lebanese Pound customer deposits as additional non-interest-bearing cash reserves with the Central Bank.

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

The Bank believes that, as at the date of this Prospectus, it is in compliance with all of the Central Bank's reserve requirements.

The liquidity position of the Bank is monitored daily by the ALCO, which thereby aims to minimise risk while ensuring the best use of funds in the prevailing economic conditions. It is the policy of the Bank to maintain liquidity at a high level in times of economic weakness. As at 31 December 2007, the Bank had a net liquidity ratio (net liquid assets to deposits) of 83.92%, as compared to 86.49% as at 31 December 2006 and 90.29% as at 31 December 2005. The Lebanese Pound net liquidity ratio (including Lebanese government treasury bills) was 104.15% as at 31 December 2007, as compared to 115.24% as at 31 December 2006 and 108.65% as at 31 December 2005. The Bank's net liquidity in foreign currency (including Lebanese government eurobonds) was 77.16% as at 31 December 2007, as compared to 74.85% as at 31 December 2006 and 80.44% as at 31 December 2005. The high level of liquidity is further indicated by the Bank's loans-to-deposits ratio, which although increasing from 26.36% at 31 December 2005 to 27.88% as at 31 December 2006 and further to 30.79% as at 31 December 2007, remains at a low level, as compared to 28.90% in the Lebanese banking sector.

In common with most Lebanese banks, the Bank had negative maturity gaps in 2007 concentrated in maturities of up to three months, while the maturity gaps were positive for maturities of more than three months. The contractual maturities of assets and liabilities are determined on the basis of the remaining period at the relevant balance sheet date and do not take into account the effective maturities of many of the Bank's liabilities indicated by the Bank's deposit retention history and availability of liquid funds. Foreign currency placements with international banks have a maturity of three months or less and, in most cases, carry a break clause, even though the benefit of such a provision is not granted to the Bank's customers. In addition, the Bank's loan portfolio is mainly of a short-term nature. See "*Selected Statistical Data for the Bank—Loan Portfolio*".

The following table shows a breakdown of the Bank's maturity profile as at 31 December 2005, 2006 and 2007, respectively:

	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
			(LBP million)		
2007 maturity gap......................	(3,672,747)	(102,725)	(91,989)	3,543,923	1,475,497
2006 maturity gap......................	(1,346,273)	(2,191,941)	(227,643)	4,264,269	587,670
2005 maturity gap......................	(3,056,100)	(791,406)	134,398	4,211,984	544,966

Interest Rate Sensitivity

Interest rate risk arises from the possibility that changes in interest rates will affect future profitability or the fair values of the Bank's interest-earning assets and interest-bearing liabilities. The Bank is exposed to interest rate risk as a result of mismatches in interest rate repricing of assets and liabilities and off-balance sheet items that mature or reprice in a given period. The ALCO monitors interest rate risk through the continual repricing of assets and liabilities on the basis of forecasted rates in both national and international markets, as well as through other traditional risk management strategies.

The following table shows the Bank's interest rate sensitivity as at 31 December 2005, 2006 and 2007, respectively:

	Up to 1 month	From 1 month to 3 months	From 3 months to 1 year	From 1 year to 5 years	Over 5 years
			(*LBP million*)		
Interest rate sensitivity gap 2007	(3,858,958)	(42,870)	138,352	3,292,177	1,157,673
Cumulative interest rate sensitivity gap 2007..........	(3,858,958)	(3,901,828)	(3,763,476)	(471,299)	686,374
Interest rate sensitivity gap 2006	(1,472,072)	(2,184,029)	(30,523)	4,079,668	452,556
Cumulative interest rate sensitivity gap 2006..........	(1,472,072)	(3,656,101)	(3,686,624)	393,044	845,600
Interest rate sensitivity gap 2005	(3,117,284)	(835,983)	193,209	4,167,002	437,205
Cumulative interest rate sensitivity gap 2005..........	(3,117,284)	(3,953,267)	(3,760,058)	406,944	844,149

Market Risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The board of directors has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the ALCO.

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 U.S. Dollars representing 60.0% of its shareholders' equity after adjustment according to specific requirements set by the Central Bank. Pursuant to Central Bank Circular No. 32, the Bank is also allowed to hold a net trading position, debit or credit, not to exceed 1.0% of its net Tier I Capital, as long as the global foreign position does not exceed, at the same time, 40.0% of its Tier I Capital (pursuant to Central Bank Decision No. 6568 dated 24 April 1997).

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 Bank manages credit risk by setting limits for individual borrowers, and groups or borrowers and for geographical and industry segments. The Bank also monitors credit exposures and continually assesses the creditworthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties and limits the duration of exposures. In certain cases, the Bank may also close out transactions or assign them to counterparties to mitigate credit risk.

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

Portfolio Management and Credit Risk Analytics

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 judgemental, multi-criteria model formed of 10 grades and a multitude of financial and business criteria. As at the date of this Prospectus, MRA is used to rate borrowers in the corporate, middle market 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 USD 5 million, encompasses trade and manufacturing, services, contracting and real estate, project finance and syndicated loans. The Bank is currently undertaking the customisation 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 GRMD is in the process of updating the Bank's credit policies and procedures' manual to include framework for the measurement and management of expected and unexpected credit losses. As at the date of this Prospectus, 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 GRMD 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.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems or from external events, and includes legal risk. The Bank's business divisions have the primary responsibility for identifying and managing operational risks.

In order to recognise 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. In 2004, the Bank issued its Operational Risk Management Policy, which formalised the framework for identifying, assessing, monitoring, controlling and reporting operational risks in a consistent and comprehensive manner across the Bank by:

- maintaining strong risk controls, resulting in a distinctive risk management capability and thereby enabling all business divisions to meet their performance and growth objectives;
- enabling adequate capital allocation in respect of the potential impact of operational risks; and
- minimising the impact of operational risks.

Pursuant to the policy, operational risk is controlled through a series of strong internal controls and audits, well-defined segregation of duties and reporting lines and detailed operations manuals and standards. The Bank also has a Risk Committee, which is responsible for ensuring that the Bank's operational risk management policies and procedures are implemented effectively across the Bank. See "*Management and Employees—Committees*".

The Bank manages its risk of dependency on key individuals through a comprehensive personnel policy manual that is regularly updated. It sets out alternate officers for key functions so that the Bank may continue operating should any key officer be unable to continue working or become unavailable.

The Bank manages its information technology risk by having detailed system manuals for all its systems and sub-systems. The Internal Audit Committee vets all additions, modifications and enhancements to core banking systems and sub-systems. In addition, the Bank's security policies and procedures set out who may have access to the system and establish procedures for log-in review and network monitoring.

To protect against the risk of losing electronic data, the Bank has implemented a disaster recovery plan, pursuant to which a disaster recovery site was established and a stringent back-up procedure for all valuable information was implemented. With respect to physical data, the Bank uses secured fireproof lockers under dual control to archive documents. A business continuity plan is designed to ensure that the Bank's operations can continue to function effectively in the event of any unforeseen disasters.

The Bank's operational risk policy also provides for the tracking and quantitative analysis of operational losses, with a view toward predicting and managing operational losses. In addition, in 2004, the Bank created a separate department within the Corporate Risk Management Division to support the business divisions in the management of operational risks.

Nevertheless, operational risk management remains a decentralised function, and management at all levels in the organisation is responsible for managing this risk. In order to help management fulfil 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 minimise similar recurrence; 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.

Internal Controls

The Bank maintains clearly defined operating procedures with respect to internal controls, which are updated as and when necessary to cope with growth in the Bank's size and complexity. The Bank's organisational structure and human resources policies are designed to ensure that all areas of operations are managed and supervised effectively by competent and well-qualified staff. The Internal Audit Committee also reviews the operations of the Bank's internal control systems and reports the results of this review directly to the Audit Committee, which in turn reports directly to the Board of Directors. The Bank is confident that its internal control systems are adequate and it continues to monitor and refine its systems to ensure that this remains the case.

Anti-Money Laundering Policies and Procedures

The Bank recognises the global problem of money laundering and has implemented organisational 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 similar 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 prescribes 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.

Law No. 32 dated 16 October 2008 gave the Special Investigation Commission the power to lift bank secrecy and freeze bank accounts in corruption-related cases.

The Central Bank has 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 the Central Bank.

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 the Basel Committee's consultative document "Customer Due Diligence for Banks", the AMLC adopted the Bank's "Know Your Customer" policy, which has been implemented within the Bank and at all of its subsidiaries and affiliates. The objectives of the Bank's "Know Your Customer" 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 which transactions respond to genuine customer needs and which transactions 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 recognised 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 or on behalf of any entity that is not a customer of the Bank providing all information required by the Bank's "Know Your Customer" policies.

Internal Audit

The Bank's 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 Internal Audit Division has sufficient authority and independence to effectively achieve its responsibilities. The role of the 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 Internal Audit Division has no direct authority or responsibility for any of the activities it audits. In addition, personnel within the 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 Internal Audit Division currently reports directly to the Audit Committee and the Chairman of the Bank.

The 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. As at the date of this Prospectus, the Internal Audit Division consists of 28 experienced auditors; it is expected that the Bank will hire additional professionals, particularly 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 Central Bank 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 centralised 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.

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 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 Credit Policies and Procedures Manual 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 utilisation 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 authorised credit limits.

Board Risk, Anti-Money Laundering and Compliance Committee (BRAMLC)

The principle function of the BRAMLC is the 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 BRAMLC is headed by a member of the Board of Directors and comprised of two other members of the Board.

The objectives of the BRAMLC 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 10.0% of Tier I Capital); to approve major credit policy exceptions, deviations and changes; and to analyse 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; and

- *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;

- 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 minimisation and reward for accepted risks;

- to perform an annual self-assessment of the BRAMLC'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 BRAMLC has direct access to, and receive regular reports from, the Bank's Management. It has the power to conduct or authorise investigations into any matter within its scope and responsibilities. The BRAMLC 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 BRAMLC, 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 authorised limits that may be approved by lower-level credit committees, except large exposures (exceeding the internal lending limits of 10.0% of Tier I Capital), which are submitted to the BRAMLC for approval. The CCC is entrusted with the following responsibilities:

- approving credit proposals recommended by the Corporate Department, the Financial Institutions Department, the International Corporate Department and overseas subsidiaries and branches;
- approving country limits;
- approving credit proposals, which exceed the delegated authorities to other committees; and
- establishing 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 authorised to approve corporate loans in amounts greater than USD 1,000,000 up to USD 3,000,000. The CCC1 is authorised 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 (USD equivalent)	Business Segment	Members
CCC1	Less than or equal to USD 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 Dept - 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 than or equal to USD 3,000,000 and greater than USD 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 is composed of the Head of the Credit Risk Management Division (who acts as the president of the Loan Recovery Committee), 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 Loan Recovery Committee has the following responsibilities:

- assessing and implementing strategies that comply with applicable Central Bank rules and regulations for the recovery and settlement of commercial and retail files and loans that have been transferred to the Loan Recovery Department;
- approving recovery and work-out plans prepared by the Loan Recovery Department;
- approving legal actions against defaulting borrowers;
- approving write-offs upon recommendations from different divisions and the Loan Recovery Department;
- analysing all the statistical data compiled by the Loan Recovery Department and follow-up the evolution of the Bank's loan portfolio; and
- establishing and delegating approval limits for various sub-committees.

All decisions of the Loan Recovery Committee must be approved by a minimum of four members, including the Chairman of the Loan Recovery Committee or his delegate. The Loan Recovery Committee 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>USD 1,250,000</td></tr>
<tr><td rowspan="4">MCC2</td><td></td><td>Middle Market Credit Risk Head or delegate</td><td>USD 750,000</td></tr>
<tr><td rowspan="3">MCC1</td><td>Middle Market Department Head</td><td>USD 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 USD 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 USD 500,000 that 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 USD 500,000, the application is submitted through the normal approval channels.

Lending Limits

Central Bank Decision No. 7055 dated 13 August 1998, as amended by Intermediary Decision No. 9456 dated 9 November 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. See "*The Banking Sector and Banking Regulation in Lebanon—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. MRA, an internal rating system that 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 maximise its reliability and usefulness, while also achieving a certain model stability.

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 organised exchanges and lending is capped at 50.0% 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's 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 110.0% to 120.0% 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 100.0% to 110.0% of the principal amount of the facility. The required coverage for collateral denominated in Lebanese Pounds is 140.0% to 150.0% 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 31 December 2005, 2006 and 2007, respectively:

	As at 31 December		
	2005	**2006**	**2007**
		(% of total)	
Unsecured	36.1	42.9	43.9
Secured by financial securities	2.7	1.8	0.3
Secured by real guarantees	23.0	20.1	18.7
Secured by bank guarantees	2.7	0.6	1.5
Secured by cash collateral	3.3	3.8	9.2
Secured by personal guarantees	32.2	30.8	26.4
Total	**100.0**	**100.0**	**100.0**

Article 152 of the Code of Money and Credit and Central Bank Decision No. 7776 dated 21 February 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 authorised by the shareholders of the bank, must not exceed in aggregate 5.0% 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 31 December 2007, since it had a net direct exposure to related parties of LBP 3,396 million (USD 2,253 thousand) and an indirect exposure to related parties of LBP 1,464 million (USD 971 thousand), representing, in the aggregate, only 0.3% 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 Prospectus.

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 specialised 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 regularised 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 10 November 1998, the Central Bank issued Decision No. 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 unconditional and incomplete documentation; (ii) loans to be followed-up and regularised; (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 Central Bank Decision No. 7159. The Bank's internal classification criteria are more detailed than those of the Central Bank. The Bank continues to adhere to its own loan classification criteria for internal purposes, although reports to the Central Bank and the Banking Control Commission are made in accordance with Central Bank classifications. Management believes that, as at the date of this Prospectus, the Bank is in compliance with all related requirements.

Central Bank loan classifications are more fully described as follows:

- ***Classification 1*** covers current loans. This classification is subdivided as follows:
  - *Classification 1A (uncriticised)* 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 jeopardised 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 31 December 2005, 2006 and 2007, respectively:

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Gross balances:						
Good loans	1,957,835	77.2	2,387,049	81.7	3,122,415	86.6
Watch loans	259,382	10.2	251,075	8.6	281,679	7.8
Substandard loans	53,966	2.1	47,049	1.6	35,495	1.0
Doubtful loans	201,893	8.0	170,048	5.8	113,968	3.1
Bad loans	63,839	2.5	67,849	2.3	54,011	1.5
Total	**2,536,915**	**100.0**	**2,923,070**	**100.0**	**3,607,568**	**100.0**

	As at 31 December					
	2005		2006		2007	
	(LBP million)	*(%)*	*(LBP million)*	*(%)*	*(LBP million)*	*(%)*
Net balances:						
Good loans	1,957,835	84.7	2,387,049	88.2	3,122,415	90.4
Watch loans	259,382	11.2	251,075	9.3	281,679	8.2
Substandard loans	36,740	1.6	31,931	1.2	21,381	0.6
Doubtful loans	57,129	2.5	37,078	1.3	29,281	0.8
Bad loans	0	0.0	0	0.0	0	0
Total	**2,311,086**	**100.0**	**2,707,133**	**100.0**	**3,454,756**	**100.0**

As at 31 December 2007, good and watch loans represented 94.4% of gross loans and 98.6% of net loans, as compared to 90.3% and 97.5% as at 31 December 2006 and 87.3% and 95.9% as at 31 December 2005. 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 1.0% of gross loans and 0.6% of net loans as at 31 December 2007, as compared to 1.6% and 1.2% as at 31 December 2006 and 2.1% and 1.6% as at 31 December 2005. Doubtful and bad loans represented 4.7% of gross loans and 0.8% of net loans as at 31 December 2007, as compared to 8.1% and 1.3% as at 31 December 2006 and 10.5% and 2.5% as at 31 December 2005.

Pursuant to Banking Control Commission Circular No. 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 unrealised interest) of LBP 113,690 million (USD 75 million) for the year ended 31 December 2007, as compared to LBP 45,423 million (USD 30.1 million) and

LBP 75,460 million (USD 50.1 million) for the years ended 31 December 2006 and 31 December 2005, respectively.

Provisions for Loan Losses; Doubtful Loans

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 Central Bank 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.

The following table shows the level of the Bank's doubtful loans as at 31 December 2005, 2006 and 2007, respectively:

	As at 31 December		
	2005	**2006**	**2007**
		(LBP million)	
Total loans	2,536,915	2,923,070	3,607,568
Doubtful accounts	265,732	237,897	167,979
Provisions for doubtful loans and interest	222,186	216,737	159,969
Doubtful /gross loans *(%)*	10.47	8.14	4.66
Provisions / doubtful loans *(%)*(1)	83.61	91.11	95.23
Provisions and reserved interest / gross loans *(%)*(2)	10.24	8.73	5.40

Notes:

(1) Excluding general provisions allocated for the retail loan portfolio for the amount of LBP 20,427 million as at 31 December 2005, LBP 23,254 million as at 31 December 2006 and LBP 20,630 million as at 31 December 2007.

(2) Includes specific provisions and reserved interest on substandard and doubtful loans, as well as general provisions against loans portfolio.

Pursuant to Central Bank Basic Decision No. 7129, dated 15 October 1998 ("**Decision 7129**"), 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 from 14 December 2001, the Central Bank requires banks to constitute provisions in Lebanese Pounds 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 realised 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 95.23% as at 31 December 2007, as compared to 91.11% as at each of 31 December 2006 and 2005.

The following table shows the level of the Bank's provisioning and coverage ratios as at 31 December 2005, 2006 and 2007.

	As at 31 December		
	2005	2006	2007
		(LBP million)	
Classification 3 loans (substandard loans)	53,966	47,049	35,495
Classification 4 & 5 loans (non-performing loans)	265,732	237,897	167,979
Total classified loans	**319,698**	**284,946**	**203,474**
Specific provisions for loan losses.	111,763	108,552	65,690
General provisions.	34,011	39,172	41,901
out of which general provisions for retail.	20,427	23,254	20,630
Reserved interest (substandard loans)	17,226	15,118	14,114
Reserved interest (non-performing loans)	96,840	92,267	73,008
Total provisions and cash collateral	**259,840**	**255,109**	**194,713**
Classified loans (3) / Total loans (%)	2.1	1.6	1.0
Classified loans (4 & 5) / Total loans (%)	10.6	8.2	4.7
Total classified / Total loans (%)	12.8	9.8	5.7
Total provisions / Total loans (%)	10.3	8.8	5.4
Non-performing loan provisions /Non-performing loans[(1)] (%)	91.3	100.0	100.0
Non-performing loan provisions /Non-performing loans[(2)] (%)	83.6	91.1	95.2
Total provisions / Total classified loans (3, 4 & 5) [(1)](%)	**81.3**	**89.5**	**95.7**

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 Lebanon.

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 31 December 2007, or in 2008, and does not anticipate recording significant loan losses in 2009.

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 Prospectus, the Directors of the Bank, elected to serve until the annual Ordinary General Meeting to be held in 2009 to approve the financial statements of the Bank as at and for the year ending 31 December 2008, 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. Albert S. Nassar

Director since 1979; Member of the Board of Byblos Bank Europe; Owner and Chairman – General Manager of Niger Biscuits (Lagos, Nigeria); Chairman of the Board of Sleiman Nassar & Sons Ltd. (Lagos, Nigeria); and Member of the Board of Byblos Invest Holding (Luxembourg).

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 Organisation; 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).

Compensation and Benefits

The annual Ordinary General Meeting of the Bank's Shareholders, held on 14 May 2008, determined the attendance fees payable to members of the Board of Directors at an annual gross sum of LBP 480 million (USD 318.4 thousand) for the year 2008. As at the date of this Prospectus, 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 Prospectus, 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 Organisation, Strategy and Operational Support Services and Human Resources. 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 2007, the aggregate compensation (excluding bonuses) paid to the Senior Managers of the Bank was LBP 5,998 million (USD 3.9 million), which constituted 6.1% of the aggregate compensation paid to all of the Bank's employees for such period. For the first half of 2008, the aggregate compensation (excluding bonuses) paid to the Senior Managers of the Bank was LBP 3,654 million (USD 2.4 million), which constituted 6.2% 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 2007, the Bank recruited 404 employees, of which 218 were recruited by the Bank in Lebanon, 16 for the Bank's branch in Erbil, 10 by Byblos Bank Africa, 94 by Byblos Bank Syria, six by Byblos Bank Europe (three in London and three in Brussels) and 60 by ADIR Lebanon.

The Bank intends to increase the size of its workforce by 6.8% on an annual basis in the medium term (depending on the achieved rate of overseas expansion). The Bank's turnover rate is low (about 4.21% in 2007) 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 2005, the Bank implemented a state-of-the-art human capital management solution, developed by People Soft, automated an attendance management system and introduced equality through a job evaluation system.

In 2007, the Bank introduced a new performance management system, aimed at enabling employees to identify and achieve their personal development objectives. Bank employees participated in an average of ten training hours per employee in 2007 and six training hours per employee in 2008. 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 the trainers, as well as individualised 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 BRAMLC;
- the Audit Committee; and
- the Nomination, Compensation, Remuneration and Communication Committee ("**NCRCC**").

BRAMLC

BRAMLC principal function is one of 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 by periodically:

- reviewing and assessing the integrity and adequacy of risk management functions of the Bank;
- reviewing policies and procedures related to the different risks faced by the Bank;
- reviewing the adequacy of the Bank's capital and its efficient allocation to the Bank's businesses; and
- reviewing certain risk limits and risk reports and making recommendations to the Board of Directors.

BRAMLC has direct access to, and receives regular reports from, the Bank's Management. It has the remit to conduct or authorise investigations into any matter within the committee's scope and responsibilities.

See "—*Lending Policies—Board Risk, Anti-Money Laundering and Compliance Committee (BRAMLC)*".

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 Prospectus, the members of the Audit Committee are Mr. Moussa A. Maksoud (appointed as chairman of the Audit Committee by the Board), Mr. Ahmad T. Tabbarah, 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.

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 president of the Management Committee), the Head of the Commercial Banking Division (who acts as vice-president of the Management Committee), the Head of the International Banking Division, the Head of the Credit Risk Management Division, the Head of the Consumer Banking Division, the Head of the Finance and Administration Division and the Head of the Financial Markets Division.

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 organisational changes and significant capital expenditures.

Internal Audit Management Committee

The Internal Audit Management Committee is composed of the Head of the Internal Audit Division (who acts as president of the Internal Audit Management Committee), the Head of the Group Risk Management Division (who acts as vice-president of the Internal Audit Management Committee), the Vice-Chairman, the Head of the Consumer Banking Division, and the Head of the 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 president of the HRC), the Head of Commercial Banking Division (who acts as vice-president of the HRC), the Head of the Consumer Banking Division, the Head of the Credit Risk Management Division, the Head of Organisation Strategy and Operational Support and the Head of the Human Resources 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 Commercial Banking Division (who acts as president of the Banking Technology Committee), the Head of the Organisation Strategy and Operational Support (who acts as vice-president of the Banking Technology Committee), the Vice Chairman, the Head of the Finance and Administration Division, the Head of the Internal Audit Division, the Head of the Banking Technology Division and the Head of the Consumer Banking 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 Head of the International Division (who acts as president of the International Committee), the Head of the Organisation Strategy and Operational Support (who acts as vice president of the International Committee), the Vice Chairman, the Head of the Commercial Banking Division, the Head of the Finance and Administration Division, the Head of the Group Risk Management Division and the Head of the 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 BRAMLC, the CCC, the MMCC, the Loan Recovery Committee, the Retail Credit Committee, the Small Lending Credit Committee and the Branch Credit Committee. See "*Risk Management, Internal Controls and Compliance—Lending Policies—Loan Approval Procedures*".

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 president of the Risk Committee), the Head of the Credit Risk Management Division (who acts as vice-president of the Risk Committee), the Vice Chairman, the Head of the Commercial Banking Division and the Head of the 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

The ALCO is composed of the Head of the Finance and Administration Division (who acts as president of the ALCO), the Head of the International Banking Division (who acts as vice-president of the 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.

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. See "*Risk Management, Internal Control and Compliance—Asset and Liability Management (ALCO)*".

Operational Risk Management Committee

The Operational Risk Management Committee is composed of the Head of the Group Risk Management Division (who acts as president of the Operational Risk Management Committee), the Head of the Organisation Strategy and Operational Support (who acts as vice-president of the Operational Risk Management Committee), the Vice Chairman, the Head of the Consumer Banking Division, the Head of the Credit Risk Management Division and the Head of the 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

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

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 president of the Information Security Committee), the Head of the Banking Technology Division (who acts as vice-president of the Information Security Committee), the Vice Chairman and the Head of the Internal Audit Division.

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 organisation 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 organisational objectives.

Corporate Governance

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

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 "*Risk Management, Internal Controls and Compliance—Lending Policies—Lending Limits*") and must be authorised 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 Central Bank Decision No. 7776 dated 21 February 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 5.0% 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 equity for purposes of computing the capital adequacy ratio and other equity-related ratios. In addition, Central Bank's Decision No. 7156 dated 10 November 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.

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 31 December 2005, 2006 and 2007 and as at 30 September 2008:

	As at 31 December			As at 30 September
	2005	**2006**	**2007**	**2008**
		(LBP million)		
Loans and advances (net of provisions)	—	9,473	21,785	7,954
Deposits	19,600	40,773	86,590	48,738
Shareholders' credit balances	428	507	516	171
Interest received	—	333	2,257	346
Interest paid	3,317	1,773	7,312	2,719

As at 31 December 2008, 1,410 employees of the Bank had been granted loans from the Bank, which remained outstanding. All such loans were extended on standard market terms.

THE BANKING SECTOR AND BANKING REGULATION IN LEBANON

Role of the Central Bank

The Central Bank was created by the Law implemented by Decree No. 13513 dated 1 August 1963. The Central Bank 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. The Central Bank is managed by a Governor assisted by four Vice-Governors, collectively constituting the Governorship of the Central Bank. The Board of the Central Bank 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.

The Central Bank's primary role is to safeguard the currency and promote monetary stability, thereby creating a sound environment for economic and social progress. The Central Bank also advises the Government on various economic and financial matters. In conducting its monetary management function, the Central Bank 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 the Central Bank.

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 76.0% as at 31 December 2007.

Banking Sector

As at 31 December 2007, there were 54 commercial banks (including branches of foreign banks), with 847 operational branches in Lebanon, 43 financial institutions and 12 specialised medium-and long-term credit banks in Lebanon. 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, the Central Bank required banks to raise their capital adequacy ratios to 10.0% by 31 December 2000 and 12.0% by 31 December 2001. Law No. 192 dated 4 January 1993 facilitated bank mergers by, among other things, making banks eligible for soft loans from the Central Bank. Such law was renewed until the year 2003. Pursuant to Law No. 675 dated 14 February 2005 published in the Official Gazette No. 8 dated 24 February 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 31 December 2006, the average capital adequacy ratio was approximately 25% according to statistics compiled by the Central Bank.

In addition, Parliament passed legislation to revitalise specialised banks (for housing, agriculture and industry). The 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 USD 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 31 December 2006 and 2007 and 30 September 2008, respectively:

Ranking by Customer Deposits

	31 December 2006			31 December 2007			30 September 2008[1]		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	17,859,545	21.01	1	21,555,905	21.04	1	25,229,901	22.16	1
BLOM Ban k S.A.L.	17,690,381	20.81	2	20,708,516	20.21	2	22,741,275	19.98	2
Byblos Bank S.A.L.	**9,461,489**	**11.13**	**3**	**10,931,048**	**10.67**	**3**	**12,118,729**	**10.65**	**3**
Bankmed S.A.L.	7,073,751	8.32	4	10,440,761	10.19	4	11,100,279	9.75	4
Fransabank S.A.L.	6,500,858	7.65	5	9,306,113	9.08	5	10,241,266	9.00	5
Banque Libano Française S.A.L.	6,285,526	7.40	6	7,571,670	7.39	6	8,067,652	7.09	6
Bank of Beirut S.A.L.	4,845,245	5.70	7	5,480,780	5.35	7	5,852,672	5.14	7
Crédit Libanais S.A.L.	4,354,298	5.12	8	4,819,537	4.70	8	5,551,546	4.88	8
Lebanese Canadian Bank S.A.L.	3,868,060	4.55	9	4,524,513	4.42	9	5,048,183	4.43	9
B.B.A.C. S.A.L.	3,418,795	4.02	11	3,743,818	3.65	10	4,125,919	3.62	10
Société Générale de Banque au Liban (SGBL) S.A.L.	3,631,724	4.27	10	3,392,638	3.31	11	3,761,440	3.30	11
Total	**84,989,672**	**100.00**		**102,475,299**	**100.00**		**113,838,861**	**100.00**	

Source: Bankdata.

Note:
(1) Based on unaudited financial statements of the Alpha Group banks as filed with the Central Bank.

Ranking by Net Profits

	31 December 2006			31 December 2007			30 September 2008[1]		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
BLOM Bank S.A.L.	271,804	28.06	1	308,586	25.63	1	298,627	24.33	1
Bank Audi S.A.L. – Audi Saradar Group.	247,415	25.54	2	301,909	25.07	2	272,287	22.19	2
Byblos Bank S.A.L.	**118,687**	**12.25**	**3**	**149,518**	**12.42**	**3**	**119,179**	**9.71**	**3**
Bankmed S.A.L.	4,855	0.50	11	60,646	5.04	8	106,202	8.65	4
Fransabank S.A.L.	82,178	8.48	4	91,504	7.60	4	100,229	8.17	5
Banque Libano-Française S.A.L.	63,326	6.54	6	82,218	6.83	7	75,271	6.13	6
Bank of Beirut S.A.L.	55,824	5.76	5	66,360	5.51	6	74,465	6.07	7
Crédit Libanais S.A.L.	44,802	4.63	7	46,048	3.82	5	66,738	5.44	8
Société Générale de Banque au Liban (SGBL) S.A.L.	12,660	1.31	10	19,955	1.66	9	47,004	3.83	9
Lebanese Canadian Bank S.A.L.	41,478	4.28	8	45,244	3.76	11	33,880	2.76	10
B.B.A.C. S.A.L.	25,549	2.64	9	32,024	2.66	10	33,282	2.71	11
Total	**968,578**	**100.00**		**1,204,211**	**100.00**		**1,227,164**	**100.00**	

Source: Bankdata.

Note:
(1) Based on unaudited financial statements of the Alpha Group banks as filed with the Central Bank.

Ranking by Total Assets

	31 December 2006			31 December 2007			30 September 2008[1]		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	21,353,746	20.15	2	26,107,626	20.56	1	30,082,927	21.41	1
BLOM Bank S.A.L.	21,424,611	20.22	1	25,067,014	19.74	2	26,833,631	19.10	2
Byblos Bank S.A.L.	**12,346,758**	**11.65**	**3**	**14,295,902**	**11.26**	**3**	**16,372,586**	**11.65**	**3**
Bankmed S.A.L.	9,835,240	9.28	4	13,769,431	10.84	4	14,805,851	10.54	4
Fransabank S.A.L.	7,881,801	7.44	5	10,962,034	6.63	5	12,299,683	8.75	5
Banque Libano-Française S.A.L.	7,673,694	7.24	6	9,049,296	7.13	6	9,689,886	6.90	6
Bank of Beirut S.A.L.	6,979,418	6.59	7	7,914,807	6.23	7	8,397,953	5.98	7
Crédit Libanais S.A.L.	5,205,458	4.91	8	5,692,783	4.48	8	6,432,816	4.58	8
Lebanese Canadian Bank S.A.L.	4,717,524	4.45	9	5,333,915	4.20	9	5,862,117	4.17	9
Société Générale de Banque au Liban (SGBL) S.A.L.	4,496,060	4.24	10	4,349,803	3.43	11	4,957,600	3.53	10
B.B.A.C. S.A.L.	4,061,901	3.83	11	4,450,395	3.50	10	4,766,146	3.39	11
Total	**106,012,215**	**100.00**		**126,993,006**	**100.00**		**135,134,711**	**100.00**	

Source: Bankdata.

Note:
(1) Based on unaudited financial statements of the Alpha Group banks as filed with the Central Bank.

Ranking by Shareholders' Equity[1]

	31 December 2006			31 December 2007			30 September 2008[2]		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	2,560,709	26.46	1	2,749,257	25.52	1	2,937,160	23.84	1
BLOM Bank S.A.L.	1,916,544	19.81	2	2,092,410	19.42	2	2,166,735	17.59	2
Byblos Bank S.A.L.	**1,082,371**	**11.18**	**3**	**1,148,248**	**10.66**	**3**	**1,517,899**	**12.32**	**3**
Bankmed S.A.L.	857,319	8.86	4	1,105,916	10.27	4	1,380,104	11.20	4
Fransabank S.A.L.	677,252	7.00	6	784,412	7.23	5	1,067,338	8.66	5
Banque Libano-Française S.A.L.	660,152	6.82	5	722,886	6.72	6	764,833	6.21	6
Bank of Beirut S.A.L.	564,351	5.83	7	713,298	6.46	7	692,356	5.62	7
Crédit Libanais S.A.L.	531,379	5.49	8	544,775	5.07	8	570,349	4.63	8
Société Générale de Banque au Liban (SGBL) S.A.L.	221,478	2.29	11	242,381	2.25	11	448,384	3.64	9
Lebanese Canadian Bank S.A.L.	316,575	3.27	9	355,820	3.31	9	425,084	3.45	10
B.B.A.C. S.A.L.	288,880	2.99	10	312,890	2.91	10	350,064	2.84	11
Total	**9,677,010**	**100.00**		**10,749,781**	**100.00**		**12,320,306**	**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) Based on unaudited financial statements of the Alpha Group banks as filed with the Central Bank.

Ranking by Loans and Advances

	31 December 2006			31 December 2007			30 September 2008[1]		
	(LBP million)	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*	*(LBP million)*	*(%)*	*(Rank)*
Bank Audi S.A.L. – Audi Saradar Group	4,877,082	23.23	1	7,684,632	26.76	1	9,029,926	24.62	1
BLOM Bank S.A.L.	2,996,698	14.27	2	4,179,307	14.56	2	5,374,814	14.65	2
Bankmed S.A.L.	2,162,238	10.30	4	3,083,429	10.74	4	4,966,172	13.54	3
Byblos Bank S.A.L.	**2,637,722**	**12.56**	**3**	**3,366,013**	**11.72**	**3**	**4,142,703**	**11.29**	**4**
Banque Libano-Française S.A.L.	2,104,575	10.02	5	2,503,789	8.72	5	3,036,687	8.28	5
Fransabank S.A.L	1,290,940	6.15	7	2,156,208	7.51	6	2,559,886	6.98	6
Bank of Beirut S.A.L.	1,241,591	5.91	8	1,606,695	5.60	7	2,250,004	6.13	7
Société Générale de Banque au Liban (SGBL) S.A.L.	1,308,289	6.23	6	1,234,123	4.30	8	1,523,216	4.15	8
Lebanese Canadian Bank S.A.L.	735,869	3.51	10	1,002,133	3.49	10	1,498,657	4.09	9
Crédit Libanais S.A.L.	981,276	4.67	9	1,150,331	4.01	9	1,408,731	3.84	10
B.B.A.C. S.A.L.	658,324	3.14	11	744,975	2.59	11	890,719	2.43	11
Total	**20,994,604**	**100.00**		**28,711,635**	**100.00**		**36,681,515**	**100.00**	

Source: Bankdata.

Note:
(1) Based on unaudited financial statements of the Alpha Group banks as filed with the Central Bank

Banking Regulations

Banking activities in Lebanon are governed by the Code of Commerce, the Code of Money and Credit and Central Bank Decisions. Regulations are set out by the Central Bank 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 the Central Bank, 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 Central Bank Decision No. 7776 dated 21 February 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 13 November 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, the Central Bank 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 31 December 2004 and 5.0% as at 31 December 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.

Central Bank Decision No. 7156, dated 10 November 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 2 June 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 the Central Bank 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 27 September 2001, the Central Bank issued Decision No. 7935, as amended, implementing Decision No. 7926, dated 20 September 2001, pursuant to which all banks operating in Lebanon must maintain in cash with the Central Bank 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 the Central Bank on foreign currency-denominated deposits.

On 16 December 2002, the Central Bank amended Decision No. 7926, dated 20 September 2001, pursuant to which all banks operating in Lebanon must subscribe to Lebanese treasury bills or eurobonds issued by the 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 31 October 2002. Subscription was effected in five equal instalments on each of 17 January 2003, 18 February 2003, 18 March 2003, 18 April 2003 and 16 May 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, the Central Bank issued certificates of deposit, which the banks were permitted to purchase in satisfaction of their subscription obligations.

Pursuant to Central Bank Decision No. 6101 dated 8 February 1996, as amended, the Central Council of the Central Bank 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 15 July 1983.

Central Bank Decision No. 7693 dated 18 October 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 the Central Bank and (iii) cash deposited with other banks with a remaining time-to-maturity less than or equal to one year.

Central Bank Decision No. 7694 dated 18 October 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 the Central Bank, (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 Central Bank Decision No. 6939, dated 25 March 1998, all banks operating in Lebanon are required to maintain a minimum capital adequacy ratio of 12.0% as from 31 December 2001.

During the past years, the capital of commercial banks in Lebanon has increased substantially. As at 31 December 2006 (the most recent available), the average capital adequacy ratio was approximately 25.0% according to statistics compiled by the Central Bank.

Central Bank Decision No. 6938, dated 25 March 1998, was amended on 8 September 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 Central Bank Decision 9302 dated 1 April 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 1 January 2008. In addition, as of 31 December 2006, Lebanese banks must include reserves for unspecified banking risk in the calculation of their capital adequacy ratio. Pursuant to Article 7 of Central Bank 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 30 April 2006.

On 24 September 2007, Central Bank Decision No. 6938 dated 25 March 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 Central Bank Basic Decision No. 9957 ("**Decision 9957**") dated 21 July 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

Central Bank Decision No. 9382 dated 26 July 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 Central Bank Basic Decision No. 9956 dated 21 July 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 Central Bank 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 30 June 2009 and to inform the Banking Control Commission of the names of its members. The Bank established its Audit Committee on 19 July 2004, being the first among the Lebanese banks to do so.

Credit Limits

Central Bank Decision No. 7055 dated 13 August 1998, as amended by Intermediary Decision No. 9456 dated 9 November 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 31 December 2007 to comply with its provisions

Foreign Exchange Trading

Central Bank Decision No. 6568, dated 24 April 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

Central Bank Decision No. 7159, dated 10 November 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 "*Risk Management, Internal Controls and Compliance—Lending Policies—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 Central Bank 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 "*Risk Management, Internal Controls and Compliance—Provisions for Loan Losses*".

Reserves for General Banking Risk

Pursuant to Central Bank Basic Decision No. 7129 dated 15 October 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.

Accounting Standards

Effective in 1997, all Lebanese banks are required to prepare their financial statements in accordance with 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.

Central Bank Decision No. 6576 dated 24 April 1997, requires Lebanese banks to prepare consolidated financial statements effective 1 July 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".

Regulations Governing Global Depositary Shares

Central Bank Decision No. 7431 dated 29 October 1999, as amended ("**Decision 7431**") requires Lebanese banks to take necessary steps to provide to the Banking Control Commission twice a year, before the end of July and January, a list setting forth the names of (i) each person who holds GDSs representing 5.0% or more of the bank's outstanding GDSs, (ii) each person who holds GDSs and owns 5.0% or more of the bank's outstanding shares, irrespective of the number of such GDSs and (iii) each person who holds GDSs and shares representing 5.0% or more of the bank's share capital. In calculating the percentage ownership of any GDR holder, the interests of any spouse and minor children of such holder and any financial groups (as defined by the Central Bank) of which such holder is a part are taken into account.

Decision 7431 also limits a Lebanese bank's ability to buy-back GDSs representing shares of the bank to 5.0% of the bank's outstanding shares and its ability to buyback a combination of GDSs representing shares of the bank and tradable shares of the bank to 10.0% of the bank's outstanding listed and non-listed shares. The prior authorization of the Central Bank is required for any buyback of GDSs within such limits and any such buy-back may only be funded from the bank's free cash reserve. The required Central Bank authorization is granted on a case-by-case basis and remains effective only for a limited period of time.

The number of outstanding GDSs representing shares of a Lebanese bank may not exceed 30.0% of the Bank's outstanding share capital (excluding preferred shares).

A Lebanese bank must ensure that the depositary votes or causes to be voted the deposited shares in respect of all resolutions submitted to a general meeting of shareholders in accordance with the voting instructions it has received from the holders of the related global depositary shares or receipts. Such depositary must deliver a certificate that will be maintained at the bank, evidencing its compliance with such voting instructions.

DESCRIPTION OF THE SHARE CAPITAL OF THE BANK

Capital Structure

As of the date of this Prospectus, 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 1,200 per share, all of which are fully paid-up; (ii) 1,000,000 Series 2003 Preferred Shares, with a par value of LBP 1,200 per share, which were issued on 30 May 2003 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up; (iii) 2,000,000 Series 2008 Preferred Shares, with a par value of LBP 1,200 per share, which were issued on 29 August 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per share, all of which are fully paid-up; and (iv) 206,023,723 Priority Shares, with a par value of, and which were issued at a price of, LBP 1,200 per share, all of which are fully paid up. All the Bank's Common Shares, Priority Shares and Series 2003 Preferred Shares are listed on the BSE.

Form and Settlement

All of the Bank's Common Shares, Priority Shares, Series 2003 Preferred Shares and Series 2008 Preferred Shares are in registered form. Interests in the Common Shares, Priority Shares and 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, a joint stock company organised under the laws of Lebanon, which is 99% owned by the Central Bank 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 authorisation of the Central Bank. 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-authorised 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 authorised to buy back its own 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 24 March 2003, 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 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 30 May 2003 pursuant to Law 308 (as defined below) at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per Series 2003 Preferred Share.

- On 12 May 2005, 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 206,023,723 Priority Shares, with a par value of LBP 1,200 per share. The Priority Shares were issued on 10 December 2005 pursuant to Article 109 of the Lebanese Code of Commerce at a price equal to their par value.

- On 16 January 2006, the Bank's shareholders adopted resolutions at an Extraordinary General Meeting authorising 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 6 March 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 7 March 2006 in accordance with BSE Circular No. 211/2006 dated 6 March 2006.

- On 24 January 2008, the Bank's shareholders adopted resolutions at an Extraordinary General Meeting authorising the increase of the share capital of the Bank by LBP 14,506,600,800 (USD 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 USD 27 million, together with accrued interest thereon.

- On 18 July 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 29 August 2008 pursuant to Law 308 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per Series 2008 Preferred Share.

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 14 May 2008, the Bank's shareholders approved the distribution of dividends out of the Bank's net income in 2007 (before taxes of 5.0%) of LBP 157.9 (USD 0.105) per Common Share, LBP 205.9 (USD 0.137) per Priority Share (comprised of the regular dividend of LBP 157.9 (USD 0.105) per Priority Share plus the priority dividend equivalent to 4.0% of the nominal value of the Priority Share as provided in the terms of the Priority Shares) and USD 12.00 per Series 2003 Preferred Share. Total dividends paid in respect of 2007 represented 62.2% 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 30 September 2008 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	3.60
Mr. Albert Sleiman Nassar	500	—
Mr. Bassam Albert Nassar	500	—
Mr. Semaan Francois Bassil	2,357,386	0.56
Mr. Faisal Mohmad Ali Tabsh	243,114	0.06
Mr. Hassan Najib Mounla	12,882	—
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	**18,101,078**	**4.27**

Notes:

(1) Percentage of total share capital consisting of 424,136,280 Common Shares, Series 2003 Preferred Shares and Priority Shares as at the date of this Prospectus.

(2) Dr. François Semaan Bassil and Mr. Semaan François Bassil are father and son, respectively. Mr. Albert Sleiman Nassar and Mr. Bassam Albert Nassar 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 is the largest shareholder of the Bank, with an ownership interest, as at the date of this Prospectus constituting 41.9% of the outstanding paid-up capital of the Bank. Byblos Invest Holding 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 25.8% of the share capital of Byblos Invest Holding.

The table below sets forth the principal shareholders of the Bank as at 30 September 2008, the number of shares held by each and the percentage ownership interests represented thereby. All other shareholders of the Bank, which numbered over 4,200 as at 30 September 2008, each owns less than 1.0% of the Bank's total outstanding share capital.

Name	Total Shares[1]	Percentage Ownership[1]
Byblos Invest Holding S.A. Luxembourg[2]	177,718,015	41.90
Anasco Holding Company S.A.[3]	18,133,660	4.28
Dr. François Semaan Bassil	15,262,808	3.60
Vectra Holding S.A.L[4].	12,367,382	2.92
Mr. Rami Rifaat El Nimr	11,154,361	2.63
Frabas Corporation[5]	7,226,100	1.70
BLOM Invest S.A.L.	6,923,917	1.63
Blakeney LP	6,052,866	1.43
Mr. Ali Hassan Dayekh.	5,154,412	1.22
Blakeney Investors SICAV.	4,247,788	1.00

Notes:

(1) Percentage of total share capital consisting of 424,136,280 Common Shares, Series 2003 Preferred Shares and Priority Shares as at the date of this Prospectus.

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

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

(5) A Panama holding company, 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 Common Shares

For additional information regarding the terms of the GDSs, see "Summary", as well as the proposed resolutions of the Bank's Board of Directors authorising the issuance of the GDSs, 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 Prospectus

General

As of the date of this Prospectus, the Bank's common share capital consists of 217,112,557 Common Shares, with a par value LBP 1,200 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 GDSs, 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. 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 Prospectus, the Bank's priority share capital consists of 206,023,723 Priority Shares, with a par value of LBP 1,200 per share, which were issued on 10 December 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 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 and the Series 2003 Preferred Shares

The following is a summary of certain terms and conditions of the Bank's Series 2008 Preferred Shares and Series 2003 Preferred Shares and the rights relating thereto.

General

As at the date of this Prospectus, the Bank's preferred share capital includes (i) 1,000,000 Series 2003 Preferred Shares, each with a par value of LBP 1,200 per share, which were issued on 30 May 2003 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per Series 2003 Preferred Share, all of which are issued and fully paid and (ii) 2,000,000 Series 2008 Preferred Shares, each with a par value of LBP 1,200 per share, which were issued on 29 August 2008 at a price of, and may, subject to certain conditions, be redeemed by the Bank at, USD 100.00 per Series 2008 Preferred Share, all of which are issued and fully paid.

Description of the Series 2008 Preferred Shares

Distributions

Distributions, when declared, shall be paid annually after the relevant 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 2003 Preferred Shares and any other preferred shares of the Bank at the time outstanding and ranking *pari passu* with the Series 2008 Preferred Shares; (ii) the Bank's continued compliance with all applicable Central Bank 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 by the Bank's shareholders out of unconsolidated distributable net income for the relevant year by the 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 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). 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 distributions to the holders of the Preferred Shares (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 2008 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 2003 Preferred Shares and holders of Series 2008 Preferred Shares may not exceed unconsolidated distributable net income for the year

Unless otherwise provided under applicable laws, holders of Series 2008 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 2008 Preferred Shares shall rank *pari passu* with the Series 2003 Preferred Shares and any future series of preferred shares that may be issued by the Bank 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 liquidation, dissolution or winding up of the Bank (other than as to 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 liquidation, dissolution or winding-up of the Bank are insufficient to cover the liquidation preferences payable to the holders of Series 2008 Preferred Shares, Series 2003 Preferred Shares or any future series of preferred shares of the Bank ranking *pari passu* with the Series 2008 Preferred Shares, the amounts payable to such holders will be reduced on a *pro rata* basis.

Notwithstanding the foregoing, the Series 2003 Preferred Shares and the Series 2008 Preferred Shares shall be separately governed by their respective specific terms in respect of distributions, liquidation preferences and otherwise.

The Series 2008 Preferred Shares shall rank senior to the Common Shares of the Bank and the Priority Shares of the Bank in respect of the right to receive distributions and the right to receive the liquidation preference out of the assets of the Bank upon liquidation, dissolution 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 liquidation, dissolution 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 2008 Preferred Shares.

The Series 2008 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 liquidation or winding-up of the Bank, the holders of the Series 2008 Preferred Shares shall be entitled, on a *pro rata* basis with any other preferred shares that may be issued by the Issuer, including the Series 2003 Preferred Shares, 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 USD 100.00 per Preferred Share, plus (ii) all declared but unpaid Distributions in respect of the Series 2008 Preferred Shares.

The liquidation preference will be subject to adjustment to reflect the occurrence of a stock split or a reverse stock split affecting the Bank's share capital, but will not be adjusted to reflect any other event.

If the Bank is liquidated, the surplus, if any, remaining after payment of the Bank's debts, liquidation expenses (including the liquidation preference), all of its remaining obligations and the 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 2008 Preferred Shares shall not have voting rights.

Holders of Series 2008 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 2003 Preference Shares, 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) capital increase by way of a contribution in kind of assets; and (iii) dissolution, liquidation or a merging or acquisition scheme in which the Bank is a party.

In addition, pursuant to applicable Lebanese law, including, in particular, Law 308, holders of Series 2008 Preferred Shares shall have the right to participate in discussions 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 2003 Preference Shares, 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 2008 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 2008 Preferred Shares is cured.

Call Option

Subject to compliance with applicable Central Bank 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 25.0%, each time, of the original issue size or, if less, 100.0% of the Series 2008 Preferred Shares then remaining outstanding) of the Series 2008 Preferred Shares at the time outstanding: (i) at any time after the issue date of the Series 2008 Preferred Shares, if a change in applicable law or regulations that, in the opinion of the Bank, would be reasonably likely to result (x) in the aggregate issue price for the Series 2008 Preferred Shares not being included in the Bank's Tier I Capital or (y) in the Bank not being permitted to maintain the issue premium in U.S. Dollars; and (ii) within 60 days following the date of the General Meeting of shareholders (or such other shareholders' meeting) held to approve the annual accounts of the Bank for the year 2013 and for each subsequent year thereafter, in its sole discretion, in each case, at a price equal to USD 100.00 per share (subject to adjustment to reflect the occurrence of a stock split or a reverse stock split affecting the Bank's share capital), plus any declared but unpaid distributions in respect of the Series 2008 Preferred Shares, provided that no distributions shall be payable in respect of any Series 2008 Preferred Shares for the year in which such Series 2008 Preferred Shares are redeemed and cancelled.

Certain matters relating to the redemption of the Series 2008 Preferred Shares may require Central Bank approval.

In the case of redemption and cancellation of a part only of the Series 2008 Preferred Shares at the time outstanding, such redemption and cancellation will be on a *pro rata* basis.

Upon any redemption of Series 2008 Preferred Shares, such Series 2008 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.

Holders of Series 2008 Preferred Shares do not have the benefit of any put option or other right to require the Bank to repurchase Series 2008 Preferred Shares and, although the Bank has the right to redeem and cancel the Series 2008 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 the Central Bank and the Banking Control Commission.

Transfers of Series 2008 Preferred Shares

There are no restrictions imposed by the Central Bank on the transfer of Series 2008 Preferred Shares.

Description of the Series 2003 Preferred Shares

The principal terms of the Series 2003 Preferred Shares are identical to the principal terms of the Series 2008 Preferred Shares, except that, subject to the same conditions applicable to the payment of distributions in respect of the Series 2008 Preferred Shares, distributions in respect of the Series 2003 Preferred Shares shall be payable on account of year 2003 and subsequent, on a *pro rata* basis, at a fixed amount of USD 12.00 per Series 2003 Preferred Share.

DESCRIPTION OF THE GLOBAL DEPOSITARY SHARES

*The following is a summary of certain provisions of the Deposit Agreement dated as of 6 February 2009, among the Bank, the Depositary and the Owners and Beneficial Owners (as defined in the Deposit Agreement) from time to time of GDSs (the "**Deposit Agreement**"), pursuant to which the GDSs are to be issued. Terms used in this description and not otherwise defined shall have the meanings set forth in the Deposit Agreement. Copies of the Deposit Agreement will be available for inspection at the Corporate Trust Office of the Depositary, currently located at 101 Barclay Street, New York, New York 10286, and at the principal Beirut, Lebanon office of the Custodian and agent of the Depositary under the Deposit Agreement. The Depositary's principal executive office is located at One Wall Street, New York, New York 10286.*

Each GDS represents 50 Common Shares of the Bank.

Settlement

The GDSs settle through the book-entry settlement systems of Euroclear, Clearstream and Midclear. The Master GDR evidencing the GDSs is in registered form, registered in the name of a nominee for the common depositary for Euroclear and Clearstream. Accordingly, each person owning a beneficial interest in the Master GDR must rely upon the records and procedures of the institutions having accounts with Euroclear or Clearstream, as applicable, to exercise or be entitled to any rights of an Owner. The securities account records of Euroclear and Clearstream shall, in the absence of manifest error, be conclusive evidence of the identity of the Owners and of the number of GDSs credited to the securities accounts of such Owners.

Settlement of the GDSs will take place through Euroclear and Clearstream in accordance with customary settlement procedures in the Euromarket. None of the Bank, the Depositary or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in any GDSs or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. If Euroclear or Clearstream ceases to make its book-entry settlement system available for the GDSs, the Bank will consult with the Depositary regarding other arrangements for book-entry settlement. In the event that it is impracticable without undue effort or expense to continue to have the GDSs available in book-entry form, the Bank will instruct the Depositary to make separate GDRs available to all Beneficial Owners, with such modification to the form of GDRs and the Deposit Agreement as the Bank and the Depositary may agree, subject to the terms of the Deposit Agreement.

The GDRs will be endorsed with a legend regarding certain restrictions on transfer in substantially the form set forth under "*Deemed Acknowledgements by Owners and Beneficial Owners*".

Deposit, Transfer and Withdrawal

The Depositary has agreed, subject to the terms and conditions of the Deposit Agreement, that upon delivery to the Custodian of Shares (or evidence of rights to receive Shares) and pursuant to appropriate instruments of transfer in a form satisfactory to the Custodian, the Depositary will, upon payment of the fees, charges and taxes provided in the Deposit Agreement, execute and deliver at its Corporate Trust Office to, or upon the written order of, the person or persons named in the notice of the Custodian delivered to the Depositary or requested by the person depositing such Shares with the Depositary, a GDR or GDRs, registered in the name or names of such person or persons, and evidencing any authorised number of GDSs requested by such person or persons.

Except as otherwise provided in the Deposit Agreement, any deposit of Shares for GDSs must be accompanied by: (a) a written acknowledgement and certification by or on behalf of the person who will be the Beneficial Owner of the GDSs to be issued upon deposit of such Shares that (i) the GDSs, and the Shares represented thereby have not been registered under the Securities Act, (ii) it is not a U.S. person (within the meaning of Regulation S under the Securities Act) and is located outside the United States (within the meaning of Regulation S) and acquired, or has agreed to acquire and will acquire, the Shares to be deposited outside the United States, (iii) it is not an affiliate of the Bank or a person acting on behalf of such an affiliate and (iv) it is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Shares to be deposited from the Bank or any affiliate thereof; (b) an agreement that it will comply with the restrictions on transfer set forth under "*Deemed Acknowledgments by Owners and Beneficial Owners*" on transfers of the GDSs, the GDSs evidenced thereby and the Shares represented thereby; (c) a representation that it has complied with all applicable provisions of Lebanese Law, including obtaining the required approval of the Central Bank of Lebanon (if any); and (d) a representation that it has obtained the consent of the Bank to make this deposit.

The Depositary will refuse to accept Shares for deposit whenever it is notified in writing that such deposit would result in any violation of applicable laws.

The Shares may be withdrawn from the depositary receipt facility at any time. However, withdrawal of the Shares from the facility constitutes a transfer of Shares for the purposes of Lebanese law and is therefore 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, more than 5.0% 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 Bank's Board of Directors, 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.

Upon surrender at the Corporate Trust Office of the Depositary of a GDR for the purpose of withdrawal of the Deposited Securities represented by the GDSs evidenced by such GDR, and upon payment of the fees, governmental charges and taxes provided in the Deposit Agreement, and subject to the terms and conditions of the Deposit Agreement, the By-laws of the Bank and the Deposited Securities, the Owner of such GDR will be entitled to delivery, to him or upon his order, as permitted by applicable law, of the amount of Deposited Securities at the time represented by the GDSs evidenced by such GDR. The forwarding of share certificates, other securities, property, cash and other documents of title for- such delivery will be at the risk and expense of the Owner.

Notwithstanding the foregoing, no Deposited Securities may be withdrawn in the manner described in the preceding paragraph unless at or prior to the time of surrender, the Depositary shall have received a written certificate and agreement by or on behalf of the person surrendering such GDR who after withdrawal will be the beneficial owner of the Shares withdrawn, (i) acknowledging that such Shares have not been registered and will not be registered under the Securities Act and (ii) certifying that such person is located outside the United States.

Dividends, Other Distributions and Rights

Subject to any restrictions imposed by Lebanese law, regulations or applicable permits, the Depositary is required to convert or cause to be converted into Dollars, to the extent that in its judgement it can do so on a reasonable basis and can transfer the resulting Dollars to the United States, all cash dividends and other cash distributions denominated in a currency other than Dollars, including Lebanese Pounds ("**Foreign Currency**"), that it receives in respect of the Deposited Securities, and to distribute the resulting Dollar amount (net of reasonable and customary expenses incurred by the Depositary in converting such Foreign Currency and of the fees of the Depositary) to the Owners entitled thereto, in proportion to the number of GDSs representing such Deposited Securities evidenced by GDSs held by them, respectively. Such distribution may be made upon an average or other practicable basis without regard to any distinctions among Owners on account of exchange restrictions or the date of delivery of any GDS or GDSs or otherwise. The amount distributed will be reduced by any amount on account of taxes to be withheld by the Bank or the Depositary. See "*—Liability of Owner for Taxes*". If the Depositary determines that in its judgement any Foreign Currency received by it cannot be so converted and transferred, or if any approval or license of any government or agency thereof which is required for such conversion is denied or in the opinion of the Depositary is not obtainable, or if any such approval or license is not obtained within a reasonable period as determined by the Depositary, the Depositary may distribute the Foreign Currency received by it to or in its discretion hold such Foreign Currency uninvested and without liability for interest thereon for the respective accounts of the Owners entitled to receive the same. If any such conversion of Foreign Currency, in whole or in part, cannot be effected for distribution to some of the Owners entitled thereto, the Depositary may in its discretion make such conversion and distribution in U.S. Dollars to the extent permissible to the Owners entitled thereto, and may distribute the balance of the Foreign Currency received by it to, or hold such balance uninvested for the respective accounts of, the Owners entitled thereto.

If the Bank declares a dividend in, or free distribution of, Shares, the Depositary may, and will (subject to applicable laws (including, without limitation, Lebanese Law) and regulations and to the extent practicable), if the Bank so requests, distribute to the Owners of outstanding GDSs entitled thereto, in proportion to the number of GDSs held by them, respectively, additional GDSs that represent the amount of Shares received as such dividend or free distribution, subject to the terms and conditions of the Deposit Agreement with respect to the deposit of Shares and the issuance of GDSs including the withholding of any tax or other governmental charge and the payment of fees of the Depositary (and the Depositary may sell a portion of the distributed Shares to pay its fees and expenses in connection with the distribution). The Depositary may withhold any such distribution of GDSs if it has not received satisfactory assurances from the Bank that such distribution does not require registration under the Securities Act. In lieu of delivering fractional GDSs in the event of any such dividend or free distribution, the Depositary will sell the amount of Shares represented by the aggregate of such fractions and distribute the net proceeds in accordance with the Deposit Agreement. If additional GDSs are not so distributed, each GDS shall thenceforth also represent the additional Shares distributed upon the Deposited Securities represented thereby.

Each beneficial owner of GDSs or Shares so distributed shall be deemed to have acknowledged that the Shares have not been registered under the Securities Act and to have agreed to comply with the restrictions on transfer set forth under "*Deemed Acknowledgments by Owners and Beneficial Owners*".

If the Bank offers or causes to be offered to the holders of any Deposited Securities any rights to subscribe for additional Shares or any rights of any other nature, the Depositary will have reasonable discretion after consulting with the Bank as to the procedure to be followed in making such rights available to any Owners or in disposing of such rights for the benefit of any Owners and making the net proceeds available in Dollars to such Owners or, if by the terms of such rights offering or for any other reason, the Depositary may not either make such rights available to any Owners or dispose of such rights and make the net proceeds available to such Owners, then the Depositary shall allow the rights to lapse; *provided*, *however*, if at the time of the offering of any rights the Depositary determines in its reasonable discretion that it is lawful and feasible to make such rights available to all Owners or to certain Owners but not to other Owners, the Depositary may distribute to any Owner to whom it reasonably determines the distribution to be lawful and feasible, in proportion to the number of GDSs held by such Owner, warrants or other instruments therefore in such form as it deems appropriate. If the Depositary determines in its reasonable discretion that it is not lawful and feasible to make such rights available to certain Owners, it may sell the rights, warrants or other instruments subject to applicable Lebanese laws in proportion to the number of GDSs held by the Owners to whom it has determined it may not lawfully or feasibly make such rights available, and allocate the net proceeds of such sales for the account of such Owners otherwise entitled to such rights, warrants or other instruments, upon an averaged or other practical basis without regard to any distinctions among such Owners because of exchange restrictions or the date of delivery of any GDS or GDSs, or otherwise. The Depositary will not be responsible for any failure to determine that it may be lawful or feasible to make such rights available to Owners in general or any Owner in particular.

In circumstances in which rights would not otherwise be distributed, if an Owner requests the distribution of warrants or other instruments in order to exercise the rights allocable to the GDSs of such Owner, the Depositary will make such rights available to such Owner upon written notice from the Bank to the Depositary that (i) the Bank has elected in its sole discretion to permit such rights to be exercised and (ii) such Owner has executed such documents as the Bank has determined in its sole discretion are reasonably required under applicable law. Upon instruction pursuant to such warrants or other instruments to the Depositary from such Owner to exercise such rights, upon payment by such Owner to the Depositary for the account of such Owner of an amount equal to the purchase price of the Shares to be received in exercise of the rights, and upon payment of the fees of the Depositary as set forth in such warrants or other instruments, the Depositary will, on behalf of such Owner, exercise the rights and purchase the Shares, and the Bank shall cause the Shares so purchased to be delivered to the Depositary on behalf of such Owner. As agent for such Owner, the Depositary will cause the Shares so purchased to be deposited, and will deliver GDSs to such Owner, pursuant to the Deposit Agreement.

The Depositary will not offer rights to Owners unless both the rights and the securities to which such rights relate are either exempt from registration under the Securities Act with respect to a distribution to all Owners or are registered under the provisions of such Act. If an Owner requests the distribution of warrants or other instruments, notwithstanding that there has been no such registration under such Act, the Depositary shall not effect such distribution unless it has received an opinion from recognised counsel in the United States for the Bank upon which the Depositary may rely that such distribution to such Owner is exempt from such registration. Notwithstanding any terms of the Deposit Agreement to the contrary, the Bank shall have no obligation to prepare and file a registration statement for any purpose.

Whenever the Depositary shall receive any distribution other than cash, Shares or rights in respect of the Deposited Securities, the Depositary will cause the securities or property received by it to be distributed to the Owners entitled thereto, after deduction or upon payment of any fees of the Depositary or any taxes or other governmental charges, in proportion to their holdings, respectively, in any manner that the Depositary may reasonably deem equitable and practicable for accomplishing such distribution; provided, however, that if in the opinion of the Depositary such distribution cannot be made proportionately among the Owners entitled thereto, or if for any other reason (including any requirement that the Bank or the Depositary withhold an amount on account of taxes or other governmental charges or that such securities must be registered under the Securities Act in order to be distributed) the Depositary, after consultation with the Bank to the extent practicable, deems such distribution not to be feasible, the Depositary may adopt such method as it may deem equitable and practicable for the purpose of effecting such distribution, including the sale (at public or private sale) of the securities or property thus received, or any part thereof, and the net proceeds of any such sale will be distributed by the Depositary to the Owners entitled thereto as in the case of a distribution received in cash. The Depositary may sell a portion of the distributed property to pay its fees and expenses in connection with the distribution.

If the Depositary determines that any distribution of property (including Shares and rights to subscribe therefor) is subject to any tax or other governmental charge which the Depositary is obligated to withhold, the Depositary may dispose of all or a portion of such property, subject to applicable Lebanese laws, in such amounts and in such manner as the Depositary deems necessary and practicable to pay such taxes or charges, by public or private sale, and the Depositary will distribute the net proceeds of any such sale after deduction of such taxes or charges to the Owners entitled thereto in proportion to the number of GDSs held by them, respectively.

Upon any change in nominal or par value, split-up, consolidation or any other reclassification of Deposited Securities, or upon any recapitalisation, reorganisation, merger or consolidation or sale of assets affecting the Bank or to which it is a party, any securities that shall be received by the Depositary or Custodian in exchange for, in conversion of, or in respect of Deposited Securities will be treated as new Deposited Securities under the Deposit Agreement, and the GDSs shall thenceforth represent, in addition to the existing Deposited Securities, the right to receive the new Deposited Securities so received in exchange or conversion, unless additional GDSs are delivered pursuant to the following sentence. In any such case the Depositary may, and will (subject to applicable laws (including, without limitation, Lebanese Law) and regulations and to the extent practicable), if the Bank so requests, execute and deliver additional GDRs as in the case of a distribution in Shares, or call for the surrender of outstanding GDRs to be exchanged for new GDRs specifically describing such new Deposited Securities.

Record Dates

Whenever any cash dividend or other cash distribution shall become payable or any distribution other than cash shall be made, or whenever rights shall be issued with respect to the Deposited Securities, or whenever for any reason the Depositary causes a change in the number of Shares that are represented by each GDS, or whenever the Depositary shall receive notice of any meeting of holders of Shares or other Deposited Securities, or whenever the Depositary shall find it necessary or convenient, the Depositary, will fix a record date which, to the extent practicable, shall be the same date as the record date for the Shares with respect to the same matters, (a) for the determination of the Owners who shall be (i) entitled to receive such dividend, distribution or rights, or the net proceeds of the sale thereof, (ii) entitled to give instructions for the exercise of voting rights (if applicable) at any such meeting, or (iii) obligated to pay any fees or charges assessed under the Deposit Agreement, or (b) for fixing the date on or after which each GDS will represent the changed number of Shares, all subject to the provisions of the Deposit Agreement.

Voting of Deposited Securities

The Deposit Agreement provides that 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 Deposited Securities. The Bank will notify the Depositary of any resolution to be proposed at any General Meeting and the Depositary will vote or cause to be voted the Deposited Securities subject to and in accordance with the following:

(i) In order to give Owners a reasonable opportunity to instruct the Depositary as to the exercise of voting rights relating to Deposited Securities, the Bank shall give the Depositary notice of any such General Meeting or solicitation not less than 25 days prior to the meeting date or date for giving proxies or consents (or, if later, on the same day on which the meeting is convened or the date for giving proxies or consents is fixed), and the Bank agrees with the Depositary that, for such purpose, it will promptly provide to the Depositary sufficient copies, as the Depositary may reasonably request, of notices of any General Meeting and the agenda therefor. Upon receipt of notice of any General Meeting of holders of Shares or other Deposited Securities, if requested in writing by the Bank, the Depositary shall, as soon as practicable thereafter, mail to the Owners a notice, the form of which notice shall be in the sole discretion of the Depositary; provided, however, that the form shall meet any minimum requirements of Lebanese law and other securities laws then applicable to the Bank as explained to the Depositary by the Bank, which shall contain (i) such information as is contained in such notice of General Meeting and the agenda therefore received by the Depositary from the Bank, (ii) a statement that the Owners as of the close of business on a specified record date will be entitled, subject to any applicable provision of Lebanese law or of the corporate documents of the Bank, to instruct the Depositary as to the exercise of the voting rights, if any, pertaining to the amount of Shares or other Deposited Securities represented by their respective GDSs and (iii) a voting instruction form by which each Owners may give instructions to the Depositary to vote for or against each and any resolution specified in such agenda. In addition, the Bank agrees to provide to the Depositary appropriate proxy forms to enable the Depositary to procure appointment of one or more representatives (as necessary to comply with these voting provisions) to attend the relevant General Meeting and vote on behalf of the registered Owner of the Deposited Securities.

(ii) Upon the written request of an Owner on such record date, received on or before the date established by the Depositary for such purpose, subject to the provisions described below, the Depositary shall vote or cause to be voted the amount of Shares or other Deposited Securities represented by those Global Depositary Shares in accordance with the instructions set forth in such request.

(iii) 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 Securities so that a portion of the Deposited Securities will be voted directly by the Depositary for and a portion of the Deposited Securities 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 Securities in respect of which no voting instructions have been received.

(iv) 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 Securities differently (so that a portion of the Deposited Securities may be voted directly by the Depositary for a resolution and a portion of the Deposited Securities may be voted directly by the Depositary against a resolution as contemplated by paragraph (iii) 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 Securities for which instructions have been received to vote for a resolution and instructing the proxy to vote that number of Deposited Securities for the resolution;

(b) a proxy covering the number of Deposited Securities for which instructions have been received to vote against a resolution instructing the proxy to vote that number of Deposited Securities against the resolution; and

(b) a proxy covering the number of Deposited Securities for which no voting instructions have been received and instructing the proxy to abstain from voting that number of Deposited Securities in respect of the resolution.

In the event that the Depositary issues any such proxies, the Depositary will not itself attend the relevant meeting.

(v) if the Depositary is not permitted by Lebanese law to exercise voting rights in respect of the Deposited Securities as contemplated by either paragraph (iii) or paragraph (iv) above, the Depositary will, if and as requested in writing by the Board of Directors, either (i) exercise the voting rights in respect of the Deposited Securities as directed by the Board of Directors or (ii) give a proxy to a person designated by the Board of Directors to vote in respect of the Deposited Securities in his or her discretion.

By continuing to hold GDSs, all Owners shall be deemed to have agreed to the above described provisions as they may be amended from time to time in order to conform to the principles of applicable Lebanese law.

See "*Risk Factors—Considerations Relating to the GDSs—Voting Rights of GDS Owners*" and "*Description of the Share Capital of the Bank—Description of the Common Shares—Attendance and Voting at Shareholders' Meetings*".

Information Furnishing Requirements

Upon request by the Bank, and in any event as of, and no later than the 20th of January and July in each year so long as any GDSs are outstanding, the Depositary shall, at the expense of the Bank, furnish to the Bank for the benefit of the Banking Control Commission, a list, as of the most recent date available, of the names, addresses and holdings of GDSs by all persons in whose names GDSs are registered on the books of the Depositary.

(i) In order to comply with its obligations under Lebanese Law or requirements of the Central Bank of Lebanon, the Bank may, from time to time, request Owners to provide information as to the capacity in which such Owners own or owned GDSs and regarding the identity of such other persons (if any) then or previously interested in such GDSs and the nature of their interests. Each Owner and Beneficial Owner agrees to provide any information required by the Bank or the Depositary pursuant to the Deposit Agreement.

(ii) The Bank intends to request the Depositary to send, no later than the 1st of January and July in each year so long as any GDSs are outstanding, to each Owner and Euroclear and Clearstream, a notice stating that the Bank requires each Owner and Beneficial Owner to provide, whereupon each Owner and Beneficial Owner shall be obliged to provide, to the Depositary, not later than the immediately following 15th of January or July, as the case may be, certain identifying information with respect to direct or indirect (including through such Owner's or such Beneficial Owner's spouse or minor children or any persons acting in concert with such Owner or Beneficial Owner) ownership of any Shares or GDSs.

(iii) In particular, each Beneficial Owner who, after acquiring directly or indirectly (including any acquisition by such Beneficial Owner's spouse or minor children or any persons acting in concert with such Beneficial Owner) the beneficial ownership of any Shares or GDSs, is directly or indirectly the Beneficial Owner of 5 percent (5%) or more of the Shares, the GDSs or the Shares and the GDSs (combined), shall provide to the Depositary, within seven days following such acquisition, (x) details of the identity, residence and citizenship of, the nature of the beneficial interest held by, and the transaction in which such beneficial interest was acquired by, such Beneficial Owner and all other persons by whom or on whose behalf such Shares have been acquired or are to be acquired and who are acting in concert with such Beneficial Owner (including such Beneficial Owner's spouse or minor children or any persons acting in concert with such Beneficial Owner); and (y) the number of Shares and/or GDSs which are beneficially owned by such Beneficial Owner (or any such Beneficial Owner's spouse or minor children or any persons acting in concert with such Beneficial Owner), as well as the number of additional Shares and/or GDSs which such Beneficial Owner (or any such Beneficial Owner's spouse or minor children or any persons acting in concert with such Beneficial Owner) has a right to acquire directly or indirectly, together with the identity, residence and citizenship of each such other person (if any) and the relationship of each such other person (if any) to such Beneficial Owner.

(iv) Moreover, if any change occurs in the facts set forth in the statements made by any Owner or Beneficial Owner to the Depositary pursuant to subsection (iii) above (such as an increase or a decrease in the number of Shares and/or GDSs owned), such Owner or Beneficial Owner, as the case may be, shall, within seven days following the date of each such change, provide to the Depositary written information describing such change.

Reports and Other Communications

The Depositary will make available for inspection by Owners at its Corporate Trust Office any reports and communications, including any proxy soliciting material, received from the Bank, which are both (i) received by the Depositary as the holder of the Deposited Securities and (ii) made generally available to the holders of such Deposited Securities by the Bank. The Depositary will also send to the Owners copies of such reports when furnished by the Bank pursuant to the Deposit Agreement. Any such reports and communications, including any proxy soliciting material, furnished to the Depositary by the Bank will be furnished in English.

Amendment and Termination of the Deposit Agreement

The GDSs and the Deposit Agreement may at any time be amended by written agreement between the Bank and the Depositary without the consent of the Owners; *provided*, *however*, that any amendment that imposes or increases any fees or charges (other than taxes, other governmental charges, delivery and other such expenses), or which otherwise prejudices any substantial existing right of Owners, will not take effect as to outstanding GDSs until the expiration of 30 days after notice of any amendment has been given to the Owners of outstanding GDSs. Every Owner of a GDS, at the time any amendment so becomes effective, will be deemed by continuing to hold such GDS to consent and agree to such amendment and to be bound by the Deposit Agreement as amended thereby.

The Depositary shall at any time at the direction of the Bank terminate the Deposit Agreement by mailing notice of such termination to the Owners of the GDSs then outstanding at least 30 days prior to the date fixed in such notice for such termination. The Depositary may likewise terminate the Deposit Agreement by mailing notice of such termination to the Bank and the Owners of all GDSs then outstanding if, any time after 60 days have expired after the Depositary shall have delivered to the Bank a written notice of its election to resign, a successor depositary shall not have been appointed and accepted its appointment, in accordance with the terms of the Deposit Agreement. If any GDSs remain outstanding after the date of termination of the Deposit Agreement, the Depositary thereafter will discontinue the registration of transfers of GDSs, will suspend the distribution of dividends to the Owners thereof and will not give any further notices or perform any further acts under the Deposit Agreement, except the collection of dividends and other distributions pertaining to the Deposited Securities, the sale of rights and other property and the delivery of underlying Shares, together with any dividends or other distributions received with respect thereto and the net proceeds of the sale of any rights or other property, in exchange for surrendered GDSs (after deducting the fees of the Depositary and other expenses set forth in the Deposit Agreement). At any time after the expiration of four months from the date of termination, the Depositary may sell the Deposited Securities then held thereunder and hold uninvested the net proceeds of such sale together with any other cash, unsegregated and without liability for interest, for the *pro rata* benefit of the Owners that have not theretofore surrendered their Receipts, such Owners thereupon becoming general creditors of the Depositary with respect to such net proceeds. After making such sale, the Depositary will be discharged from all obligations under the Deposit Agreement, except to account for net proceeds and other cash (after deducting the fees of the Depositary and other expenses set forth in the Deposit Agreement and any applicable taxes or other governmental charges).

Charges of Depositary

The Depositary will charge any party depositing or withdrawing Shares or any party surrendering GDSs or to whom GDSs are issued (including, without limitation, issuance pursuant to a stock dividend or stock split declared by the Bank or an exchange of stock regarding the GDSs or Deposited Securities or a distribution of GDSs pursuant to the Deposit Agreement) where applicable: (i) taxes and other governmental charges; (ii) such registration fees as may from time to time be in effect for the registration of transfers of Shares generally on the share register of the Bank (or the appointed agent of the Bank for transfer and registration of Shares) and applicable to transfers of Shares to the name of the Depositary or its nominee or the Custodian or its nominee on the making of deposits or withdrawals; (iii) such cable, telex and facsimile transmission expenses as are expressly provided in the Deposit Agreement to be at the expense of persons depositing Shares or Owners; (iv) such expenses as are incurred by the Depositary in the conversion of Foreign Currency pursuant to the Deposit Agreement; (v) a fee not in excess of USD 5.00 per 100 GDSs or a portion thereof (or portion thereof) for the issuance or surrender, respectively, of GDSs pursuant to the Deposit Agreement; (vi) a fee not in excess of USD 0.02 per GDS (or portion thereof) for any cash distribution made pursuant to the Deposit Agreement; (vii) a fee for the distribution of proceeds of sales of securities or rights pursuant to the Deposit Agreement, such fee (which may be deducted from such proceeds) being in an amount equal to the fee for the issuance of GDSs referred to above which would have been charged as a result of the deposit by Owners of securities or Shares received in exercise of rights distributed to them pursuant to the GDSs, but which securities or rights are instead sold by the Depositary and the net proceeds distributed (vii) a fee of up to USD 0.02 per GDS per year for depositary services; and (viii) any other charge payable by the Depositary, any of the Depositary's agents, including the Custodian, or the agents of the Depositary's agents in connection with the servicing of Shares or other Deposited Securities (which charge shall be assessed against Owners of record as of the date or dates set by the Depositary in accordance with the Deposit Agreement and shall be collected at the sole discretion of the Depositary by billing such Owners for such charge or by deducting such charge from one or more cash dividends or other cash distributions).

Liability of Owner for Taxes

If any tax or other governmental charge shall become payable by the Custodian or the Depositary with respect to any GDSs or any Deposited Securities represented by the GDSs, such tax or other governmental charge will be payable by the Owner of such GDSs to the Depositary. The Depositary may refuse to effect any transfer of such GDSs or any withdrawal of Deposited Securities underlying such GDSs until such payment is made and may withhold any dividends or other distributions or may sell for the account of the Owner thereof any part or all of the Deposited Securities underlying such GDSs and may apply such dividends, distributions or the proceeds of any such sale to pay any such tax or other governmental charge and the Owner of such GDSs shall remain liable for any deficiency.

General

Neither the Depositary nor the Bank nor any of their respective directors, employees, agents or affiliates will be liable to any Owner or Beneficial Owner if by reason of any provision of any present or future law or regulation of the United States, any state of the United States, Lebanon or any other country, or of any other governmental or regulatory authority or stock exchange or by reason of any provision, present or future, of the By-laws of the Bank, or by reason of any provision of any securities issued or distributed by the Bank, or any offering or distribution thereof, or by reason of any act of God or war or other circumstance beyond its control, the Depositary or the Bank or any of their directors, employees, agents, or affiliates shall be prevented, delayed or forbidden from, or be subject to any civil or criminal penalty on account of, doing or performing any act or thing which by the terms of the Deposit Agreement or the Deposited Securities shall be done or performed; nor will the Depositary or the Bank incur any liability to any Owner or Beneficial Owner by reason of any non-performance or delay, caused as stated in the preceding clause, in the performance of any act or thing which by the terms of the Deposit Agreement it is provided shall or may be done or performed, or by reason of any exercise of, or failure to exercise, any discretion provided for under the Deposit Agreement or the By-laws of the Bank.

The Bank and the Depositary assume no obligation nor will they be subject to any liability under the Deposit Agreement to Owners or Beneficial Owners, except that they agree to perform their respective obligations specifically set forth under the Deposit Agreement without negligence or bad faith.

The GDSs are transferable on the books of the Depositary, provided that the Depositary may close the transfer books at any time or from time to time when deemed expedient by it in connection with the performance of its duties or at the written request of the Bank. As a condition precedent to the execution and delivery, registration of transfer, split-up, combination or surrender of any GDSs or withdrawal of any Deposited Securities, the Depositary or the Custodian may require payment from the person presenting the GDSs or the depositor of the Shares of a sum sufficient to reimburse it for any tax or other governmental charge and any stock transfer or registration fee with respect thereto (including any such tax or charge and fee with respect to Shares being deposited or withdrawn) and payment of any applicable fees payable by the Beneficial Owners. The Depositary may refuse to deliver GDSs, to register the transfer of any GDSs or to make any distribution on, or related to, Shares until it has received such proof of citizenship or residence, exchange control approval or other information as it may deem necessary or proper. The delivery, transfer and surrender of GDSs generally may be suspended during any period when the transfer books of the Depositary, the Bank or the Foreign Registrar are closed or if any such action is deemed necessary or advisable by the Depositary or the Bank, at any time or from time to time.

Subject to the terms and conditions of the Deposit Agreement and any limitations established by the Depositary, the Depositary may deliver GDSs prior to the receipt of Shares a ("**Pre-Release**") and deliver Shares upon the receipt and cancellation of GDSs which have been Pre-Released, whether or not such cancellation is prior to the termination of such Pre-Release or the Depositary knows that such GDSs have been Pre-Released. The

Depositary may receive GDSs in lieu of Shares in satisfaction of a Pre-Release. Each Pre-Release must be (i) preceded or accompanied by a written representation from the person to whom the GDSs or Shares are to be delivered that such person, or its customer, owns the Shares or GDSs to be remitted, as the case may be, (ii) at all times fully collateralised with cash or such other collateral as the Depositary deems appropriate, (iii) terminable by the Depositary on not more than five business days' notice and (iv) subject to such further indemnities and credit regulations as the Depositary deems appropriate. The Depositary will normally limit the number of Shares represented by GDSs which are outstanding at any time as a result of Pre-Release to thirty percent (30%) of the Shares deposited under the Deposit Agreement; provided, however, that the Depositary reserves the right to change or disregard such limit from time to time as it deems appropriate. Each deposit of Shares in connection with a Pre-Release described above shall be subject to receipt by the Depositary of a duly executed and completed Depositor Certificate.

The Depositary will keep books, at its transfer office in The City of New York, for the registration and registration of transfer of GDSs, which at all reasonable times will be open for inspection by the Owners, provided that such inspection shall not be for the purpose of communicating with Owners in the interest of a business or object other than the business of the Bank or a matter related to the Deposit Agreement or the GDSs.

The Depositary may appoint one or more co-transfer agents for the purpose of effecting transfers, combinations and split-ups of GDSs at designated transfer offices on behalf of the Depositary. In carrying out its functions, a co-transfer agent may require evidence of authority and compliance with applicable laws and other requirements by Beneficial Owners or Owners or persons entitled thereto and will be entitled to protection and indemnity to the same extent as the Depositary.

Governing Law

The Deposit Agreement is governed by the laws of the State of New York.

Information Regarding the Depositary

The Depositary is a state-chartered New York banking corporation and a member of the United States Federal Reserve System, subject to regulation and supervision principally by the United States Federal Reserve Board and the New York State Banking Department. A predecessor of the Depositary was constituted in 1784 in the State of New York. It is a wholly-owned subsidiary of The Bank of New York Mellon Corporation, a New York corporation. The principal executive office of the Depositary is located at One Wall Street, New York, New York 10286. Its principal administrative offices for the GDRs are located at 101 Barclay Street, New York, New York 10286.

A copy of the Depositary's certificate of incorporation, as amended, together with copies of The Bank of New York Mellon Corporation's most recent financial statements and annual report, are available for inspection at the principal executive office of the Depositary located at One Wall Street, New York, New York 10286 and at The Bank of New York Mellon, One Canada Square, London E14 5AL.

Transfer of Title to Shares

After the subscription by the Depositary of Shares to be issued by the Bank, and their registration on the registry kept by Midclear, the legal title to these Shares will be transferred to the Depositary. The Depositary will then become the shareholder of record of such Shares and will deliver the GDSs representing them.

TAXATION

Lebanese Taxation Considerations

The following is a summary of the principal Lebanese tax consequences with respect to the issuance and delivery, ownership and sale of the GDSs. This summary does not purport to be a comprehensive description of all relevant tax considerations, and each potential purchaser should consult its own tax advisor before making a decision to deposit their Shares in exchange for GDSs under the Programme. The following is based on the tax laws of Lebanon as in effect on the date of this Prospectus. For advice relating to the tax consequences to holders of GDSs in countries outside Lebanon, including countries in which they may be resident or domiciled and any tax treaty between Lebanon and such countries of residence or domicile, potential purchasers are urged to consult their own tax advisors.

Withholding Tax on Distributions

Under current Lebanese law, the Bank is required to withhold a tax of 10% on any payment of dividends or other distributions to holders of its share capital, subject to reduction to 5.0% if the payor is a company whose shares representing at least one-third of the company's outstanding share capital or GDSs representing at least 20% of the company's outstanding share capital are listed for trading on the BSE, such as the Bank. Accordingly, the Bank believes that the withholding tax rate applicable to distributions to holders of its shares, including the Shares represented by GDSs is 5.0%.

In principal, 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.

Distributions to holders of GDSs are not subject to withholding tax in Lebanon provided the Depositary performs its activity under the Depositary Agreement outside Lebanon.

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 a sale of shares held by individuals (resident and non-resident) and foreign non-resident companies are not subject to capital gains tax;

- gains on a 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 gain tax at a rate of 10%;

- gains on a sale of shares held by Lebanese companies, whose object includes the trading of shares and securities, are subject to corporate tax at a rate of 15%; and

- gains on a sale of shares held by Lebanese companies outside the normal course of their business are subject to capital gain tax at the rate of 10%.

Gains made in connection with the sale of GDSs between two non-resident investors in a transaction outside Lebanon are not subject to capital gains tax in Lebanon.

Stamp Duties

The law promulgated by Decree No. 5439 dated 20 September 1982 granted an exemption to all contracts for the transfer of shares, bonds or treasury bills from the stamp duty imposed by the law promulgated by Decree No. 67 dated 5 August 1967. However, such exemption may not apply to the transfer of GDSs when such transfer is made between Lebanese residents.

United Kingdom Taxation Considerations

The following is a general description of certain tax considerations, under the existing laws of the United Kingdom, relating to a holding of GDSs that represent them. It does not purport to be a complete analysis of all tax considerations relating to the GDSs. Prospective holders of GDSs should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of any other applicable jurisdiction of acquiring, holding, redeeming and disposing of GDSs and receiving dividends, or liquidation proceeds and/or other amounts under the Shares underlying the GDSs. This summary is based upon the law as in effect on the date hereof and is subject to any change in law that may take effect after such date, and may be retroactively applicable.

The comments below are of a general nature and are based on current United Kingdom law and published HM Revenue and Customs practice at the date of this Prospectus, both of which are subject to change, possibly with retrospective effect. The summary only covers the principal United Kingdom tax consequences of holding GDSs for absolute beneficial holders who are resident (and, in the case of individuals only, ordinarily resident and domiciled) in the United Kingdom for tax purposes (“**UK Holders**”). In addition, the summary: (i) only addresses the tax consequences for UK Holders who hold GDSs as capital assets, and does not address the tax consequences which may be relevant to certain other categories of UK Holders, for example, dealers; (ii) does not address the tax consequences for UK Holders that are insurance companies, collective investment schemes or persons connected with the company; (iii) only addresses the tax consequences of dividends for a UK Holder where the dividends paid are regarded for UK tax purposes as that UK Holder’s own income (and not the income of some other person); (iv) assumes that the UK Holder is not interested in or deemed to be interested in, either alone or together with one or more associated or connected persons, directly or indirectly, 10% or more of the share capital or the voting power or the profits of the company; (v) assumes that there will be no register in the United Kingdom in respect of GDSs or the Shares; (vi) assumes that Shares will not be held by, and that GDSs will not be issued by, a depositary incorporated in the United Kingdom and (vii) assumes that neither Shares nor GDSs will be paired with Shares issued by a company incorporated in the United Kingdom.

Dividends

Dividends paid by the Bank will be assessable to UK income tax under section 402 of the Income Tax (Trading and Other Income) Act 2005 or corporation tax under section 18 of the Income and Corporation Taxes Act 1988 (Schedule D Case V) on the full amount of the dividend arising in the tax year.

On the basis that the Bank is not resident for tax purposes in the UK, individual holders of GDSs will be entitled to a tax credit equal to one-ninth of the dividend receivable from the Bank. Such an individual will be taxable on the total of the dividend (including any amounts of Lebanese withholding tax deducted at source) and the related tax credit (the `gross dividend'), which will be regarded as the top slice of the individual's income. The tax credit will be treated as discharging the individual's liability to UK income tax in respect of the gross dividend, unless and to the extent that the gross dividend falls above the threshold for the higher rate of income tax, in which case (under current law) the individual will, to that extent, pay UK income tax at 32.5 percent on the gross dividend, less the related tax credit (equating to an effective rate of tax at 25 percent of the gross dividend received). The UK Government has announced that, from 6 April 2011, there will be three rates of income tax for dividends – individual shareholders whose annual taxable income exceeds £150,000 will, under these proposals, be subject to UK income tax at 37.5 percent on the gross dividend, less the related tax credit (equating to 30.56 percent of the dividend received).

On the basis that the Company is not resident for tax purposes in the UK, any dividends received by a corporate holder of GDSs will not constitute franked investment income but will be liable to corporation tax at the rate applicable to the company in question, the standard rate of corporation tax being 28 percent.

The UK Government has announced proposed changes to the taxation of the foreign profits of companies, to be included in the Finance Bill 2009 and to take effect from a date to be appointed. These include the introduction of an exemption for certain dividends received from non-UK resident companies by large and medium-sized groups on non-redeemable ordinary shareholdings or on portfolio shareholdings where the recipient, together with all connected companies, has no more than a 10 percent interest in the issued share capital, income and assets of the distributing company.

In addition, while there is no double tax treaty between the United Kingdom and Lebanon, both individual and corporate holders of GDSs may be entitled to double tax relief under domestic United Kingdom law for any

Lebanese withholding tax suffered on dividends paid by the Bank. Under the rules contained in Part XVIII of the Income and Corporation Taxes Act 1988 any such Lebanese withholding tax suffered may, subject to limitations, be claimed as a credit against the United Kingdom income or corporation tax liability arising on the dividend.

Capital gains

A disposal or deemed disposal of GDSs by a UK Holder may give rise to a chargeable gain or allowable loss for the purposes of UK taxation of capital gains depending on the individual circumstances of the holder and subject to any available exemption or relief. In addition, individual holders who dispose of their GDSs while they are temporarily resident may outside the United Kingdom be treated, for the purposes of UK capital gains tax, as disposing of them in the year in which they return to the United Kingdom.

Indexation allowance may be available to corporate holders to reduce or eliminate a chargeable gain but not to create or increase an allowable loss.

Stamp duty and stamp duty reserve tax

No UK stamp duty reserve tax will be payable on the issue of GDSs or on any agreement to transfer GDSs. No UK stamp duty will be payable on the issue of GDSs; nor will stamp duty be payable on the acquisition or transfer of GDSs provided that the instrument of transfer is executed outside the United Kingdom and does not relate to any property situated in the United Kingdom or to any matter or thing done or to be done in the United Kingdom.

DEEMED ACKNOWLEDGEMENTS BY OWNERS AND BENEFICIAL OWNERS

Each Owner and Beneficial Owner, by depositing Common Shares in exchange for GDSs or otherwise acquiring GDSs upon the transfer thereof or otherwise, will be deemed to have acknowledged, represented and agreed as follows (terms used herein that are defined in Regulation S are used as defined therein):

- the GDSs have not been, and are not expected to be, registered under the Securities Act or with any securities regulatory authority of any state of the United States and the GDSs are being offered and sold only outside the United States in accordance with Regulation S under the Securities Act;

- such holder is obtaining or acquiring GDSs in an offshore transaction meeting the requirements of Regulation S;

- the GDSs will initially be represented by a Master GDR, which will be in registered form registered in the name of a nominee of the common depositary for Euroclear and Clearstream;

- upon issue, the Master GDR will bear a legend to the following effect (unless the Bank and the Depositary determine otherwise) and such purchaser agrees to observe the restrictions contained therein:

- THIS GLOBAL DEPOSITARY RECEIPT, THE GLOBAL DEPOSITARY SHARES EVIDENCED HEREBY AND THE COMMON SHARES OF BYBLOS BANK S.A.L. REPRESENTED THEREBY, HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**"), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION AND THIS GLOBAL DEPOSITARY RECEIPT AND THE GLOBAL DEPOSITARY SHARES MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR 904 OF REGULATION S UNDER THE SECURITIES ACT AND ANY OTHER APPLICABLE SECURITIES LAWS.

- interests in the Master GDR will initially be shown on, and transfers thereof will initially be effected only through, records maintained by Euroclear and Clearstream, and their respective direct and indirect participants; and

- any offer, sale, pledge or other transfer of GDSs made other than in compliance with the above-stated restrictions shall not be recognised by the Bank (with respect to the Common Shares underlying such GDSs) or the Depositary.

CLEARING AND SETTLEMENT

Ownership of interests in GDSs evidenced by a Master GDR will be initially limited to (i) Euroclear or Clearstream participants or persons who hold interests through Euroclear or Clearstream participants and to (ii) Midclear participants or persons who hold interests through Midclear participants.

Interests held through Euroclear or Clearstream

Ownership of interests in GDSs through Euroclear or Clearstream will be shown on, and the transfer of that ownership will be effected only through, records maintained by Euroclear or Clearstream and the records of Euroclear or Clearstream participants, as the case may be (with respect to interests of persons other than Euroclear or Clearstream participants). Transfers of GDSs will settle in same day funds.

So long as the GDSs clear through Euroclear or Clearstream, the GDSs will be evidenced by a Master GDR registered in the name of a common depositary for Euroclear or Clearstream and no Owner or Beneficial Owner of an interest in the GDSs evidenced by a Master GDR will be entitled to receive a GDR or be able to transfer that interest except in accordance with applicable procedures of Euroclear and/or Clearstream.

So long as the GDSs are evidenced by a Master GDR registered in the name of Euroclear and Clearstream or their nominee, secondary market trading activity in the GDSs will be required by Euroclear and Clearstream to settle in immediately available funds. Transfers between account-holders in Euroclear and Clearstream will be effected in the ordinary way in accordance with their respective rules and operating procedures.

Euroclear and Clearstream hold securities for participating organisations and facilitate the clearance and settlement of securities transactions between their respective participants through electronic book entry changes in accounts of such participants. Euroclear and Clearstream provide to their participants among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream interface with domestic securities markets. Euroclear and Clearstream participants are financial institutions such as underwriters, securities brokers and dealers, banks' trust companies and certain other organisations including the Bank. Indirect access to Euroclear or Clearstream is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Euroclear or Clearstream participant, either directly or indirectly.

Although Clearstream and Euroclear have agreed to the foregoing procedures in order to facilitate the transfer of interests in a Master GDR among participants of Clearstream and Euroclear, they are under no obligation to perform or continue to perform such procedures and such procedures may be discontinued at any time. None of the Bank, the Depositary, the Custodian or any of their agents will have any responsibility for the performance by Clearstream or Euroclear or their respective participants of their respective obligations under the rules and procedures governing their operations.

Interests held through Midclear

Shares or GDSs settling through Midclear will be in registered form, registered in the respective names of the beneficial owners thereof in the share registry maintained by Midclear. Such interests will be shown on, and transfers thereof may be effected, subject as provided herein, through, the book-entry system maintained by Midclear and its participants. The Bank shall not have any responsibility or liability for any aspect of the records relating to or payments made on account of interests in Shares or GDSs settling through Midclear or for maintaining, supervising or reviewing any records relating to ownership of Shares or GDSs settling through Midclear.

ADDITIONAL INFORMATION

1. The Bank is incorporated under the name "Byblos Bank S.A.L." as a limited liability company in and under the laws of Lebanon under commercial registration number 14150. The business address of its headquarters is Byblos Tower Building, Elias Sarkis Avenue, Achrafieh, Beirut, Lebanon and its telephone number is +961 1 335200.

2. The issuance of GDSs was authorised by a resolution adopted by the Board of Directors of the Bank on 23 January 2009. The holding by the Depositary of up to 100,000,000 Common Shares of the Bank representing an interest of up to 23.4% in the Bank's share capital, was authorised by the Central Bank on 2 February 2009. Accordingly, all consents, approvals, registrations, authorisations, notifications and other orders of regulatory authorities required under the laws and regulations of Lebanon in connection with the issue and listing of the GDSs have been or, prior to the issue date, will be obtained.

3. The GDSs are in registered, book-entry form. The GDSs have been accepted for settlement and clearance by Euroclear and Clearstream and have been assigned ISIN US12431A1016, CUSIP 12431A101 and Common Code 041291036.

4. Ernst & Young p.c.c. and Semaan, Gholam & Co. have audited the consolidated financial statements of the Bank as at and for the years ended 31 December 2005, 2006 and 2007.

5. Except as mentioned in "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Recent Developments; Current Trends—Financial Condition*" on page 32, there has been no material change in the share capital of the Bank and its consolidated subsidiaries taken as a whole since 30 September 2008 and no significant change in the financial or trading position of the Bank and its consolidated subsidiaries taken as a whole since 30 September 2008.

6. Copies (together with English translations where appropriate) of the following documents may be inspected at the offices of the Bank during customary business hours on any weekday (public holidays excepted) following the date of this Prospectus:

   (a) the Bank's By-laws,

   (b) the audited consolidated financial statements of the Bank as at and for the three years ended 31 December 2007, together with the audit report of Ernst & Young p.c.c. and Semaan, Gholam & Co. in respect of such consolidated financial statements, and the unaudited consolidated financial statements for the nine-month periods ended 30 September 2007 and 2008;

   (c) the Deposit Agreement; and

   (d) this Prospectus.

7. There has not been an official conviction for fraudulent offences for the last five years, or any bankruptcy, receivership or liquidation, and there is no official public incrimination of and/or sanctions on any of (a) the members of the Board of Directors of the Bank; or (b) any Senior Manager who is relevant to establishing that the Bank has the appropriate expertise and experience for the management of the Bank's business by statutory or regulatory authorities (including designated professional bodies) and no such person has ever been disqualified by a court from acting as a member of the Board of Directors or a Senior Manager of the Bank or from acting in the management or conduct of the affairs of the Bank for at least the previous five years.

8. The following table sets forth the Bank's direct and indirect holdings in, and the registered offices of, all of its subsidiaries as at the date of this Prospectus:

Company	Beneficial Ownership	Registered Office
Byblos Invest Bank S.A.L. (Lebanon)	99.99%	Byblos Bank Tower - Elias Sarkis Avenue - Achrafieh - Beirut. P.O. BOX: 11-5605 Riad El Solh Beirut, 1107 2811
Byblos Bank Africa Ltd. (Sudan)	65.00%	El Amarat - Street 21 P.O. BOX: 8121-El Amarat, Khartoum - Sudan
Byblos Bank Syria S.A. (Syria)	41.50%	Chaalan - Amine Loutfi Hafez Street, P.O. BOX: 5424, Damascus, Syria.
Byblos Bank Europe S.A. (Belgium)	99.96%	Brussels Head Office: 10 Rue Montoyer BTE.3, B-1000 Brussels, Belgium.
Adonis Insurance and Reinsurance Co. S.A.L.	63.95%	Dora Highway, Aya Commercial Centre, P.O. BOX: 90-1446 Jdeitet El Metn, 1202 2110, Lebanon.
Byblos Bank Armenia CJSC	64.9974%	18/3 Amiryan str., Yerevan, 0002, Republic of Armenia
Adonis Insurance & Reinsurance (ADIR) Syria	76%	Mahdi Ben Baraka St., Abhu Remmaneh, Damascus. P.O. Box: 33509, Syria

INDEX TO THE FINANCIAL STATEMENTS

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2007

BYBLOS BANK SAL
CONSOLIDATED FINANCIAL STATEMENTS

1) Auditors' report;
2) Consolidated balance sheet as of 31 December 2007;
3) Consolidated income statement for the year ended 31 December 2007;
4) Consolidated cash flow statement for the year ended 31 December 2007;
5) Consolidated statement of changes in equity for the year ended 31 December 2007;
6) Notes to the consolidated financial statements.

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 2007 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' judgement, 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 2007 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

18 April 2008
Beirut, Lebanon

Byblos Bank SAL

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Notes	***2007 LL million***	*2006 LL million*
ASSETS			
Cash and balances with central banks	5	**2,612,812**	2,506,877
Lebanese and other governmental treasury bills and bonds	6	**4,265,036**	4,174,808
Bonds and financial instruments with fixed income	7	**122,316**	86,383
Shares, securities and financial instruments with variable income	8	**117,867**	38,648
Banks and financial institutions	9	**3,242,599**	2,368,851
Loans and advances to customers (*)	10	**3,366,013**	2,637,722
Bank acceptances	11	**265,415**	284,106
Tangible fixed assets	12	**243,737**	189,398
Intangible assets	13	**1,199**	1,324
Other assets	14	**2,733**	3,091
Regularisation accounts and other debit balances	15	**56,175**	55,550
TOTAL ASSETS		**14,295,902**	12,346,758
(*) Including:			
- Substandard loans (gross amount)		**35,495**	47,049
- Unrealized interest on substandard, doubtful and bad loans		**(87,122)**	(107,385)
- Provision for doubtful and bad loans		**(107,591)**	(147,724)
OFF BALANCE SHEET ITEMS			
Engagements received from financial intermediaries		**4,288**	9,843
Engagements received from customers		**5,351,780**	4,563,024
Bad loans fully provided for	10	**113,690**	45,423
Foreign currencies to deliver against foreign currencies to recieve	35	**398,463**	398,072

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 17 April 2008.

Dr Francois Bassil
Chairman/ General Manager

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 51 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED BALANCE SHEET
At 31 December 2007

	Notes	2007 LL million	2006 LL million
LIABILITIES AND EQUITY			
Due to central banks	16	**60,950**	77,085
Banks and financial institutions	17	**1,008,162**	876,875
Customers' deposits	18	**10,931,048**	9,461,489
Engagements by acceptances	11	**265,415**	284,106
Liabilities under financial instruments	19	**269,872**	273,519
Other liabilities	20	**161,042**	155,559
Regularisation accounts and other credit balances	21	**50,799**	37,490
Provisions for risks and charges	22	**65,510**	46,718
Subordinated loans	23	**331,145**	47,835
TOTAL LIABILITIES		**13,143,943**	11,260,676
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	25	**494,456**	494,456
Treasury Shares	25	**(947)**	(366)
Revaluation variance of fixed assets	24	**5,689**	5,689
Reserve for general banking risks	26	**56,916**	48,159
Other reserves and premiums	27	**389,121**	343,592
Retained earnings		**11,127**	18,824
Net results of the financial period - profit	30	**142,550**	115,389
Cumulative changes in fair values	28	**(46,244)**	(12,250)
Foreign currency translation difference		**21,669**	11,638
		1,074,337	1,025,131
MINORITY INTERESTS	29	77,622	60,951
TOTAL EQUITY		**1,151,959**	1,086,082
TOTAL LIABILITIES AND EQUITY		**14,295,902**	12,346,758
OFF BALANCE SHEET ITEMS			
Signature commitments given	34	**1,159,288**	829,135
Financing commitments given	34	**553,901**	541,477
Assets under management and fiduciary deposits	34	**177,875**	148,900
Assets in custody	34	**2,066,134**	944,137
Foreign currencies to receive against foreign currencies to deliver	35	**398,492**	397,634

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 17 April 2008.

Dr Francois Bassil
Chairman/ General Manager

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 51 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2007

	Notes	***2007*** ***LL million***	*2006* *LL million*
Interest and similar income		**924,687**	811,188
Lebanese and other governmental treasury bills and bonds	6	360,924	321,600
Deposits and similar accounts with banks and financial institutions	5 & 9	309,254	292,849
Bonds and financial instruments with fixed income	7	10,032	6,267
Loans and advances to customers		242,220	190,139
Loans and advances to related parties		2,257	333
Interest and similar charges		**(657,862)**	(584,265)
Deposits and similar accounts from banks and financial institutions	16 & 17	(51,782)	(49,092)
Deposits from customers and other credit balances		(575,101)	(504,099)
Deposits from related parties		(5,331)	(1,773)
Subordinated loans	23	(8,669)	(12,492)
Liabilities under financial instruments	19	(16,979)	(16,809)
Net provisions less recoveries on loans and advances	30	**(4,761)**	(10,282)
Provisions for loans and advances		(13,808)	(18,885)
Recovery of provisions for loans and advances		9,047	8,603
Net interest received		**262,064**	216,641
Revenues from shares, securities and financial instruments with variable income	8	**1,581**	990
Net commissions	30	**93,029**	79,393
Commissions received		104,989	85,156
Commissions paid		(11,960)	(5,763)
Profit from financial operations		**32,588**	46,370
Profit from trading and non-trading investments		18,078	35,071
Profit from foreign exchange operations		14,510	11,299
Loss on financial operations		**(4,789)**	(21,512)
Loss on trading and non-trading investments		(2,508)	(19,022)
Loss on foreign exchange operations		(2,281)	(2,490)
Net profit from financial operations	30	**27,799**	24,858
Other operating income		**3,885**	4,047
Excess of group's interest in the fair value of net asset of acquired subsidiary over cost	4	**870**	-
Other operating expenses		**(6,052)**	(10,838)
General and administrative expenses		**(179,548)**	(150,769)
Salaries and related benefits	30	(98,366)	(81,978)
General operating expenses	30	(81,182)	(68,791)
Depreciation and amortization of tangible and intangible fixed assets		**(18,536)**	(17,963)
Profit before tax		**185,092**	146,359
Income tax expense		**(35,574)**	(27,672)
Profit for the year		**149,518**	118,687
Attributable to:			
Equity holders of the parent		**142,550**	115,389
Minority interests		**6,968**	3,298
		149,518	118,687
Earnings per share			
Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares	32	**LL 278.73**	LL 212.51
Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares	32	**LL 326.73**	LL 260.51

The attached notes 1 to 51 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 December 2007

	Notes	2007 LL million	2006 LL million
OPERATING ACTIVITIES			
Profit before tax and minority interest		185,092	146,359
Adjustments for:		-	
Depreciation of tangible assets		13,660	12,170
Amortization of intangible assets		125	125
Impairment provision for assets acquired in recovery of debts		4,751	5,668
Profit on disposal of tangible fixed assets		(399)	(46)
Profit on disposal of assets acquired in recovery of debts		(602)	(2,344)
Loss (profit) on sale of treasury bills held for trading		938	(3,348)
Profit on sale of non-trading treasury bills		(77)	(12,354)
Loss on sale of bonds held for trading		65	223
Loss on sale of non-trading bonds		-	705
Profit on sale of shares held for trading		(5,285)	(4,221)
Profit on sale of certificates of deposits with the Central Bank		(11,776)	(12,904)
Excess of group's interest in the net fair value of net assets of acquired subsidiary over cost		(870)	-
Changes in fair value of treasury bills held for trading		1,123	11,165
Changes in fair value of shares held for trading		(503)	4,639
Changes in fair value of bonds for trading		(55)	46
Provision for doubtful debts (net of recoveries)		726	6,013
Provision for doubtful banks and financial institutions (net of recoveries)		-	(35)
Provision for other debtors (net of recoveries)		(104)	253
General provision (net of recoveries)		3,929	3,253
Provision for country risk (net of recoveries)		54	228
Bad debts written off		156	570
Provision for end of service indemnities		4,888	1,819
Provision for foreign currency differences		6	12
Provision for risk and charges (recoveries)		(3)	1,486
Technical reserves of insurance company		14,784	8,297
		210,623	167,779
Changes in operating assets and liabilities			
Lebanese and other governmental treasury bills and bonds- held for trading		314,202	768,883
Bonds and financial instruments with fixed income- held for trading		1,337	72,782
Shares, securities and financial instruments with variable income – held for trading		1,613	(2,389)
Due from Central Bank		(281,147)	479,304
Due from Banks and Financial Institutions		(24,098)	(50,509)
Loans and advances to customers		(723,122)	(411,990)
Other assets		562	(277)
Regularization and other debit balances		64	(24,370)
Due to Central Banks		(19,020)	32,539
Due to Banks and Financial Institutions		37,892	118,376
Customer deposits		1,460,280	953,017
Other liabilities		379	30,610
Regularization and other credit balances		13,309	13,111
End of Service Benefits Paid		(883)	(969)
Taxes paid		(30,724)	(26,901)
Cash from operating activities		961,267	2,118,996
INVESTING ACTIVITIES			
Lebanese and other governmental treasury bills and bonds- not held for trading		(440,403)	(1,300,769)
Bonds and financial instruments with fixed income- not held for trading		(35,584)	(2,566)
Shares, securities and financial instruments with variable income – not held for trading		(75,285)	(52)
Purchase of tangible fixed assets		(50,246)	(25,648)
Properties acquired in settlement of debt		(19,089)	(24,247)
Proceeds from sale of tangible fixed assets		1,103	390
Proceeds from sale of properties acquired in settlement of debt		3,569	9,959
Acquisition of a subsidiary, net of cash acquired	4	(8,530)	-
Cash from investing activities		(624,465)	(1,342,933)
FINANCING ACTIVITIES			
Due to Central Bank		2,885	(50,020)
Liabilities under financial instruments		(3,647)	6,699
Subordinated loans		304,119	(105,153)
Treasury shares		(581)	(366)
Dividends paid		(92,962)	(52,980)
Change in minority interest		9,980	892
Cash from financing activities		219,794	(200,928)
Effect of exchange rates:			
Effect of exchange rates on fixed assets		(1,593)	(652)
Foreign currency translation differences		10,031	7,058
Effect of exchange rates on reserves and premiums		3,353	2,389
Net effect of foreign exchange rates		11,791	8,795
INCREASE IN CASH AND CASH EQUIVALENTS		568,387	583,930
Cash and cash equivalents at 1 January		2,882,923	2,298,993
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	31	3,451,310	2,882,923

The attached notes 1 to 51 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2007

	Attributable to equity holders of the parent																Minority interests	Total equity
	Share capital				Other reserves and premiums													
	Ordinary shares LL million	Preferred shares LL million	Priority shares LL million	Treasury shares LL million	Legal reserve LL million	Reserves appropriated for capital increase LL million	Premium on issuance of preferred shares LL million	General reserve LL million	Equity component of convertible subordinated loans LL million	Reserve for general Banking Risks LL million	Revaluation reserve LL million	Cumulative changes in fair values LL million	Retained earnings LL million	Net results of the financial period - profit LL million	Foreign currency translation differences LL million	Total LL million	LL million	LL million
Balance at 1 January 2006	246,028	1,200	247,228	-	65,662	19,755	149,550	79,542	-	39,859	5,689	21,190	4,704	102,094	4,580	987,081	56,761	1,043,842
Net movement in cumulative changes in fair values	-	-	-	-	-	-	-	-	-	-	-	(33,660)	-	-	-	(33,660)	-	(33,660)
Translation difference	-	-	-	-	422	-	-	1,748	-	-	-	220	219	-	7,058	9,667	2,342	12,009
Total income and expense for the year recognized directly in equity	-	-	-	-	422	-	-	1,748	-	-	-	(33,440)	219	-	7,058	(23,993)	2,342	(21,651)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	-	115,389	-	115,389	3,298	118,687
Total income and expenses for the year	-	-	-	-	422	-	-	1,748	-	-	-	(33,440)	219	115,389	7,058	91,396	5,640	97,036
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	102,094	(102,094)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	11,172	255	-	15,486	-	8,300	-	-	(35,213)	-	-	-	-	-
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,450)	(1,450)
Equity dividends paid	-	-	-	-	-	-	-	-	-	-	-	-	(52,980)	-	-	(52,980)	-	(52,980)
Treasury shares	-	-	-	(366)	-	-	-	-	-	-	-	-	-	-	-	(366)	-	(366)
Balance at 31 December 2006	**246,028**	**1,200**	**247,228**	**(366)**	**77,256**	**20,010**	**149,550**	**96,776**	**-**	**48,159**	**5,689**	**(12,250)**	**18,824**	**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	-	-	-	138	128	-	10,031	13,522	2,600	16,122
Total income and expense for the year recognized directly in equity	-	-	-	-	380	-	-	2,845	-	-	-	(33,994)	128	-	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	-	-	-	(33,994)	128	142,550	10,031	121,940	9,291	131,231
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	-	115,389	(115,389)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	12,458	274	-	8,743	-	8,757	-	-	(30,252)	-	-	-	-	-
Equity component of convertible subordinated loans (note 23)	-	-	-	-	-	-	-	-	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**	**(947)**	**90,124**	**20,284**	**149,550**	**109,354**	**20,809**	**56,916**	**5,689**	**(46,244)**	**11,127**	**142,550**	**21,669**	**1,074,337**	**77,622**	**1,151,959**

The attached notes 1 to 51 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, 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").

2 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.

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:

IFRS 7 – "Financial Instruments Disclosures"
The objective of this IFRS is to require entities to provide disclosures in their financial statements that enable users to evaluate:

- the significance of financial instruments for the Group's financial position and performance; and
- the nature and extent of risks arising from financial instruments to which the Group is exposed during the period and at the reporting date, and how those risks are managed.

Amendments to IAS 1 – "Presentation of Financial Statements concerning Capital Disclosures"
These amendments require disclosures of information enabling evaluation of the Group's objectives, policies and processes for managing capital.

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 2007:

IAS 1 (Revised): Presentation of financial Statements
IAS 23: Borrowing costs
IFRIC 11: IFRS 2 – Group and Treasury Share Transactions
IFRIC 12: Services Concession Arrangements
IFRIC 13: Customer Loyalty Programs
IFRIC 14: IAS 19 – the Limit on a Defined Benefit Asset, Minimum Funding Requirements and Their Interaction
IFRS 8: Operating Segment
IFRIC 9: Reassessment of Embedded Derivatives

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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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*
	2007 %	*2006* %		
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	**65.00**	65.00	Banking activities	Sudan
Byblos Bank Syria S.A.	**41.50**	41.50	Banking activities	Syria
Byblos Bank Armenia cjsc	**100.00**	-	Banking activities	Armenia
Adonis Insurance and Reinsurance (ADIR) Syria	**76.00**	-	Insurance activities	Syria

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)
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 consolidated the 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.

Financial instruments – initial recognition and subsequent measuremenrt

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 are recognised in the consolidate dincome statement as profit or loss from financial operations.

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

- Held to maturity
- Investments carried at fair value through profit and loss
- Investments carried at amortised cost (Loans and receivables)
- Available for sale

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 expense and similar charges" 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".

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments and financial assests (continued)

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 form 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 profit or loss on financial operations, interest earned or incurred is accrued in interest income or expense, respectively, according to the terms of the contract.

Investments carried at amortized cost

These investments include banks and financial institutions and loans and advances. These investments represent financial assets not quoted in an active market and have a fixed or determinable payments. These assets are carried at amortized cost using the effective interest rate method less provision for impairment in value and interest in suspense. Gains and losses resulting from sale of these assets or from impairment in value are recognised in the consolidated income statement.

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 recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statement. In the case of available for sale equity investments reversal of previously recognised impairment losses are no longer recorded through the consolidated income statement but as increases in cumulative changes in fair value.

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.

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 on the consolidated balance sheet reflecting its economic substances 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 on the balance sheet. The corresponding cash paid, including accrued interest is recognised on the balance sheet. 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 are 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.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows discounted at the original effective interest rate.
(b) for assets carried at fair value, impairment is the difference between the carrying value and fair value.
(c) for assets carried at cost, impairment is present value of future cash flows discounted at the current market rate of return for a similar financial asset.

For available for sale equity investments a reversal of impairment loss is recorded as an increase in cumulative changes in fair value in shareholders' equity. On the other hand, a reversal of impairment loss on an available for sale debt instrument is recorded in the consolidated income statement.

In addition, a provision is made to cover impairment for specific groups of assets where there is a measurable decrease in estimated future cash flows.

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.

Deposits with banks and financial institutions and other money market placements
Deposits with banks, financial institutions and other money market placements are stated at cost less any amounts written off and provision for impairment.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Tangible and intangible assets

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

Buildings	2%
Office equipment and furniture	8-15%
Computer equipment and softwares	20-30%
General installations	20%
Vehicles	25%
Key money	20%

The carrying values of tangible and intangible fixed assets 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 tangible assets 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 tangible assets. All other expenditure is recognised in theconsolidated income statement as the expense is incurred.

Collateral pending sale

The Group occasionally acquires real estate in settlement of certain loans and advances in accordance with the Bank of Lebanon's regulations. Such real estate 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.

Liabilities under financial instruments

Liabilities under financial instruments 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 loans

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 the statement of income.

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

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit from financial operations
Net profit from financial operations includes gains and losses from re-evaluation of financial instruments classified as fair value through profit or loss and gains or losses from sale of financial instruments.

Insurance revenue
For the insurance subsidiary, 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

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting (continued)
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.

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:

	2007		*2006*	
	Year end rate	***Average rate***	*Year end rate*	*Average rate*
	LL	***LL***	*LL*	*LL*
US Dollar	**1,507.50**	**1,507.50**	1,507.50	1,507.50
Euro	**2,212.56**	**2,077.55**	1,982.81	1,903.12
Sudanese Dinar (2006: Sudanese Pound)	**734.435**	**746.97**	7.11	6.903
Syrian Lira	**31.37**	**30.24**	29.53	29.03
Armenian Dram	**4.96**	**4.85**	-	-

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, 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, 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 monitor 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 judgement. 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 judgement 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 judgement 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 gradings 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.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics: or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined, and as a result these investments are carried at cost. The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

4 BUSINESS COMBINATION

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

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, the above entity incurred losses amounted to LL 287 million which was accounted for in the determination of the Group's net profit.

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

5 CASH AND BALANCES WITH CENTRAL BANKS

	2007 *LL million*	*2006* *LL million*
Cash on hand	**98,164**	71,002
Balances with central banks:		
Bank of Lebanon:		
- Current accounts	**284,270**	263,750
- Time deposits	**1,250,574**	1,024,306
- Certificates of deposit at amortized cost – Loans and receivables	**759,666**	1,020,267
- Certificates of deposit – available for sale	**30,214**	-
	2,324,724	2,308,323
Balances with central banks in other countries	**150,114**	89,424
Certificates of deposits from central banks in other countries – available for sale	**2,950**	-
Accrued interest receivable	**36,860**	38,128
Total	**2,612,812**	2,506,877
Interest income for the year	**160,146**	171,170
Gain from sale of certificates of deposit reflected under net profit from financial operations (Note 30)	**11,776**	12,904
	171,922	184,074
Percentage of cash and balances with Central Banks to total assets	**18.27%**	20.3%

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 denominated in Lebanese Lira 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 at the rate of 15% of total deposits in foreign currencies regardless of nature.

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

	2007			*2006*
	LL million	*Foreign currencies C/V LL million*	*Total LL million*	*Total LL million*
Current accounts	**223,104**	**45,728**	**268,832**	263,242
Time deposits	**80,000**	**1,170,574**	**1,250,574**	959,524
	303,104	**1,216,302**	**1,519,406**	1,222,766

5 CASH AND BALANCES WITH CENTRAL BANKS (continued)

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
Balances with the Central Banks in other countries include an amount of LL 5,910 million (2006: LL 5,752 million) as non-interest bearing legal blocked fund at the Central Bank of Syria in accordance with the requirements of the Syrian Law.

6 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS

	2007 LL million	*2006 LL million*
At amortized cost:		
Held to maturity:		
- Treasury bills pledged to the Bank of Lebanon in guarantee of soft loans (*)	**40,458**	40,450
- Other treasury bills and bonds	**1,605,761**	1,758,991
	1,646,219	1,799,441
- Accrued interest receivable	**46,501**	54,137
	1,692,720	1,853,578
At fair value:		
- Held for trading	**787,967**	1,097,240
- Accrued interest receivable	**20,104**	27,094
	808,071	1,124,334
- Available for sale	**1,729,875**	1,171,204
- Accrued interest receivable	**34,370**	25,692
	1,764,245	1,196,896
Total Lebanese and other governmental treasury bills and bonds	**4,265,036**	4,174,808
Percentage of treasury bills to total assets	**29.83%**	33.81%
Income for the year:		
- Reflected under interest and similar income:		
- Held for trading	**74,810**	140,380
- Available for sale	**126,362**	52,368
- Held to maturity	**159,752**	128,852
	360,924	321,600
- Reflected under net profit from financial operations and resulting from disposals and fair value changes (Note 30)	**(1,984)**	4,537

(*) These treasury bills are pledged in guarantee of soft loans granted to the Bank by the Bank of Lebanon following the acquisition of other banks (Note 16).

6 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS (continued)

The maturity profile of treasury bills as at 31 December 2007 and 2006 is as follows:

31 December 2007	***Nominal value***			
	Held to maturity LL million	***Available for sale LL million***	***Held for trading LL million***	***Total LL million***
Between one and three months	-	63,697	287,482	351,179
Between three months and one year	593,381	2,213	17,496	613,090
Between one and five years	950,993	904,352	410,999	2,266,344
More than five years	111,707	831,763	69,820	1,013,290
Total	1,656,081	1,802,025	785,797	4,243,903

31 December 2006	*Nominal value*			
	Held to maturity LL million	*Available for sale LL million*	*Held for trading LL million*	*Total LL million*
Less than one month	24,683	-	-	24,683
Between one and three monts	453	-	96,307	96,760
Between three months and one year	292,183	37,960	2,000	332,143
Between one and five years	1,423,827	936,386	901,457	3,261,670
More than five years	62,074	212,872	94,277	369,223
Total	1,803,220	1,187,218	1,094,041	4,084,479

Valuation of Lebanese and other governmental treasury bills portfolio at 31 December 2007 and 2006 is as follows:

31 December 2007	***Nominal value LL million***	***Amortized cost LL million***	***Fair value LL million***	***Book value LL million***
Held to maturity	1,656,081	1,646,219	1,658,936	1,646,219
Held for trading	785,797		787,967	787,967
Available for sale	1,802,025	1,778,000	1,729,875	1,729,875
	4,243,903		4,176,778	4,164,061
Accrued interest receivable	100,975		100,975	100,975
	4,344,878		4,277,753	4,265,036

31 December 2006	*Nominal value LL million*	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	1,803,220	1,799,441	1,806,221	1,799,441
Held for trading	1,094,041		1,097,240	1,097,240
Available for sale	1,187,218	1,185,340	1,171,204	1,171,204
	4,084,479		4,074,665	4,067,885
Accrued interest receivable	106,923		106,923	106,923
	4,191,402		4,181,588	4,174,808

Cumulative changes in fair values of available for sale treasury bills

Cumulative changes in fair values of available for sale Lebanese and other governmental treasury bills and bonds as of 31 December were as follows:

	2007 LL million	*2006 LL million*
Fair value of available for sale treasury bills – end of year	1,729,875	1,171,204
Less: amortized cost – end of year	(1,778,000)	(1,185,340)
Cumulative changes in fair values – end of year (Note 28)	(48,125)	(14,136)

7 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME

	2007 LL million	2006 LL million
Amortized cost:		
- Held to maturity	**611**	302
- Accrued interest receivable	**3**	8
	614	310
At fair value:		
- Available for sale	**118,301**	82,747
- Accrued interest receivable	**3,248**	1,826
	121,549	84,573
- Held for trading	**148**	1,477
- Accrued interest receivable	**5**	23
	153	1,500
Total bonds and financial instruments with fixed income	**122,316**	86,383
Income (loss) for the year:		
- Reflected under interest and similar income:		
- Held for trading	**94**	2,038
- Available for sale	**9,938**	4,229
	10,032	6,267
- Reflected under net profit from financial instruments: Resulting from disposals and valuation difference (Note 30)	**(10)**	(974)

Valuation of bonds and financial instruments with fixed income at 31 December 2007 and 2006 is as follows:

31 December 2007	*Nominal value LL million*	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	**603**	**611**	**653**	**611**
Held for trading	**151**		**148**	**148**
Available for sale	**125,807**	**125,016**	**118,301**	**118,301**
	126,561		**119,102**	**119,060**
Accrued interest receivable	**3,256**		**3,256**	**3,256**
	129,817		**122,358**	**122,316**

31 December 2006	*Nominal value LL million*	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	302	302	309	302
Held for trading	1,387		1,477	1,477
Available for sale	89,779	89,649	82,747	82,747
	91,468		84,533	84,526
Accrued interest receivable	1,857		1,857	1,857
	93,325		86,390	86,383

7 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME (continued)

The maturity profile of bonds and financial instruments with fixed income as at 31 December 2007 and 2006 is as follows:

31 December 2007	***Nominal value***			
	Held to maturity LL million	***Available for sale LL million***	***Held for trading LL million***	***Total LL million***
Between three months and one year	-	34,659	-	34,659
Between one and five years	603	91,148	151	91,902
	603	**125,807**	**151**	**126,561**

31 December 2006	*Nominal value*			
	Held to maturity LL million	*Available for sale LL million*	*Held for trading LL million*	*Total LL million*
Between one and three months	-	4,893	-	4,893
Between three months and one year	-	34,667	1,387	36,054
Between one and five years	302	50,219	-	50,521
	302	89,779	1,387	91,468

Cumulative changes in fair values of available for sale bonds and financial instruments with fixed income

	2007 LL million	*2006 LL million*
Fair value of available for sale bonds and financial instruments – end of year	**118,301**	82,747
Less: amortized cost - end of year	**(125,016)**	(89,649)
Cumulative changes in fair values – end of year (Note 28)	**(6,715)**	(6,902)

8 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME

	2007 LL million	*2006 LL million*
At fair value:		
- Available for sale securities	**89,320**	14,276
- Trading securities	**28,547**	24,372
	117,867	38,648
Income for the year:		
- reflected under revenues from shares, securities and financial instruments with variable income	**1,581**	990
- reflected under net profit from financial operations and resulting from fair value changes and gain on disposal (note 30):		
- Profit on disposal	5,285	4,221
- Profit (loss) on revaluation	503	(4,639)
	5,788	(418)

8 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME (continued)

Valuation of shares, securities and financial instruments with fixed income as of 31 December 2007 and 2006 is as follows:

	2007			2006		
	Cost LL million	*Fair value LL million*	*Book value LL million*	*Cost LL million*	*Fair value LL million*	*Book value LL million*
Available for sale	**80,813**	**89,320**	**89,320**	5,488	14,276	14,276
Trading	**26,418**	**28,547**	**28,547**	28,218	24,372	24,372
	107,231	**117,867**	**117,867**	33,706	38,648	38,648

9 BANKS AND FINANCIAL INSTITUTIONS – DEBIT

	2007 LL million	*2006 LL million*
Commercial banks:		
- Current accounts	**165,686**	119,454
- Time deposits	**2,795,747**	1,998,037
- Pledged deposits	**81,512**	-
- Certificates of deposit at amortized cost – loans and receivables	**15,685**	46,482
- Certificates of deposits – available for sale	**21,625**	-
- Loans granted	**68,662**	55,602
- Discounted bills and purchased checks	**69,576**	140,949
- Accrued interest receivable	**13,061**	7,649
- Interest received in advance	**(3,421)**	(3,298)
- Doubtful bank accounts	**10,657**	10,633
Less: Provision for doubtful bank accounts	**(10,657)**	(10,633)
	3,228,133	2,364,875
Financial institutions:		
- Current accounts	**4,897**	603
- Time deposits	**3,090**	3,211
- Accrued interest receivable	**19**	21
	8,006	3,835
Registered exchange companies:		
- Current accounts	**6,460**	141
- Doubtful accounts	**2,259**	2,259
Less: Provision for doubtful accounts	**(2,259)**	(2,259)
	6,460	141
	3,242,599	2,368,851
Interest and similar income for the year	**149,108**	121,679
Percentage of balances due from banks and financial institutions to total assets	**22.68%**	19.19%

Pledged deposits amounting to LL 81,512 million as at 31 December 2007 represent blocked deposits with foreign banks against the bank's customers trading transactions.

9 BANKS AND FINANCIAL INSTITUTIONS – DEBIT (continued)

Breakdown by geographic location

	2007		2006	
	LL million	*%*	*LL million*	*%*
Lebanon	**337,368**	**10**	124,090	5
O.E.C.D. countries	**1,638,599**	**51**	1,774,448	75
Saudi Arabia	**406,599**	**13**	45,412	2
Other countries	**860,033**	**26**	424,901	18
	3,242,599	**100**	2,368,851	100

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:

	2007		2006	
	Loan balance LL million	*Provision LL million*	*Loan balance LL million*	*Provision LL million*
Balance at 1 January	**12,892**	**12,892**	13,284	13,284
Amount collected on behalf of the shareholders of Banque Beirut Pour le Commerce SAL (bank merged previously) from the loan due by BCCI bank	-	-	(413)	(413)
Amount collected and the related provision recovered during the year (Note 30)	-	-	(35)	(35)
Exchange difference	**24**	**24**	194	194
Write off	-	-	(138)	(138)
Balance at 31 December	**12,916**	**12,916**	12,892	12,892
Out of which				
- banks	**10,657**	**10,657**	10,633	10,633
- registered exchange companies	**2,259**	**2,259**	2,259	2,259
	12,916	**12,916**	12,892	12,892

Cumulative changes in fair values of available for sale certificates of deposits

Cumulative changes in fair values of available for sale certificates of deposit as at 31 December were as follows:

	2007	2006
	LL million	*LL million*
Fair value of available for sale certificates of deposits – end of year	**21,625**	-
Less: amortized cost – end of year	**(21,499)**	-
Cumulative changes in fair values – end year (Note 28)	**126**	-

10 LOANS AND ADVANCES TO CUSTOMERS

Following is a comparison of loans and advances at 31 December 2007 and 2006:

	2007 LL million	*2006 LL million*
Gross loans and advances	**3,607,568**	2,923,070
Accrued interest receivable	**6,518**	6,841
Interest received in advance	**(53,360)**	(37,080)
	3,560,726	2,892,831
Unrealized interest on substandard loans	**(14,114)**	(15,118)
Unrealized interest on doubtful and bad loans	**(73,008)**	(92,267)
Specific provision on doubtful and bad loans	**(65,690)**	(108,552)
General provisions	**(37,203)**	(35,010)
Provision for country risk	**(4,698)**	(4,162)
	3,366,013	2,637,722

	2007 LL million	*2006 LL million*
Commercial loans	**2,666,200**	2,056,833
Other loans to customers	**751,604**	618,867
Bad and doubtful loans (net)	**29,281**	37,078
Loans to related parties	**21,785**	9,473
Unrealized interest on substandard loans	**(14,114)**	(15,118)
Accrued interest receivable	**6,518**	6,841
Less: Interest received in advance	**(53,360)**	(37,080)
	3,407,914	2,676,894
Less:		
- General provision for loans and advances	**(37,203)**	(35,010)
- Provision for country risk	**(4,698)**	(4,162)
	3,366,013	2,637,722
Percentage of loans and advances to total assets	**23.54%**	21.36%
Bad loans transferred to off balance sheet accounts:		
- Gross balance	**113,690**	45,423
- Percentage of bad loans off balance sheet to total loans (before deduction of provisions and unrealized interest)	**3.15%**	1.55%
Percentage of bad and doubtful loans to total loans:		
- Excluding off balance sheet accounts	**4.66%**	8.37%
- Including off balance sheet accounts	**7.81%**	9.77%

Breakdown by economic sector

	2007 LL million	*2006 LL million*
Commercial	**1,041,522**	856,223
Manufacturing	**638,231**	449,262
Agriculture	**84,051**	96,215
Services	**526,617**	327,624
Construction	**440,958**	437,977
Retail	**765,175**	607,943
Other	**111,014**	147,826
	3,607,568	2,923,070

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2007					2006				
	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	3,122,415	-	-	-	3,122,415	2,387,049	-	-	-	2,387,049
- Watch loans	281,679	-	-	-	281,679	251,075	-	-	-	251,075
	3,404,094	-	-	-	3,404,094	2,638,124	-	-	-	2,638,124
- Substandard loans	35,495	(14,114)	-	-	21,381	47,049	(15,118)	-	-	31,931
- Doubtful loans	113,968	(49,472)	(35,215)	-	29,281	170,048	(63,406)	(69,564)	-	37,078
- Bad loans	54,011	(23,536)	(30,475)	-	-	67,849	(28,861)	(38,988)	-	-
	3,607,568	(87,122)	(65,690)	-	3,454,756	2,923,070	(107,385)	(108,552)	-	2,707,133
Less:										
- General provision to be allocated	-	-	-	(37,203)	(37,203)	-	-	-	(35,010)	(35,010)
- Provision for country risk	-	-	-	(4,698)	(4,698)	-	-	-	(4,162)	(4,162)
Accrued interest receivable	6,518	-	-	-	6,518	6,841	-	-	-	6,841
Less: Interest received in advance	(53,360)	-	-	-	(53,360)	(37,080)	-	-	-	(37,080)
	3,560,726	(87,122)	(65,690)	(41,901)	3,366,013	2,892,831	(107,385)	(108,552)	(39,172)	2,637,722

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 113,690 million as of 31 December 2007 (2006: LL 45,423 million).

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

Bad and doubtful loans (net)

	2007 LL million	*2006 LL million*
Balance sheet accounts:		
Gross amount of bad and doubtful loans	**167,979**	237,897
Unrealized interest	**(73,008)**	(92,267)
Specific provision	**(65,690)**	(108,552)
Net amount of bad and doubtful loans	**29,281**	37,078

Movement of unrealized interest on doubtful and bad loans during the year

	2007		
	Commerical 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 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**

	2006		
	Commerical loans LL million	*Other customers loans LL million*	*Total LL million*
Balance at 1 January	94,699	2,141	96,840
Add (less):			
- Unrealized interest on doubtful and bad loans	14,139	206	14,345
- Recovery of unrealized interest	(1,591)	(36)	(1,627)
- Unrealized interest used to write off doubtful and bad loans	(18,458)	(3)	(18,461)
- Transfer from substandard loans	1,322	-	1,322
- Recovery of unrealized interest on bad loans previously transferred to off balance sheet	954	9	963
- Unrealized interest relating to loans transferred to off balance sheet accounts	(1,812)	(23)	(1,835)
- Difference of exchange	720	-	720
Balance at 31 December	89,973	2,294	92,267

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of provision for doubtful and bad loans

	2007 Commerical loans LL million	Other customers loans LL million	Total LL million
Balance at 1 January	**96,322**	**12,230**	**108,552**
Add (less):			
- Transfer from general provisions	**474**	**1,301**	**1,775**
- Provisions recorded during the year (Note 30)	**7,247**	**2,372**	**9,619**
- Provision relating to 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 30)	**(7,011)**	**(1,033)**	**(8,044)**
- Recoveries 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	**54,393**	**11,297**	**65,690**

	2006 Commerical loans LL million	Other customers loans LL million	Total LL million
Balance at 1 January	99,447	12,316	111,763
Add (less):			
- Provisions recorded during the year (Note 30)	14,190	391	14,581
- Provision relating to loans transferred to off balance sheet accounts	(105)	-	(105)
- Provisions used to write off doubtful and bad loans	(12,219)	(218)	(12,437)
- Recovery of provisions (Note 30)	(8,219)	(349)	(8,568)
- Recoveries of provisions on bad loans previously transferred to off balance sheet accounts	2,161	90	2,251
- Difference of exchange	1,067	-	1,067
Balance at 31 December	96,322	12,230	108,552

The fair value of the collateral held against individually impaired loans as at 31 December 2007 amounted to LL 45,413 million (2006: LL 59,915 million):

General provision for credit losses

	2007 LL million	*2006* LL million
Provisions accounted for by Byblos Bank SAL approved by the Banking Control Commission:		
- Retail loans portfolio	**20,630**	19,948
- To be allocated to specific customers	**-**	3,306
	20,630	23,254
Provisions constituted by Byblos Bank Africa	**9,310**	5,320
Provisions constituted by Byblos Bank Europe SA	**7,182**	6,436
Provisions constituted by Byblos Bank Armenia	**81**	-
Total	**37,203**	35,010

10 LOANS AND ADVANCES TO CUSTOMERS (continued)

Movement of general provision during the year

	2007 LL million	*2006 LL million*
Balance at 1 January	**35,010**	30,480
Add (less):		
- Provisions constituted during the year (Note 30)	**3,929**	3,253
- General provisions recovered during the year (Note 30)	**(849)**	-
- General provisions brought forward allocated to specific clients during the year	**(1,775)**	-
- General provisions transferred from unrealized interest on substandard loans	**-**	240
- Difference of exchange	**888**	1,037
Balance at 31 December	**37,203**	35,010

Provision for country risk

	2007 LL million	*2006 LL million*
Balance at 1 January	**4,162**	3,531
Provision constituted during the year (Note 30)	**54**	228
Difference of exchange	**482**	403
Balance at 31 December	**4,698**	4,162

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 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	-

11 BANK ACCEPTANCES

	2007 LL million	*2006 LL million*
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances discounted by the Group without recourse to the beneficiary, reflected also under loans and advances	**22,278**	22,311
- Other acceptances	**243,137**	261,795
	265,415	284,106

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.

12 TANGIBLE FIXED ASSETS

Movement of tangible fixed assets and related depreciation during the years 2007 and 2006 is as follows:

	Buildings LL million	*Motor vehicles LL million*	*Furniture and equipment LL million*	*Deposits LL million*	*Advance payments LL million*	*Fixed assets acquired in settlemet of debt LL million*	*Total LL million*
Cost and Revaluation:							
At 1 January 2007	125,257	2,392	76,013	392	24,444	40,018	268,516
Additions during the year	20,247	675	19,465	18	9,841	19,089	69,335
Acquisition of subsidiary	4,692	245	556	-	-	-	5,493
Transfers	22,153	-	2,444	-	(24,597)	-	-
Disposal of fixed assets fully depreciated	(795)	-	(1,228)	-	-	-	(2,023)
Disposal of other fixed assets	(419)	(326)	(1,775)	-	-	(2,967)	(5,487)
Impairment provision on assets taken in settlement of debt	-	-	-	-	-	(4,751)	(4,751)
Foreign exchange difference	1,330	46	810	10	153	-	2,349
At 31 December 2007	172,465	3,032	96,285	420	9,841	51,389	333,432
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 fully depreciated	(795)	-	(1,228)	-	-	-	(2,023)
Related to disposals of other fixed assets	-	(226)	(1,590)	-	-	-	(1,816)
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	51,389	243,737

	Buildings LL million	*Motor vehicles LL million*	*Furniture and equipment LL million*	*Deposits LL million*	*Advance payments LL million*	*Fixed assets acquired in settlemet of debt LL million*	*Total LL million*
Cost and Revaluation:							
At 1 January 2006	113,358	2,236	69,387	317	21,639	29,054	235,991
Additions during the year	5,515	152	9,415	66	10,500	24,247	49,895
Transfers	6,364	-	1,465	-	(7,829)	-	-
Disposal of fixed assets fully depreciated	-	(44)	(4,652)	-	-	-	(4,696)
Disposal of other fixed assets	(435)	-	(213)	-	-	(7,615)	(8,263)
Impairment provision on Assets taken in settlement of debt	-	-	-	-	-	(5,668)	(5,668)
Foreign exchange difference	455	48	611	9	134	-	1,257
At 31 December 2006	125,257	2,392	76,013	392	24,444	40,018	268,516
Depreciation:							
At 1 January 2006	18,847	1,199	51,297	-	-	-	71,343
Depreciation during the year	2,745	230	9,195	-	-	-	12,170
Related to disposal of fixed assets fully depreciated	-	(44)	(4,652)	-	-	-	(4,696)
Related to disposals of other fixed assets	(126)	-	(178)	-	-	-	(304)
Foreign exchange difference	67	12	526	-	-	-	605
At 31 December 2006	21,533	1,397	56,188	-	-	-	79,118
Net book value:							
At 31 December 2006	103,724	995	19,825	392	24,444	40,018	189,398

12 TANGIBLE FIXED ASSETS (continued)

The cost of buildings at 31 December 2007 and 2006 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 are reflected in equity as follows:

	2007 *LL million*	*2006* *LL million*
- Revaluation difference recognized in the complementary shareholders' equity (Tier II) (Note 24)	**1,978**	1,978
- Revaluation difference of other fixed assets (Note 24)	**3,711**	3,711
	5,689	5,689

13 INTANGIBLE ASSETS

	Key money *LL million*
31 December 2007	
Cost:	
At 1 January and 31 December 2007	**1,637**
Accumulated amortization:	
At 1 January 2007	**313**
Amortization expense for the year	**125**
At 31 December 2007	**438**
Net book value:	
At 31 December 2007	**1,199**
31 December 2006	
Cost:	
At 1 January and 31 December 2006	1,637
Accumulated amortization:	
At 1 January 2006	188
Amortization expense for the year	125
At 31 December 2006	313
Net book value:	
At 31 December 2006	1,324

14 OTHER ASSETS

	2007 LL million	2006 LL million
Miscellaneous assets	483	841
Obligatory financial assets	2,250	2,250
	2,733	3,091

Obligatory financial assets consist of a deposit amounting to 15% of the share capital of a 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.

15 REGULARISATION ACCOUNTS AND OTHER DEBIT BALANCES

	2007 LL million	2006 LL million
Doubtful debtor accounts	8,796	8,223
Less: Provision on doubtful debtor accounts	(8,774)	(8,188)
	22	35
Prepaid rent	1,548	970
Printings and stationery	2,564	3,215
Withdrawals due from the automated teller machines (ATM)	709	4,116
Credit card balances due from customers	3,879	1,913
Fair value at year end of the index, commodity and equity products linked to the notes issued by Byblos Bank SAL and Byblos Invest Bank SAL (Note 21)	15,060	14,325
Reconciling items between the head office and subsidiaries	4,006	-
Insurance premiums receivable	2,385	1,773
Reinsurers' share of technical reserve of subsidiary insurance company	6,947	5,346
Revaluation variance of structural position (Note 22)	15	15
Revaluation variance on foreign exchange contracts	158	-
Payment for the establishment of a new branch in Iraq (Erbil area)	-	7,256
Deposits for participation in auctions	716	450
Cash in the automated teller machines (ATM)	16,490	14,276
Other debit balances	1,676	1,860
	56,153	55,515
	56,175	55,550

15 REGULARISATION ACCOUNTS AND OTHER DEBIT BALANCES (continued)

Doubtful debtors accounts

	Loan Balance LL million	*Provision LL million*
Balance at 1 January 2007	**8,323**	8,188
Add (less):		
Doubtful debtor accounts during the year	**750**	-
Loans classified doubtful and provisions constituted during the year (Note 30)	**-**	50
Provision constituted against fraud	**-**	759
Write off	**(69)**	(69)
Loans recovered and provisions released (Note 30)	**(208)**	(154)
Balance at 31 December 2007	**8,796**	8,774

16 DUE TO CENTRAL BANKS

	2007 LL million	*2006 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	**(3,465)**	(5,445)
	36,535	34,555
Current account due to Bank of Syria	**16,364**	35,651
Current account due to Bank of Sudan	**7,146**	6,879
Loan due to the Central Bank of Armenia	**905**	-
	24,415	42,530
Total	**60,950**	77,085
Interest and similar charges for the year:		
- Loans interest expenses	**1,750**	2,613
- Amortization of the difference on valuation of the soft loan and the corresponding treasury bills	**1,980**	1,980
	3,730	4,593

The loan from the Bank of Lebanon is secured by one-year Lebanese treasury bill with a nominal value of LL million 43,090 (2006: same) (Note 6).

LL 40 Billion Loan

This loan represents facilities granted on 15 November 2001 by the Central Committee of the Bank of Lebanon to the Bank following its 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. At the beginning of the third year onward, 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.

17 BANKS AND FINANCIAL INSTITUTIONS - CREDIT

	2007 LL million	2006 LL million
Commercial banks:		
- Current accounts	**194,938**	168,096
- Time deposits	**535,630**	500,538
- Medium term loans:		
Loan balance	**134,572**	135,706
Less: Difference on valuation amortized over loan period	**(13)**	(14)
	865,127	804,326
Accrued interest payable	**5,384**	5,315
	870,511	809,641
Financial institutions:		
- Current account	**1,530**	-
- Term loans	**129,502**	64,018
- Accrued interest payable	**2,899**	877
- Less: Cost to be amortized over the loan period	**(1,441)**	(144)
	132,490	64,751
Registered exchange companies:		
- Current accounts	**1,574**	952
- Time deposits	**3,579**	1,500
- Interest Payable	**8**	31
	5,161	2,483
	1,008,162	876,875
Interest and similar charges for the year	**48,052**	44,499

Breakdown by geographic location

	2007 LL million	2007 %	2006 LL million	2006 %
Lebanon	**188,594**	**18**	145,902	17
O.E.C.D. countries	**236,962**	**23**	188,516	21
Other non-resident banks	**581,579**	**58**	541,411	61
Saudi Arabia	**1,027**	**1**	1,046	1
	1,008,162	**100**	876,875	100

18 CUSTOMERS' DEPOSITS

	2007 LL million	2006 LL million
Current accounts	**1,319,668**	1,099,296
Time deposits	**2,681,474**	2,290,636
Saving accounts:		
- Sight	**324,936**	291,271
- Term	**6,458,910**	5,635,611
Blocked deposits	**57**	49,799
Related parties' deposits	**86,590**	40,773
Accrued interest payable	**59,413**	54,103
	10,931,048	9,461,489
Percentage of customers' deposits to total balance sheet footing at year end	**76.46%**	76.63%

19 LIABILITIES UNDER FINANCIAL INSTRUMENTS

	2007 LL million	*2006 LL million*
Certificates of deposit issued by the Bank		
Nominal value: US$ (000) 77,921 (2006: US$ (000) 77,954)	**117,466**	117,515
Accrued interest payable: US$ (000) 2,553 (2006: US$ (000) 2,555)	**3,849**	3,851
Issuing cost to be amortized: US$ (000) 147 (2006: US$ (000) 243)	**(222)**	(366)
	121,093	121,000
Index linked notes		
Issuance value: US$ (000) 49,441 (2006: US$ (000) 49,780)	**74,533**	75,043
Discount to be amortized over the period of the notes: US$ (000) 4,482 (2006: US$ (000) 3,672)	**(6,756)**	(5,535)
Accrued interest payable: US$ (000) 767 (2006: US$ (000) 764)	**1,157**	1,151
	68,934	70,659
Equity linked notes		
Issuance value: US$ (000) 49,410 (2006: US$ (000) 49,690)	**74,486**	74,908
Accrued interest payable: US$ (000) 1,676 (2006. US$ (000) 1,666)	**2,527**	2,511
Discount to be amortized over the period of the notes: US$ (000) 3,893 (2006: US$ (000) 3,083)	**(6,005)**	(4,648)
	71,008	72,771
Commodity linked notes		
Issuance value: US$ (000) 6,367 (2006: US$ (000) 6,363)	**9,599**	9,592
Discount to be amortized over the period of the notes: US$ (000) 533 (2006: US$ (000) 362)	**(804)**	(545)
Accrued Interest payable: US$ (000) 28 (2006: US$ (000) 28)	**42**	42
	8,837	9,089
	269,872	273,519
Charges for the year:		
- Certificates of deposit:		
- Interest: US$ (000) 5,065 (2006: US$ (000) 5,067)	**7,635**	7,638
- Add: Amortization of issuing cost: US$ (000) 98 (2006: US$ (000) 97)	**149**	147
	7,784	7,785
- Index linked notes:		
- Interest: US$ (000) 3,477 (2006: US$ (000) 3,490)	**5,241**	5,261
- Less: Amortization of Bank's gain resulting from the perfect hedge of the index linked notes: US$ (000) 813 (2006: US$ (000) 767)	**(1,226)**	(1,156)
	4,015	4,105
- Equity linked notes:		
Interest: US$ (000) 3,983 (2006: US$ (000) 3,989)	**6,005**	6,014
Less: amortization of the Bank's gain resulting from perfect hedge of the equity linked notes: US$ (000) 888 (2006: US$ (000) 832)	**(1,339)**	(1,254)
	4,666	4,760
- Commodity linked notes:		
Interest US$ (000) 519 (2006: US$ (000) 157)	**782**	237
Less: amortization of the Bank's gain resulting from perfect hedge of the commodity linked notes: US$ (000) 178 (2006: US$ (000) 52)	**(268)**	(78)
	514	159
Total charges reflected in the statement of income under interest paid on liabilities under financial instruments	**16,979**	16,809

19 LIABILITIES UNDER FINANCIAL INSTRUMENTS (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) 98 was amortized during 2007 (2006: US$ (000) 97).

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 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 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%.

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.

19 LIABILITIES UNDER FINANCIAL INSTRUMENTS (continued)

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 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%.

20 OTHER LIABILITIES

		2007 *LL million*	*2006* *LL million*
Payables to National Social Security Fund		**944**	763
Government and public sector	a	**25,400**	21,037
Other creditors	b	**29,319**	28,821
Due to shareholders		**516**	507
Margins against documentary credits and acceptances		**101,910**	103,252
Other accounts		**2,953**	1,179
		161,042	155,559

a) Government and Public Sector

	2007 *LL million*	*2006* *LL million*
Taxes payable:		
- Income tax on profit	**17,942**	15,487
- Tax on services	**216**	158
- Taxes and fees related to the insurance company	**931**	700
- Tax on salaries and wages	**1,351**	991
- Tax on Board of Directors' attendance fees	**49**	38
- Tax on interest	**3,740**	3,305
- Value added tax	**64**	129
- Other taxes	**1,107**	229
	25,400	21,037

	2007 *LL million*	*2006* *LL million*
Taxes taken from current year profit	**22,039**	14,912
Tax paid on interest received, reflected in the statement of income under income tax	**13,535**	12,760
Income tax expense	**35,574**	27,672

20 OTHER LIABILITIES (continued)

b) *Other Creditors*

	2007 LL million	2006 LL million
Payables to fixed assets suppliers	**1,372**	769
Incoming transfers for settlement	**2,526**	1,875
Partial settlement on past due programmed advances	**7,887**	9,446
Insurance premiums received in advance from customers	**-**	365
Payables to credit card companies	**5,994**	3,923
Checks deposited by customers for collection	**2,197**	-
Advances received on sale of properties acquired in settlement of debt	**2,139**	1,997
Other creditors - subsidiary banks and companies	**5,276**	4,888
Other credit balances	**1,928**	2,910
Collections from customers due to the Ministry of Finance	**-**	2,648
	29,319	28,821

21 REGULARISATION ACCOUNTS AND OTHER CREDIT BALANCES

	2007 LL million	2006 LL million
Interest and commissions received in advance	**5,737**	4,596
Other accrued charges	**20,863**	5,730
Revaluation variance on foreing exchange contracts	**-**	428
Revaluation difference on structural positions	**220**	1,236
Fair value of the index to be settled to the owners of the Index Linked Notes, Commodity Linked Notes and Equity Linked Notes (Note 15)	**15,060**	14,325
Reconciling items between the head office and subsidiaries	**8,919**	11,175
	50,799	37,490

22 PROVISIONS FOR RISKS AND CHARGES

		2007 LL million	2006 LL million
Provision for foreign currency fluctuation	a	**454**	440
Provision for employees end of service benefits	b	**20,575**	16,578
Provision for contingencies		**486**	489
Technical reserves of insurance company		**43,980**	29,196
Provision for revaluation difference on structural position (Note 15)		**15**	15
		65,510	46,718

a. *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 2007 amounted to LL 14 million (2006: LL 12 million).

22 PROVISIONS FOR RISKS AND CHARGES (continued)

b. Provision for employees end of service benefits

	2007 *LL million*	*2006* *LL million*
Provision at 1 January	**16,578**	15,728
Add (less):		
Provision constituted during the year (Note 30)	**4,888**	1,819
End of service benefits paid during the year	**(891)**	(969)
Provision at 31 December	**20,575**	16,578

23 SUBORDINATED LOANS

		2007 *LL million*	*2006* *LL million*
Convertible subordinated notes	a	**283,235**	-
Subordinated notes	b	**47,910**	47,835
Total		**331,145**	47,835

a) Convetible 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 the 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 at a conversion price of US$ 2.25 per share.

The convertible notes have been recorded as follows:

	2007		*2006*	
	LL million	*USD (000)*	*LL million*	*USD (000)*
Initial recognition:				
Nomial value of the convertible notes	**301,500**	**200,000**	-	-
Equity component	**(20,809)**	**(13,804)**	-	-
Liability component at 20 November	**280,691**	**186,196**	-	-
Add:				
- Accrued interest payable	**2,242**	**1,488**	-	-
- Amortization of discount	**302**	**200**	-	-
Amortized cost at 31 December	**283,235**	**187,884**	-	-

The equity component of the convertible subordinated bonds is recorded in equity under "Other reserves and premiums".

23 SUBORDINATED LOANS (continued)

b) Subordinates notes

On 1 July 2002, the Bank issued 100,000 notes 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 2007 and 2006 there was 31,169 notes outstanding totaling to US$ (000) 31,169.

	2007 ***LL million***	*2006* *LL million*
Interest and similar charges for the year:		
- Interest on subordinated notes	**6,136**	12,492
- Interest on convertible subordinated notes and amortization of its related discount	**2,533**	-
Total subordinated loan charges	**8,669**	12,492
Costs of redemption of 68,831 subordinated note reflected under other operating expenses (2006: USD (000) 4,636).	-	7,003

Subsequent conversion of subordinated notes into shares

During January 2008, a subordinated notes holder exercised his option and converted notes amounting to US$ 27 million into Byblos Bank SAL ordinary shares at a price of US$ 2.25 per share. As such, an extraordinary general assembly was held on 24 January 2008 and decided to increase the Bank's capital from LL 494,456,935,200 to LL 508,963,536,000 or an increase of LL 14,506,600,800 through the issuance of 12,088,834 ordianry shares with a nominal value of LL 1,200 per share. The excess amount over the nominal value of the shares was accounted for as a premium on issuance of ordinary shares. On 13 February 2008, the Central Committee of the Bank of Lebanon approved the capital increase.

24 REVALUATION VARIANCE OF FIXED ASSETS

	2007 ***LL million***	*2006* *LL million*
Revaluation variance recognized in the complementary equity		
Variance 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 variance of other fixed assets	**3,711**	3,711
Total revaluation variance of fixed assets	**5,689**	5,689

25 SHARE CAPITAL

	2007		2006	
	No of Shares	*LL million*	*No of Shares*	*LL million*
Issued shares				
Ordinary shares	**205,023,723**	**246,028**	205,023,723	246,028
Preferred shares	**1,000,000**	**1,200**	1,000,000	1,200
Priority shares	**206,023,723**	**247,228**	206,023,723	247,228
	412,047,446	**494,456**	412,047,446	494,456

The capital of the Bank is divided into 412,047,446 shares of LBP 1,200 each fully paid.

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
1,000,000 preferred shares issued in the first half of 2003 according to law 308 dated 3 April 2001 at nominal value amounting to LBP 1,200 million (LBP 1,200 per share) and a premium of USD (000) 99,204 equivalent to LBP 149,550 million, totaling to USD 100 million.

The premium on issuance of preferred shares was recorded under "Other reserves and premiums" account (Note 27).

The preferred shares benefit from a non-cumulative annual income equivalent to USD 12 for each share, the payment of which is subject to the availability of non-consolidated distributable net profits for the corresponding year, once the ordinary general assembly has approved the profits for the year and decided on distribution.

The preferred shares are 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.

Listing of shares in Beirut Stock Exchange
The Central Committee of the Bank of Lebanon held on 22 February 2006 approved the listing of all the nominal shares constituting the capital of the Bank and amounting to 412,047,446 share in regulated financial markets.

On 6 March 2006, the Beirut Stock Exchange issued circular 211/2006, which approved the listing of the Bank's ordinary, preferred and priority shares in the official stock market starting from 7 March 2006.

Treasury shares
Movement of treasury shares recognized in the balance sheet for the years 2007 and 2006 is as follows:

	Ordinary shares			*Priority shares*		
	No. of shares	*Average price US$*	*Amount US$*	*No. of shares*	*Average price US$*	*Amount US$*
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
Sales 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
Total in LL million			352			595

25 SHARE CAPITAL (continued)

Treasury shares (continued)

	Ordinary shares			*Priority shares*		
	No. of shares	*Average price US$*	*Amount US$*	*No. of shares*	*Average price US$*	*Amount US$*
At 1 January 2006	-	-	-	-	-	-
Acquisition of treasury shares	244,987	2.08	510	620,528	2.20	1,366
Sales of treasury shares	(159,900)	2.05	(327)	(586,591)	2.23	(1,306)
At 31 December 2006	85,087	2.15	183	33,937	1.77	60
Total in LL million			276			90

The Central committee of the Bank of Lebanon decided on 11 July 2007 to extend the approval to the Bank for a period of one year starting on 13 July 2007 to acquire 18,000,000 of its outstanding ordinary and/or priority shares listed in Beirut Stock Exchange.

26 RESERVE FOR GENERAL BANKING RISKS

	2007 ***LL million***	*2006* *LL million*
Reserve in compliance with Bank of Lebanon main circular No. 50	**56,916**	48,159

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 2007 from the profits of the year 2006 amounted to LL 8,757 million (2006: LL 8,300 million).

27 OTHER RESERVES AND PREMIUMS

	2007			*2006*		
	Group share LL million	***Minority interest LL million***	***Total LL million***	*Group share LL million*	*Minority interest LL million*	*Total LL million*
Legal reserve	**90,124**	**2,608**	**92,732**	77,256	1,982	79,238
Reserves appropriated for capital increase	**20,284**	**-**	**20,284**	20,010	-	20,010
General reserve	**108,354**	**6,358**	**114,712**	96,776	4,112	100,888
Premium on issuance of preferred shares (Note 25)	**149,550**	**-**	**149,550**	149,550	-	149,550
Equity component of convertible subordinated bonds	**20,809**	**-**	**20,809**	-	-	-
	389,121	**8,966**	**398,087**	343,592	6,094	349,686

27 OTHER RESERVES AND PREMIUMS (continued)

Legal reserves

The Group is required to constitute legal reserves from its annual net profit according to the following rates:

	Rate %	*Ceiling*
Net profits of the head office, branches in Lebanon and subsidiary bank in Lebanon	10	Unlimited
Net profits of subsidiary companies in Lebanon	10	One-third of capital
Net profit of subsidiary bank in Europe	5	Unlimited
Net profit of subsidiary bank in Sudan	25	One-third of capital
Net profit of subsidiary bank in Syria	10	Total capital

Reserves appropriated for capital increase

	2007 LL million	*2006 LL million*
Reserve equivalent to realized profit on sale of assets acquired in settlement of bad debt, in accordance with Banking Control Commission (BCC) circular No 173	**2,643**	2,369
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	**8,252**	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
	20,284	20,010

General reserve

During 2007, the Group appropriated LL 8,733 million from 2006 profits to the general reserve in accordance with the general assembly of shareholders' resolutions.

28 CUMULATIVE CHANGES IN FAIR VALUES

	2007 LL million	*2006 LL million*
Certificates of deposits held with the Central Bank of Lebanon	**(314)**	-
Lebanese and other governmental treasury bills and bonds	**(48,125)**	(14,136)
Bonds and financial assets with fixed income	**(6,715)**	(6,902)
Shares, securities and financial assets with variable income	**8,507**	8,788
Certificates of deposits held with commercial banks	**126**	-
Less: minority share of cumulative changes in fair values	**277**	-
	(46,244)	(12,250)

28 CUMULATIVE CHANGES IN FAIR VALUES (continued)

Movement of cumulative changes in fair values during the year

	2007 *LL million*	*2006* *LL million*
Balance at 1 January	**(12,250)**	21,190
Realized during the year	**77**	(11,649)
Net changes in fair values during the year	**(34,209)**	(22,011)
Difference on exchange	**138**	220
Balance at 31 December	**(46,244)**	(12,250)

29 MINORITY INTERESTS

	2007 *LL million*	*2006* *LL million*
- Capital of subsidiary banks and companies	**60,064**	47,978
- Other reserves and premiums	**8,966**	6,094
- Net results of the financial period - profit	**6,968**	3,298
- Accumulated losses	**(2,375)**	(757)
- Cumulative changes in fair values	**(277)**	2
- Foreign currency translation reserve	**4,276**	4,336
	77,622	60,951

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT

The statement of income for 2007 and 2006 is summarized as follows:

	2007 *LL million*	*2006* *LL million*
Interest and similar income	**924,687**	811,188
Interest and similar charges	**(657,862)**	(584,265)
Net provisions on loans and advances less recoveries	**(4,761)**	(10,282)
Net interest received	**262,064**	216,641
Revenues from marketable securities and financial assets with variable income	**1,581**	990
Net commissions income	**93,029**	79,393
Net profit from financial operations	**27,799**	24,858
Other operating income	**3,885**	4,047
Excess of group's interest in the fair value of net asset of acquired subsidiary over cost	**870**	-
Other operating expenses	**(6,052)**	(10,838)
General and administrative expenses	**(179,548)**	(150,769)
Depreciation and amortization	**(18,536)**	(17,963)
Profit for the year before income tax	**185,092**	146,359
Income tax	**(35,574)**	(27,672)
Profit for the year	**149,518**	118,687
Less: Minority interests	**(6,968)**	(3,298)
	142,550	115,389

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

a. *Net provisions on loans and advances less recoveries*

	2007 LL million	*2006 LL million*
Provisions constituted during the year on loans and advances (Note 10)	**9,619**	14,581
Provisions constituted on doubtful debtors' accounts (Note 15)	**50**	253
Provisions constituted for country risk (Note 10)	**54**	228
General provision constituted during the year (Note 10)	**3,929**	3,253
Bad debts written off	**156**	570
	13,808	18,885
Provisions recovered during the year against:		
- Loans and advances recovered or upgraded (Note 10)	**(8,044)**	(8,568)
- General provisions recovered during the year (Note 10)	**(849)**	-
- Other debtor accounts written back (Note 15)	**(154)**	-
- Doubtful bank accounts (Note 9)	**-**	(35)
	(9,047)	(8,603)
	4,761	10,282

b. *Net commissions*

	2007 LL million	*2006 LL million*
Commission received on:		
- Loans and advances	**9,755**	8,897
- Letters of guarantee	**8,366**	7,002
- Acceptances	**6,972**	6,792
- Letters of credit	**28,810**	19,154
- Credit cards	**2,961**	2,548
- Domiciliated bills	**1,358**	1,365
- Collection of checks	**1,769**	1,375
- Opening and maintenance of cutomers' accounts	**5,104**	3,465
- Renewal and closing of customers' accounts	**434**	342
- Transfers	**3,480**	1,819
- Murabaha	**14,334**	15,015
- Insurance premiums	**6,948**	5,877
- Other commissions	**8,703**	6,668
Expenses refunded from customers	**5,995**	4,837
	104,989	85,156
Less: commission paid:		
- Brokerage commission paid	**(9,315)**	(5,448)
- Other commission paid	**(2,645)**	(315)
	(11,960)	(5,763)
Net commissions	**93,029**	79,393

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

c. *Net profit from financial operations*

	2007 *LL million*	*2006* *LL million*
Net profit (loss) from transactions:		
- in treasury bills (Note 6)	**(1,984)**	4,537
- in bonds (Note 7)	**(10)**	(974)
- in certificates of deposit (Note 5)	**11,776**	12,904
- in shares (Note 8)	**5,788**	(418)
	15,570	16,049
Net profit from foreign exchange operations:		
Positive difference of exchange (net)	**12,249**	8,821
Provision constituted for the net trading foreign position (Note 22)	**(14)**	(12)
Provision constituted for the structural position	**(6)**	-
	12,229	8,809
	27,799	24,858

Net profit or loss from financial operations based on classification of financial instruments

Profits from financial operations for the year ended 31 December 2007 and 2006 are as follows:

	Held for trading *LL million*	*Available for sale* *LL million*	*Loans and receivables* *LL million*	*Total* *LL million*
31 December 2007:				
Profits on disposal of financial instruments				
Certificates of deposits issued by the bank of Lebanon	-	-	11,776	**11,776**
Lebanese and other governmental treasury bills and bonds	**214**	77	-	**291**
Shares, securities and financial instruments with variable income	**5,453**	-	-	**5,453**
	5,667	77	11,776	**17,520**
Profits on revaluation of financial instruments				
Shares, securities and financial instruments with variable income	**503**	-	-	**503**
Bonds and financial instruments with fixed income	**55**	-	-	**55**
	558	-	-	**558**
Total profits from financial instruments	**6,225**	77	11,776	**18,078**
Losses on disposal of financial Instruments				
Lebanese and other governmental treasury bills and bonds	**(1,152)**	-	-	**(1,152)**
Shares, securities and financial instruments with variable income	**(168)**	-	-	**(168)**
Bonds and financial instruments with fixed income	**(65)**	-	-	**(65)**
	(1,385)	-	-	**(1,385)**
Losses from revaluation of financial instruments				
Lebanese and other governmental treasury bills and bonds	**(1,123)**	-	-	**(1,123)**
Total losses from financial instruments	**(2,508)**	-	-	**(2,508)**
Net profit from foreign exchange operations				**12,229**
Net profit from financial operations				**27,799**

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

c. *Net profit from financial operations (continued)*

	Held for trading *LL million*	*Available for sale* *LL million*	*Loans and receivables* *LL million*	*Total* *LL million*
31 December 2006:				
Profits on disposal of financial instruments				
Certificates of deposits issued by the bank of Lebanon	-	-	12,904	12,904
Lebanese and other governmental treasury bills and bonds	3,348	12,354	-	15,702
Shares, securities and financial instruments with variable income	4,646	-	-	4,646
	7,994	12,354	12,904	33,252
Profits on revaluation of financial instruments				
Shares, securities and financial instruments with variable income	282	-	-	282
Lebanese and other governmental treasury bills and bonds	1,537	-	-	1,537
	1,819	-	-	1,819
Total profits from financial instruments	9,813	12,354	12,904	35,071
Losses on disposal of financial Instruments				
Shares, securities and financial instruments with variable income	(425)	-	-	(425)
Bonds and financial instruments with fixed income	(223)	(705)	-	(928)
	(648)	(705)	-	(1,353)
Losses on revaluation of financial instruments				
Lebanese and other governmental treasury bills and bonds	(12,702)	-	-	(12,702)
Shares, securities and financial instruments with variable income	(4,921)	-	-	(4,921)
Bonds and financial instruments with fixed income	(46)	-	-	(46)
	(17,669)	-	-	(17,669)
Total losses from financial instruments	(18,317)	(705)	-	(19,022)
Net profit from foreign exchange operations				8,809
Net profit from financial operations				24,858

30 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

d. Salaries and related benefits

	2007 LL million	2006 LL million
Salaries and related charges	**85,141**	72,686
Social security contributions	**8,337**	7,473
Provision for end of service indemnities (Note 22)	**4,888**	1,819
	98,366	81,978

e. General operating expenses

	2007 LL million	2006 LL million
Tax withheld on bank interest earned	**3,135**	3,211
Taxes and duties	**5,761**	4,926
Contribution to deposits guarantee fund	**4,887**	4,389
Rent and related charges	**4,765**	4,596
Consulting fees	**4,707**	5,287
Telecommunications and postage expenses	**7,755**	6,845
Board of Directors' attendance fees	**599**	474
Maintenance and repair	**8,073**	6,953
Electricity and fuel	**3,707**	3,544
Travel and entertainment	**3,492**	2,770
Publicity and advertising	**7,878**	6,221
Subscriptions	**2,266**	2,867
Bonuses and administrative expenses	**11,993**	8,125
Legal expenses	**2,262**	2,218
Insurance	**167**	132
Other operating expenses	**9,735**	6,233
	81,182	68,791

31 CASH AND CASH EQUIVALENTS

	2007 LL million	2006 LL million
Cash and balances with central banks	**1,181,648**	1,368,322
Deposits with banks and other financial institutions	**3,012,055**	2,163,599
	4,193,703	3,531,921
Less: Due to banks and other financial institutions	**(742,393)**	(648,998)
Cash and cash equivalents at year end	**3,451,310**	2,882,923

32 EARNINGS PER SHARE

	2007 *LL million*	*2006* *LL million*
Weighted average number of shares outstanding during the year:		
- Common shares	**204,955,557**	204,969,556
- Preferred shares	**1,000,000**	1,000,000
- Priority shares	**205,838,523**	205,987,585
Net profit for the year	**142,550**	115,389
(Less): Proposed dividends to preferred shares	**(18,168)**	(18,168)
Net profit attributable to common and priority shareholders	**124,382**	97,221
(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 205,838,523 shares (2006: 205,987,585 shares)	**(9,880)**	(9,887)
Net profits attributable to common and priority shareholders	**114,502**	87,334
Of which:		
Net profits attributable to priority shares (205,838,523 shares) (2006: 205,987,585 shares)	**57,374**	43,775
Net profits attributable to common shares (204,955,557 shares) (2006: 204,969,556 shares)	**57,128**	43,559
Earnings per share in LL:		
- Common shares	**278.73**	212.51
- Priority shares	**326.73**	260.51

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.

Transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of the completion of these financial statements were disclosed in note 23.

33 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 interest paid are as follows:

	2007 *Major shareholders* *LL million*	*2006* *Major shareholders* *LL million*
Loans and advances (net of provisions)	**21,785**	9,473
Deposits (under customers' deposits)	**86,590**	40,773
Shareholders' credit balances	**516**	507
Interest received	**2,257**	333
Interest paid	**7,312**	1,773

Compensation of the key management personnel of the Group

	2007			*2006*		
	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	**1,118**	**5,998**	**7,116**	1,232	3,979	5,211
Bonuses	**3,758**	**1,830**	**5,588**	3,417	1,121	4,538
Attendance fees	**360**	**77**	**437**	380	45	425

34 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:

	2007 *LL million*	*2006* *LL million*
Commitments given:		
- Guarantees	**767,135**	623,724
- Letters of credit- export	**392,153**	205,411
	1,159,288	829,135
Financing commitments given:		
- Letters of credit – import	**553,901**	541,477
Acceptances (reflected on balance sheet)	**265,415**	284,106
Undrawn commitments to lend	**1,219,225**	1,340,603
Assets under management and fiduciary deposits	**177,875**	148,900
Assets in custody	**2,066,134**	944,137

Operating lease committements

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

	2007 *LL million*	*2006* *LL million*
Within one year	**1,187**	919
After one year but not more than five years	**4,143**	877
More than five years	**4,780**	7,112
	10,110	8,908

35 DERIVATIVES

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 analysed by the term to maturity. 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.

35 DERIVATIVES (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.

				Notional amounts by term to maturity	
31 December 2007	*Positive fair value LL million*	*Negative fair value LL million*	*Total notional amount LL million*	*Within 3 months LL million*	*3 – 12 months LL million*
Derivatives held for trading purposes :					
- Currency swaps	900	1,184	116,463	116,463	-
- Forward foreign exchange contracts	2,974	2,661	282,029	148,919	133,110
	3,874	3,845	398,492	265,382	133,110
- Foreign exchange spot contracts	212	83	75,910	75,910	-

				Notional amounts by term to maturity	
31 December 2006	*Positive fair value LL million*	*Negative fair value LL million*	*Total notional amount LL million*	*Within 3 months LL million*	*3 – 12 months LL million*
Derivatives held for trading purposes:					
- Currency swaps	298	-	27,609	27,609	-
- Forward foreign exchange contracts	617	1,353	370,025	110,901	259,124
	915	1,353	397,634	138,510	259,124
- Foreign exchange spot contracts	11	1	8,697	8,697	-

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.

36 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 georgraphical 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, regardless of their place of residence, as well as companies present in foreign countries.

36 SEGMENTAL INFORMATION (continued)

a- Primary Segment Information – Geographical Segments (continued)

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	
	2007 LL million	*2006 LL million*	*2007 LL million*	*2006 LL million*	*2007 LL million*	*2006 LL million*
Net interest received	179,737	173,053	82,327	43,588	262,064	216,641
Net commissions	40,460	39,523	52,569	39,870	93,029	79,393
Revenues from shares and financial instruments with variable income	1,581	990	-	-	1,581	990
Net profit from financial operations	22,415	24,313	5,384	545	27,799	24,858
Other operating income	1,853	2,400	2,032	1,647	3,885	4,047
Excess of group's interest in the fair value of net assets of acquired subsidiary over cost	-	-	870	-	870	-
Net revenues	246,046	240,279	143,182	85,650	389,228	325,929
General and administrative expenses	(143,731)	(126,005)	(35,817)	(24,764)	(179,548)	(150,769)
Amortization and depreciation	(16,061)	(16,641)	(2,475)	(1,322)	(18,536)	(17,963)
Other operating expenses	(6,031)	(9,765)	(21)	(1,073)	(6,052)	(10,838)
Profit before income tax	80,223	87,868	104,869	58,491	185,092	146,359
Total assets	9,703,607	9,699,724	4,592,295	2,647,034	14,295,902	12,346,758
Total liabilities	10,514,176	9,546,454	2,629,767	1,714,222	13,143,943	11,260,676
Capital expenditure	20,399	39,252	35,340	10,643	55,739	49,895

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 coporate finance and specialized financial advice and trading. As to asset managment, the bank provides investment products and services to institutional inventors and intenediaries.

	2007 LL million	*2006 LL million*
Net operating revenues		
Commercial banking	146,908	124,584
Investment banking and asset management	237,565	197,298
	384,473	321,882
Assets		
Commercial banking	3,710,286	2,982,055
Investment banking and asset management	10,585,616	9,364,703
	14,295,902	12,346,758

37 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 off balance sheet items by geographic region:

	2007		
	Assets LL million	*Liabilities and stockholders equity LL million*	*Off balance sheet LL million*
Geographical segment:			
- Lebanon	**9,680,309**	**11,482,137**	**857,156**
- Europe	**2,194,484**	**447,289**	**157,963**
- Other countries	**2,421,109**	**2,366,476**	**698,070**
	14,295,902	**14,295,902**	**1,713,189**

	2006		
	Assets LL million	*Liabilities and stockholders equity LL million*	*Off balance sheet LL million*
Geographical segment:			
- Lebanon	9,433,503	10,189,872	588,590
- Europe	1,782,641	517,978	235,797
- Other countries	1,130,614	1,638,908	546,225
	12,346,758	12,346,758	1,370,612

38 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

	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 central banks	-	-	790,579	33,689	1,788,544	2,612,812
Lebanese and other governmental treasury bills and bonds	808,071	1,692,720	-	1,764,245	-	4,265,036
Bonds and financial instruments with fixed income	153	614	-	121,549	-	122,316
Shares, securities and financial instruments with variable income	28,547	-	-	89,320	-	117,867
Banks and financial institutions	-	-	68,662	-	3,173,937	3,242,599
Loans and advances to customers	-	-	3,366,013	-	-	3,366,013
Bank acceptances	-	-	265,415	-	-	265,415
	836,771	1,693,334	4,490,669	2,008,803	4,962,481	13,992,058
Financial liabilities						
Due to central banks	-	-	-	-	60,950	60,950
Banks and financial institutions	-	-	-	-	1,008,162	1,008,162
Customer's deposits	-	-	-	-	10,931,048	10,931,048
Engagement by acceptances	-	-	-	-	265,415	265,415
Liabilities under financial instruments	-	-	-	-	269,872	269,872
Subordinated loans	-	-	-	-	331,145	331,145
	-	-	-	-	12,866,592	12,866,592

38 CLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES (continued)

	31 December 2006					
	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 central banks	-	-	1,056,308	-	1,450,569	2,506,877
Lebanese and other governmental treasur bills and bonds	1,124,334	1,853,578	-	1,196,896	-	4,174,808
Bonds and financial instruments with fixed income	1,500	310	-	84,573	-	86,383
Shares, securities and financial instruments with variable income	24,372	-	-	14,276	-	38,648
Banks and financial institutions	-	-	55,602	-	2,313,249	2,368,851
Loans and advances to customers	-	-	2,637,722	-	-	2,637,722
Bank acceptances	-	-	284,106	-	-	284,106
	1,150,206	1,853,888	4,033,738	1,295,745	3,763,818	12,097,395
Financial liabilities						
Due to central banks	-	-	-	-	77,085	77,085
Banks and financial instiutions	-	-	-	-	876,875	876,875
Customer's deposits	-	-	-	-	9,461,489	9,461,489
Engagement by acceptances	-	-	-	-	284,106	284,106
Liabilities under financial instruments	-	-	-	-	273,519	273,519
Subordinated loans	-	-	-	-	47,835	47,835
	-	-	-	-	11,020,909	11,020,909

39 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:

	2007			2006		
	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 Central banks	**2,629,632**	**2,612,812**	**16,820**	2,545,177	2,506,877	38,300
Lebanese and other governmental treasury bills	**4,277,020**	**4,265,036**	**11,984**	4,180,901	4,174,808	6,093
Bonds and financial assets with fixed income	**122,484**	**122,316**	**168**	86,374	86,383	(9)
Shares, securities and financial assets with variable income	**117,867**	**117,867**	**-**	38,648	38,648	-
Banks and financial institutions	**3,245,087**	**3,242,599**	**2,488**	2,371,087	2,368,851	2,236
Loans and advances to customers	**3,379,227**	**3,366,013**	**13,214**	2,643,738	2,637,722	6,016
Bank acceptances	**265,415**	**265,415**	**-**	284,106	284,106	-
FINANCIAL LIABILITIES						
Due to central banks	**61,731**	**60,950**	**(781)**	78,026	77,085	(941)
Banks and financial institutions	**1,009,652**	**1,008,162**	**(1,490)**	874,085	876,875	2,790
Customers' deposits	**10,946,969**	**10,931,048**	**(15,921)**	9,478,505	9,461,489	(17,016)
Engagements by acceptances	**265,415**	**265,415**	**-**	284,106	284,106	-
Liabilities under financial instruments	**265,081**	**269,872**	**4,791**	266,461	273,519	7,058
Subordinated loans	**332,474**	**331,145**	**(1,329)**	49,103	47,835	(1,268)
			29,944			43,259

40 RISK MANAGEMENT

The Group Risk Management was established in early 2004 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 organization 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.

40 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.

41 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 or borrowers 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 shoes the maximum exposure to credit risk before and after taking into account any collateral held or other credit enhancements.

	2007		*2006*	
	Gross maximum exposure LL million	*Net maximum exposure LL million*	*Gross maximum exposure LL million*	*Net maximum exposure LL million*
Cash and balances with central banks	**2,514,648**	**2,514,648**	2,435,875	2,435,875
Lebanese and other governmental treasury bills and bonds	**4,265,036**	**4,265,036**	4,174,808	4,174,808
Bonds and financial instruments with fixed income	**122,316**	**122,316**	86,383	86,383
Shares, securities and financial instruments with variable income	**117,867**	**117,867**	38,648	38,648
Banks and financial institutions	**3,242,599**	**3,242,599**	2,368,851	2,368,851
Loans and advances to customers	**3,366,013**	**2,592,070**	2,637,722	1,977,381
Bank acceptances	**265,415**	**265,415**	284,106	284,106
Other assets	**2,733**	**2,733**	3,091	3,091
Regularization accounts and other debit balances	**39,750**	**39,750**	41,274	41,274
	13,936,377	**13,162,434**	12,070,758	11,410,417
Commitments and contingencies	**1,713,189**	**1,713,189**	1,370,612	1,370,612
Undrawn commitments to lend	**1,219,225**	**1,219,225**	1,340,603	1,340,603
Total financial commitments	**2,932,414**	**2,932,414**	2,711,215	2,711,215
Total credit risk exposure	**16,868,791**	**16,094,848**	14,781,973	14,121,632

41 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 shows the credit quality by class of asset for loan-related balance sheet lines, based on the credit rating system.

	2007				
	Neither past due nor impaired				
	High-grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Past due and impaired LL million*	*Total LL million*
Cash and Balances with central banks	2,612,812	-	-	-	2,612,812
Lebanese and other governmental treasury bills and bonds	4,265,036	-	-	-	4,265,036
Bonds and financial instruments with fixed income	122,316	-	-	-	122,316
Shares, securities and financial instruments with variable income	117,867	-	-	-	117,867
Banks and financial institutions	2,765,171	477,428	-	12,916	3,255,515
Loans and advances to customers:					
- 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
Bank acceptances	265,415	-	-	-	265,415
	13,140,841	746,810	95,650	216,386	14,199,687

	2006				
	Neither past due nor impaired				
	High-grade LL million	*Standard grade LL million*	*Past due but not impaired LL million*	*Past due and impaired LL million*	*Total LL million*
Cash and Balances with central banks	2,506,877	-	-	-	2,506,877
Lebanese and other governmental treasury bills and bonds	4,174,808	-	-	-	4,174,808
Bonds and financial instruments with fixed income	86,383	-	-	-	86,383
Shares, securities and financial instruments with variable income	38,648	-	-	-	38,648
Banks and financial institutions	2,035,663	333,188	-	12,892	2,381,743
Loans and advances to customers:					
- Commercial loans	1,706,366	237,695	30,419	286,306	2,260,786
- Other customer loans	552,554	8,756	64,783	5,952	632,045
Bank acceptances	284,106	-	-	-	284,106
	11,385,405	579,639	95,202	305,150	12,365,396

Standards & Poors agency rated the Lebanese Government risks "B" as at 31 December 2007 and 2006.

41 CREDIT RISK (continued)

Maximum credit risk concentration exposure

	2007			
	Lebanon LL million	*Europe LL million*	*Other countries LL million*	*Total LL million*
Balances with central banks	2,361,312	28,740	124,596	2,514,648
Lebanese and other governmental treasury bills and bonds	4,157,471	20,166	87,399	4,265,036
Bonds and financial instruments with fixed income	112,554	3,728	6,034	122,316
Shares, securities and financial instruments with variable income	38,339	5,950	73,578	117,867
Banks and financial institutions	290,132	1,864,446	1,088,021	3,242,599
Loans and advances to customers	2,357,210	204,555	804,248	3,366,013
Bank acceptances	100,554	47,908	116,953	265,415
Other assets	2,651	82	-	2,733
Regularization accounts and other debit balances	31,022	8,105	623	39,750
Total	9,451,245	2,183,680	2,301,452	13,936,377
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	11,155,018	2,448,504	3,265,269	16,868,791

	2006			
	Lebanon LL million	*Europe LL million*	*Other countries LL million*	*Total LL million*
Balances with central banks	2,346,451	19,035	70,389	2,435,875
Lebanese and other governmental treasury bills and bonds	4,090,978	19,146	64,684	4,174,808
Bonds and financial instruments with fixed income	6,504	2,017	77,862	86,383
Shares, securities and financial instruments with variable income	33,856	3,300	1,492	38,648
Banks and financial institutions	125,504	1,730,319	513,028	2,368,851
Loans and advances to customers	2,054,066	108,568	475,088	2,637,722
Bank acceptances	104,621	24,437	155,048	284,106
Other assets	2,735	356	-	3,091
Regularization accounts and other debit balances	22,443	5,974	12,857	41,274
Total	8,787,158	1,913,152	1,370,448	12,070,758
Commitments and contingencies	588,590	235,797	546,225	1,370,612
Undrawn commitments to lend	947,014	60,756	332,833	1,340,603
Total financial commitments	1,535,604	296,553	879,058	2,711,215
Total credit risk exposure	10,322,762	2,209,705	2,249,506	14,781,973

41 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:

	2007 *LL million*	*2006* *LL million*
Industry Sector:		
Commercial	**1,262,665**	1,103,272
Industrial	**604,523**	425,582
Agriculture	**79,019**	55,070
Services	**492,619**	261,828
Banks and other financial institutions	**3,482,782**	2,493,882
Construction	**390,855**	398,972
Retail	**696,854**	618,912
Government	**6,779,684**	6,610,683
Other	**147,376**	102,557
	13,936,377	12,070,758

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

	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						
- 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**

	2006					
	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						
- Commercial loans	19,697	10,722	-	-	-	30,419
- Other customer loans	40,614	7,063	4,462	3,051	9,593	64,783
Total	60,311	17,785	4,462	3,051	9,593	95,202

The fair value of the collateral held against past due but not impaired facilities as at 31 December 2007 amounted to LL 36,126 million (2006: LL 31,533 million).

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

	2007 *LL million*	*2006* *LL million*
Loans and advances to customers	**31,458**	6,309

42 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.

The net liquid assets to customer deposits as at 31 December is as follows:

	2007	*2006*
Liquidty ratio	**42,49%**	39,50%

Analysis of financial liabilities by remaining contractual maturities

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2007 and 2006 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 is in line with the Group's deposit retention history.

	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 bank	**23,511**	**438**	**1,333**	**42,412**	-	**67,694**
Banks and financial institutions	**493,384**	**233,884**	**46,417**	**116,139**	**178,109**	**1,067,933**
Customers' deposits	**8,331,714**	**1,221,439**	**1,267,391**	**265,352**	**7,590**	**11,093,486**
Engagment by acceptances	**95,820**	**128,918**	**40,186**	**491**	-	**265,415**
Liabilities under financial instruments	**3,877**	**3,256**	**13,639**	**286,631**	-	**307,403**
Subordinated loans	-	**13,206**	**14,773**	**462,050**	-	**490,029**
Total undiscounted financial liabilities	**8,948,306**	**1,601,141**	**1,383,739**	**1,173,075**	**185,699**	**13,291,960**

	2006					
	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 bank	42,530	431	1,318	43,283	-	87,562
Banks and financial institutions	251,247	399,293	67,140	108,681	102,003	928,364
Customers' deposits	5,126,545	2,929,958	1,068,766	441,359	7,966	9,574,594
Engagment by acceptances	79,082	146,365	51,262	7,397	-	284,106
Liabilities under financial instruments	3,877	5,737	13,801	305,812	-	329,227
Subordinated loans	-	1,070	3,186	16,927	86,781	107,964
Total undiscounted financial liabilities	5,503,281	3,482,854	1,205,473	923,459	196,750	11,311,817

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

	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**

42 LIQUIDITY RISK (continued)

Analysis of financial liabilities by remaining contractual maturities (continued)

	2006					
	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	96,864	277,081	657,370	333,373	5,924	1,370,612
Undrawn commitments to lend	1,107,003	163,083	70,517	-	-	1,340,603
	1,203,867	440,164	727,887	333,373	5,924	2,711,215

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 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*	*Total*
ASSETS						
Cash and balances with central banks	1,006,295	175,353	24,219	1,285,750	121,195	2,612,812
Lebanese and other governmental treasury bills and bonds	37,939	409,062	606,394	2,244,057	967,584	4,265,036
Bonds and financial instruments with fixed income	5	2,441	2,425	105,477	11,968	122,316
Shares, securities and financial instruments with variable income	96,940	-	-	5,953	14,974	117,867
Banks and financial institutions	2,526,331	485,724	177,101	46,402	7,041	3,242,599
Loans and advances to customers	1,513,821	272,042	420,035	869,438	290,677	3,366,013
Bank acceptances	95,820	128,918	40,186	491	-	265,415
Tangible fixed assets	12	-	-	-	243,725	243,737
Intangible assets	-	-	-	-	1,199	1,199
Other assets	868	102	576	-	1,187	2,733
Regularisation accounts and other debit balances	22,851	1,950	16,861	6,724	7,789	56,175
Total assets	5,300,882	1,475,592	1,287,797	4,564,292	1,667,339	14,295,902
LIABILITIES						
Due to Central Bank	23,511	7	15	37,417	-	60,950
Banks and financial institutions	510,641	231,752	44,735	98,357	122,677	1,008,162
Customers' deposits	8,300,482	1,157,591	1,231,304	238,031	3,640	10,931,048
Engagements by acceptances	95,820	128,918	40,186	491	-	265,415
Liabilities under financial instruments	3,856	2,570	1,171	262,275	-	269,872
Other liabilities	29,577	25,972	60,132	45,346	15	161,042
Regularisation accounts and other credit balances	9,742	31,507	-	9,550	-	50,799
Provisions for risks and charges	-	-	-	-	65,510	65,510
Subordinated loans	-	-	2,243	328,902	-	331,145
TOTAL LIABILITIES	8,973,629	1,578,317	1,379,786	1,020,369	191,842	13,143,943
NET LIQUIDITY GAP	(3,672,747)	(102,725)	(91,989)	3,543,923	1,475,497	1,151,959

42 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2006 were as follows:

	2006					
(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	1,290,708	77,614	76,717	982,195	79,643	2,506,877
Lebanese and other governmental treasury bills and bonds	50,522	163,010	344,017	3,263,445	353,814	4,174,808
Bonds and financial instruments with fixed income	3	917	5,589	33,353	46,521	86,383
Shares, securities and financial instruments with variable income	17,782	-	-	-	20,866	38,648
Banks and financial institutions	1,438,374	725,225	171,636	25,070	8,546	2,368,851
Loans and advances to customers	1,232,272	165,339	281,457	741,882	216,772	2,637,722
Bank acceptances	79,082	146,365	51,262	7,397	-	284,106
Tangible fixed assets	-	-	-	-	189,398	189,398
Intangible assets	-	-	-	-	1,324	1,324
Other assets	485	-	-	-	2,606	3,091
Regularisation accounts and other debit balances	40,036	96	136	9,227	6,055	55,550
Total assets	4,149,264	1,278,566	930,814	5,062,569	925,545	12,346,758
LIABILITIES						
Due to Central Bank	42,530	5	-	34,550	-	77,085
Banks and financial institutions	249,952	399,046	65,226	93,288	69,363	876,875
Customers' deposits	5,110,932	2,920,135	1,038,175	387,489	4,758	9,461,489
Engagements by acceptances	79,082	146,365	51,262	7,397	-	284,106
Liabilities under financial instruments	3,486	2,527	1,156	266,350	-	273,519
Other liabilities	8,477	-	2,638	-	144,444	155,559
Regularisation accounts and other credit balances	1,078	1,359	-	9,226	25,827	37,490
Provisions for risks and charges	-	-	-	-	46,718	46,718
Subordinated loans	-	1,070	-	-	46,765	47,835
TOTAL LIABILITIES	5,495,537	3,470,507	1,158,457	798,300	337,875	11,260,676
NET LIQUIDITY GAP	(1,346,273)	(2,191,941)	(227,643)	4,264,269	587,670	1,086,082

43 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 reprice in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies.

Interest rate sensitivity

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

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2007, 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 2007 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.

43 INTEREST RATE RISK AND MARKET RISK (continued)

Interest rate sensitivity (continued)

		2007		2006	
Curency	*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	+5%	(6,455)	(2,565)	(8,840)	-
Other currencies	+5%	(8,555)	(18,463)	(8,697)	(21,166)
		(15,010)	(21,028)	(17,537)	(21,166)

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:

	2007		2006	
	Foreign currencies	*LL*	*Foreign currencies*	*LL*
	%	%	%	%
ASSETS				
Balances with central banks:				
- Weighted average rate of placements and other certificates of deposit	6.23	8.06	5.62	8.5
Lebanese and other governmental treasury bills and bonds	8.39	9.06	7.41	8.85
Bonds and other financial assets with fixed income	7.25	-	5.89	-
Banks	5.21	3.35	4.72	4.78
Loans and advances to customers:				
- Weighted average rate, including:	8.48	8.04	8.11	7.75
- Commercial loans	8.3	11.49	8.30	11.51
- Other loans to customers	9.8	7.4	9.09	7.14
LIABILITIES				
Central Bank	-	9.29	-	7.95
Banks and financial institutions:				
- Weighted average rate, including:	5.01	5.45	4.62	4.48
- Deposits	4.57	5.45	3.97	4.48
- Loans	7.12	-	6.72	-
Customers' deposits	4.97	7.73	4.57	7.85
Subordinated loans	8.15	-	11.38	-
Certificates of deposit	6.28	-	6.35	-

43 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 central banks	779,417	168,995	11,601	1,271,324	106,359	275,116	2,612,812
Lebanese and other governmental treasury bills and bonds	35,893	395,834	587,948	2,193,511	951,178	100,672	4,265,036
Bonds and financial instruments with fixed income	-	-	1,772	68,876	47,006	4,662	122,316
Shares, securities and financial instruments with variable income	-	-	-	-	-	117,867	117,867
Banks and financial institutions	2,514,303	519,222	155,457	32,064	6,800	14,753	3,242,599
Loans and advances to customers	1,503,238	310,883	692,932	683,741	168,701	6,518	3,366,013
Bank acceptances	95,819	99,614	40,186	492	-	29,304	265,415
Tangible fixed assets	-	-	-	-	-	243,737	243,737
Intangible assets	-	-	-	-	-	1,199	1,199
Other assets	-	-	-	-	-	2,733	2,733
Regularisation accounts and other debit balances	-	-	-	-	-	56,175	56,175
Total assets	4,928,670	1,494,548	1,489,896	4,250,008	1,280,044	852,736	14,295,902
LIABILITIES AND EQUITY							
Due to central banks	23,511	2	15	37,417	-	5	60,950
Banks and financial institutions	483,477	230,613	44,448	98,651	117,625	33,348	1,008,162
Customers' deposits	8,052,772	1,194,919	1,216,358	223,555	4,746	238,698	10,931,048
Engagements by acceptances	125,123	99,614	40,186	492	-	-	265,415
Liabilities under financial instruments	-	-	-	269,872	-	-	269,872
Other liabilities	20,445	12,270	48,371	-	-	79,956	161,042
Regularisation accounts and other credit balances	-	-	-	-	-	50,799	50,799
Provisions for risks and charges	-	-	-	-	-	65,510	65,510
Subordinated loans	-	-	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	1,539,110	14,295,902
Total interest rate sensitivity gap	(3,858,958)	(42,870)	138,352	3,292,177	1,157,673	(686,374)	
Cumulative interest rate sensitivity gap	(3,858,958)	(3,901,828)	(3,763,476)	(471,299)	686,374	-	

43 INTEREST RATE RISK AND MARKET RISK (continued)

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2006 was as follows:

	2006						
(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 central banks	1,158,473	75,375	75,375	957,251	65,002	175,401	2,506,877
Lebanese and other governmental treasury bills and bonds	24,609	110,979	315,659	3,262,921	353,718	106,922	4,174,808
Bonds and financial instruments with fixed income	-	-	4,826	33,271	46,434	1,852	86,383
Shares, securities and financial instruments with variable income	-	-	-	-	-	38,648	38,648
Banks and financial institutions	1,434,602	723,352	165,659	24,995	8,546	11,697	2,368,851
Loans and advances to customers	1,232,184	215,294	502,648	571,071	101,946	14,579	2,637,722
Bank acceptances	79,082	61,264	51,262	7,395	-	85,103	284,106
Tangible fixed assets	-	-	-	-	-	189,398	189,398
Intangible assets	-	-	-	-	-	1,324	1,324
Other assets	-	-	-	-	-	3,091	3,091
Regularisation accounts and other debit balances	-	-	-	-	-	55,550	55,550
Total assets	3,928,950	1,186,264	1,115,429	4,856,904	575,646	683,565	12,346,758
LIABILITIES AND EQUITY							
Due to central banks	-	-	-	34,550	-	42,535	77,085
Banks and financial institutions	249,284	398,017	64,675	87,425	71,567	5,907	876,875
Customers' deposits	5,069,170	2,911,012	1,028,859	381,516	4,758	66,174	9,461,489
Engagements by acceptances	79,082	61,264	51,262	7,395	-	85,103	284,106
Liabilities under financial instruments	3,486	-	1,156	266,350	-	2,527	273,519
Other liabilities	-	-	-	-	-	155,559	155,559
Regularisation accounts and other credit balances	-	-	-	-	-	37,490	37,490
Provisions for risks and charges	-	-	-	-	-	46,718	46,718
Subordinated loans	-	-	-	-	46,765	1,070	47,835
Total equity	-	-	-	-	-	1,086,082	1,086,082
Total liabilities and equity	5,401,022	3,370,293	1,145,952	777,236	123,090	1,529,165	12,346,758
Total interest rate sensitivity gap	(1,472,072)	(2,184,029)	(30,523)	4,079,668	452,556	(845,600)	
Cumulative interest rate sensitivity gap	(1,472,072)	(3,656,101)	(3,686,624)	393,044	845,600	-	

44 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).

44 CURRENCY RISK (continued)

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.

		2007		*2006*	
Curency	*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	**(4,654)**	**73,481**	1,296	53,113
Euro	+5	**(560)**	**1,418**	(535)	1,299
GBP	+5	**(116)**	**-**	(190)	-
Other currencies	+5	**6,400**	**1,117**	407	6
		1,070	**76,016**	978	54,418

The following consolidated balance sheet as of 31 December 2007, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

	2007			
		Foreign currencies		*Total*
	LL million	*USD (000)*	*C/V LL million*	*LL million*
ASSETS				
Cash and balances with central banks	717,743	1,257,094	1,895,069	2,612,812
Lebanese and other governmental treasury bills and bonds	2,134,306	1,413,420	2,130,730	4,265,036
Bonds and financial instruments with fixed income	-	81,138	122,316	122,316
Shares, securities and financial instruments with variable income	15,147	68,139	102,720	117,867
Banks and financial institutions	51,954	2,116,514	3,190,645	3,242,599
Loans and advances to customers	393,306	1,971,945	2,972,707	3,366,013
Bank acceptances	-	176,063	265,415	265,415
Tangible fixed assets	110,729	88,231	133,008	243,737
Intangible fixed assets	1,199	-	-	1,199
Other assets	2,631	67	102	2,733
Regularisation accounts and other debit balances	20,818	23,454	35,357	56,175
Total assets	3,447,833	7,196,065	10,848,069	14,295,902
LIABILITIES AND EQUITY				
Due to central banks	36,535	16,196	24,415	60,950
Banks and financial institutions	13,741	659,649	994,421	1,008,162
Customers' deposits	2,740,105	5,433,461	8,190,943	10,931,048
Engagements by acceptances	-	176,063	265,415	265,415
Liabilities under financial instruments	-	179,020	269,872	269,872
Other liabilities	28,034	88,231	133,008	161,042
Regularisation accounts and other credit balances	15,254	23,579	35,545	50,799
Provisions for risks and charges	65,228	187	282	65,510
Subordinated notes	-	219,665	331,145	331,145
Share capital	494,456	-	-	494,456
Reserve for general banking risks	36,039	13,849	20,877	56,916
Other reserves and premiums	184,048	136,033	205,073	389,121
Retained earnings	10,673	302	454	11,127
Net result of the financial period – profit	124,920	11,694	17,630	142,550
Revaluation variance of fixed assets	5,689	-	-	5,689
Cumulative changes in fair values	9,715	(37,121)	(55,959)	(46,244)
Foreign currency translation difference	1,116	13,634	20,553	21,669
Treasury Shares	(947)	-	-	(947)
Minority interests	8,666	45,742	68,956	77,622
Total liabilities and equity	3,773,272	6,980,184	10,522,630	14,295,902

44 CURRENCY RISK (continued)

The following consolidated balance sheet as of 31 December 2006, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

	2006			
		Foreign currencies		Total
	LL million	USD (000)	C/V LL million	LL million
ASSETS				
Cash and balances with central banks	966,768	1,021,631	1,540,109	2,506,877
Lebanese and other governmental treasury bills and bonds	2,225,740	1,292,914	1,949,068	4,174,808
Bonds and financial instruments with fixed income	-	57,302	86,383	86,383
Shares, securities and financial instruments with variable income	14,219	16,205	24,429	38,648
Banks and financial institutions	15,904	1,560,827	2,352,947	2,368,851
Loans and advances to customers	333,058	1,528,798	2,304,664	2,637,722
Bank acceptances	-	188,462	284,106	284,106
Tangible fixed assets	105,574	55,605	83,824	189,398
Intangible fixed assets	1,324	-	-	1,324
Other assets	2,715	249	376	3,091
Regularisation accounts and other debit balances	19,000	24,245	36,550	55,550
Total assets	3,684,302	5,746,238	8,662,456	12,346,758
LIABILITIES AND EQUITY				
Due to central banks	34,555	28,212	42,530	77,085
Banks and financial institutions	31,905	560,511	844,970	876,875
Customers' deposits	2,726,360	4,467,747	6,735,129	9,461,489
Engagements by acceptances	-	188,462	284,106	284,106
Liabilities under financial instruments	-	181,439	273,519	273,519
Other liabilities	25,175	86,490	130,384	155,559
Regularisation accounts and other credit balances	4,368	21,971	33,122	37,490
Provisions for risks and charges	45,573	760	1,145	46,718
Subordinated notes	-	31,731	47,835	47,835
Share capital	494,456	-	-	494,456
Reserve for general banking risks	27,338	13,812	20,821	48,159
Other reserves and premiums	170,854	114,586	172,738	343,592
Retained earnings	18,359	308	465	18,824
Net result of the financial period - profit	106,340	6,003	9,049	115,389
Revaluation variance of fixed assets	5,689	-	-	5,689
Cumulative changes in fair values	8,791	(13,958)	(21,041)	(12,250)
Foreign currency translation reserve	11,638	-	-	11,638
Treasury Shares	(366)	-	-	(366)
Minority interests	7,937	35,167	53,014	60,951
Total liabilities and equity	3,718,972	5,723,241	8,627,786	12,346,758

45 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 2007) due to a reasonable possible change in equity indices, with all other variables held consistant, is as follows:

Market indices	Change in equity price %	2007 Effect on equity LL million	2006 Effect on equity LL million
Jordan stock exchange	+5	3,630	-

46 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.

47 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.

48 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.

Capital consists of the following as of 31 December 2007 and 2006:

	2007	*2006*
	LL million	*LL million*
Tier 1 Capital	**951,620**	905,031
Tier 2 Capital	**286,879**	37,563
Total Capital	**1,238,499**	942,594

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

49 RECONCILIATION BETWEEN ACCOUNTING AND TAXABLE PROFITS FOR THE YEAR - 2007

	Accounting profit (loss) LL million	*Taxable profit (loss) LL million*	*Income tax rate %*	*Income tax due LL million*
Group banks and companies:				
Lebanese banks and companies				
- Byblos Bank SAL – Lebanon branches	121,729	154,750	15	23,213
- Byblos Invest Bank SAL *	13,575	-	15	-
- Adonis Insurance & Reinsurance Co. SAL **	4,016	2,380	15	357
- Adonis Brokerage House SAL	330	392	15	59
Foreign banks				
- Byblos Bank Europe SA	8,371	10,829	24	2,599
- Byblos Bank - Limassol branch	2,166	2,690	10	269
- Byblos Bank Africa ***	14,526	-	-	-
- Byblos Bank Syria	800	2,789	25	723
- Byblos Bank – Erbil branch	(703)	-	-	-
- Byblos Bank Armenia cjsc	(287)	-	-	-
- Adonis Insurance & Reinsurance Syria	(154)	-	-	-
	164,369			

(*) Byblos Invest Bank SAL was established in 2003. The bank is exempt from income tax on profit for seven years from inception till 2009.

(**) The company is subject to income tax at the rate of 15% calculated based on gross insurance premiums weighted differently for each class of business.

(***) Income tax due on Byblos Bank Africa profit represents "Tax" paid in accordance with Islamic Banking Regulations.

50 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.

51 PROPOSED ALLOCATION OF 2007 NET PROFIT

The Board of Directors convened on 17 April 2008 and proposed a distribution to the preferred shares at US$ 12 per share, a distribution to the priority shares calculated as 4% of the nominal value of the share, which amounts to LL 48 per share, and a dividend distribution to the ordinary and priority shares at LL 150 per share (net of tax) after the allocation of part of the unconsolidated profit of the Bank for the year 2007 to the reserves and premiums.

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2006

BYBLOS BANK SAL
CONSOLIDATED FINANCIAL STATEMENTS

1) Auditors' report;

2) Consolidated balance sheet as of 31 December 2006;

3) Consolidated income statement for the year ended 31 December 2006;

4) Consolidated cash flow statement for the year ended 31 December 2006;

5) Consolidated statement of changes in equity for the year ended 31 December 2006;

6) Notes to the consolidated financial statements.

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 2006 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' judgement, 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 2006 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

17 April 2007
Beirut, Lebanon

Byblos Bank SAL

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 LL million	2005 LL million
ASSETS			
Cash and balances with central banks	4	2,506,877	2,720,961
Lebanese and other governmental treasury bills and bonds	5	4,174,808	3,667,788
Bonds and financial instruments with fixed income	6	86,383	162,417
Shares, securities and financial instruments with variable income	7	38,648	35,818
Banks and financial institutions	8	2,368,851	2,093,825
Loans and advances to customers (*)	9	2,645,034	2,243,108
Bank acceptances	10	284,106	205,274
Tangible fixed assets	11	208,374	180,026
Intangible assets	12	1,324	1,449
Other assets	13	3,091	2,814
Regularisation accounts and other debit balances	14	55,550	31,433
TOTAL ASSETS		12,373,046	11,344,913
(*) Including:			
- Substandard loans (gross amount)		47,049	53,966
- Unrealized interest on substandard, doubtful and bad loans		(107,385)	(114,066)
- Provision for doubtful and bad loans		(147,724)	(145,774)
OFF BALANCE SHEET ITEMS			
Engagements received from financial intermediaries		9,843	37,622
Engagements received from customers		4,563,024	3,343,626
Bad loans fully provided for	9	45,423	75,460
Foreign currencies to deliver against foreign currencies to recieve	34	398,072	261,761

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 17 April 2007.

Dr Francois Bassil
Chairman/ General Manager

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 44 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED BALANCE SHEET

At 31 December 2006

	Notes	2006 LL million	2005 LL million
LIABILITIES AND EQUITY			
Due to central banks	15	77,085	94,566
Banks and financial institutions	16	876,875	865,631
Customers' deposits	17	9,463,992	8,510,975
Engagements by acceptances	10	284,106	205,274
Liabilities under financial instruments	18	273,519	266,820
Other liabilities	19	159,371	127,990
Regularisation accounts and other credit balances	20	37,490	24,379
Provisions for risks and charges	21	66,691	52,448
Subordinated loans	22	47,835	152,988
TOTAL LIABILITIES		11,286,964	10,301,071
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Share capital	24	494,456	494,456
Treasury Shares	24	(366)	-
Revaluation variance of fixed assets	11	5,689	5,689
Reserve for general banking risks	25	48,159	39,859
Other reserves and premiums	26	343,592	314,509
Retained earnings		18,824	4,704
Net results of the financial period - profit	29	115,389	102,094
Cumulative changes in fair values	27	(12,250)	21,190
Foreign currency translation difference		11,638	4,580
		1,025,131	987,081
MINORITY INTERESTS	28	60,951	56,761
TOTAL EQUITY		1,086,082	1,043,842
TOTAL LIABILITIES AND EQUITY		12,373,046	11,344,913
OFF BALANCE SHEET ITEMS			
Signature commitments given	33	829,135	662,126
Financing commitments given	33	541,477	390,527
Assets under management and fiduciary deposits	33	148,900	158,948
Assets in custody	33	944,137	844,323
Foreign currencies to receive against foreign currencies to deliver	34	397,634	262,430

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 17 April 2007.

Dr Francois Bassil
Chairman/ General Manager

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 44 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED INCOME STATEMENT

Year ended 31 December 2006

	Notes	2006 LL million	2005 LL million
Interest and similar income		**811,188**	661,004
Lebanese and other governmental treasury bills and bonds	5	321,600	240,972
Deposits and similar accounts with banks and financial institutions	4 & 8	292,849	232,796
Bonds and financial instruments with fixed income	6	6,267	20,806
Loans and advances to customers		190,139	166,430
Loans and advances to related parties		333	-
Interest and similar charges		**(584,265)**	(482,979)
Deposits and similar accounts from banks and financial institutions	15 & 16	(49,092)	(28,149)
Deposits from customers and other credit balances		(504,099)	(419,410)
Deposits from related parties		(1,773)	(3,317)
Subordinated loans	22	(12,492)	(18,093)
Liabilities under financial instruments	18	(16,809)	(14,010)
Net provisions less recoveries on loans and advances	29	**(10,282)**	(24,869)
Provisions for loans and advances		(18,885)	(32,627)
Recovery of provisions for loans and advances		8,603	7,758
Net interest received		**216,641**	153,156
Revenues from shares, securities and financial instruments with variable income	7	**990**	327
Net commissions		**79,393**	71,786
Commissions received		85,156	74,309
Commissions paid		(5,763)	(2,523)
Profit from financial operations		**52,504**	54,316
Profit from trading and non-trading investments	4 & 5 & 6 & 7	41,205	45,914
Profit from foreign exchange operations		11,299	8,402
Loss on financial operations		**(27,646)**	(1,691)
Loss on trading and non-trading investments	4 & 5 & 6 & 7	(25,156)	(1,210)
Loss on foreign exchange operations		(2,490)	(481)
Net profit from financial operations	29	**24,858**	52,625
Other operating income		**4,047**	2,710
Other operating expenses		**(10,838)**	(4,416)
General and administrative expenses		**(150,769)**	(131,721)
Salaries and related benefits	29	(81,978)	(72,819)
General operating expenses	29	(68,791)	(58,902)
Depreciation and amortization of tangible and intangible fixed assets		**(17,963)**	(17,472)
Profit before tax		**146,359**	126,995
Income tax expense		**(27,672)**	(22,372)
Profit for the year		**118,687**	104,623
Attributable to:			
Equity holders of the parent		115,389	102,094
Minority interests		3,298	2,529
		118,687	104,623
Earnings per share			
Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares	31	**LL 212.51**	LL 384.35
Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares	31	**LL 260.51**	LL 432.35

The attached notes 1 to 44 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED CASH FLOW STATEMENT
Year ended 31 December 2006

	Notes	2006 LL million	2005 LL million
OPERATING ACTIVITIES			
Profit before tax and minority interest		146,359	126,995
Adjustments for:			
Depreciation of tangible assets		12,170	12,100
Amortization of intangible assets		125	125
Provision for assets acquired in recovery of debts		5,668	5,247
(Profit) loss on disposal of tangible fixed assets		(46)	46
Profit on disposal of assets acquired in recovery of debts		(274)	(254)
Profit on sale of treasury bills held for trading		(3,348)	(13,046)
Profit on sale of non-trading treasury bills		(12,354)	(3,597)
Loss (profit) on sale of bonds held for trading		223	(811)
Loss on sale of non-trading bonds		705	-
Profit on sale of shares held for trading		(4,221)	-
Profit on sale of certificates of deposits with the Central Bank		(12,904)	(3,545)
Changes in fair value of treasury bills held for trading		11,165	(21,887)
Changes in fair value of shares held for trading		4,639	(1,854)
Changes in fair value of bonds for trading		46	36
Provision released related to assets acquired in recovery of debts		(2,070)	(463)
Provision for doubtful debts (net of recoveries)		6,013	19,504
Provision for doubtful banks and financial institutions (net of recoveries)		(35)	695
Provision for other debtors (net of recoveries)		253	(25)
General provision (net of recoveries)		3,253	2,742
Provision for country risk (net of recoveries)		228	828
Bad debts written off		570	1,125
Provision for end of service indemnities		1,819	1,617
Provision for foreign currency differences		12	156
Provision for risk and charges (recoveries)		489	(603)
Technical reserves of insurance company		8,297	6,465
Provision for risk and charges (net of recoveries)		997	9
		167,779	131,605
Changes in operating assets and liabilities			
Trading treasury bills		768,883	(1,037,448)
Trading bonds		72,782	130,569
Trading shares		(2,389)	(16,987)
Due from Central Bank		479,304	736,220
Due from Banks and Financial Institutions		(50,509)	221,242
Loans and advances		(411,990)	(246,438)
Other assets		(277)	229
Regularization and other debit balances		(24,370)	4,924
Due to Central Banks		32,539	9,991
Due to Banks and Financial Institutions		118,376	(38,673)
Customer deposits		953,017	256,625
Other liabilities		30,610	5,064
Regularization and other credit balances		13,111	9,249
End of Service Benefits Paid		(969)	(830)
Taxes paid		(26,901)	(16,007)
Cash from operating activities		2,118,996	149,335
INVESTING ACTIVITIES			
Non-trading treasury bills		(1,300,769)	(145,767)
Non-trading bonds		(2,566)	53,815
Non-trading shares		(52)	(61)
Purchase of tangible fixed assets		(25,648)	(31,364)
Properties acquired in settlement of debt		(24,247)	(9,427)
Proceeds from sale of tangible fixed assets		390	1,681
Proceeds from sale of properties acquired in settlement of debt		9,959	1,899
Cash from investing activities		(1,342,933)	(129,224)
FINANCING ACTIVITIES			
Issuance of priority shares		-	247,228
Due to Central Bank		(50,020)	1,980
Liabilities under financial instruments		6,699	72,971
Subordinated loans		(105,153)	(2,082)
Treasury shares		(366)	-
Dividends paid		(52,980)	(51,644)
Change in minority interest		892	41,232
Write off against general reserve		-	(11,977)
Cash from financing activities		(200,928)	297,708
Effect of exchange rates:			
Effect of exchange rates on fixed assets		(652)	197
Foreign currency translation differences		7,058	(2,060)
Effect of exchange rates on reserves and premiums		2,389	(2,331)
Net effect of foreign exchange rates		8,795	(4,194)
INCREASE IN CASH AND CASH EQUIVALENTS		583,930	313,625
Cash and cash equivalents at 1 January		2,298,993	1,985,368
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	30	2,882,923	2,298,993

The attached notes 1 to 44 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2006

	Attributable to equity holders of the parent															Minority interests	Total equity
	Share capital				Other reserves and premiums												
	Ordinary shares LL million	Preferred shares LL million	Priority shares LL million	Treasury shares LL million	Legal reserve LL million	Free reserves appropriated for capital increase LL million	Premium on issuance of preferred shares LL million	General reserve LL million	Reserve for general Banking Risks LL million	Revaluation reserve LL million	Cumulative changes in fair values LL million	Retained earnings LL million	Net results of the financial period - profit LL million	Foreign currency translation differences LL million	Total LL million	LL million	LL million
Balance at 1 January 2005 (as previously stated)	246,028	1,200	-	-	56,607	18,662	149,550	91,863	32,418	5,689	8,650	(3,491)	79,415	6,640	693,231	13,000	706,231
Adjustments arising from the application of IAS 39 revised (note 2)	-	-	-	-	-	-	-	-	-	-	16,523	-	-	-	16,523	-	16,523
Balance at 1 January 2005 restated	246,028	1,200	-	-	56,607	18,662	149,550	91,863	32,418	5,689	25,173	(3,491)	79,415	6,640	709,754	13,000	722,754
Changes in fair value of available for sale financial instruments	-	-	-	-	-	-	-	-	-	-	(3,676)	-	-	-	(3,676)	-	(3,676)
Total income and expenses for the year recognized directly in equity	-	-	-	-	-	-	-	-	-	-	(3,676)	-	-	-	(3,676)	-	(3,676)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	102,094	-	102,094	2,529	104,623
Total income and expenses for the year	-	-	-	-	-	-	-	-	-	-	(3,676)	-	102,094	-	98,418	2,529	100,947
Write off against general reserve	-	-	-	-	-	-	-	(11,977)	-	-	-	-	-	-	(11,977)	-	(11,977)
Issuance of priority shares (note 24)	-	-	247,228	-	-	-	-	-	-	-	-	-	-	-	247,228	-	247,228
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	79,415	(79,415)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	9,274	1,093	-	1,743	7,460	-	-	(19,570)	-	-	-	-	-
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(595)	(595)
Equity dividends paid	-	-	-	-	-	-	-	-	-	-	-	(51,644)	-	-	(51,644)	-	(51,644)
Minority share of capital relating to consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	41,193	41,193
Translation difference	-	-	-	-	(219)	-	-	(2,087)	(19)	-	(307)	(6)	-	(2,060)	(4,698)	634	(4,064)
Balance at 31 December 2005	246,028	1,200	247,228	-	65,662	19,755	149,550	79,542	39,859	5,689	21,190	4,704	102,094	4,580	987,081	56,761	1,043,842
Changes in fair value of available for sale financial instruments	-	-	-	-	-	-	-	-	-	-	(33,660)	-	-	-	(33,660)	-	(33,660)
Total income and expenses for the year recognized directly in equity	-	-	-	-	-	-	-	-	-	-	(33,660)	-	-	-	(33,660)	-	(33,660)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	-	-	115,389	-	115,389	3,298	118,687
Total income and expenses for the year	-	-	-	-	-	-	-	-	-	-	(33,660)	-	115,389	-	81,729	3,298	85,027
Transfer to retained earnings	-	-	-	-	-	-	-	-	-	-	-	102,094	(102,094)	-	-	-	-
Transfer to reserves and premiums	-	-	-	-	11,172	255	-	15,486	8,300	-	-	(35,213)	-	-	-	-	-
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(1,450)	(1,450)
Equity dividends paid	-	-	-	-	-	-	-	-	-	-	-	(52,980)	-	-	(52,980)	-	(52,980)
Treasury shares	-	-	-	(366)	-	-	-	-	-	-	-	-	-	-	(366)	-	(366)
Translation difference	-	-	-	-	422	-	-	1,748	-	-	220	219	-	7,058	9,667	2,342	12,009
Balance at 31 December 2006	**246,028**	**1,200**	**247,228**	**(366)**	**77,256**	**20,010**	**149,550**	**96,776**	**48,159**	**5,689**	**(12,250)**	**18,824**	**115,389**	**11,638**	**1,025,131**	**60,951**	**1,086,082**

The attached notes 1 to 44 form part of these consolidated financial statements.

1 ACTIVITIES

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 subsidiaries, Byblos Invest Bank SAL, Byblos Bank Europe SA, Byblos Bank Africa, Byblos Bank Syria S.A., Adonis Insurance and Reinsurance Co. (ADIR) SAL and Adonis Brokerage House SAL are involved in all banking and insurance activities through its headquarters, 74 branches in Lebanon and 6 locations abroad (Limassol, Brussels, London, Paris, Damascus and Khartoum) (Collectively the "Group"). The number of employees of the Group reached 1691 employees as of 31 December 2006 (2005: 520 employees).

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.

The consolidated financial statements have been prepared under the historical cost basis except for the measurement at fair value of available-for-sale investments, derivative financial instruments and financial assets and financial liabilities held at fair value through profit and loss 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 accounting policies are consistent with those used in the previous year.

The consolidated financial statements are presented in Lebanese Lira (LL) which is the functional and presentation currency of the Bank and all values are rounded to the nearest million (LL million) except where otherwise indicated.

New and amended standards and interpretations issued but not yet effective

Amendments to IAS 1 – Capital Disclosures
Amendments to IAS 1 Presentation of Financial Statements were issued by the IASB as *Capital Disclosures* in August 2005. They are required to be applied for periods beginning on or after 1 January 2007. When effective, these amendments will require disclosures of information enabling evaluation of the Group's objectives, policies and processes for managing capital.

IFRS 7 Financial Instruments Disclosures
IFRS 7 Financial Instruments Disclosures was issued by the IASB in August 2005, becoming effective for periods beginning on or after 1 January 2007. The new standard will require additional disclosure of the significance of financial instruments for the Group's financial position and performance and information about exposure to risks arising from financial instruments.

IFRS 8 Operating Segments
IFRS 8 Operating Segments was issued by the IASB in November 2006, becoming effective for periods commencing on or after 1 January 2009. The new standard may require changes in the way the Group discloses information about its operating segments.

Management do not expect these standards to have a significant impact on the Group's financial statements when implemented in 2007 and 2009.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)
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, by the Bank and are presented separately in the 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 income statement in the year of acquisition.

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*
	2006	*2005*		
	%	%		
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	**65.00**	65.00	Banking activities	Sudan
Byblos Bank Syria S.A.	**41.50**	41.50	Banking activities	Syria

Adoption of revised versions of IAS 32 and 39
The Group has adopted the revised versions of IAS 32 and 39 which have become mandatory for the financial years beginning on or after 1 January 2005. The principal effects of these changes in policies are as follows:

Financial assets
The Group now classifies non-trading investments upon initial recognition into the following four categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through income statement
- Investments carried at amortised cost (loans and receivables)

In accordance with the transition provisions of the revised standard this redesignation was effected as at 1 January 2004.

Investments in certain debts securities where the Group provided funds directly to the issuer, were previously classified as "originated loans" and stated at amortized cost, adjusted for effective fair value hedges, less provision for impairment. In accordance with the revised IAS 39 where these are quoted in an active market they have been reclassified with effect from 1 January 2004 as either 'held to maturity' investments, 'available for sale' investments or investments carried at fair value through the income statement. The impact of this redesignation was to increase the carrying value of such investments classified as 'available for sale' by LL 46,066 million as of 1 January 2004, with a corresponding increase in cumulative changes in fair values. In addition, the carrying value of such investments classified now as 'available for sale' decreased by LL 29,543 million with a corresponding decrease in cumulative changes in fair values for the year ended 31 December 2004.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Adoption of revised versions of IAS 32 and 39 (continued)
During 2005, the Group reclassified certificates of deposit issued by the Bank of Lebanon and other Lebanese banks from 'originated loans' to 'loans and receivables' stated at amortized cost. There was no impact from such reclassification on the income statement or the shareholders' equity.

Trading investments
These are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised 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 assests
Financial assets within the scope of IAS 39 are classified as follows:

- Held to maturity
- Investments carried at fair value through profit and loss
- Investments carried at amortised cost (Loans and receivables)
- Available for sale

Financial assets are initially recognised at cost, being the fair value of the consideration given, plus, in the case of investment not carried at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold these assets till maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Investments carried at fair value through profit and loss
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 as per the documented strategy of the Group. Investments classified as "Investments at fair value through profit and loss" upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the income statement.

Investments carried at amortized cost
This category includes loans and receivables which are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement. In the case of available for sale equity investments reversal of previously recognised impairment losses are no longer recorded through the income statement but as increases in cumulative changes in fair value.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments and financial assests (continued)

Derecognition of financial assets
A financial asset (in whole or in part) is derecognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control over the asset or a proportion of the asset.

Fair values
For investments and derivatives quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments, fair value is determined by reference to the market value of similar investments, or is based on the expected discounted cash flows, or by using other techniques.

The estimated fair value of deposits with no stated maturity, which includes non-interest bearing deposits, is the amount payable on demand.

Deposits with banks and financial institutions and other money market placements
Deposits with banks, financial institutions and other money market placements are stated at cost less any amounts written off and provision for impairment.

Loans and advances
Loans and advances are stated at cost, net of interest suspended, provisions for impairment and any amounts written off.

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

Buildings	2.5%
Office equipment and furniture	9-15%
Computer equipment and softwares	20-30%
General installations	30%
Vehicles	15%
Key money	20%

The carrying values of tangible and intangible fixed assets 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 tangible assets 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 future economic benefits of the related item of tangible assets. All other expenditure is recognised in the income statement as the expense is incurred.

Collateral pending sale
The Group occasionally acquires real estate in settlement of certain loans and advances in accordance with the Bank of Lebanon's regulations. Such real estate 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.

Customers' deposits
Customers' deposits are carried at cost, less amounts repaid.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Liabilities under financial instruments
Liabilities under financial instruments represent certificates of deposit issued by the Bank, index linked notes, equity linked notes, and commodity 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 income statement.

Subordinated loans
Subordinated loans 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 the statement of income.

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 income statement on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

Revenue recognition
Interest income is recognized according to the effective interest yield method. Fees, commissions and foreign exchange transactions from banking services are recognized when contractually earned. Interest on loans and advances classified as non-performing is charged to the customer's account and credited to unrealized interest. Dividend income is recognized when the right to receive payment is established.

For the insurance subsidiary, 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.

For the insurance subsidiary, 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 consist of cash on hand and balances with banks with maturities of three months or less at the date of the balance sheet.

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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivatives
Derivatives are stated at fair value.

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 statement of income.

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 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.

In relation to effective hedges of the net investment in a foreign subsidiary bank, any gain or loss from remeasuring the hedging instrument to fair value, as well as related changes in fair value of the net investment in a foreign subsidiary bank, are recognized immediately in equity and are transferred to the income statement once the investment is sold.

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 statement of income 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 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.

Foreign currencies
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 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.

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available-for-sale, unless part of an effective hedging strategy.

Translation of financial statements of foreign entities
The assets and liabilities of foreign branches and subsidiaries are not deemed an integral part of the head office's operations and are translated at rates of exchange ruling at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Any exchange differences are taken directly to a foreign currency translation differences.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Translation of financial statements of foreign entities (continued)
Following are the exchange rates used to translate assets, liabilities and statement of income items of foreign branches and subsidiaries:

	2006		2005	
	Year end rate LL	*Average rate* LL	*Year end rate* LL	*Average rate* LL
US Dollar	**1,507.50**	1,507.50	1,507.50	1,507.50
Euro	**1,982.81**	1,903.12	1,784.13	1,865.00
Sudanese Dinar	**7.11**	6.903	6.54	6.12
Syrian Lira	**29.53**	29.03	28.87	28.87

Repurchase and resale agreements
Assets sold with a simultaneous commitment to repurchase at a specified future date (repos) continue to be recognized in the balance sheet. Amounts received under these agreements are treated as liabilities and the difference between the sale and the repurchase price is treated as interest expense using the effective yield method. Assets purchased with a corresponding commitment to resell at a specified future date (reverse repos) are not recognized in the balance sheet. Amounts paid under these agreements are treated as assets and the difference between the purchase and resale price is treated as interest income using the effective yield method.

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment and uncollectibility of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that financial assets may be impaired. If such evidence exists, any impairment loss, is recognized in the consolidated income statement.

Impairment is determined as follows:

(a) for assets carried at amortised cost, impairment is based on estimated cash flows that are discounted at the effective interest rate;
(b) for assets carried at fair value, impairment is the difference between cost and fair value less any impairment loss previously recognized in the consolidated income statement; and
(c) for assets carried at cost, impairment is the present value of future cash flows discounted at the current market rate of return for a similar financial asset.

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.

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

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized 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 recognized directly in equity are also recognized in equity and not in the income statement.

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 utilized. Unrecognized deferred tax assets are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, 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, 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 monitor 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 judgement. 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 judgement 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 judgement 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 gradings 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.

Valuation of unquoted equity investments

Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same ;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined, and as a result these investments are carried at cost. The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2006 LL million	2005 LL million
Cash on hand	**71,002**	71,718
Balances with central banks:		
Bank of Lebanon:		
- Current accounts	**263,750**	333,574
- Time deposits	**1,024,306**	1,189,380
- Certificates of deposit at amortized cost	**1,020,267**	1,006,591
	2,308,323	2,529,545
Balances with central banks in other countries	**89,424**	81,625
Accrued interest receivable	**38,128**	38,073
Total	**2,506,877**	2,720,961
Interest income for the year	**171,170**	176,483
Gain from sale of certificates of deposit reflected under net profit from financial operations (Note 29)	**12,904**	3,545
	184,074	180,028
Percentage of cash and balances with the Central Banks to total assets	**20.26%**	23.98%

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 denominated in Lebanese Lira 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 at the rate of 15% of total deposits in foreign currencies regardless of nature.

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

	2006			*2005*
	LL million	*Foreign currencies C/V LL million*	*Total LL million*	*Total LL million*
Current accounts	**252,480**	**10,762**	**263,242**	333,017
Time deposits	**-**	**959,524**	**959,524**	974,598
	252,480	**970,286**	**1,222,766**	1,307,615

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 are located.

4 CASH AND BALANCES WITH CENTRAL BANKS (continued)

Balances with the central banks in other countries
Balances with the Central Banks in other countries include an amount of LL 5,752 million (2005: LL 5,857 million) as non-interest bearing legal blocked fund at the Central Bank of Syria in accordance with the requirements of the Syrian Law.

5 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS

	2006 LL million	*2005 LL million*
At amortized cost:		
Held to maturity:		
- Treasury bills pledged to the Bank of Lebanon in guarantee of soft loans (*)	**40,450**	94,886
- Other treasury bills and bonds	**1,758,991**	1,082,184
	1,799,441	1,177,070
- Accrued interest receivable	**54,137**	23,345
	1,853,578	1,200,415
At fair value:		
a) Through income statement		
- Trading	**1,097,240**	1,859,119
- Accrued interest receivable	**27,094**	41,915
	1,124,334	1,901,034
b) Through equity:		
- Available for sale	**1,171,204**	558,948
- Accrued interest receivable	**25,692**	7,391
	1,196,896	566,339
Total Lebanese and other governmental treasury bills and bonds	**4,174,808**	3,667,788
Percentage of treasury bills to total assets	**33.74%**	32.33%
Income for the year:		
- Reflected under interest and similar income	**321,600**	240,972
- Reflected under net profit from financial operations and resulting from disposals and fair value changes (Note 29)	**4,537**	38,530

(*) These treasury bills are pledged in guarantee of soft loans granted to the Bank by the Bank of Lebanon following the acquisition of other banks (Note 15).

5 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS (continued)

The maturity profile of treasury bills as at 31 December 2006 is as follows:

	Nominal value			
	Held to maturity LL million	*Available for sale LL million*	*Trading LL million*	*Total LL million*
Less than one month	**24,683**	**-**	**-**	**24,683**
Between one and three months	**453**	**-**	**96,307**	**96,760**
Between three months and one year	**292,183**	**37,960**	**2,000**	**332,143**
Between one and five years	**1,423,827**	**936,386**	**901,457**	**3,261,670**
More than five years	**62,074**	**212,872**	**94,277**	**369,223**
Total	**1,803,220**	**1,187,218**	**1,094,041**	**4,084,479**

During 2006, the Bank discounted treasury bills denominated in Lebanese Lira with a nominal value of LL 124,868 million at the Bank of Lebanon and purchased certificates of deposit denominated in US Dollars in the amount of US Dollars 102,000 thousands in order to meet foreign currency liquidity needs that resulted from the dollarization of Lebanese Lira deposits during the war period in July and August 2006.

Valuation of Lebanese and other governmental treasury bills portfolio at 31 December 2006

	Nominal value LL million	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	**1,803,220**	**1,799,441**	**1,806,221**	**1,799,441**
Trading	**1,094,041**		**1,097,240**	**1,097,240**
Available for sale	**1,187,218**	**1,185,340**	**1,171,204**	**1,171,204**
	4,084,479		**4,074,665**	**4,067,885**
Accrued interest receivable	**106,923**		**106,923**	**106,923**
	4,191,402		**4,181,588**	**4,174,808**

Valuation of Lebanese and other governmental treasury bills portfolio at 31 December 2005

	Nominal value LL million	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	1,186,847	1,177,070	1,173,158	1,177,070
Trading	1,854,096		1,859,119	1,859,119
Available for sale	544,028	543,681	558,948	558,948
	3,584,971		3,591,225	3,595,137
Accrued interest receivable	72,651		72,651	72,651
	3,657,622		3,663,876	3,667,788

5 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS (continued)

Cumulative changes in fair values of available for sale treasury bills

Cumulative changes in fair values of available for sale Lebanese and other governmental treasury bills and bonds as of 31 December were as follows:

	2006 *LL million*	*2005* *LL million*
Fair value of available for sale treasury bills – end of year	**1,171,204**	558,948
Less: amortized cost – end of year	**(1,185,340)**	(543,681)
Cumulative changes in fair values – end of year (Note 27)	**(14,136)**	15,267

6 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME

	2006 *LL million*	*2005* *LL million*
Amortized cost:		
- Held to maturity	**302**	15,374
- Accrued interest receivable	**8**	715
	310	16,089
At fair value:		
a) Through equity:		
- Available for sale	**82,747**	70,718
- Accrued interest receivable	**1,826**	1,059
	84,573	71,777
b) Through income statement:		
- Trading	**1,477**	72,605
- Accrued interest receivable	**23**	1,946
	1,500	74,551
Total bonds and financial instruments with fixed income	**86,383**	162,417
Income (loss) for the year:		
- Reflected under interest and similar income	**6,267**	20,806
- Reflected under net profit from financial operations: Resulting from disposals and valuation difference (Note 29)	**(974)**	775

6 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME (continued)

Valuation of bonds and financial instruments with fixed income at 31 December 2006

	Nominal value LL million	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	**302**	**302**	**309**	**302**
Held for trading	**1,387**		**1,477**	**1,477**
Available for sale	**89,779**	**89,649**	**82,747**	**82,747**
	91,468		**84,533**	**84,526**
Accrued interest receivable	**1,857**		**1,857**	**1,857**
	93,325		**86,390**	**86,383**

Valuation of bonds and financial instruments with fixed income at 31 December 2005

	Nominal value LL million	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	15,377	15,374	15,792	15,374
Held for trading	72,239		72,605	72,605
Available for sale	72,292	72,287	70,718	70,718
	159,908		159,115	158,697
Accrued interest receivable	3,720		3,720	3,720
	163,628		162,835	162,417

Cumulative changes in fair values of available for sale bonds and financial instruments with fixed income

	2006 LL million	*2005 LL million*
Fair value of available for sale bonds and financial instruments – end of year	**82,747**	70,718
Less: amortized cost- end of year	**(89,649)**	(72,287)
Cumulative changes in fair values – end of year	**(6,902)**	(1,569)
Add: Interest recorded in the statement of income being the difference between average yield and the variable yield for some bonds during 2005	**-**	(489)
Cumulative changes in fair values – end of year(Note 27)	**(6,902)**	(2,058)

7 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME

	2006 LL million	*2005 LL million*
At fair value:		
- Available for sale securities	**14,276**	13,417
- Trading securities	**24,372**	22,401
	38,648	35,818

Income for the year:		
- reflected under revenues from shares, securities and financial instruments with variable income	**990**	327
- reflected under net profit from financial operations and resulting from fair value changes and gain on disposal (note 29)	**(418)**	1,854

7 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME (continued)

Valuation of shares, securities and financial instruments with fixed income as of 31 December

	2006			2005		
	Cost LL million	*Fair value LL million*	*Book value LL million*	*Cost LL million*	*Fair value LL million*	*Book value LL million*
Available for sale	**5,488**	**14,276**	**14,276**	5,436	13,417	13,417
Trading	**28,218**	**24,372**	**24,372**	21,607	22,401	22,401
	33,706	**38,648**	**38,648**	27,043	35,818	35,818

8 BANKS AND FINANCIAL INSTITUTIONS – DEBIT

	2006 LL million	*2005 LL million*
Commercial banks:		
- Current accounts	**119,454**	103,024
- Time deposits	**1,998,037**	1,736,960
- Certificates of deposit at amortized cost	**46,482**	46,730
- Loans granted	**55,602**	61,544
- Financial instruments	**140,949**	111,409
- Accrued interest receivable	**7,649**	4,581
- Interest received in advance	**(3,298)**	(1,473)
- Doubtful bank accounts	**10,633**	11,025
Less: Provision for doubtful bank accounts	**(10,633)**	(11,025)
	2,364,875	2,062,775
Financial institutions:		
- Current accounts	**603**	4,043
- Time deposits	**3,211**	26,733
- Accrued interest receivable	**21**	75
	3,835	30,851
Registered exchange companies:		
- Current accounts	**141**	199
- Doubtful accounts	**2,259**	2,259
Less: Provision for doubtful accounts	**(2,259)**	(2,259)
	141	199
	2,368,851	2,093,825
Interest and similar income for the year	**121,679**	56,313
Percentage of balances due from banks and financial institutions to total assets	**19.14%**	18.46%

8 BANKS AND FINANCIAL INSTITUTIONS – DEBIT (continued)

Breakdown by geographic location

	2006		2005	
	LL million	*%*	*LL million*	*%*
Lebanon	115,128	5	174,411	8
O.E.C.D. countries	1,144,362	48	882,050	42
Saudi Arabia	45,001	2	63,572	3
Other countries	319,963	14	278,759	13
	1,624,454	69	1,398,792	66
Accounts held with Byblos Bank Europe	744,397	31	695,033	34
	2,368,851	100	2,093,825	100

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:

	2006		2005	
	Loan Balance LL million	*Provision LL million*	*Loan Balance LL million*	*Provision LL million*
Balance at 1 January	13,284	13,284	13,388	12,693
Provision on doubtful foreign exchange company (Note 29)	-	-	-	695
Amount collected on behalf of the shareholders of Banque Beirut Pour le Commerce SAL (bank merged previously) from the loan due by BCCI bank	(413)	(413)	-	-
Amount collected and the related provision Recovered during the year (Note 29)	(35)	(35)	-	-
Exchange difference on balances denominated in Euro and Sterling Pounds	194	194	(104)	(104)
Write off	(138)	(138)	-	-
Balance at 31 December	12,892	12,892	13,284	13,284
Out of which				
- banks	10,633	10,633	11,025	11,025
- financial institutions	2,259	2,259	2,259	2,259
	12,892	12,892	13,284	13,284

9 LOANS AND ADVANCES TO CUSTOMERS

	2006 *LL million*	*2005* *LL million*
Commercial loans	**2,056,833**	1,691,612
Other loans to customers	**618,867**	579,571
Bad and doubtful loans (net)	**44,390**	57,129
Loans to related parties	**9,473**	-
Interest in suspense on substandard loans	**(15,118)**	(17,226)
Accrued interest receivable	**6,841**	4,887
Less: Interest received in advance	**(37,080)**	(38,854)
	2,684,206	2,277,119
Less:		
- General provision for loans and advances	**(35,010)**	(30,480)
- Provision for country risk	**(4,162)**	(3,531)
	2,645,034	2,243,108
Percentage of loans and advances to total assets	**21.38%**	19.77%
Bad loans transferred to off balance sheet accounts:		
- Gross balance	**45,423**	75,460
- Percentage of bad loans off balance sheet to total loans (before deduction of provisions and unrealized interest)	**1.55%**	2.97%
Percentage of bad and doubtful loans to total loans:		
- Excluding off balance sheet accounts	**8.37%**	10.47%
- Including off balance sheet accounts	**9.77%**	13.06%

Following is a comparison of loans and advances at 31 December 2006 and 2005:

	2006 *LL million*	*2005* *LL million*
Gross loans and advances	**2,930,382**	2,536,915
Accrued interest receivable	**6,841**	4,887
Interest received in advance	**(37,080)**	(38,854)
	2,900,143	2,502,948
Unrealized interest on substandard loans	**(15,118)**	(17,226)
Unrealized interest on doubtful and bad loans	**(92,267)**	(96,840)
Specific provision on doubtful and bad loans	**(108,552)**	(111,763)
General provisions	**(35,010)**	(30,480)
Provision for country risk	**(4,162)**	(3,531)
	2,645,034	2,243,108

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2006					2005				
	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	2,387,049	-	-	-	2,387,049	1,957,835	-	-	-	1,957,835
- Watch loans	251,075	-	-	-	251,075	259,382	-	-	-	259,382
	2,638,124	-	-	-	2,638,124	2,217,217	-	-	-	2,217,217
- Substandard loans	47,049	(15,118)	-	-	31,931	53,966	(17,226)	-	-	36,740
- Doubtful loans	177,360	(63,406)	(69,564)	-	44,390	201,893	(72,717)	(72,047)	-	57,129
- Bad loans	67,849	(28,861)	(38,988)	-	-	63,839	(24,123)	(39,716)	-	-
	2,930,382	(107,385)	(108,552)	-	2,714,445	2,536,915	(114,066)	(111,763)	-	2,311,086
Less:										
- General provision to be allocated	-	-	-	(35,010)	(35,010)	-	-	-	(30,480)	(30,480)
- Provision for country risk	-	-	-	(4,162)	(4,162)	-	-	-	(3,531)	(3,531)
Accrued interest receivable	6,841	-	-	-	6,841	4,887	-	-	-	4,887
Less: Unearned interest	(37,080)	-	-	-	(37,080)	(38,854)	-	-	-	(38,854)
	2,900,143	(107,385)	(108,552)	(39,172)	2,645,034	2,502,948	(114,066)	(111,763)	(34,011)	2,243,108

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 45,423 million as of 31 December 2006 (2005: LL 75,460 million).

The general provision primarily relates to retail loans.

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

Bad and doubtful loans

	2006 *LL million*	*2005* *LL million*
Balance sheet accounts:		
Gross amount of bad and doubtful loans	**245,209**	265,732
Unrealized interest	**(92,267)**	(96,840)
Specific provision	**(108,552)**	(111,763)
Net amount of bad and doubtful loans	**44,390**	57,129

Movement of unrealized interest on doubtful and bad loans during the year

	2006 *LL million*	*2005* *LL million*
Balance at 1 January	**96,840**	101,137
Add (less):		
- Unrealized interest on doubtful and bad loans	**14,345**	16,228
- Recovery of unrealized interest	**(1,627)**	(2,672)
- Unrealized interest used to write off doubtful and bad loans	**(18,461)**	(3,413)
- Transfer from substandard loans	**1,322**	2,443
- Transfer to substandard loans	**-**	(758)
- Recovery of unrealized interest on bad loans previously transferred to off balance sheet	**963**	158
- Unrealized interest relating to loans transferred to off balance sheet accounts	**(1,835)**	(15,044)
- Difference of exchange	**720**	(1,239)
Balance at 31 December	**92,267**	96,840

Movement of provision for doubtful and bad loans

	2006 *LL million*	*2005* *LL million*
Balance at 1 January	**111,763**	103,248
Add (less):		
- Transfer from general provisions	**-**	9,786
- Provisions recorded during the year (Note 29)	**14,581**	27,032
- Provision relating to loans transferred to off balance sheet accounts	**(105)**	(17,520)
- Provisions used to write off doubtful and bad loans	**(12,437)**	(3,160)
- Recovery of provisions (Note 29)	**(8,568)**	(7,528)
- Recoveries of provisions on bad loans previously transferred to off balance sheet accounts	**2,251**	1,465
- Difference of exchange	**1,067**	(1,560)
Balance at 31 December	**108,552**	111,763

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

General provision for credit losses

	2006 *LL million*	*2005* *LL million*
Provisions accounted for by Byblos Bank SAL approved by the Banking Control Commission:		
- Retail loans portfolio	**19,948**	19,586
- To be allocated to specific customers	**3,306**	841
	23,254	20,427
Provisions constituted by Byblos Bank Africa	**5,320**	4,262
Provisions constituted by Byblos Bank Europe SA	**6,436**	5,791
Total	**35,010**	30,480

Movement of general provision during the year:

	2006 *LL million*	*2005* *LL million*
Balance at 1 January	**30,480**	37,975
Add (less):		
- Provisions constituted during the year (Note 29)	3,253	2,819
- General provisions recovered during the year	-	(77)
- General provisions brought forward allocated to specific clients during the year	-	(9,786)
- General provisions transferred from unrealized interest on substandard loans	**240**	99
- Difference of exchange	**1,037**	(550)
Balance at 31 December	**35,010**	30,480

Provision for country risk

	2006 *LL million*	*2005* *LL million*
Balance at 1 January	**3,531**	3,148
Provision recorded during the year (Note 29)	**228**	828
Difference of exchange	**403**	(445)
Balance at 31 December	**4,162**	3,531

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

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 2006	**75,460**	**30,633**	**44,827**	-
Loans settled during the year	**(3,214)**	**(2,251)**	**(963)**	-
Loans written off during the year	**(28,812)**	**(6,317)**	**(22,495)**	-
Bad loans transferred to off balance sheet during the year	**1,940**	**105**	**1,835**	-
Difference of exchange	**49**	**31**	**18**	-
Balance at 31 December 2006	**45,423**	**22,201**	**23,222**	-

10 BANK ACCEPTANCES

	2006 LL million	*2005 LL million*
Letters of credit payable by the Group on behalf of its customers:		
- Acceptances discounted by the Group without recourse to the beneficiary, reflected also under loans and advances	**22,311**	17,257
- Other acceptances	261,795	188,017
	284,106	205,274

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.

11 TANGIBLE FIXED ASSETS

	2006 LL million	*2005 LL million*
Net book value (after depreciation):		
(a) Tangible fixed assets	**149,380**	135,594
(b) Fixed assets acquired in settlement of debts subject to article 154 of Code of Money and Credit	**58,994**	44,432
	208,374	180,026

11 TANGIBLE FIXED ASSETS (continued)

a) Tangible fixed assets

Movement of tangible fixed assets and related depreciation during the years 2006 and 2005 is as follows:

	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 2006	113,358	2,236	69,387	317	21,639	206,937
Additions during the year	5,515	152	9,415	66	10,500	25,648
Transfers	6,364	-	1,465	-	(7,829)	-
Disposal of fixed assets fully depreciated	-	(44)	(4,652)	-	-	(4,696)
Disposal of other fixed assets	(435)	-	(213)	-	-	(648)
Foreign exchange difference	455	48	611	9	134	1,257
At 31 December 2006	**125,257**	**2,392**	**76,013**	**392**	**24,444**	**228,498**
Depreciation:						
At 1 January 2006	18,847	1,199	51,297	-	-	71,343
Depreciation during the year	2,745	230	9,195	-	-	12,170
Related to disposal of fixed assets fully depreciated	-	(44)	(4,652)	-	-	(4,696)
Related to disposals of other fixed assets	(126)	-	(178)	-	-	(304)
Foreign exchange difference	67	12	526	-	-	605
At 31 December 2006	**21,533**	**1,397**	**56,188**	-	-	**79,118**
Net carrying value:						
At 31 December 2006	**103,724**	**995**	**19,825**	**392**	**24,444**	**149,380**

	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 2005	103,687	1,683	77,886	306	10,116	193,678
Additions during the year	11,595	644	5,800	21	13,304	31,364
Transfers	-	-	1,781	-	(1,781)	-
Disposal of fixed assets fully depreciated	-	-	(14,993)	-	-	(14,993)
Disposal of other fixed assets	(1,777)	(130)	(525)	-	-	(2,432)
Foreign exchange difference	(147)	39	(562)	(10)	-	(680)
At 31 December 2005	113,358	2,236	69,387	317	21,639	206,937
Depreciation:						
At 1 January 2005	16,499	1,084	57,841	-	-	75,424
Depreciation during the year	2,600	185	9,315	-	-	12,100
Related to disposal of fixed assets fully depreciated	-	-	(14,993)	-	-	(14,993)
Related to disposals of other fixed assets	(175)	(79)	(451)	-	-	(705)
Foreign exchange difference	(77)	9	(415)	-	-	(483)
At 31 December 2005	18,847	1,199	51,297	-	-	71,343
Net book value:						
At 31 December 2005	94,511	1,037	18,090	317	21,639	135,594

11 TANGIBLE FIXED ASSETS (continued)

The cost of buildings at 31 December 2006 and 2005 include the revaluation differences of properties valued during prior years and approved by the Central Committee of the Bank of Lebanon in accordance with law 282 dated 30 December 1993, and included in the equity as follows:

	2006 *LL million*	*2005* *LL million*
- Revaluation difference recognized in the complementary shareholders' equity (Tier II) (Note 23)	**1,978**	1,978
- Revaluation difference of other fixed assets	**3,711**	3,711
	5,689	5,689

b) Fixed assets acquired in settlement of debts

Following is the movement of cost of real estate acquired in settlement of debts and the related provision during the year 2006:

	Cost ***LL million***	***Provision against real estate acquired in settlement of debts*** ***LL million***
Balance at 1 January 2006	**44,432**	**15,378**
Cost of real estate acquired in settlement of debts during the year following the approval of the Banking Control Commission	**24,247**	**-**
Properties sold during the year	**(9,685)**	**(2,070)**
Provision charge for the year	**-**	**5,668**
Balance at 31 December 2006	**58,994**	**18,976**

12 INTANGIBLE ASSETS

	2006 *LL million*	*2005* *LL million*
Key money resulting from rent of branches:		
- Cost (USD (000) 1,080)	**1,637**	1,637
- Less: amortization	**(313)**	(188)
Net book value	**1,324**	1,449
Amortization expense for the year (Note 29)	**125**	125

13 OTHER ASSETS

	2006 *LL million*	*2005* *LL million*
Miscellaneous assets	**841**	564
Obligatory financial assets	**2,250**	2,250
	3,091	2,814

Obligatory financial assets consist of a deposit amounting to 15% of the share capital of a 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.

14 REGULARISATION ACCOUNTS AND OTHER DEBIT BALANCES

	2006 *LL million*	*2005* *LL million*
Doubtful debtor accounts	**8,223**	8,325
Less: Provision on doubtful debtor accounts	**(8,188)**	(8,267)
	35	58
Prepaid rent	**970**	1,059
Printings and stationery	**3,215**	2,278
Withdrawals from the automated teller machines (ATM) to be debited to the related customers accounts on the following day	**4,116**	2,272
Credit card invoices paid at year end and recorded to customers' accounts in January of subsequent year	**1,913**	2,092
Fair value at year end of the index, commodity and equity products linked to the notes issued by Byblos Bank SAL and Byblos Invest Bank SAL (Note 20)	**14,325**	7,311
Reconciling items between the head office and subsidiaries	**-**	4,771
Insurance premiums receivable	**1,773**	1,671
Reinsurers' share of technical reserve of subsidiary insurance company	**5,346**	5,020
Revaluation variance of structural position (Note 21)	**15**	15
Establishment expenses of Byblos Venture (Company under establishment)	**65**	90
Revaluation variance on foreign exchange contracts	**-**	678
Establishment expenses of a branch under establishment in Iraq (Arbil area)	**7,256**	-
Deposits for participation in auctions	**450**	581
Cash in the automated teller machines (ATM)	**14,276**	-
Other debit balances	**1,795**	3,537
	55,515	31,375
Total regularization accounts and other debit balances	**55,550**	31,433

Cash in automated teller machines

During 2006, the Bank created a special account for the cash available in the automated teller machines for the purpose of segregating the latter in the accounting records, from the rest of the cash on hand and principal treasury. The amount of cash available in the automated teller machines was previously reported as part of the cash on hand.

Doubtful debtors accounts

	Loan Balance *LL million*	*Provision* *LL million*
Balance at 1 January 2006	**8,325**	8,267
Add (less):		
Loans classified doubtful and provisions constituted during the year (Note 29)	**253**	253
Write off	**(322)**	(322)
Loans recovered and provisions released	**(33)**	(10)
Balance at 31 December 2006	**8,223**	8,188

15 DUE TO CENTRAL BANKS

	2006 LL million	2005 LL million
Soft loans from the Bank of Lebanon:		
a- Loan granted to Byblos Bank SAL maturing on 15 November 2009 following the acquisition of Wedge Bank Middle East SAL	**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	**(5,445)**	(7,425)
	34,555	32,575
b- Loan granted to Byblos Bank SAL following the acquisition of Banque Beirut pour le Commerce SAL, maturing on 28 May 2006	**-**	52,000
	34,555	84,575
Current accounts (Byblos Bank Europe S.A.)	**42,530**	9,991
Total	**77,085**	94,566
Interest and similar charges for the year:		
- Loans interest expenses	**2,613**	3,718
- Amortization of the difference on valuation of the soft loan and the corresponding treasury bills	**1,980**	1,980
	4,593	5,698

The above loans are secured by the following one-year Lebanese treasury bills (Note 5):

	2006 LL million	2005 LL million
- Lebanese treasury bills against the LL 40 billion loan	**43,090**	43,025
- Lebanese treasury bills against the LL 52 billion loan	**-**	56,016
	43,090	99,041

LL 40 Billion Loan

This loan represents facilities granted on 15 November 2001 by the Central Committee of the Bank of Lebanon to the Bank following its acquisition of Wedge Bank Middle East SAL. The loan matures after 8 years 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. At the beginning of the third year onward, 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.

LL 52 Billion Loan

This loan represents facilities granted on 28 May 1998 by the Central Committee of the Bank of Lebanon to the Bank following its acquisition of Banque Beirut Pour Le Commerce SAL. The loan matures after 8 years on 28 May 2006. This loan matured in 2006 and was settled on its maturity date.

This loan was originally secured by the pledge of two-year Lebanese treasury bills and bears interest rate equivalent to 60% of the notional interest on one-year Lebanese treasury bills. Interest is capitalized and paid quarterly.

16 BANKS AND FINANCIAL INSTITUTIONS - CREDIT

	2006 LL million	2005 LL million
Commercial banks:		
- Current accounts	**168,096**	123,883
- Time deposits	**500,538**	604,983
- Medium term loans:		
Loan balance	**135,706**	51,085
Less: Difference on valuation amortized over loan period	**(14)**	(279)
	804,326	779,672
Accrued interest payable	**5,315**	1,130
	809,641	780,802
Registered financial institutions:		
- Term loans	**64,018**	83,830
- Accrued interest payable	**877**	960
- Less: Cost to be amortized over the loan period	**(144)**	(383)
	64,751	84,407
Registered foreign exchange companies:		
- Current accounts	**2,452**	422
- Interest Payable	**31**	-
	2,483	422
	876,875	865,631
Interest and similar charges for the year	**44,499**	22,451

Breakdown by geographic location

	2006		2005	
	LL million	%	LL million	%
Lebanon	**115,674**	**13**	64,148	7
O.E.C.D. countries	**178,492**	**21**	107,743	12
Other non-resident banks	**114,000**	**13**	88,684	11
Saudi Arabia	**1,046**	**-**	-	-
	409,212	**47**	260,575	30
Banks – clients of Byblos Bank Europe SA	**467,663**	**53**	605,056	70
	876,875	**100**	865,631	100

17 CUSTOMERS' DEPOSITS

	2006 LL million	2005 LL million
Current accounts	**1,101,799**	1,109,782
Time deposits	**2,290,636**	2,058,657
Saving accounts:		
- Sight	**291,271**	12,671
- Term	**5,635,611**	5,210,170
Blocked deposit	**49,799**	48,200
Related parties deposits	**40,773**	19,600
Accrued interest payable	**54,103**	51,895
	9,463,992	8,510,975
Percentage of customers' deposits to total balance sheet footing at year end	**76.49%**	75.02%

18 LIABILITIES UNDER FINANCIAL INSTRUMENTS

	2006 LL million	2005 LL million
Certificates of deposit issued by the Bank		
Nominal value: USD (000) 77,954 (2005: USD (000) 77,957)	117,515	117,519
Accrued interest payable: USD (000) 2,555 (2005: USD (000) 2,555)	3,851	3,851
Issuing cost to be amortized: USD (000) 243 (2005: USD (000) 338)	(366)	(513)
	121,000	120,857
Index linked notes		
Issuance value: USD (000) 49,780 (2005: USD (000) 49,800)	75,043	75,073
Discount to be amortized over the period of the notes: USD (000) 3,672 (2005: USD (000) 2,916)	(5,535)	(4,396)
Accrued interest payable: USD (000) 764 (2005: USD (000) 825)	1,151	1,243
	70,659	71,920
Equity linked notes		
Issuance value: USD (000) 49,690 (2005: USD (000) 49,700)	74,908	74,923
Accrued interest payable. USD (000) 1,666 (2005: USD (000) 1,666)	2,511	2,511
Discount to be amortized over the period of the notes: USD (000) 3,083 (2005: USD (000) 2,249)	(4,648)	(3,391)
	72,771	74,043
Commodity linked notes		
Issuance value: USD (000) 6,363 (2005: nil)	9,592	-
Discount to be amortized over the period of the notes: USD (000) 362 (2005: nil)	(545)	-
Accrued Interest payable: USD (000) 28 (2005: nil)	42	-
	9,089	-
	273,519	266,820
Charges for the year:		
- Certificates of deposit:		
- Interest: USD (000) 5,067 (2005: USD (000) 5,074)	7,638	7,649
- Add: Amortization of issuing cost: USD (000) 97 (2005: USD (000) 97)	147	147
	7,785	7,796
- Index linked notes:		
- Interest: USD (000) 3,490 (2005: USD (000) 3,500)	5,261	5,276
- Less: Amortization of Bank's gain resulting from the perfect hedge of the index linked notes: USD (000) 767 (2005: USD (000) 724)	(1,156)	(1,091)
	4,105	4,185
- Equity linked notes:		
Interest: USD (000) 3,989 (2005: USD (000) 1,666)	6,014	2,511
Less: amortization of the Bank's gain resulting from perfect hedge of the equity linked notes: USD (000) 832 (2005: USD (000) 320)	(1,254)	(482)
	4,760	2,029
- Commodity linked notes:		
Interest (first period from 12/09 till 31/12): USD (000) 157	237	-
Less: amortization of the Bank's gain resulting from perfect hedge of the commodity linked notes: USD (000) 52	(78)	-
	159	-
Total charges reflected in the statement of income under interest paid on liabilities under financial instruments	16,809	14,010

18 LIABILITIES UNDER FINANCIAL INSTRUMENTS (continued)

Certificates of deposit issued by the Bank

On 1 July 2004, Byblos Bank SAL issued certificates of deposit in the amount of USD (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 USD (000) 490, to be amortized until maturity, of which USD (000) 97 was amortized during 2006 (2005: USD (000) 97).

Index Linked Notes

The Index Linked Notes issued on 8 October 2004 amounted to USD 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 (after eliminating the index linked notes acquired by ADIR SAL) amounting to USD (000) 47,291 (2005: (000) 47,300) 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 with Société Générale Corporate Investment Bank. The cost of the hedge amounted to USD (000) 1,873 and the cost of issuing the Index Linked Notes amounted to USD (000) 250.

The gain of the Bank from the perfect hedge transaction amounted to USD (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 USD 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 (after eliminating the equity linked notes acquired by ADIR SAL) amounting to USD (000) 47,206 (2005: (000) 47,215) 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 with Calyon Private and Investment Bank. The cost of the hedge amounted to USD (000) 1,764 and the cost of issuing the Equity Linked Notes amounted to USD (000) 169.

The gain of the Bank from the perfect hedge transaction amounted to USD (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%.

Commodity Linked Notes

The Commodity Linked Notes issued on 12 September 2006 by Byblos Bank SAL amounted to USD 6,563 thousands. 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 (after eliminating the commodity linked notes acquired by ADIR SAL) amounting to USD (000) 6,045, with an interest rate of 16% for the third year if the performance of the index of five commodities is positive.

18 LIABILITIES UNDER FINANCIAL INSTRUMENTS (continued)

The Bank perfectly hedged the commodity Linked Notes, provided the performance of the index of five commodities was positive. The cost of the hedge amounted to USD (000) 299 and the cost of issuing the Commodity Linked Notes amounted to USD (000) 14.

The gain of the Bank from the perfect hedge transaction amounted to USD (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%.

19 OTHER LIABILITIES

		2006 LL million	2005 LL million
Payables to National Social Security Fund		**763**	877
Government and public sector	a	**20,040**	18,483
Other creditors	b	**33,630**	34,695
Due to shareholders		**507**	428
Margins against documentary credits and acceptances		**103,252**	72,734
Other accounts		**1,179**	773
		159,371	127,990

a) Government and Public Sector

	2006 LL million	2005 LL million
Taxes payable:		
- Income tax on profit	**14,490**	13,719
- Tax on services	**158**	141
- Taxes and fees related to the insurance company	**700**	657
- Tax on salaries and wages	**991**	668
- Tax on Board of Directors' attendance fees	**38**	35
- Tax on interest	**3,305**	3,035
- Value added tax	**129**	30
- Other taxes	**229**	198
	20,040	18,483

Income tax paid during the year on profits:		
- Prior year profit	**13,266**	2,603
- Prior years settlement	**159**	-
	13,425	2,603
Taxes taken from current year profit	**14,912**	13,972
Tax paid on interest received, reflected in the statement of income under income tax	**12,760**	8,400
Income tax expense	**27,672**	22,372

The accounts of the bank for the years 2003, 2004 and 2005 are currently being reviewed by the department of Income Tax.

19 OTHER LIABILITIES (continued)

b) *Other Creditors*

	2006 LL million	2005 LL million
Payables to fixed assets suppliers	**769**	1,604
Incoming transfers for settlement	**1,875**	2,208
Partial settlement on programmed advances due	**14,255**	16,664
Insurance premiums received in advance from bank customers	**365**	453
Balances due to beneficiaries of inheritance	**17**	18
Purchases made through Maestro card to be settled to Credit Card Services Co.	**3,923**	2,827
Advances received on sale of properties	**172**	136
Advances on sale of properties acquired in settlement of debt	**1,825**	1,263
Other creditors - subsidiary banks and companies	**4,888**	7,474
Other credit balances	**2,893**	2,048
Taxes collected from customers in favor of the Ministry of Finance settled subsequently in 2007.	**2,648**	-
	33,630	34,695

20 REGULARISATION ACCOUNTS AND OTHER CREDIT BALANCES

	2006 LL million	2005 LL million
Interest and commissions received in advance	**4,596**	5,364
Other accrued charges	**5,730**	8,967
Revaluation variance on forcing exchange contracts	**428**	-
Revaluation difference on structural positions	**1,236**	26
Fair value of the index to be settled to the owners of the Index Linked Notes, Commodity Linked Notes and Equity Linked Notes (Note 14)	**14,325**	7,311
Reconciling items between the head office and subsidiaries	**11,175**	2,711
	37,490	24,379

21 PROVISIONS FOR RISKS AND CHARGES

		2006 LL million	2005 LL million
Provision for foreign currency fluctuation	a	**440**	428
Provision for employees end of service benefits	b	**16,578**	15,728
Provision for contingencies	c	**489**	-
Technical reserves of insurance company	d	**29,196**	20,899
Provision for real estate taken in settlement of debt (Note 11)		**18,976**	15,378
Provision for revaluation difference on structural position (Note 14)		**15**	15
Other provisions		**997**	-
		66,691	52,448

a. *Provision for foreign currency fluctuation*

According to the Central Bank of Lebanon main circular No 32, the net trading foreign exchange position should not exceed 1% of the Bank's Tier 1 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 2006 amounted to LL 12 million (2005: LL 156 million).

21 PROVISIONS FOR RISKS AND CHARGES (continued)

b. *Provision for employees end of service benefits*

	2006 LL million	2005 LL million
Provision at 1 January	**15,728**	14,941
Add (less):		
Provision constituted during the year	**1,819**	1,617
End of service benefits paid during the year	**(969)**	(830)
Provision at 31 December	**16,578**	15,728

c. *Provision for contingencies*

	2006 LL million	2005 LL million
Provisions for the loss on liquidation of properties acquired in settlement of debt	**249**	-
Provision for customers' claims	**240**	-
	489	-

d. *Technical reserves of insurance company*

The technical reserves are constituted to cover the insurance company's commitments to beneficiaries of insurance contracts.

22 SUBORDINATED LOANS

	2006 USD (000)	2005 USD (000)
Subsidized loans:		
Balance of a loan amounting to USD (000) 10,000 obtained from Nederlandese Financierings Maastschappij Voor Ontwikkelingslanden N.V. (FMO) bearing interest rate of six months LIBOR +3.75% payable in semi-annual installments. The first installment is payable on 15 September 2001 for USD 3 million, and the second for USD (000) 800 followed by eight installments with equal amounts of USD (000) 775 each	-	775
Add: Accrued Interest payable at year end	-	18
Less: "Front end fee" expenses on FMO loan amortised till maturity	-	(1)
	-	792
Subordinated notes issued 1 July 2002 and due on 30 June 2012		
31,169 notes (2005: 99,900 notes) of US Dollars 1,000 each with an annual yield not to exceed 15% of the principal amount.	**31,169**	99,900
Yield on the notes is 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		
Add: Accrued interest payable based on the profit of the Bank, payable on 30 June of each year	**710**	1,349
Less: "Front end fee" expenses amounting to USD (000) 836 amortized till maturity	**(147)**	(556)
	31,732	100,693
Total subordinated loans in USD (000)	**31,732**	101,485
Total in LL million	**47,835**	152,988

22 SUBORDINATED LOANS (continued)

	2006 *LL million*	*2005* *LL million*
Interest and similar charges for the year:		
- Interest: USD (000) 8,237 (2005: USD (000) 11,912)	**12,418**	17,956
- Amortization of front end fee expenses: USD (000) 49 (2005: USD (000) 90)	**74**	137
Total loan charges: USD (000) 8,286 (2005: USD (000) 12,002)	**12,492**	18,093
Costs of redemption of 68,731 subordinated note: USD (000) 4,636 reflected under other operating expenses (2005: nil).	**7,003**	-

Redemption of subordinated notes

In accordance with the decision of the ordinary general assembly held on 20 April 2006, the Bank redeemed 68,731 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.

The total cost of redemption amounted to US Dollars (000) 4,636 composed of the following:

	USD (000) thousands
Redemption premium representing 6% of the nominal value of the notes redeemed	**4,130**
Commissions paid	**146**
Amortization of "front end fee" expenses related to the redeemed notes	**360**
	4,636

23 REVALUATION VARIANCE RECOGNIZED IN THE COMPLEMENTARY EQUITY

	2006 *LL million*	*2005* *LL million*
Variance 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)
Net revaluation variance at year end (Note 11)	**1,978**	1,978

The revaluation was approved by the Central Committee of the Bank of Lebanon.

24 SHARE CAPITAL

	2006		*2005*	
	No of Shares	*LL million*	*No of Shares*	*LL million*
Issued shares				
Ordinary shares	**205,023,723**	**246,028**	205,023,723	246,028
Preferred shares	**1,000,000**	**1,200**	1,000,000	1,200
Priority shares	**206,023,723**	**247,228**	206,023,723	247,228
	412,047,446	**494,456**	412,047,446	494,456

The capital of the Bank is divided into 412,047,446 shares of LBP 1,200 each fully paid.

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.

24 SHARE CAPITAL (continued)

Preferred shares
1,000,000 preferred shares were issued in the first half of 2003 according to law 308 dated 3 April 2001 at nominal value amounting to LBP 1,200 million (LBP 1,200 per share) and a premium of USD (000) 99,204 equivalent to LBP 149,550 million, totaling to USD 100 million.

The premium on issuance of preferred shares was recorded under "Other reserves and premiums" account (Note 26).

The preferred shares benefit from a non-cumulative annual income equivalent to USD 12 for each share, the payment of which is subject to the availability of non-consolidated distributable net profits for the corresponding year, once the ordinary general assembly has approved the profits for the year and decided on distribution.

The preferred shares are 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.

Listing of shares in Beirut Stock Exchange
One-third of the Bank's shares were listed in Beirut Stock Exchange as of 31 December 2005. On 16 January 2006, the extraordinary general assembly of the Bank resolved to list all the outstanding shares of the Bank for trading in regulated financial markets inside or outside Lebanon in accordance with the provisions of law 308/2001 and the main decision 7814 issued by the Bank of Lebanon.

The Central Committee of the Bank of Lebanon held on 22 February 2006 approved the listing of all the nominal shares constituting the capital of the Bank and amounting to 412,047,446 share in regulated financial markets.

On 6 March 2006, the Beirut Stock Exchange issued circular 211/2006, which approved the listing of the Bank's ordinary, preferred and priority shares in the official stock market starting from 7 March 2006.

Treasury shares
The Central Committee of the Bank of Lebanon allowed on 13 July 2005 the Bank to acquire 20,500,000 of its outstanding ordinary shares listed in Beirut Stock Exchange for a renewable period of one-year. The Bank did not exercise that right as of 31 December 2005.

On 5 July 2006, the Central Committee of the Bank of Lebanon allowed the Bank to acquire 18,000,000 of its outstanding ordinary and/or priority shares listed in Beirut Stock Exchange for a renewable period of one-year starting from 13 July 2006. During 2006, the Bank was engaged in several purchase and sale transactions of its listed ordinary and priority shares. Treasury shares were in the amount of USD (000) 243 or LL 366 million at 31 December 2006.

25 RESERVE FOR GENERAL BANKING RISKS

	2006 *LL million*	*2005* *LL million*
Reserve in compliance with Bank of Lebanon main circular No. 50	**48,159**	39,859

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 2006 from the profits of the year 2005 amounted to LL 8,300 million (2005: LL 1,212 million and USD (000) 4,132 totaling LL 7,441 million after the deduction of difference on exchange of LL 19 million).

26 OTHER RESERVES AND PREMIUMS

	2006			2005		
	Group share LL million	*Minority interest LL million*	*Total LL million*	*Group share LL million*	*Minority interest LL million*	*Total LL million*
Legal reserve	77,256	1,982	79,238	65,662	1,075	66,737
Free reserves appropriated for capital increase	20,010	-	20,010	19,755	-	19,755
General reserve	96,776	4,112	100,888	79,542	3,450	82,992
Premium on issuance of Preferred shares (Note 24)	149,550	-	149,550	149,550	-	149,550
	343,592	6,094	349,686	314,509	4,525	319,034

Legal reserves

The Group is required to constitute legal reserves from its annual net profit according to the following rates:

	Rate %	*Ceiling*
Net profits of the head office, branches in Lebanon and subsidiary bank in Lebanon	10	Unlimited
Net profits of subsidiary companies in Lebanon	10	One-third of capital
Net profit of subsidiary bank in Europe	5	Unlimited
Net profit of subsidiary bank in Sudan	25	One-third of capital
Net profit of subsidiary bank in Syria	10	Total capital

Free reserves appropriated for capital increase

	2006 LL million	*2005 LL million*
Reserve equivalent to realized profit on sale of assets acquired in settlement of bad debt, in accordance with Banking Control Commission (BCC) circular No 173, of which LL 255 million related to the previous year	2,369	2,114
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	8,252	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
	20,010	19,755

General reserve

During 2006, the Group appropriated LL 16,147 million from 2005 profits to the general reserve in accordance with the general assembly of shareholders' resolutions.

27 CUMULATIVE CHANGES IN FAIR VALUES

	2006 LL million	2005 LL million
Lebanese and other governmental treasury bills and bonds (Note 5)	(14,136)	15,267
Bonds and financial assets with fixed income (Note 6)	(6,902)	(2,058)
Shares, securities and financial assets with variable income (Note 7)	8,788	7,981
	(12,250)	21,190

28 MINORITY INTERESTS

	2006 LL million	2005 LL million
- Capital of subsidiary banks and companies	47,978	47,978
- Other reserves and premiums	6,094	4,525
- Net results of the financial period - profit	3,298	2,529
- Accumulated losses	(757)	(485)
- Cumulative changes in fair values	2	-
- Foreign currency translation reserve	4,336	2,214
	60,951	56,761

29 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT

The statement of income for 2006 and 2005 is summarized as follows:

	2006 LL million	2005 LL million
Interest and similar income	811,188	661,004
Interest and similar charges	(584,265)	(482,979)
Net provisions on loans and advances less recoveries	(10,282)	(24,869)
Net interest received	216,641	153,156
Revenues from marketable securities and financial assets with variable income	990	327
Net commissions income	79,393	71,786
Net profit or loss from financial operations	24,858	52,625
Other operating income	4,047	2,710
Other operating expenses	(10,838)	(4,416)
General and administrative expenses	(150,769)	(131,721)
Depreciation and amortization	(17,963)	(17,472)
Profit for the year before income tax	146,359	126,995
Income tax	(27,672)	(22,372)
Profit for the year	118,687	104,623
Less: Minority interests	(3,298)	(2,529)
	115,389	102,094

29 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

a. *Net provisions on loans and advances less recoveries*

	2006 *LL million*	*2005* *LL million*
Provisions constituted during the year on loans and advances (Note 9)	**14,581**	27,032
Provisions constituted on doubtful debtors' accounts (Note 14)	**253**	128
Provisions constituted for country risk (Note 9)	**228**	828
General provision constituted during the year (Note 9)	**3,253**	2,819
Provisions constituted on doubtful foreign exchange company (Note 9)	**-**	695
Bad debts written off	**570**	1,125
	18,885	32,627
Provisions recovered during the year against:		
- Loans and advances recovered or upgraded (Note 9)	**(8,568)**	(7,528)
- Excess general provisions brought forward from prior year	**-**	(77)
- Other debtor accounts written back	**-**	(153)
- Doubtful bank accounts (Note 8)	**(35)**	-
	(8,603)	(7,758)
	10,282	24,869

b. *Net profit from financial operations*

	2006 *LL million*	*2005* *LL million*
Net profit (loss) from transactions:		
- in treasury bills (Note 5)	**4,537**	38,530
- in bonds (Note 6)	**(974)**	775
- in certificates of deposit (Note 4)	**12,904**	3,545
- in shares (Note 7)	**(418)**	1,854
	16,049	44,704
Positive difference of exchange (net)	**8,821**	8,086
Provision constituted for the net trading foreign position (Note 21)	**(12)**	(156)
Provision constituted for the structural position	**-**	(9)
	24,858	52,625

c. *Salaries and related benefits*

	2006 *LL million*	*2005* *LL million*
Byblos Bank SAL	**66,868**	61,101
Byblos Bank Africa	**2,051**	1,181
Byblos Bank Europe SA	**8,933**	8,355
Byblos Invest Bank SAL	**461**	301
Byblos Bank Syria SA	**1,723**	113
ADIR SAL	**1,942**	1,768
	81,978	72,819

29 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

d. *General operating expenses*

	2006 *LL million*	*2005* *LL million*
Tax withheld on bank interest earned	**3,211**	2,614
Taxes and duties	**4,926**	3,557
Contribution to deposits guarantee fund	**4,389**	4,069
Rent and related charges	**4,596**	4,054
Consulting fees	**5,287**	3,698
Telecommunications and postage expenses	**6,845**	5,297
Board of Directors' attendance fees	**474**	460
Maintenance and repair	**6,953**	5,934
Electricity and fuel	**3,544**	3,109
Travel and entertainment	**2,770**	2,029
Publicity and advertising	**6,221**	5,828
Subscriptions	**2,867**	1,987
Bonuses and administrative expenses	**8,125**	8,509
Legal expenses	**2,218**	1,708
Insurance	**132**	120
Other operating expenses	**6,233**	5,929
	68,791	58,902

30 CASH AND CASH EQUIVALENTS

	2006 *LL million*	*2005* *LL million*
Cash and balances with central banks	**1,368,322**	1,116,006
Deposits with banks and other financial institutions	**2,163,599**	1,939,117
	3,531,921	3,055,123
Less: Due to banks and other financial institutions	**(648,998)**	(756,130)
Cash and cash equivalents at year end	**2,882,923**	2,298,993

31 EARNINGS PER SHARE

	2006 *LL million*	*2005* *LL million*
Weighted average number of shares outstanding during the year:		
- Common shares	**204,969,556**	205,023,723
- Preferred shares	**1,000,000**	1,000,000
- Priority shares	**205,987,585**	11,853,420
Net profit for the year	**115,389**	102,094
(Less): Proposed dividends to preferred shares	**(18,168)**	(18,168)
Net profit attributable to common and priority shareholders	**97,221**	83,926
(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 205,987,585 shares (2005: 11,853,420 shares)	**(9,887)**	(569)
Net profits attributable to common and priority shareholders	**87,334**	83,357
Of which:		
Net profits attributable to priority shares (205,987,585 shares) (2005: 11,853,420 shares)	**43,775**	4,556
Net profits attributable to common shares (204,969,556 shares) (2005: 205,023,723 shares)	**43,559**	78,801
Earnings per share in LL:		
- Common shares	**212.51**	384.35
- Priority shares	**260.51**	432.35

No figure for diluted earning per shares has been presented as the Bank has not issued any instruments which would have an impact on earnings per share when exercised.

32 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 interest paid are as follows:

	2006	2005
	Major shareholders LL million	*Major shareholders LL million*
Loans and advances (net of provisions)	9,473	-
Deposits (under customers' deposits)	40,773	19,600
Shareholders' credit balances	507	428
Interest paid	1,773	3,317

Compensation of the key management personnel of the Bank is as follows:

	2006			2005		
	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	1,232	3,979	5,211	1,148	2,382	3,530
Bonuses	3,417	1,121	4,538	2,716	713	3,429
Attendance fees	380	45	425	409	-	409

33 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.

33 COMMITMENTS AND CONTINGENT LIABILITIES (continued)

The Group has the following credit-related commitments:

	2006 LL million	*2005 LL million*
Commitments given:		
- Guarantees	**623,724**	517,440
- Letters of credit- export	**205,411**	144,686
	829,135	662,126
Financing commitments given:		
- Letters of credit – import	**541,477**	390,527
Acceptances (reflected on balance sheet)	**284,106**	205,274
Assets under management and fiduciary accounts	**148,900**	158,948
Assets in custody	**944,137**	844,323

34 DERIVATIVES

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 analysed by the term to maturity. 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.

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.

				Notional amounts by term to maturity	
31 December 2006	*Positive fair value LL million*	*Negative fair value LL million*	*Total notional amount LL million*	*Within 3 months LL million*	*3 – 12 months LL million*
Derivatives held for trading purposes :					
- Currency swaps	-	**298**	**27,609**	**27,609**	-
- Forward foreign exchange contracts	**1,353**	**617**	**370,025**	**110,901**	**259,124**
	1,353	**915**	**397,634**	**138,510**	**259,124**
- Foreign exchange spot contracts	**1**	**11**	**8,697**	**8,697**	-
31 December 2005					
Derivatives held for trading purposes:					
- Currency swaps	29	68	14,824	14,824	-
- Forward foreign exchange contracts	1,718	2,348	247,606	226,407	21,199
	1,747	2,416	262,430	241,231	21,199
- Foreign exchange spot contracts	9	18	9,274	9,274	-

34 DERIVATIVES (continued)

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.

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.

35 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 reprice in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies.

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:

	2006		*2005*	
	Foreign currencies	*LL*	*Foreign currencies*	*LL*
	%	%	%	%
ASSETS				
Balances with central banks:				
- Weighted average rate of placements and other certificates of deposit	5.62	8.5	4.58	8.51
Weighted average rate of Lebanese and other governmental treasury bills:	7.41	8.85	7.10	7.94
Bonds and other financial assets with fixed income	5.89	-	7.60	-
Banks	4.72	4.78	2.91	9.17
Loans and advances to customers:				
- Weighted average rate, including:	8.11	7.75	7.95	7.51
- Commercial loans	8.30	11.51	8.41	14.25
- Other loans to customers	9.09	7.14	8.47	6.30
LIABILITIES				
Central Bank	-	7.95	-	7.75
Banks and financial institutions:				
- Weighted average rate, including:	4.62	4.48	2.64	9.64
- Deposits	3.97	4.48	1.99	9.64
- Loans	6.72	-	5.24	-
Customers' deposits	4.57	7.85	3.73	7.95
Subordinated loans	11.38	-	11.59	-
Certificates of deposit	6.35	-	6.26	-

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The board of directors has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the asset and liability committee.

35 INTEREST RATE RISK AND MARKET RISK (continued)

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2006 was as follows:

	2006						
(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 central banks	1,158,473	75,375	75,375	957,251	65,002	175,401	2,506,877
Lebanese and other governmental treasury bills and bonds	24,609	110,979	315,659	3,262,921	353,718	106,922	4,174,808
Bonds and financial instruments with fixed income	-	-	4,826	33,271	46,434	1,852	86,383
Shares, securities and financial instruments with variable income	-	-	-	-	-	38,648	38,648
Banks and financial institutions	1,434,602	723,352	165,659	24,995	8,546	11,697	2,368,851
Loans and advances to customers	1,239,496	215,294	502,648	571,071	101,946	14,579	2,645,034
Bank acceptances	79,082	61,264	51,262	7,395	-	85,103	284,106
Intangible fixed assets	-	-	-	-	-	1,324	1,324
Tangible fixed assets	-	-	-	-	-	208,374	208,374
Other assets	-	-	-	-	-	3,091	3,091
Regularisation accounts and other debit balances	-	-	-	-	-	55,550	55,550
Total assets	3,936,262	1,186,264	1,115,429	4,856,904	575,646	702,541	12,373,046
LIABILITIES AND EQUITY							
Due to central banks	-	-	-	34,550	-	42,535	77,085
Banks and financial institutions	249,284	398,017	64,675	87,425	71,567	5,907	876,875
Customers' deposits	5,071,673	2,911,012	1,028,859	381,516	4,758	66,174	9,463,992
Engagements by acceptances	79,082	61,264	51,262	7,395	-	85,103	284,106
Liabilities under financial instruments	3,486	-	1,156	266,350	-	2,527	273,519
Other liabilities	-	-	-	-	-	159,371	159,371
Regularisation accounts and other credit balances	-	-	-	-	-	37,490	37,490
Provisions for risks and charges	-	-	-	-	-	66,691	66,691
Subordinated loans	-	-	-	-	46,765	1,070	47,835
Total equity	-	-	-	-	-	1,086,082	1,086,082
Total liabilities and equity	5,403,525	3,370,293	1,145,952	777,236	123,090	1,552,950	12,373,046
Total interest rate sensitivity gap	(1,467,263)	(2,184,029)	(30,523)	4,079,668	452,556	(850,409)	
Cumulative interest rate sensitivity gap	(1,467,263)	(3,651,292)	(3,681,815)	397,853	850,409	-	

35 INTEREST RATE RISK AND MARKET RISK (continued)

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2005 was as follows:

	2005						
(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 central banks	928,286	13,680	-	1,525,551	65,244	188,200	2,720,961
Lebanese and other governmental treasury bills and bonds	133,810	99,040	446,247	2,684,190	231,774	72,727	3,667,788
Bonds and financial instruments with fixed income	-	-	75,322	50,720	32,655	3,720	162,417
Shares, securities and financial instruments with variable income	-	-	-	-	-	35,818	35,818
Banks and financial institutions	1,788,075	141,871	90,184	49,445	15,078	9,172	2,093,825
Loans and advances to customers	968,461	147,607	263,259	526,183	258,430	79,168	2,243,108
Bank acceptances	91,702	44,330	64,776	4,466	-	-	205,274
Intangible fixed assets	-	-	-	-	-	1,449	1,449
Tangible fixed assets	-	-	-	-	-	180,026	180,026
Other assets	-	-	-	-	-	2,814	2,814
Regularisation accounts and other debit balances	-	-	-	-	-	31,433	31,433
Total assets	3,910,334	446,528	939,788	4,840,555	603,181	604,527	11,344,913
LIABILITIES AND EQUITY							
Due to central banks	-	-	52,006	32,569	-	9,991	94,566
Banks and financial institutions	627,644	111,307	32,493	53,252	16,219	24,716	865,631
Customers' deposits	6,308,272	1,125,707	597,304	324,072	-	155,620	8,510,975
Engagements by acceptances	91,702	44,330	64,776	4,466	-	-	205,274
Liabilities under financial instruments	-	-	-	259,194	-	7,626	266,820
Other liabilities	-	-	-	-	-	127,990	127,990
Regularisation accounts and other credit balances	-	-	-	-	-	24,379	24,379
Provisions for risks and charges	-	-	-	-	-	52,448	52,448
Subordinated loans	-	1,167	-	-	149,757	2,064	152,988
Total equity	-	-	-	-	-	1,043,842	1,043,842
Total liabilities and equity	7,027,618	1,282,511	746,579	673,553	165,976	1,448,676	11,344,913
Total interest rate sensitivity gap	(3,117,284)	(835,983)	193,209	4,167,002	437,205	(844,149)	
Cumulative interest rate sensitivity gap	(3,117,284)	(3,953,267)	(3,760,058)	406,944	844,149	-	

36 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).

The following consolidated balance sheet as of 31 December 2006, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

	2006			
		Foreign currencies		*Total*
	LL million	*USD (000)*	*C/V LL million*	*LL million*
ASSETS				
Cash and balances with central banks	966,768	1,021,631	1,540,109	2,506,877
Lebanese and other governmental treasury bills and bonds	2,225,740	1,292,914	1,949,068	4,174,808
Bonds and financial instruments with fixed income	-	57,302	86,383	86,383
Shares, securities and financial instruments with variable income	14,219	16,205	24,429	38,648
Banks and financial institutions	15,904	1,560,827	2,352,947	2,368,851
Loans and advances to customers	298,790	1,556,381	2,346,244	2,645,034
Bank acceptances		188,462	284,106	284,106
Tangible fixed assets	124,550	55,605	83,824	208,374
Intangible fixed assets	1,324	-	-	1,324
Other assets	2,715	249	376	3,091
Regularisation accounts and other debit balances	19,000	24,245	36,550	55,550
Total assets	3,669,010	5,773,821	8,704,036	12,373,046
LIABILITIES AND EQUITY				
Due to central banks	34,555	28,212	42,530	77,085
Banks and financial institutions	31,905	560,511	844,970	876,875
Customers' deposits	2,726,371	4,469,400	6,737,621	9,463,992
Engagements by acceptances	-	188,462	284,106	284,106
Liabilities under financial instruments	-	181,439	273,519	273,519
Other liabilities	25,221	88,988	134,150	159,371
Regularisation accounts and other credit balances	4,368	21,971	33,122	37,490
Provisions for risks and charges	65,546	760	1,145	66,691
Subordinated notes	-	31,731	47,835	47,835
Share capital	494,456	-	-	494,456
Revaluation variance recognized in the complementary shareholders' equity	1,978	-	-	1,978
Reserve for general banking risks	27,338	13,812	20,821	48,159
Other reserves and premiums	170,854	114,586	172,738	343,592
Retained earnings	18,359	308	465	18,824
Net result of the financial period - profit	106,340	6,003	9,049	115,389
Revaluation variance for other fixed assets	3,711	-	-	3,711
Cumulative changes in fair values	8,791	(13,958)	(21,041)	(12,250)
Foreign currency translation reserve	11,638	-	-	11,638
Treasury Shares	(366)	-	-	(366)
Minority interests	7,937	35,167	53,014	60,951
Total liabilities and equity	3,739,002	5,727,392	8,634,044	12,373,046

36 CURRENCY RISK (continued)

The following consolidated balance sheet as of 31 December 2005, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars.

	2005			
		Foreign currencies		Total
	LL million	USD (000)	C/V LL million	LL million
ASSETS				
Cash and balances with central banks	1,372,566	894,458	1,348,395	2,720,961
Lebanese and other governmental treasury bills and bonds	1,880,870	1,185,352	1,786,918	3,667,788
Bonds and financial instruments with fixed income	-	107,739	162,417	162,417
Shares, securities and financial instruments with variable income	13,408	14,866	22,410	35,818
Banks and financial institutions	62,079	1,347,758	2,031,746	2,093,825
Loans and advances to customers	298,794	1,289,761	1,944,314	2,243,108
Bank acceptances	-	136,169	205,274	205,274
Tangible fixed assets	123,740	37,337	56,286	180,026
Intangible fixed assets	1,449	-	-	1,449
Other assets	2,722	61	92	2,814
Regularisation accounts and other debit balances	10,709	13,747	20,724	31,433
Total assets	3,766,337	5,027,248	7,578,576	11,344,913
LIABILITIES AND EQUITY				
Due to central banks	84,574	6,628	9,992	94,566
Banks and financial institutions	674	573,769	864,957	865,631
Customers' deposits	2,973,220	3,673,469	5,537,755	8,510,975
Engagements by acceptances	-	136,169	205,274	205,274
Liabilities under financial instruments	-	176,995	266,820	266,820
Other liabilities	20,450	71,336	107,540	127,990
Regularisation accounts and other credit balances	7,241	11,368	17,138	24,379
Provisions for risks and charges	52,373	50	75	52,448
Subordinated notes	-	101,484	152,988	152,988
Share capital	494,456	-	-	494,456
Revaluation variance recognized in the complementary shareholders' equity	1,978	-	-	1,978
Reserve for general banking risks	19,038	13,811	20,821	39,859
Other reserves and premiums	159,749	102,660	154,760	314,509
Retained earnings	5,473	(509)	(769)	4,704
Net result of the financial period - profit	94,521	5,024	7,573	102,094
Revaluation variance for other fixed assets	3,711	-	-	3,711
Cumulative changes in fair values	6,344	9,848	14,846	21,190
Foreign currency translation reserve	4,580	-	-	4,580
Minority interests	7,142	32,915	49,619	56,761
Total liabilities and equity	3,935,524	4,915,017	7,409,389	11,344,913

37 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.

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 2006 was as follows:

	2006					
(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	1,290,708	77,614	76,717	982,195	79,643	2,506,877
Lebanese and other governmental treasury bills and bonds	50,522	163,010	344,017	3,263.445	353,814	4,174,808
Bonds and financial instruments with fixed income	3	917	5.589	33,353	46,521	86,383
Shares, securities and financial instruments with variable income	17.782	-	-	-	20,866	38,648
Banks and financial institutions	1.438.374	725.225	171,636	25.070	8,546	2,368,851
Loans and advances to customers	1.239.584	165.339	281.457	741.882	216.772	2,645,034
Bank acceptances	79,082	146.365	51,262	7,397	-	284,106
Intangible fixed assets	-	-	-	-	1,324	1,324
Tangible fixed assets	-	-	-	-	208,374	208,374
Other assets	485	-	-	-	2,606	3,091
Regularisation accounts and other debit balances	40,036	96	136	9.227	6,055	55,550
Total assets	**4,156,576**	**1,278,566**	**930,814**	**5,062,569**	**944,521**	**12,373,046**
LIABILITIES						
Due to Central Bank	42,530	5	-	34,550	-	77,085
Banks and financial institutions	249,952	399,046	65,226	93,288	69,363	876,875
Customers' deposits	5.113,435	2,920,135	1,038,175	387,489	4,758	9,463,992
Engagements by acceptances	79,082	146,365	51,262	7,397	-	284,106
Liabilities under financial instruments	3.486	2,527	1,156	266.350	-	273,519
Other liabilities	8.477	-	1.641	-	149.253	159,371
Regularisation accounts and other credit balances	1,078	1.359	-	9.226	25.827	37,490
Provisions for risks and charges	-	-	-	-	66,691	66,691
Subordinated loans	-	1,070	-	-	46.765	47,835
TOTAL LIABILITIES	**5,498,040**	**3,470,507**	**1,157,460**	**798,300**	**362,657**	**11,286,964**
NET LIQUIDITY GAP	**(1,341,464)**	**(2,191,941)**	**(226,646)**	**4,264,269**	**581,864**	**1,086,082**

37 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2005 were as follows:

	2005					
(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	1,074,118	41,888	2,608	1,531,246	71,101	2,720,961
Lebanese and other governmental treasury bills and bonds	90,785	130,513	471,457	2,743,259	231,774	3,667,788
Bonds and financial instruments with fixed income	242	1,870	76,930	50,720	32,655	162,417
Shares, securities and financial instruments with variable income	35,818	-	-	-	-	35,818
Banks and financial institutions	1,795,758	143,359	90,185	49,445	15,078	2,093,825
Loans and advances to customers	1,064,371	146,459	257,187	520,470	254,621	2,243,108
Bank acceptances	91,702	44,330	64,775	4,467	-	205,274
Intangible fixed assets	-	-	-	-	1,449	1,449
Tangible fixed assets	-	-	-	-	180,026	180,026
Other assets	-	-	-	-	2,814	2,814
Regularisation accounts and other debit balances	5,643	8,006	474	-	17,310	31,433
Total assets	4,158,437	516,425	963,616	4,899,607	806,828	11,344,913
LIABILITIES						
Due to Central Bank	9,991	-	52,006	32,569	-	94,566
Banks and financial institutions	644,824	111,306	40,030	53,252	16,219	865,631
Customers' deposits	6,435,773	1,129,095	612,668	333,439	-	8,510,975
Engagements by acceptances	91,702	44,330	64,776	4,466	-	205,274
Liabilities under financial instruments	3,856	3,770	-	259,194	-	266,820
Other liabilities	7,492	15,889	57,700	-	46,909	127,990
Regularisation accounts and other credit balances	-	2,206	-	4,703	17,470	24,379
Provisions for risks and charges	20,899	42	-	-	31,507	52,448
Subordinated loans	-	1,193	2,038	-	149,757	152,988
TOTAL LIABILITIES	7,214,537	1,307,831	829,218	687,623	261,862	10,301,071
NET LIQUIDITY GAP	(3,056,100)	(791,406)	134,398	4,211,984	544,966	1,043,842

38 SEGMENTAL INFORMATION

The Group operates in two geographic markets, the local market and the international market, which comprises the Middle East, Europe, the Far East and the USA. The following table shows the distribution of the Group's operating income, total assets and capital expenditure by geographical segment:

	Domestic		International		Total	
	2006 *LL million*	*2005* *LL million*	*2006* *LL million*	*2005* *LL million*	*2006* *LL million*	*2005* *LL million*
Net interest received	**196,989**	144,820	**19,652**	8,336	**216,641**	153,156
Net commissions	**48,253**	47,968	**31,140**	23,818	**79,393**	71,786
Revenues from shares and financial instruments with variable income	**990**	327	-	-	**990**	327
Net profit from financial operations	**24,313**	48,632	**545**	3,993	**24,858**	52,625
Other operating income	**2,400**	1,286	**1,647**	1,424	**4,047**	2,710
Net revenues	**272,945**	243,033	**52,984**	37,571	**325,929**	280,604
General and administrative expenses	**(126,119)**	(113,206)	**(24,650)**	(18,515)	**(150,769)**	(131,721)
Amortization and depreciation	**(16,641)**	(16,679)	**(1,322)**	(793)	**(17,963)**	(17,472)
Other operating expenses	**(9,765)**	(4,185)	**(1,073)**	(231)	**(10,838)**	(4,416)
Profit before income tax	**120,420**	108,963	**25,939**	18,032	**146,359**	126,995
Total assets	**10,569,781**	9,940,762	**1,803,265**	1,404,151	**12,373,046**	11,344,913
Capital expenditure	**39,252**	24,259	**10,643**	16,532	**49,895**	40,791

39 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 or borrowers 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.

40 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.

40 CONCENTRATION OF ASSETS, LIABITLITIES AND OFF BALANCE SHEET ITEMS (continued)

The table below indicates the distribution of the Group's total assets, liabilities and off balance sheet items by geographic region:

	2006		
	Assets LL million	*Liabilities and stockholders equity LL million*	*Off balance sheet LL million*
Geographical segment:			
- Lebanon	**9,459,791**	**10,216,160**	**588,590**
- Europe	**1,782,641**	**517,978**	**235,797**
- Other countries	**1,130,614**	**1,638,908**	**463,976**
	12,373,046	**12,373,046**	**1,288,363**

	2005		
	Assets LL million	*Liabilities and stockholders equity LL million*	*Off balance sheet LL million*
Geographical segment:			
- Lebanon	8,691,260	9,535,734	781,511
- Europe	1,696,381	270,022	218,387
- Other countries	957,272	1,539,157	52,755
	11,344,913	11,344,913	1,052,653

41 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:

	2006			*2005*		
	Fair value LL million	*Book value LL million*	*Difference LL million*	*Fair value LL million*	*Book value LL million*	*Difference LL million*
FINANCIAL ASSETS						
Lebanese and other governmental treasury bills	**4,181,588**	**4,174,808**	**6,780**	3,663,876	3,667,788	(3,912)
Bonds and financial assets with fixed income	**86,390**	**86,383**	**7**	162,835	162,417	418
Shares, securities and financial assets with variable income	**38,648**	**38,648**	**-**	35,818	35,818	-
Banks and financial institutions	**2,368,851**	**2,368,851**	**-**	2,093,825	2,093,825	-
Loans and advances to customers	**2,645,034**	**2,645,034**	**-**	2,243,108	2,243,108	-
FINANCIAL LIABILITIES						
Central Bank	**77,085**	**77,085**	**-**	95,133	94,566	567
Banks and financial institutions	**876,875**	**876,875**	**-**	865,631	865,631	-
Customers' deposits	**9,463,992**	**9,463,992**	**-**	8,510,975	8,510,975	-
Subordinated loans	**50,655**	**47,835**	**2,820**	163,855	152,988	10,867
Liabilities under financial instruments	**273,519**	**273,519**	**-**	266,820	266,820	-

42 RECONCILIATION BETWEEN ACCOUNTING AND TAXABLE PROFITS FOR THE YEAR - 2006

	Accounting profit (loss) LL million	*Taxable profit (loss) LL million*	*Income tax rate %*	*Income tax due LL million*
Group banks and companies:				
Lebanese banks and companies				
- Byblos Bank SAL – Lebanon branches	105,000	150,667	15	22,600
- Byblos Invest Bank SAL *	6,917	-	15	-
- Adonis Insurance & Reinsurance Co. SAL **	3,950	1,686	15	253
- Adonis Brokerage House SAL	218	255	15	38
Foreign banks				
- Byblos Bank Europe SA	4,556	4,556	24	1,093
- Byblos Bank - Limassol branch	828	1,213	10	121
- Byblos Bank Africa ***	9,602	-	-	-
- Byblos Bank Syria	(2,546)	-	-	-
	128,525			

(*) Byblos Invest Bank SAL was established in 2003. The bank is exempt from income tax on profit for seven years from inception till 2009.

(**) The company is subject to income tax at the rate of 15% calculated based on gross insurance premiums weighted differently for each class of business.

(***) Income tax due on Byblos Bank Africa profit represents "Tax" paid in accordance with Islamic Banking Regulations.

43 CONTINGENCIES

The Group is a defendant in a number of legal cases in the normal course of business. The Group's management, based on the advice of its legal advisors, is of the opinion that the effect of any losses that might result from these cases will not materially impact the financial position of the Group.

44 PROPOSED ALLOCATION OF 2006 NET PROFIT

The Board of Directors convened on 17 April 2007 proposed a distribution to the preferred shares at USD 12 per share, a distribution to the priority shares calculated as 4% of the nominal value of the share, which amounts to LL 48 per share, and a dividend distribution to the ordinary shares at LL 150 per share (net of tax) after the allocation of part of the unconsolidated profit of the Bank for the year 2006 to the reserves and premiums, in accordance with the decisions of the general assembly that will be held on 10 May 2007.

NOTE TO GDS HOLDERS

Investors should note that, following the completion of the audit of the Bank's financial statements as at and for the year ended 31 December 2005 (which follow this page), certain reclassifications have been made to the Bank's balance sheet as at 31 December 2005 for purposes of permitting comparability with the Bank's balance sheet as at 31 December 2006 (which appears elsewhere in this Prospectus), as follows:

- The amount of LBP 39,856 million, representing the value of certificates of deposits issued by Lebanese banks, was reclassified from "Bonds & fixed assets with fixed income" to "Banks & financial institutions"; and

- The amount of LBP 11,368 million, representing the amount of acceptances discounted for clients, was reclassified from "Regularization accounts and other debit balances" to "Loans and advances to customers".

Such reclassifications were made in accordance with applicable provisions of IFRS and related Lebanese regulations. No other reclassifications were made.

The figures presented in the reclassified 2005 financial statements (which are included for comparison purposes in the Bank's financial statements as at and for the year ended 31 December 2006) form the basis for the related discussion in this Prospectus under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations – Years ended 31 December 2205, 2006 and 2007".

BYBLOS BANK SAL

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2005

BYBLOS BANK SAL
CONSOLIDATED FINANCIAL STATEMENTS

1) Auditors' report;

2) Consolidated balance sheet as of 31 December 2005;

3) Consolidated statement of income for the year ended 31 December 2005;

4) Consolidated statement of cash flows for the year ended 31 December 2005;

5) Consolidated statement of changes in equity for the year ended 31 December 2005;

6) Notes to the consolidated financial statements.

AUDITORS' REPORT TO THE SHAREHOLDERS OF BYBLOS BANK SAL

We have audited the accompanying consolidated balance sheet of Byblos Bank SAL (the Bank) and its subsidiaries (the Group) as of 31 December 2005, and the related statements of income, cash flows and changes in equity for the year then ended. These financial statements are the responsibility of the Bank's management. 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 plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of 31 December 2005 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young

Semaan, Gholam & Co.

1 April 2006
Beirut, Lebanon

Byblos Bank SAL

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	2005 LL million	2004 LL million Restated
ASSETS			
Cash and balances with Central Banks	4	**2,720,961**	3,549,031
Lebanese and other governmental treasury bills and bonds	5	**3,667,788**	2,449,692
Bonds and financial instruments with fixed income	6	**202,282**	347,259
Shares, securities and financial instruments with variable income	7	**35,818**	16,017
Banks and financial institutions	8	**2,053,960**	1,654,656
Loans and advances to customers (*)	9	**2,231,740**	2,020,869
Bank acceptances	10	**205,274**	271,128
Intangible fixed assets	11	**1,449**	1,574
Tangible fixed assets	12	**180,026**	154,904
Other assets	13	**2,814**	3,043
Regularisation accounts and other debit balances	14	**42,801**	36,332
TOTAL ASSETS		**11,344,913**	10,504,505
(*) Including:			
- Substandard loans (gross amount)		**53,966**	69,374
- Unrealized interest on substandard, doubtful and bad loans		**(114,066)**	(121,502)
- Provision for doubtful and bad loans		**(145,774)**	(144,371)
OFF BALANCE SHEET ITEMS			
Engagements received from financial intermediaries		**37,622**	66,327
Engagements received from customers		**3,343,626**	3,197,654
Bad loans fully provided for	9	**75,460**	54,089
Foreign currencies to receive against foreign currencies to deliver	34	**261,761**	245,603

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 31 March 2006.

Dr Francois Bassil
Chairman and General Manager

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 45 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED BALANCE SHEET

31 December 2005

	Notes	***2005*** ***LL million***	*2004* *LL million* *Restated*
LIABILITIES AND EQUITY			
Liabilities			
Due to Central Banks	15	**94,566**	82,595
Banks and financial institutions	16	**865,631**	652,218
Customers' deposits	17	**8,510,975**	8,254,350
Engagements by acceptances	10	**205,274**	271,128
Liabilities under financial instruments	18	**266,820**	193,849
Other liabilities	19	**127,990**	116,561
Regularisation accounts and other credit balances	20	**24,379**	15,130
Provisions for risks and charges	21	**52,448**	40,850
Subordinated loans	22	**152,988**	155,070
Total liabilities		**10,301,071**	9,781,751
Equity attributable to equity holders of the parent			
Share capital	24	**494,456**	247,228
Revaluation variance recognized in the complementary equity	23	**1,978**	1,978
Reserve for general banking risks	25	**39,859**	32,418
Other reserves and premiums	26	**314,509**	316,682
Retained earnings – profit (loss)		**4,704**	(3,491)
Net results of the financial period - profit	29	**102,094**	79,415
Revaluation variance for other fixed assets		**3,711**	3,711
Cumulative changes in fair values	27	**21,190**	25,173
Foreign currency translation reserve		**4,580**	6,640
		987,081	709,754
Minority interests	28	**56,761**	13,000
Total equity		**1,043,842**	722,754
TOTAL LIABILITIES AND EQUITY		**11,344,913**	10,504,505
OFF BALANCE SHEET ITEMS			
Signature commitments given	33	**662,126**	489,756
Financing commitments given	33	**390,527**	347,672
Assets under management and fiduciary deposits	33	**158,948**	103,602
Assets in custody	33	**844,323**	728,210
Foreign currencies to deliver against foreign currencies to receive	34	**262,430**	244,450

The consolidated financial statements were authorized for issue in accordance with the Board of Directors resolution on 31 March 2006.

Dr Francois Bassil
Chairman and General Manager

Mr Alain Wanna
Financial and Administrative Manager

The attached notes 1 to 45 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF INCOME
YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LL million	2004 LL million
Interest and similar income		**661,004**	587,138
Lebanese and other governmental treasury bills and bonds	5	240,972	192,972
Deposits and similar accounts with banks and financial institutions	4 & 8	229,756	233,034
Bonds and financial instruments with fixed income	6	23,846	18,632
Loans and advances to customers		166,430	142,500
Interest and similar charges		**(482,979)**	(436,923)
Deposits and similar accounts from banks and financial institutions	15 & 16	(28,149)	(18,271)
Deposits from customers and other credit balances		(419,410)	(392,906)
Deposits from related parties		(3,317)	(3,128)
Subordinated loans	22	(18,093)	(17,705)
Liabilities under financial instruments	18	(14,010)	(4,913)
Net provisions less recoveries on loans and advances	29	**(24,869)**	(9,355)
Provisions for loans and advances		(32,627)	(17,736)
Recovery of provisions for loans and advances		7,758	8,381
Net interest received		**153,156**	140,860
Revenues from shares, securities and financial instruments with variable income	7	**2,181**	890
Net commissions		**66,647**	47,858
Commissions received		68,988	49,373
Commissions paid		(2,341)	(1,515)
Profit from financial operations		**52,462**	40,441
Profit from trading and non-trading investments	4 & 5 & 6	44,060	34,031
Profit from foreign exchange operations		8,402	6,410
Loss on financial operations		**(1,691)**	(2,142)
Loss on trading and non-trading investments	4 & 5 & 6	(1,210)	(2,036)
Loss on foreign exchange operations		(481)	(106)
Net profit from financial operations	29	**50,771**	38,299
Other operating income		**2,799**	6,307
Other operating expenses		**(2,599)**	(1,801)
General and administrative expenses		**(128,488)**	(113,742)
Salaries and related benefits	29	(73,158)	(70,506)
General operating expenses	29	(55,330)	(43,236)
Depreciation and amortization of tangible and intangible assets		**(17,472)**	(22,830)
Results before taxes		**126,995**	95,841
Income tax		**(22,372)**	(14,943)
Net results of the financial period - profit		**104,623**	80,898
Attributable to:			
Equity holders of the parent		102,094	79,415
Minority interests		2,529	1,483
		104,623	80,898
Earnings per share			
Basic, for profit for the year attributable to ordinary equity holders of the parent – Common shares	31	**LL 384.35**	LL 298.73
Basic, for profit for the year attributable to ordinary equity holders of the parent – Priority shares	31	**LL 432.35**	-

The attached notes 1 to 45 form part of these consolidated financial statements.

Byblos Bank SAL

CONSOLIDATED STATEMENT OF CASH FLOWS
YEAR ENDED 31 DECEMBER 2005

	Notes	2005 LL million	2004 LL million
OPERATING ACTIVITIES			
Profit for the year before taxation		**124,466**	94,358
Adjustments to reconcile results of the period to net cash:			
- Depreciation of tangible and intangible assets		**17,472**	22,830
- Profit from sale of property and equipment		**(212)**	(1,067)
- Profit from sale of Lebanese and other governmental treasury bills and bonds held for trading		**(3,643)**	-
- Profit from sale of Lebanese and other governmental treasury bills and bonds not held for trading		**(3,597)**	(21,836)
- Profit from sale of bonds and financial instruments with fixed income not held for trading assets		**(811)**	(1,635)
- Changes in fair values of shares, securities and financial assets with variable income		**(1,854)**	(343)
- Provisions for doubtful loans, net of recoveries		**24,869**	9,355
- Provisions for employees' end of service benefits		**1,617**	1,673
- (Write-back) provisions for risks and charges		**(603)**	-
- Provisions for foreign currency fluctuations and revaluation difference on structural position		**165**	14
- Other provisions		**6,465**	6,520
- Effect of exchange rate changes		**197**	(153)
- Changes in minority interests		**43,761**	1,126
Operating profit before changes in working capital:		**208,292**	110,842
Lebanese and other governmental treasury bills held for trading		**(1,070,227)**	14,348
Bonds and financial assets with fixed income held for trading		**130,605**	-
Deposits with Central Bank (maturities exceed 3 months)		**732,675**	37,041
Deposits with banks and financial institutions		**261,129**	(355,356)
Loans and advances to customers		**(235,740)**	(259,080)
Other assets		**229**	(5,157)
Regularisation accounts and other debit balances		**(18,446)**	(6,554)
Due to banks and financial institutions		**(30,124)**	60,276
Customers' deposits		**256,625**	843,881
Liabilities under financial instruments		**72,971**	193,849
Other liabilities		**(6,955)**	3,793
Regularisation accounts and other credit balances		**7,864**	5,587
Employees' end of service benefits paid during the year		**(830)**	(968)
Taxes paid		**(2,603)**	(13,825)
Net cash from operating activities		**305,465**	628,677
INVESTING ACTIVITIES			
Lebanese and other governmental treasury bills not held for trading		**(145,767)**	(302,138)
Bonds and other financial assets with fixed income not held for trading		**16,415**	(229,677)
Proceeds from sale of tangible fixed assets		**3,121**	3,824
Purchase of tangible fixed assets		**(40,791)**	(25,115)
Purchase of intangible fixed assets		**-**	(1,637)
Purchase of shares, securities and financial assets with variable income		**(17,048)**	(1,418)
Net cash used in investing activities		**(184,070)**	(556,161)
FINANCING ACTIVITIES			
Loans and balances due to Central Banks		**11,971**	1,975
Effect of exchange rate changes on equities in foreign currencies		**(4,772)**	3,623
Issuance of priority shares		**247,228**	-
Subordinated loans		**(2,082)**	(2,233)
Dividends paid		**(52,239)**	(51,177)
Net cash from (used in) financing activities		**200,106**	(47,812)
Increase in cash and cash equivalents		**321,501**	24,704
Cash and cash equivalents - beginning of the year		**1,976,819**	1,952,115
Cash and cash equivalents – end of the year	30	**2,298,320**	1,976,819

The attached notes 1 to 45 form part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
YEAR ENDED 31 DECEMBER 2005

	Attributable to equity holders of the parent												Minority interests	Total equity
		Other reserves and premiums												
	Share capital LL million	Legal reserve LL million	Free reserves appropriated for capital increase LL million	Premium on issuance of preferred shares LL million	General reserve LL million	Reserve for general banking risks LL million	Revaluation reserve LL million	Cumulative changes in fair values LL million	Retained earnings LL million	Net results of the financial period - profit LL million	Foreign currency translation reserve LL million	Total LL million	LL million	LL million
31 December 2004														
Balance at 1 January 2004 (as previously stated)	247,228	49,356	13,118	149,550	88,533	26,243	5,689	1,743	2,121	69,543	4,568	657,692	11,875	669,567
Adjustments arising from the application of IAS 39 revised (note 2)	-	-	-	-	-	-	-	46,066	-	-	-	46,066	-	46,066
Balance at 1 January 2004 restated	247,228	49,356	13,118	149,550	88,533	26,243	5,689	47,809	2,121	69,543	4,568	703,758	11,875	715,633
Transfer to retained earnings	-	-	-	-	-	-	-	-	69,667	(69,543)	(124)	-	-	-
Transfer to reserves and premiums	-	7,076	5,544	-	2,045	6,200	-	-	(20,865)	-	-	-	-	-
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(541)	(541)
Equity dividends paid	-	-	-	-	-	-	-	-	(50,636)	-	-	(50,636)	-	(50,636)
Change in fair value of available for sale financial instruments	-	-	-	-	-	-	-	(22,636)	-	-	-	(22,636)	-	(22,636)
Write off against retained earnings	-	-	-	-	-	-	-	-	(3,699)	-	-	(3,699)	-	(3,699)
Translation difference	-	175	-	-	1,285	(25)	-	-	(79)	-	2,196	3,552	183	3,735
Net profit for the year	-	-	-	-	-	-	-	-	-	79,415	-	79,415	1,483	80,898
Balance at 31 December 2004	247,228	56,607	18,662	149,550	91,863	32,418	5,689	25,173	(3,491)	79,415	6,640	709,754	13,000	722,754
31 December 2005														
Balance at 1 January 2005 (as previously stated)	247,228	56,607	18,662	149,550	91,863	32,418	5,689	8,650	(3,491)	79,415	6,640	693,231	13000	706,231
Adjustments arising from the application of IAS 39 revised	-	-	-	-	-	-	-	16,523	-	-	-	16,523	-	16,523
Balance at 1 January 2005 restated	247,228	56,607	18,662	149,550	91,863	32,418	5,689	25,173	(3,491)	79,415	6,640	709,754	13,000	722,754
Write off against general reserve (note 26)	-	-	-	-	(11,977)	-	-	-	-	-	-	(11,977)	-	(11,977)
Transfer to retained earnings	-	-	-	-	-	-	-	-	79,415	(79,415)	-	-	-	-
Transfer to reserves and premiums	-	9,274	1,093	-	1,743	7,460	-	-	(19,570)	-	-	-	-	-
Dividends paid - subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	(595)	(595)
Equity dividends paid	-	-	-	-	-			-	(51,644)	-	-	(51,644)	-	(51,644)
Minority share of capital relating to consolidated subsidiaries	-	-	-	-	-	-	-	-	-	-	-	-	41,193	41,193
Issuance of priority shares (note 24)	247,228	-	-	-	-	-	-	-	-	-	-	247,228	-	247,228
Change in fair value of available for sale financial instruments	-	-	-	-	-	-	-	(3,676)	-	-	-	(3,676)	-	(3,676)
Translation difference	-	(219)	-	-	(2,087)	(19)	-	(307)	(6)	-	(2,060)	(4,698)	634	(4,064)
Net profit for the year	-	-	-	-	-	-	-	-	-	102,094	-	102,094	2,529	104,623
Balance at 31 December 2005	**494,456**	**65,662**	**19,755**	**149,550**	**79,542**	**39,859**	**5,689**	**21,190**	**4,704**	**102,094**	**4,580**	**987,081**	**56,761**	**1,043,842**

The attached notes 1 to 45 form part of these consolidated financial statements.

1 ACTIVITIES

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 subsidiaries, Byblos Invest Bank SAL, Byblos Bank Europe SA, Byblos Bank Africa, Byblos Bank Syria S.A., Adonis Insurance and Reinsurance Co. (ADIR) SAL and Adonis Brokerage House SAL are involved in all banking and insurance activities through its headquarters, 73 branches in Lebanon and 6 locations abroad (Limassol, Brussels, London, Paris, Damascus and Khartoum) (Collectively the "Group"). The number of employees of the Group reached 1,520 employees as of 31 December 2005 (31 December 2004: 1,391 employees).

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.

The consolidated financial statements have been prepared under the historical cost convention modified for the measurement at fair value of derivatives 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 accounting policies, with the exception of the adoption of the revised versions of IAS 32 and 39, are consistent with those used in the previous year.

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

Adoption of revised versions of IAS 32 and 39
The Group has adopted the revised versions of IAS 32 and 39 which have become mandatory for the financial years beginning on or after 1 January 2005. The principal effects of these changes in policies are as follows:

Financial assets
The Group now classifies non-trading investments upon initial recognition into the following four categories:

- Held to maturity
- Available for sale
- Investments carried at fair value through income statement
- Investments carried at amortised cost (loans and receivables)

In accordance with the transition provisions of the revised standard this redesignation was effected as at 1 January 2004.

Investments in certain debts securities where the Group provided funds directly to the issuer, were previously classified as "originated loans" and stated at amortized cost, adjusted for effective fair value hedges, less provision for impairment. In accordance with the revised IAS 39 where these are quoted in an active market they have been reclassified with effect from 1 January 2004 as either 'held to maturity' investments, 'available for sale' investments or investments carried at fair value through the income statement. The impact of this redesignation was to increase the carrying value of such investments classified as 'available for sale' by LL 46,066 million as of 1 January 2004, with a corresponding increase in cumulative changes in fair values. In addition, the carrying value of such investments classified now as 'available for sale' decreased by LL 29,543 million with a corresponding decrease in cumulative changes in fair values for the year ended 31 December 2004.

During 2005, the Group reclassified certificates of deposit issued by the Bank of Lebanon and other Lebanese banks from 'originated loans' to 'loans and receivables' stated at amortized cost. There was no impact from such reclassification on the income statement or the shareholders' equity.

Impairment of available for sale investments
In the case of available for sale equity investments reversal of previously recognised impairment losses are no longer recorded through the income statement but as increases in cumulative changes in fair value. There was no impact on the income statement for 2005 as there were no such reversals in that year.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets
With effect from 1 January 2005 a financial asset (in whole or in part) is derecognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred or retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset.

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.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Bank has control.

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*
	2005	*2004*		
	%	%		
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	**65.00**	65.00	Banking activities	Sudan
Byblos Bank Syria S.A.	**41.50**	-	Banking activities	Syria

Trading investments
These are initially recognised at cost and subsequently remeasured at fair value. All related realised and unrealised 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 assests
Financial assets in the scope of IAS 39 are classified as follows:

- Held to maturity
- Investments carried at fair value through profit and loss
- Investments carried at amortised cost (Loans and receivables)
- Available for sale

When financial assets are recognised initially, they are measured at fair value, plus, in the case of investment not carried at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Non-trading investments and financial assets (continued)

Held-to-maturity investments
Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortised cost. This cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in income when the investments are derecognised or impaired, as well as through the amortisation process.

Investments carried at fair value through profit and loss
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 as per the documented strategy of the Group. Investments classified as "Investments at fair value through profit and loss" upon initial recognition are remeasured at fair value with all changes in fair value being recorded in the income statement.

Investments carried at amortized cost
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

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 recognition available-for sale financial assets are measured at fair value with gains or losses being recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the income statement.

Fair values
The fair value of financial instruments traded in organised financial markets is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

The fair value of unquoted investments is determined either by reference to market value of similar instruments or is based on the expected discounted cash flows.

Loans and advances
These are stated at cost, net of interest suspended, provisions for impairment and any amounts written off.

Deposits with banks and financial institutions and other money market placements
Deposits with banks, financial institutions and other money market placements are stated at cost less any amounts written off and provision for impairment.

Tangible and intangible fixed assets
Tangible and intangible fixed assets 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 tangible and intangible fixed assets. The rates of depreciation and amortisation are based upon the assets' estimated useful lives as follows:

Buildings	2.5%
Office equipment and furniture	9-15%
Computer equipment and softwares	20-30%
General installations	30%
Vehicles	15%

The carrying values of tangible and intangible fixed assets 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.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Collateral pending sale
The Bank occasionally acquires real estate in settlement of certain loans and advances in accordance with the Bank of Lebanon's regulations. Such real estate 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 statement of income for the period.

Customers' deposits
Customers' deposits are carried at cost, less amounts repaid.

Liabilities under financial instruments
Liabilities under financial instruments represent certificates of deposit issued by the Bank, index 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 and equity linked notes and are taken to the statement of income.

Subordinated loans
Subordinated loans 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 the statement of income.

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.

Revenue recognition
Interest income is recognized according to the effective interest yield method. Fees, commissions and foreign exchange transactions from banking services are recognized when contractually earned. Interest on loans and advances classified as non-performing is charged to the customer's account and credited to unrealized interest. Dividend income is recognized when the right to receive payment is established.

For the insurance subsidiary, 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 consist of cash on hand and balances with banks whose maturities are three months or less at the date of the balance sheet.

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Derivatives
Derivatives are stated at fair value.

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 statement of income.

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 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 statement of income 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 statement of income.

Off balance sheet items
Off balance sheet balances commitments which may take place in the Group's normal operations such as commitments for loan granting, letters of guarantees, and letters of credit, without reducing the balances by the guaranteed received for these commitments.

Foreign currencies

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

Translation gains or losses on non-monetary items carried at fair value are included in equity as part of the fair value adjustment on securities available-for-sale, unless part of an effective hedging strategy.

Translation of financial statements of foreign entities
The assets and liabilities of foreign branches and subsidiaries are not deemed an integral part of the head office's operations and are translated at rates of exchange ruling at the balance sheet date. Income and expense items are translated at average exchange rates for the period. Any exchange differences are taken directly to a foreign currency translation adjustment reserve.

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

	2005		*2004*	
	Year end rate LL	***Average rate LL***	*Year end rate LL*	*Average rate LL*
US Dollar	**1,507.50**	1,507.50	1,507.50	1,507.50
Euro	**1,784.13**	1,865.00	2,051.10	1,877.87
Sudanese Dinar	**6.54**	6.12	5.89	5.83
Syrian Lira	**28.87**	28.87	-	-

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting
Financial assets and financial liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and settle the liability simultaneously.

Impairment and uncollectability of financial assets
An assessment is made at each balance sheet date to determine whether there is objective evidence that a financial asset or group of financial assets may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss, based on the net present value of future anticipated cash flows, is recognized in the income statement.

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.

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

Deferred income tax assets are not accounted for due to the uncertainty of their realization.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Judgements
In the process of applying the Group's accounting policies, management has made the following judgements, 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, 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 monitor 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 judgement. 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 judgement 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 judgement and uncertainty, and actual results may differ resulting in future changes to such provisions.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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 gradings 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.

Valuation of unquoted equity investments
Valuation of unquoted equity investments is normally based on one of the following:

- Recent arm's length market transactions;
- Current fair value of another instrument that is substantially the same ;
- The expected cash flows discounted at current rates applicable for items with similar terms and risk characteristics; or
- Other valuation models.

The determination of the cash flows and discount factors for unquoted equity investments requires significant estimation. There are a number of investments where this estimation cannot be reliably determined, and as a result these investments are carried at cost.

The Group calibrates the valuation techniques periodically and tests these for validity using either prices from observable current market transactions in the same instrument or other available observable market data.

4 CASH AND BALANCES WITH CENTRAL BANKS

	2005 *LL million*	*2004* *LL million*
Cash on hand	**71,718**	64,240
Balances with Central Banks:		
Bank of Lebanon:		
- Current accounts	**333,574**	476,468
- Time deposits	**1,189,380**	1,142,868
- Certificates of deposit at amortized cost:		
- 2 years at zero rate against obligatory reserve	-	434,541
- Other certificates of deposit	**1,006,591**	1,318,000
	2,529,545	3,371,877
Balances with Central Banks in other countries	**81,625**	22,955
Accrued interest receivable	**38,073**	89,959
Total	**2,720,961**	3,549,031
Interest income for the year	**176,483**	206,517
Gain from sale of certificates of deposit reflected under net profit from financial operations (Note 29)	**3,545**	-
	180,028	206,517
Percentage of cash and balances with the Central Banks to total assets	**23.98%**	33.79%

4 CASH AND BALANCES WITH CENTRAL BANKS (continued)

In accordance with the Bank of Lebanon's rules and regulations, banks operating in Lebanon are required to deposit with the Bank of Lebanon an obligatory reserve calculated on the basis of 15% to 25% of total customers' deposits in Lebanese Lira and 15% of total customers' deposits in foreign currencies.

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

	2005			*2004*
	LL million	*Foreign currencies C/V LL million*	*Total LL million*	*Total LL million*
Current accounts	**301,304**	**31,713**	**333,017**	343,158
Time deposits	**-**	**974,598**	**974,598**	823,849
Certificates of deposit bearing zero interest	**-**	**-**	**-**	434,541
Treasury bills bearing zero interest (Note 5)	**-**	**-**	**-**	164,698
	301,304	**1,006,311**	**1,307,615**	1,766,246

Certificates of deposit bearing zero interest

On 16 December 2002, the Bank of Lebanon issued Basic Circular No 86, requiring banks operating in Lebanon to subscribe for a period of two years for treasury bills issued by the Republic of Lebanon or certificates of deposit issued by the Bank of Lebanon denominated in Lebanese Lira or foreign currencies and carrying 0% interest for an amount equivalent to 10% of all deposits denominated in all currencies as of 31 October 2002.

The Bank subscribed during 2003 for two-year zero rate certificates of deposit and Lebanese treasury bills amounting to LL 209,698 million and USD 258,402 thousands and totaling to LL 599,239 million, in accordance with the requirements of the Intermediary Circular No 26 and its amendment as follows:

	2005 LL million	*2004 LL million*
Certificates of deposit	-	434,541
Lebanese treasury bills (Note 5)	-	164,698
	-	599,239

The zero rate certificates of deposit and Lebanese treasury bills matured during 2005.

4 CASH AND BALANCES WITH CENTRAL BANKS (continued)

Certificates of deposits with interest computed and paid every six months

During 2005, the Bank swapped all the certificates of deposit brought forward from the previous year and amounting to LL 1,318,000 million in addition to the accrued interest receivable at the date of the swap amounting to LL 86,347 million (out of which LL 19,855 million relating to the period from 1 January 2005 to the date of the swap), i.e. a total of LL 1,404,347 million against the following instruments:

	Nominal value LL million
Certificates of deposit denominated in Lebanese Lira maturing on 25 March 2010 bearing an interest of 11.30%	**782,000**

Lebanese treasury bills with interest calculated and settled every six months detailed as follows:

Maturity date	*Interest rate percentage*	*Nominal value LL million*	
25/3/2008	9.34	374,598	
02/4/2009	10.30	198,209	
25/3/2010	11.30	37,144	
08/4/2010	11.30	71,000	**680,951**
			1,462,951

The swap operation resulted in a positive difference amounting to LL 58,604 million distributed as follows:

a) Gain resulting from the swap operation:	
– Revaluation gain on treasury bills swapped and classified as trading, reported in current year results under net profit from financial operations	**9,249**
– Gain on certificates of deposit, amortized based on the effective interest rate over the period of the acquired certificates of deposit, out of which LL 1,485 million is included in current year's results.	**12,956**
	22,205
b) Discount on acquisition of the certificates of deposit to be amortized based on the effective interest rate over the period of the certificates of deposit, out of which LL 2,620 million is included in current year's results	**22,834**
c) Discount on acquisition of treasury bills classified as trading reported in current year results under net profit from financial operations as revaluation gain resulting from fair value changes.	**13,565**
	58,604

Allocation of the gains from the swap operation was as follows:

	Discount LL million	*Gain LL million*	*Total LL million*
Amounts included in the result of 2005	**16,185**	**10,734**	**26,919**
Amounts included under certificates of deposit as of 31 December 2005	**20,214**	**11,471**	**31,685**
	36,399	**22,205**	**58,604**

Balances with the Central Banks in other countries

Balances with the Central Banks in other countries include an amount of LL 5,857 million as non-interest bearing legal blocked fund at the Central Bank of Syria in accordance with the requirements of the Syrian Law.

5 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS

	2005 *LL million*	*2004* *LL million*
At amortized cost:		
Held to maturity:		
- Zero coupon treasury bills against obligatory reserve (Note 4)	**-**	164,698
- Treasury bills pledged to the Bank of Lebanon in guarantee of soft loans (*)	**94,886**	94,471
- Other treasury bills and bonds	**1,082,184**	168,232
	1,177,070	427,401
- Accrued interest receivable	**23,345**	5,546
	1,200,415	432,947
At fair value:		
a) Through income statement		
- Trading	**1,859,119**	814,467
- Accrued interest receivable	**41,915**	14,186
	1,901,034	828,653
b) Through equity:		
- Available for sale	**558,948**	1,174,200
- Accrued interest receivable	**7,391**	13,892
	566,339	1,188,092
Total Lebanese and other governmental treasury bills and bonds	**3,667,788**	2,449,692
Percentage of treasury bills to total assets	**32.33%**	23.32%
Income for the year:		
- Reflected under interest and similar income	**240,972**	192,972
- Reflected under net profit from financial operations and resulting from disposals and fair value changes (Note 29)	**38,530**	30,735

(*) These treasury bills are pledged in guarantee of soft loans granted to the Bank by the Bank of Lebanon following the acquisition of other banks (Note 15).

In accordance with the transition provisions of the revised International Accounting Standard 39 the Bank redesignated originated loans stated at amortized cost and the related interest receivable as at 31 December 2004, and totalling to LL 1,588,380 million as held to maturity treasury bills, available for sale treasury bills, and trading treasury bills as follows:

a) Treasury bills redesignated as held to maturity stated at amortized cost :

	LL million
Amortized cost	**427,401**
Accrued interest receivable	**5,546**
	432,947

b) Treasury bills redesignated as available for sale resulting in an increase in the carrying value of the treasury bills by LL 16,517 million and a corresponding increase in the cumulative changes in fair value (under equity) by the same amount (Note 27):

	LL million
Amortized cost	**1,122,211**
Accrued interest receivable	**13,189**
Carrying value as at 31 December 2004	**1,135,400**
Add: cumulative changes in fair value as at 31 December 2004	**16,517**
	1,151,917

5 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS (continued)

c) Treasury bills stated at amortized cost redesignated as trading with amortized cost equal to fair value as at 31 December 2004:

	LL million
Amortized cost	**20,004**
Accrued interest receivable	**29**
Carrying value as at 31 December 2004	**20,033**
Add: changes in fair value (through income statement) as at 31 December 2004	**-**
	20,033

Following is the movement of the treasury bills during 2005 in nominal value:

	Held to maturity LL million	*Available for sale LL million*	*Trading LL million*	*Total LL million*
Balance 1 January 2005	431,023	1,165,399	810,270	2,406,692
Acquisitions	1,024,545	58,291	584,293	1,667,129
Acquisitions through Swap	-	-	680,951	680,951
Matured	(268,721)	(362,115)	(618)	(631,454)
Disposals	-	(303,838)	(206,418)	(510,256)
Exchange difference	-	(13,709)	(14,382)	(28,091)
Balance as at 31 December 2005	**1,186,847**	**544,028**	**1,854,096**	**3,584,971**

The treasury bills in nominal value have the following maturity profile:

	Held to maturity LL million	*Available for sale LL million*	*Trading LL million*	*Total LL million*
2006	437,660	184,192	4,151	626,003
2007	222,452	40,653	396,567	659,672
2008	525,453	1,784	606,678	1,133,915
2009	75	305,802	286,301	592,178
2010	151	1,784	346,778	348,713
2011	452	3,568	165,884	169,904
2012	-	6,245	1,195	7,440
2013	301	-	1,043	1,344
2016	303	-	45,499	45,802
Total	**1,186,847**	**544,028**	**1,854,096**	**3,584,971**

Valuation of Lebanese and other governmental treasury bills portfolio at 31 December 2005

	Nominal value LL million	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	**1,186,847**	**1,177,070**	**1,173,158**	**1,177,070**
Trading	**1,854,096**		**1,859,119**	**1,859,119**
Available for sale	**544,028**	**543,681**	**558,948**	**558,948**
	3,584,971		**3,591,225**	**3,595,137**
Accrued interest receivable	**72,651**		**72,651**	**72,651**
	3,657,622		**3,663,876**	**3,667,788**

5 LEBANESE AND OTHER GOVERNMENTAL TREASURY BILLS AND BONDS (continued)

Changes in fair values of available for sale treasury bills

Changes in fair values of available for sale treasury bills as of 31 December were as follows:

	2005 *LL million*	*2004* *LL million*
Fair value of available for sale treasury bills – end of year	**558,948**	1,174,200
Less: amortized cost	**(543,681)**	(1,155,284)
Cumulative change in fair value (Note 27)	**15,267**	18,916

6 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME

	2005 *LL million*	*2004* *LL million*
Amortized cost:		
- Held to maturity	**54,566**	67,821
- Accrued interest receivable	**1,388**	1,928
	55,954	69,749
Available for sale:		
- Fair value	**70,718**	71,916
- Accrued interest receivable	**1,059**	1,249
	71,777	73,165
Bonds at fair value:		
- Trading	**72,605**	198,677
- Accrued interest receivable	**1,946**	5,668
	74,551	204,345
Total bonds and financial instruments with fixed income	**202,282**	347,259
Fair value at year end	**204,251**	350,458
Income for the year:		
- Reflected under interest and similar income	**23,846**	18,632
- Reflected under net profit from financial operations: Resulting from disposals and valuation difference	775	1,260

In accordance with the transition provisions of the revised International Accounting Standard 39, the Bank redesignated the originated loans stated at amortized cost and the related interest receivable as at 31 December 2004, totaling to LL 32,495 million, as available for sale which resulted in an increase in the book value of the bonds by LL 6 million against a corresponding increase in the cumulative changes in fair value by the same amount (Note 27).

6 BONDS AND FINANCIAL INSTRUMENTS WITH FIXED INCOME (continued)

Valuation of bonds and financial instruments with fixed income at 31 December 2005

	Nominal value LL million	*Amortized cost LL million*	*Fair value LL million*	*Book value LL million*
Held to maturity	54,572	54,566	56,535	54,566
Held for trading	72,239		72,605	72,605
Available for sale	72,292	72,287	70,718	70,718
	199,103		199,858	197,889
Accrued interest receivable	4,393		4,393	4,393
	203,496		204,251	202,282

Changes in fair values of available for sale bonds and financial instruments with fixed income

	2005 LL million	*2004 LL million*
Fair value of available for sale bonds and financial instruments – end of year	70,718	71,916
Less: amortized cost	(72,287)	(72,489)
Cumulative changes in fair values	(1,569)	(573)
Add: Interest recorded in the statement of income being the difference between average yield of USD (000) 855 (2004: USD (000) 723) and the variable yield for the period of USD (000) 530 (2004: USD (000) 556) for some of the bonds, amounting to USD (000) 325 (2004: USD (000) 167)	(489)	(252)
Cumulative changes in fair values (Note 27)	(2,058)	(825)

7 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME

	2005 LL million	*2004 LL million*
At fair value:		
- Available for sale securities	13,417	12,457
- Trading securities	22,401	3,560
	35,818	16,017
Income for the year reflected under revenues from shares, securities and financial instruments with variable income:		
- Dividends	327	547
- Fair value changes and gain on disposal	1,854	343
	2,181	890

7 SHARES, SECURITIES AND FINANCIAL INSTRUMENTS WITH VARIABLE INCOME (continued)

Movement of the shares, securities and financial instruments with variable income during 2005 is summarized as follows:

	2005 Fair value LL million	*2004 Fair value LL million*
Balance at the beginning of the year	**16,017**	21,522
Add:		
-Shares purchased during the year	**17,482**	1,958
-Net positive revaluation difference on portfolio of marketable securities and financial instruments with variable income	**1,854**	318
-Changes in fair value of available for sale securities (Note 27)	**899**	7,082
	36,252	30,880
Less: shares sold during the year	**(434)**	(14,863)
Balance at the end of the year	**35,818**	16,017

Valuation of shares, securities and financial instruments with fixed income as of the year end

	2005			*2004*		
	Cost LL million	***Fair value LL million***	***Book value LL million***	*Cost LL million*	*Fair value LL million*	*Book value LL million*
Available for sale	**5,436**	**13,417**	**13,417**	5,381	12,457	12,457
Trading	**21,607**	**22,401**	**22,401**	4,139	3,560	3,560
	27,043	**35,818**	**35,818**	9,520	16,017	16,017

8 BANKS AND FINANCIAL INSTITUTIONS - DEBIT

	2005 LL million	*2004 LL million*
Commercial banks:		
- Current accounts	**103,024**	86,481
- Time deposits	**1,736,960**	1,383,630
- Certificates of deposit at amortized cost	**7,538**	-
- Loans granted	**61,544**	103,375
- Financial instruments	**111,409**	62,355
- Accrued interest receivable	**3,908**	3,053
- Interest received in advance	**(1,473)**	(985)
- Doubtful bank accounts	**11,025**	11,129
Less: Provision for doubtful bank accounts	**(11,025)**	(11,129)
	2,022,910	1,637,909
Financial institutions:		
- Current accounts	**4,043**	195
- Time deposits	**26,733**	15,075
- Accrued interest receivable	**75**	-
	30,851	15,270
Registered exchange companies:		
- Current accounts	**199**	777
- Accrued interest receivable	**-**	5
- Doubtful accounts	**2,259**	2,259
Less: Provision for doubtful accounts	**(2,259)**	(1,564)
	199	1,477
	2,053,960	1,654,656
Interest and similar income for the year	**53,273**	26,517
Percentage of balances due from banks and financial institutions to total assets	**18.10%**	15.75%

8 BANKS AND FINANCIAL INSTITUTIONS – DEBIT (continued)

Breakdown by geographic location

	2005		2004	
	LL million	*%*	*LL million*	*%*
Lebanon	134,546	7	26,909	2
O.E.C.D. countries	882,050	43	720,673	44
Saudi Arabia	63,572	3	197,405	12
Other countries	278,759	13	213,107	12
Accounts held with Byblos Bank Europe	695,033	34	496,562	30
	2,053,960	100	1,654,656	100

Doubtful banks and registered exchange companies

Following is the movement in the balances of doubtful banks and registered exchange companies during the year:

	2005		2004	
	Loan Balance LL million	*Provision LL million*	*Loan Balance LL million*	*Provision LL million*
Balance at 1 January	13,388	12,693	13,372	12,677
Add:				
Provision on doubtful foreign exchange company (Note 29)	-	695		
Less:				
Exchange difference on balances denominated in Euro and Sterling Pounds	(104)	(104)	16	16
	13,284	13,284	13,388	12,693

9 LOANS AND ADVANCES TO CUSTOMERS

	2005 *LL million*	2004 *LL million*
Commercial loans	1,636,759	1,443,091
Other loans to customers	606,736	573,474
Creditors accidentally debtors	16,320	12,108
Bad and doubtful loans (net)	57,129	69,195
Interest in suspense on substandard loans	(17,226)	(20,365)
Accrued interest receivable	4,887	5,834
Less: Interest received in advance	(38,854)	(21,345)
	2,265,751	2,061,992
Less:		
- General provision for loans and advances	(30,480)	(37,975)
- Provision for country risk	(3,531)	(3,148)
	2,231,740	2,020,869
Percentage of loans and advances to total assets	19.67%	19.23%
Bad loans transferred to off balance sheet accounts:		
- Gross balance	75,460	54,089
- Percentage of bad loans off balance sheet to total loans (before deduction of provisions and unrealized interest)	2.99%	2.35%
Percentage of bad and doubtful loans to total loans:		
- Excluding off balance sheet accounts	10.52%	11.88%
- Including off balance sheet accounts	13.51%	14.23%

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

Following is a comparison of loans and advances at the end of years 2005 and 2004:

	2005 *LL million*	*2004* *LL million*
Gross loans and advances	**2,525,547**	2,302,253
Accrued interest receivable	**4,887**	5,834
Interest received in advance	**(38,854)**	(21,345)
	2,491,580	2,286,742
Unrealized interest:		
- Substandard loans	**(17,226)**	(20,365)
- Doubtful and bad loans	**(96,840)**	(101,137)
Specific provision on doubtful and bad loans	**(111,763)**	(103,248)
General provisions	**(30,480)**	(37,975)
Provision for country risk	**(3,531)**	(3,148)
	2,231,740	2,020,869

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	2005					2004				
	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	1,946,467	-	-	-	1,946,467	1,604,591	-	-	-	1,604,591
- Watch loans	259,382	-	-	-	259,382	354,708	-	-	-	354,708
	2,205,849	-	-	-	2,205,849	1,959,299	-	-	-	1,959,299
- Substandard loans	53,966	17,226	-	-	36,740	69,374	20,365	-	-	49,009
- Doubtful loans	201,893	72,717	72,047	-	57,129	195,864	70,286	56,383	-	69,195
- Bad loans	63,839	24,123	39,716	-	-	77,716	30,851	46,865	-	-
	2,525,547	114,066	111,763	-	2,299,718	2,302,253	121,502	103,248	-	2,077,503
Less:										
- General provision to be allocated	-	-	-	30,480	30,480	-	-	-	37,975	37,975
- Provision for country risk	-	-	-	3,531	3,531	-	-	-	3,148	3,148
Accrued interest receivable	4,887	-	-	-	4,887	5,834	-	-	-	5,834
Less: Unearned interest	38,854	-	-	-	38,854	21,345	-	-	-	21,345
	2,491,580	114,066	111,763	34,011	2,231,740	2,286,742	121,502	103,248	41,123	2,020,869

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 75,460 million as of 31 December 2005 (2004: LL 54,089 million).

The general provision primarily relates to retail loans.

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

Bad and doubtful loans

	2005 LL million	*2004 LL million*
Balance sheet accounts:		
Gross amount of bad and doubtful loans	**265,732**	273,580
Unrealized interest	**(96,840)**	(101,137)
Specific provision	**(111,763)**	(103,248)
Net amount of bad and doubtful loans	**57,129**	69,195

Movement of unrealized interest on doubtful and bad loans during the year

	2005 LL million	*2004 LL million*
Balance at beginning of the year	**101,137**	95,782
Add (less):		
- Unrealized interest recorded during the year on doubtful and bad loans	**16,228**	23,884
- Transfer from general provision	**-**	561
- Transfer to general provision	**-**	(384)
- Recovery of unrealized interest	**(2,672)**	(2,477)
- Unrealized interest written off against bad debts	**(3,413)**	(20,456)
- Transfer from substandard loans	**2,443**	3,174
- Transfer to substandard loans	**(758)**	-
- Recovery of unrealized interest on bad loans previously transferred to off balance sheet accounts	**158**	405
- Unrealized interest relating to loans transferred to off balance sheet	**(15,044)**	-
- Difference of exchange	**(1,239)**	648
Balance at the end of the year	**96,840**	101,137
Unrealized interest on substandard loans at year end	**17,226**	20,365
Total unrealized interest at year end	**114,066**	121,502

Movement of provision for doubtful and bad loans

	2005 LL million	*2004 LL million*
Balance at beginning of the year	**103,248**	103,965
Add (less):		
- Transfer from general provisions	**9,786**	14,201
- Provisions recorded during the year	**27,032**	6,431
- Transfer to general provision	**-**	(356)
- Difference of exchange	**(1,560)**	1,865
- Provision relating to loans transferred to off balance sheet	**(17,520)**	-
- Provisions used to write off bad loans	**(3,160)**	(15,472)
- Recovery of provisions	**(7,528)**	(8,235)
- Recoveries of provisions on bad loans previously transferred to off balance sheet accounts	**1,465**	849
Balance at the end of the year	**111,763**	103,248

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

General provision for credit losses

	2005 *LL million*	*2004* *LL million*
Provisions accounted for by Byblos Bank SAL approved by the Banking Control Commission:		
- Retail loans portfolio	**19,586**	20,296
- To be allocated to specific customers	**841**	9,895
	20,427	30,191
Provisions constituted by Byblos Bank Africa	**4,262**	1,126
Provisions constituted by Byblos Bank Europe SA	**5,791**	6,658
Total	**30,480**	37,975

Movement of general provision during the year:

	2005 *LL million*	*2004* *LL million*
Balance at beginning of the year	**37,975**	44,280
Add (less):		
- Provisions constituted during the year	**2,819**	10,136
- Provisions transferred from interest revenues on doubtful commercial bills portfolio during 2003, appropriated in 2004	**-**	(3,015)
- General provisions recovered during the year	**(77)**	-
- General provisions brought forward allocated to specific clients during the year	**(9,786)**	(14,201)
- General provisions transferred from provisions and unrealized interest on doubtful loans	**-**	740
- General provisions transferred to provisions and unrealized interest on doubtful loans	**-**	(561)
- General provisions transferred from unrealized interest on substandard loans	**99**	42
- Difference of exchange	**(550)**	554
Balance at the end of the year	**30,480**	37,975

Provision for country risk

	2005 *LL million*	*2004* *LL million*
Balance at beginning of the year	**3,148**	2,233
Provision recorded during the year	**828**	658
Difference of exchange	**(445)**	257
Balance at the end of the year	**3,531**	3,148

9 LOANS AND ADVANCES TO CUSTOMERS (continued)

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

	Loans *LL million*	*Specific provision* *LL million*	*Unrealized interest* *LL million*	*Net balance* *LL million*
Balance at 1 January 2005	54,089	18,541	35,548	-
Loans settled during the year 2005	(1,623)	(1,465)	(158)	-
Loans written off during 2005	(9,511)	(3,922)	(5,589)	-
Bad loans transferred to off balance sheet during 2005	32,564	17,520	15,044	-
Difference of exchange	(59)	(41)	(18)	-
Balance at 31 December 2005	75,460	30,633	44,827	-

10 BANK ACCEPTANCES

	2005 *LL million*	*2004* *LL million*
Letters of credit payable by the Group on behalf of its customers	**205,274**	271,128

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.

11 INTANGIBLE FIXED ASSETS

	2005 *LL million*	*2003* *LL million*
Key money resulting from rent of branches:		
- Cost (USD (000) 1,080)	**1,637**	1,637
- Less: amortization	**(188)**	(63)
Net book value	**1,449**	1,574
Amortization expense for the year (Note 29)	**125**	63

During 2004, the Bank paid key money for the rent of the following two branches in the amount of USD (000) 1,080, which is equivalent to LL 1,637 million:

	Key money	
	C/V LL million	*USD (000)*
Branch of Bank Al Madina SAL located in Corniche El Mazraa	**1,160**	**765**
Branch of United Credit Bank SAL located in Borj Abi Haidar	477	**315**
	1,637	**1,080**

11 INTANGIBLE FIXED ASSETS (continued)

In addition, the Bank contracted with the owners of these sections two rental contracts starting from 1 July 2004 and for the following periods:

Branch of Bank Al Madina SAL located in Corniche El Mazraa:	15 years
Branch of United Credit Bank SAL located in Borj Abi Haidar:	10 years

Key money for each of the branches above is amortized over the rental period stated in the contract. Movement of key money balance and related amortization during the year was as follows:

	Key money Balances 1/1/2005 and 31/12/2005 LL million	*Period of benefit months*	*Amortization*		
			Balance 1/1/2005 LL million	*Addition LL million*	*Balance 31/12/2005 LL million*
Branch of Corniche El Mazraa	**1,160**	**180**	**39**	77	**116**
Branch of Borj Abi Haidar	477	120	**24**	**48**	72
	1,637		**63**	125	**188**

12 TANGIBLE FIXED ASSETS

	2005 LL million	*2004 LL million*
Net book value (after depreciation):		
(a) Tangible fixed assets	**135,594**	118,254
(b) Fixed assets acquired in settlement of debts subject to article 154 of the Code of Money and Credit	**44,432**	36,650
	180,026	154,904

a) Tangible fixed assets

Movement of tangible fixed assets and related depreciation during the year 2005 is as follows:

	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 beginning of year	103,687	1,683	77,886	306	10,116	193,678
Additions during the year	11,595	644	5,800	21	13,304	31,364
Transfers	-	-	1,781	-	(1,781)	-
Disposal of fixed assets fully depreciated	-	-	(14,993)	-	-	(14,993)
Disposal of fixed assets	(1,777)	(130)	(525)	-	-	(2,432)
Foreign exchange difference	(147)	39	(562)	(10)	-	(680)
At end of year	**113,358**	**2,236**	**69,387**	**317**	**21,639**	**206,937**
Depreciation:						
At beginning of year	16,499	1,084	57,841	-	-	75,424
Depreciation during the year	2,600	185	9,315	-	-	12,100
Related to disposal of fixed assets fully depreciated	-	-	(14,993)	-	-	(14,993)
Related to disposals of fixed assets	(175)	(79)	(451)	-	-	(705)
Foreign exchange difference	(77)	9	(415)	-	-	(483)
At end of year	**18,847**	**1,199**	**51,297**	-	-	**71,343**
Net book value:						
At 31 December 2005	**94,511**	**1,037**	**18,090**	**317**	**21,639**	**135,594**
At 31 December 2004	87,188	599	20,045	306	10,116	118,254

12 TANGIBLE FIXED ASSETS (continued)

The cost of buildings at 31 December 2005 include the revaluation differences of properties valued during prior years which are approved by the Central Committee of the Bank of Lebanon in accordance with law 282 dated 30 December 1993, and included in the equity as follows:

	2005 *LL million*	*2004* *LL million*
- Revaluation difference recognized in the complementary shareholders' equity (Note 23)	**1,978**	1,978
- Revaluation difference of other fixed assets	**3,711**	3,711
	5,689	5,689

b) Fixed assets acquired in settlement of debts

	2005 *LL million*	*2004* *LL million*
Cost	**44,432**	36,650
Less: Provision against real estate taken in settlement of debt included in liabilities under provisions for risks and charges (Note 21)	**(15,378)**	(10,594)
Net book value	**29,054**	26,056

Following is the movement of cost of real estate acquired in settlement of debts and the related provision during the year 2005:

	Cost ***LL million***	***Provision against real estate acquired in settlement of debts*** ***LL million***
Balance at 1 January 2005	**36,650**	**10,594**
Cost of real estate acquired in settlement of debts during the year with the approval of the Banking Control Commission	**9,427**	**-**
Properties sold during the year	**(1,645)**	**(463)**
Provision charge for the year	**-**	**5,247**
Balance at 31 December 2005	**44,432**	**15,378**

Fixed assets sold during year 2005

			Book value of fixed assets sold		
	Gain ***LL million***	***Sale price*** ***LL million***	***Cost*** ***LL million***	***Depreciation*** ***LL million***	***Net Book Value*** ***LL million***
Real estate taken in settlement of debt	**254**	**1,436**	**1,645**	**463**	**1,182**
Other tangible fixed assets	**(42)**	**1,685**	**2,432**	**705**	**1,727**
	212	**3,121**	**4,077**	**1,168**	**2,909**

13 OTHER ASSETS

	2005 LL million	2004 LL million
Miscellaneous assets	564	793
Obligatory financial assets	2,250	2,250
	2,814	3,043

Obligatory financial assets consist of a deposit amounting to 15% of the share capital of a 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.

14 REGULARISATION ACCOUNTS AND OTHER DEBIT BALANCES

	2005 LL million	2004 LL million
Doubtful debtor accounts	8,235	8,278
Less: Provision on doubtful debtor accounts	(8,211)	(8,238)
	24	40
Goodwill resulting from acquisition of Wedge Bank Middle East SAL and ABN- AMRO Bank- Lebanon branch	11,977	19,881
Less:		
- Amortization for the year	-	(4,205)
- Write- off against (as per Bank of Lebanon's approval):		
Retained earnings	-	(3,699)
General reserve	(11,977)	-
	-	11,977
Prepaid rent	1,059	1,298
Printings and stationery	2,278	784
Check issued to the order of the Executionary Bureau of Beirut collected by the Bank early 2005	-	2,727
Cash in the automated teller machines (ATM)	2,272	2,417
Credit card invoices paid at year end and recorded to customers' accounts in January of subsequent year	2,092	752
Interest and commissions receivable on certain retail loans	-	950
Advance payments on legal expenses	316	147
Due from customers on financial instruments transactions	-	102
Costs of obtaining loans	-	120
Other debit balances	303	380
Fair value at year end of the index and equity products linked to the notes issued by Byblos Bank SAL and Byblos Invest Bank SAL (Note 20)	7,311	2,314
Reconciling items between the head office and subsidiaries	4,814	3,619
Premiums receivable	1,671	1,844
Regularisation accounts of the subsidiaries	1,114	2,505
Reinsurers' share of technical reserve of subsidiary insurance company	5,020	4,350
Revaluation variance of structural position (Note 21)	15	6
Establishment expenses of Byblos Venture	90	-
Revaluation variance on foreign exchange contracts	678	-
Studies and research for a bank under establishment	62	-
Discounted acceptances receivable	11,368	-
Other reconciling items	1,733	-
Deposits for participation in auctions	581	-
	42,777	24,315
Total regularization accounts and other debit balances	42,801	36,332

14 REGULARISATION ACCOUNTS AND OTHER DEBIT BALANCES (continued)

Provision for doubtful debtors

Following is the movement of the provision during the year:

	2005 LL million	2004 LL million
Provision – beginning of the year	**8,238**	8,132
Add (less):		
Provision constituted during the year (Note 29)	**128**	249
Difference of exchange	**(2)**	5
Provision recovered (Note 29)	**(153)**	(148)
Provision – end of the year	**8,211**	8,238

15 DUE TO CENTRAL BANKS

	2005 LL million	2004 LL million
Soft loans from the Bank of Lebanon:		
a- Loan granted to Byblos Bank SAL maturing on 15 November 2009 following the acquisition of Wedge Bank Middle East SAL	**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 remaining period of the loan (81 months) in monthly installments of LL 165 million each	**(7,425)**	(9,405)
	32,575	30,595
b- Loan granted to Byblos Bank SAL following the acquisition of Banque Beyrouth pour le Commerce SAL, maturing on 28 May 2006	**52,000**	52,000
	84,575	82,595
Current accounts (Byblos Bank Europe S.A.)	**9,991**	-
Total	**94,566**	82,595
Interest and similar charges for the year.		
- Loans interest expenses	**3,718**	2,793
- Amortization of the difference on valuation of the soft loan and the corresponding treasury bills	**1,980**	1,980
	5,698	4,773

The above loans are secured by the following one-year Lebanese treasury bills (Note 5):

	2005 LL million	2004 LL million
- Lebanese treasury bills against the LL 40 billion loan	**43,025**	42,666
- Lebanese treasury bills against the LL 52 billion loan	**56,016**	55,467
	99,041	98,133

15 DUE TO CENTRAL BANKS (continued)

LL 40 Billion Loan

This loan represents facilities granted on 15 November 2001 by the Central Committee of the Bank of Lebanon to the Bank following its acquisition of Wedge Bank Middle East SAL. The loan matures after 8 years 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. At the beginning of the third year onward, 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. The loan is currently secured by one - year Lebanese treasury bills.

LL 52 Billion Loan

This loan represents facilities granted on 28 May 1998 by the Central Committee of the Bank of Lebanon to the Bank following its acquisition of Banque Beyrouth Pour Le Commerce SAL. The loan matures after 8 years on 28 May 2006.

This loan was originally secured by the pledge of two-year Lebanese treasury bills and bears interest rate equivalent to 60% of the notional interest on one-year Lebanese treasury bills. Interest is capitalized and paid quarterly. The loan is currently secured by one-year treasury bills.

16 BANKS AND FINANCIAL INSTITUTIONS - CREDIT

	2005 *LL million*	*2004* *LL million*
Commercial banks:		
- Current accounts	**123,883**	260,580
- Time deposits	**604,983**	228,431
- Medium term loans:		
- Loan balance	**58,627**	53,297
Less: Difference on valuation amortized over loan period	**(279)**	(725)
	787,214	541,583
Accrued interest payable	**1,155**	1,027
	788,369	542,610
Registered financial institutions:		
- Term loans	**76,288**	108,194
- Accrued interest payable	**935**	1,023
Less: Cost to be amortized over the loan period	**(383)**	(645)
	76,840	108,572
Registered foreign exchange companies:		
- Current accounts	**422**	1,036
	865,631	652,218
Interest and similar charges for the year	**22,451**	13,498

Breakdown according to geographic location

	2005		*2004*	
	LL million	*%*	*LL million*	%
Lebanon	**64,148**	**7**	10,881	2
O.E.C.D. countries	**107,743**	**12**	230,134	35
Other non-resident banks	**88,684**	**11**	54,661	8
Arab Trade Finance Program	-	-	1,412	-
	260,575	**30**	297,088	45
Banks – clients of Byblos Bank Europe SA	**605,056**	**70**	355,130	55
	865,631	**100**	652,218	100

17 CUSTOMERS' DEPOSITS

	2005 *LL million*	*2004* *LL million*
Current accounts	**1,109,782**	997,843
Time deposits	**2,058,657**	1,773,923
Saving accounts:		
- Sight	**12,671**	26,428
- Term	**5,210,170**	5,299,501
	8,391,280	8,097,695
Blocked deposit	**48,200**	45,990
Related parties deposits	**19,600**	63,339
Accrued interest payable	**51,895**	47,326
	8,510,975	8,254,350
Percentage of customers' deposits to total balance sheet at year end	**75.02%**	78.58%

18 LIABILITIES UNDER FINANCIAL INSTRUMENTS

	2005 *LL million*	*2004* *LL million*
Certificates of deposit issued by the Bank		
Nominal value: USD (000) 77,957 (2004: USD (000) 78,054)	**117,520**	117,666
Accrued interest payable USD (000) 2,558 (2004: USD (000) 2,558)	**3,856**	3,856
Issuing cost to be amortized: USD (000) 344 (2004: USD (000) 441)	**(519)**	(665)
	120,857	120,857
Index linked notes		
Initial investment repayable at maturity USD (000) 47,300 (2004: USD (000) 47,300)	**71,305**	71,305
(Discount) premium to be amortized over the period of the notes: USD (000) 416 (2004: USD (000) 304)	**(628)**	458
Gross amount: USD (000) 46,884 (2004: USD (000) 47,604)	**70,677**	71,763
Accrued interest payable: USD (000) 825(2004: USD (000) 815)	**1,243**	1,229
	71,920	72,992
Equity linked notes		
Initial investment repayable at maturity USD (000) 47,440	**71,516**	-
Accrued interest payable: USD (000) 1,676	**2,527**	-
	74,043	-
	266,820	193,849
Charges for the year:		
- Certificates of deposit:		
- Interest: USD (000) 5,074 (2004: USD (000) 2,558)	**7,649**	3,856
- Add: Amortization of issuing cost: USD (000) 97 (2004: USD (000) 49)	**147**	74
	7,796	3,930
- Index linked notes:		
- Interest: USD (000) 3,500 (2004: USD (000) 815)	**5,276**	1,229
- Less: Amortization of Bank's gain resulting from the perfect hedge of the index linked notes: USD (000) 723 (2004: USD (000) 162)	**(1,091)**	(246)
	4,185	983
- Equity linked notes:		
Interest: USD (000) 1,677	**2,527**	-
Less: amortization of the Bank's gain resulting from perfect hedge of the equity linked notes: USD (000) 330	**(498)**	-
	2,029	-
Total charges reflected in the statement of income under interest paid on liabilities under financial instruments	**14,010**	4,913

18 LIABILITIES UNDER FINANCIAL INSTRUMENTS (continued)

Certificates of deposit issued by the Bank

On 1 July 2004, Byblos Bank SAL issued certificates of deposit in the amount of USD (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 USD (000) 490, to be amortized until maturity, of which USD (000) 97 was amortized during 2005 (2004: USD (000) 49).

Index Linked Notes

The Index Linked Notes issued on 8 October 2004 amounted to USD 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 with Société Générale Corporate Investment Bank. The cost of the hedge amounted to USD (000) 1,873 and the cost of issuing the Index Linked Notes amounted to USD (000) 250.

The gain of the Bank from the perfect hedge transaction amounted to USD (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 USD 50 million. The Equity Linked Notes 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 with Calyon Private and Investment Bank. The cost of the hedge amounted to USD (000) 1,764 and the cost of issuing the Equity Linked Notes amounted to USD (000) 169.

The gain of the Bank from the perfect hedge transaction amounted to USD (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%.

19 OTHER LIABILITIES

		2005 *LL million*	*2004* *LL million*
Payables to National Social Security Fund		**877**	792
Government and public sector	a	**18,483**	11,261
Other creditors	b	**34,695**	29,577
Due to shareholders		**428**	418
Margins against documentary credits and acceptances		**72,734**	72,225
Other accounts		**773**	2,288
		127,990	116,561

19 OTHER LIABILITIES (continued)

a) Government and Public Sector

	2005 LL million	*2004 LL million*
Taxes payable:		
- Income tax on profit	**13,719**	7,354
- Tax on services	**141**	358
- Taxes and fees related to the insurance company	**657**	611
- Tax on salaries and wages	**668**	687
- Tax on Board of Directors' attendance fees	**35**	32
- Tax on interest	**3,035**	2,038
- Value added tax	**30**	55
- Other taxes	**198**	126
	18,483	11,261

	2005 LL million	*2004 LL million*
Income tax paid during the year on profits of the head office and Lebanon branches:		
- Prior year profit	**2,603**	13,370
- Prior years settlement	**-**	455
	2,603	13,825
Taxes taken from current year profit	**13,972**	9,443
Tax paid on interest received, reflected in the statement of income under income tax	**8,400**	5,500
	22,372	14,943

During 2004, the accounts of Byblos Bank SAL for the year ended 31 December 2002 were reviewed by the Income Tax Department. The review resulted in additional taxes of LL 455 million that were paid during the year. The accounts for the years 2003, 2004 and 2005 remain open for review by the Department of Income Tax.

b) Other Creditors

	2005 LL million	*2004 LL million*
Payables to fixed assets suppliers	**1,604**	1,385
Incoming transfers for settlement	**1,292**	1,069
Partial settlement on programmed advances due	**16,664**	15,741
Insurance premiums received in advance from bank customers	**453**	665
Balances due to beneficiaries of inheritance	**18**	18
Purchases made through Maestro card to be settled to Credit Card Services Co.	**2,827**	2,317
Subscriptions for the incorporation of a bank in Syria	**-**	1,579
Reconciling items with a bank outside Lebanon	**-**	636
Advances received on sale of properties	**136**	217
Advances on sale of properties in settlement of debt	**1,263**	-
Other creditors - subsidiary banks and companies	**7,474**	1,915
Other credit balances	**2,964**	4,035
	34,695	29,577

20 REGULARISATION ACCOUNTS AND OTHER CREDIT BALANCES

	2005 LL million	2004 LL million
Interests and commissions received in advance	5,364	2,080
Other accrued charges	8,967	8,896
Revaluation difference on structural positions	26	6
Fair value of the index to be settled to the owners of the Index Linked Notes and Equity linked Notes (Note 14)	7,311	2,314
Regularisation accounts for foreign currencies	-	1,027
Reconciling items between the head office and the branches	2,711	807
	24,379	15,130

21 PROVISIONS FOR RISKS AND CHARGES

		2005 LL million	2004 LL million
Provision for foreign currency fluctuation	a	428	272
Provision for employees end of service benefits	b	15,728	14,941
Provision for contingencies	c	-	603
Technical reserves of insurance company	d	20,899	14,434
Provision for real estate taken in settlement of debt (Note 12)		15,378	10,594
Provision for revaluation difference on structural position (Note 14)		15	6
		52,448	40,850

a. *Provision for foreign currency fluctuation*

According to the Central Bank of Lebanon 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 2005 amounted to LL 156 million.

b. *Provision for employees end of service benefits*

During 2005:
- The provision constituted for employees' end of service benefits amounted to LL 1,617 million, reflected in the statement of income under salaries and related benefits,
- End of service benefits paid amounted to LL 830 million, and
- Severance pay for terminating employees amounted to LL 156 million, reflected in the statement of income under other operating expenses.

c. *Provision for contingencies*

During 2005, the Bank has written back a provision set up in prior years against potential customer claims in connection with a fraud committed at one of the branches, as management believes that the probability of customer claims is remote.

d. *Technical reserves of insurance company*

The technical reserve is constituted to cover the company's commitments to beneficiaries of insurance contracts.

22 SUBORDINATED LOANS

	2005	*2004*
	USD (000)	*USD (000)*
Subsidized loans:		
Balance of a loan amounting to USD (000) 10,000 obtained from Nederlandese Financierings Maatschappij Voor Ontwikkelingslanden N.V. (FMO) bearing interest rate of six months LIBOR +3.75% payable in semi-annual installments. The first installment is payable on 15 September 2001 for USD 3 million, and the second for USD (000) 800 followed by eight installments with equal amounts of USD (000) 775 each	**775**	2,325
Add: Accrued Interest payable at year end	**18**	41
Less: "Front end fee" expenses on FMO loan amortised till maturity	**(1)**	(12)
	792	2,354

	2005	*2004*
	USD (000)	*USD (000)*
Subordinated notes issued 1 July 2002 and due on 30 June 2012		
99,900 notes of US Dollars 1,000 each with an annual yield not to exceed 15% of the principal amount.	**99,900**	99,900
Yield on the notes is 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		
Add: Accrued interest payable based on the profit of the Bank, payable on 30 June of each year	**1,349**	1,248
Less: "Front end fee" expenses amounting to USD (000) 836 amortized till maturity	**(556)**	(636)
	100,693	100,512
Total in USD (000)	**101,485**	102,866
Total in LL million	**152,988**	155,070

	2005	*2004*
	LL million	*LL million*
Interest and similar charges for the year:		
- Interest: USD (000) 11,912 (2004: USD (000) 11,654)	**17,956**	17,568
- Amortization of front end fee expenses: USD (000) 90 (2004: USD (000) 90)	**137**	137
Total loan charges: USD (000) 12,002 (2004: USD (000) 11,744)	**18,093**	17,705

The Bank obtained these loans to finance its medium and long term activities.

Subordinated notes

- These notes are classified under Tier II capital provided that the Bank publishes semi-annual financial statements.
- The earnings based on net profits are paid annually on a date similar to the issuance date, which is 1 July of every year effective 2003. The accrued interest payable that is not due is added at the end of each year to the original amount of the notes.

23 REVALUATION VARIANCE RECOGNIZED IN THE COMPLEMENTARY EQUITY

	2005 *LL million*	*2004* *LL million*
Variance 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)
Net revaluation variance at the end of the year (Note 12)	1,978	1,978

The revaluation was approved by the Central Committee of the Bank of Lebanon.

24 SHARE CAPITAL

	2005		*2004*	
	No of Shares	*LL million*	*No of Shares*	*LL million*
Issued shares				
Ordinary shares	205,023,723	246,028	205,023,723	246,028
Preferred shares	1,000,000	1,200	1,000,000	1,200
Priority shares	206,023,723	247,228	-	-
	412,047,446	494,456	206,023,723	247,228

The capital of the Bank is divided into 412,047,446 shares of LBP 1,200 each fully paid of which:

Priority shares
The capital of the Bank was increased on 10 December 2005 from LL 247,228 million to LL 494,456 million, through the issuance of 206,023,723 priority shares in accordance with the resolution of the extraordinary general assembly dated 12 May 2005. This capital increase was approved by the Central Committee of the Bank of Lebanon on 10 June 2005, and by the extraordinary general assembly of the Bank held on 10 December 2005 which also decided to free the capital.

Priority shares have the same rights and obligations as ordinary shares, and benefit from a yearly distribution of 4% of the 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 interest 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 5^{th} year, priority shares are converted into ordinary shares without any further resolution by the general assembly.

Preferred shares
1,000,000 preferred shares were issued in the first half of 2003 according to law 308 dated 3 April 2001 at nominal value amounting to LBP 1,200 million and a premium of USD (000) 99,204 equivalent to LBP 149,550 million, totaling to USD 100 million.

The premium on issuance of preferred shares was recorded under "Other reserves and premiums" account (Note 26).

The preferred shares benefit from a non-cumulative annual income equivalent to USD 12 for each share, the payment of which is subject to the availability of non-consolidated distributable net profits for the corresponding year, once the ordinary general assembly has approved the profits for the year and decided on distribution.

The preferred shares are redeemable (after the date of approving the 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.

Listing of shares
On 16 January 2006, the extraordinary general assembly of the Bank resolved to list all the outstanding shares of the Bank for trading in regulated financial markets inside or outside Lebanon in accordance with the Lebanese banking laws and regulations. One-third of the Bank's shares were listed in Beirut Stock Exchange as of 31 December 2005.

The Bank of Lebanon approved the listing of all the outstanding Bank shares in regulated financial markets on 22 February 2006, and all shares comprising the capital of the Bank were listed for trading in Beirut Stock Exchange on 7 March 2006.

24 SHARE CAPITAL (continued)

Treasury shares

The Central Committee of the Bank of Lebanon approved on 13 July 2005 that the Bank acquires 20,500,000 of its outstanding ordinary shares listed in Beirut Stock Exchange for a renewable period of one-year. The Bank did not exercise that right as of 31 December 2005.

25 RESERVE FOR GENERAL BANKING RISKS

	2005 *LL million*	*2004* *LL million*
Reserve in compliance with Bank of Lebanon main circular No. 50	**39,859**	32,418

This reserve represents the appropriation from annual net profit of a minimum of 0.2% and a maximum of 0.3% of total risk weighted assets and off balance sheet items constituted in Lebanese Lira and foreign currencies in accordance with the Bank of Lebanon's main circular No. 44 and its amendments. 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 2005 from the profits of the year 2004 amounted to LL 1,212 million and USD (000) 4,132 (C/V LL 7,441 million), after the deduction of difference on exchange of LL 19 million (2004: LL 6,175 million).

26 OTHER RESERVES AND PREMIUMS

	2005			*2004*		
	Group share LL million	*Minority interest LL million*	*Total LL million*	*Group share LL million*	*Minority interest LL million*	*Total LL million*
Legal reserve	**65,662**	**1,075**	**66,737**	56,607	682	57,289
Free reserves appropriated for capital increase	**19,755**	**-**	**19,755**	18,662	-	18,662
General reserve	**79,542**	**3,450**	**82,992**	91,863	2,884	94,747
Premium on issuance of Preferred shares (Note 24)	**149,550**	**-**	**149,550**	149,550	-	149,550
	314,509	**4,525**	**319,034**	316,682	3,566	320,248

Legal reserves

The Group is required to constitute legal reserves from its annual net profit according to the following rates:

	Rate %	***Ceiling***
Net profits of the head office, branches in Lebanon and subsidiary bank in Lebanon	10	Unlimited
Net profits of subsidiary companies in Lebanon	10	One-third of capital
Net profit of subsidiary bank in Europe	5	Unlimited
Net profit of subsidiary bank in Sudan	25	One-third of capital
Net profit of subsidiary bank in Syria	10	Total capital

Free reserves appropriated for capital increase

	2005 *LL million*	*2004* *LL million*
Reserve equivalent to realized profit on sale of assets taken in settlement of bad debt, in accordance with Banking Control Commission (BCC) circular No 173, of which LL 1,088 million related to previous year	**2,114**	1,026
Reserve equivalent to provisions recovered, in accordance with BCC circular No 167	**8,252**	8,252
Reserve equivalent to profits realized on sale of Solidere Company shares taken 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, of which LL 5 million profit generated in 2004 and appropriated in 2005.	**8,870**	8,865
Others	**299**	299
	19,755	18,662

26 OTHER RESERVES AND PREMIUMS (continued)

General reserve

	2005 *LL million*	*2004* *LL million*
Balance at 1 January	**94,747**	91,009
Less: goodwill written off against general reserve account	**(11,977)**	-
Add: transfers from retained earnings during the year	**2,306**	2,457
(Less) add: exchange difference	**(2,084)**	1,281
Balance at 31 December	**82,992**	94,747

During 2005, the Bank has fully written off the goodwill balance as of 1 January 2005 resulting from the acquisition of Wedge Bank Middle East SAL and ABN-AMRO Bank-Lebanon branch and amounting to LL 11,977 million against the general reserve account, in accordance with the approval of the Bank of Lebanon.

27 CUMULATIVE CHANGES IN FAIR VALUES

	2005 *LL million*	*2004* *LL million*
Lebanese and other governmental treasury bills and bonds (Note 5)	**15,267**	18,916
Bonds and financial assets with fixed income (Note 6)	**(2,058)**	(825)
Shares, securities and financial assets with variable income (Note 7)	**7,981**	7,082
	21,190	25,173

Movement of the cumulative changes in fair values of financial instruments during the year was as follows:

	2005 *LL million*	*2004* *LL million*
Balance- Beginning of the year	**8,650**	1,743
Adjustments resulting from the application of IAS 39 (revised):		
- Lebanese and other government treasury bills and bonds (Note 5)	**16,517**	46,066
- Bonds and financial instruments with fixed income (Note 6)	**6**	-
- Shares, securities and financial instruments with variable income (Note 7)	-	-
Balance- beginning of the year (as restated)	**25,173**	47,809
Add (less): positive (negative) changes in fair values of financial Instruments available for sale during the year:		
- Lebanese and other governmental treasury bills and bonds	**(3,649)**	(28,731)
- Bonds and financial instruments with fixed income	**(1,233)**	(987)
- Shares, securities and financial instruments with variable income	**899**	7,082
	(3,983)	(22,636)
Balance- end of the year:		
- Lebanese and other governmental treasury bills and bonds (Note 5)	**15,267**	18,916
- Bonds and financial instruments with fixed income (Note 6)	**(2,058)**	(825)
- Shares, securities and financial instruments with variable income (Note 7)	**7,981**	7,082
	21,190	25,173

28 MINORITY INTERESTS

	2005 LL million	2004 LL million
- Capital of subsidiary banks and companies	**50,192**	8,290
- Other reserves and premiums	**4,525**	3,566
- Profit for the year	**2,529**	1,483
- Retained earnings	**(485)**	(339)
	56,761	13,000

29 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT

The statement of income for 2005 and 2004, including minority interests, is summarized as follows:

	2005 LL million	2004 LL million
Interest and similar income	**661,004**	587,138
Interest and similar charges	**(482,979)**	(436,923)
Net provisions on loans and advances less recoveries	**(24,869)**	(9,355)
Net interest received	**153,156**	140,860
Revenues from marketable securities and financial assets with variable income	**2,181**	890
Net commissions income	**66,647**	47,858
Net profit or loss from financial operations	**50,771**	38,299
Other operating income	**2,799**	6,307
Other operating expenses	**(2,599)**	(1,801)
General and administrative expenses	**(128,488)**	(113,742)
Depreciation and amortization	**(17,472)**	(22,830)
Profit for the year before income tax	**126,995**	95,841
Income tax	**(22,372)**	(14,943)
Net result for the financial period	**104,623**	80,898
Less: Minority interests	**(2,529)**	(1,483)
	102,094	79,415

a. *Net provisions on loans and advances less recoveries*

	2005 LL million	2004 LL million
Provisions constituted during the year on loans and advances	**27,032**	6,431
Provisions constituted on doubtful debtors' accounts (Note 14)	**128**	249
Provisions constituted for country risk	**828**	657
General provision constituted during the year	**2,819**	10,137
Provisions constituted on doubtful foreign exchange company	**695**	-
Bad debts written off	**1,125**	262
	32,627	17,736
Provisions recovered during the year against:		
- Loans and advances recovered or upgraded	**(7,528)**	(7,761)
- Excess general provisions brought forward from prior year	**(77)**	(472)
- Other debtor accounts written back (Note 14)	**(153)**	(148)
	(7,758)	(8,381)
	24,869	9,355

29 NET RESULTS OF THE FINANCIAL PERIOD – PROFIT (continued)

b. Net profit from financial operations

	2005 LL million	*2004 LL million*
Net profit from transactions:		
- in treasury bills (Note 5)	**38,530**	30,735
- in bonds (Note 6)	**775**	1,260
- in certificates of deposit (Note 4)	**3,545**	-
	42,850	31,995
Positive difference of exchange	**8,086**	6,310
Provision constituted for the net trading foreign position (Note 21)	**(156)**	-
Provision constituted for the structural position (Note 21)	**(9)**	(6)
	50,771	38,299

c. Salaries and related benefits

	2005 LL million	*2004 LL million*
Byblos Bank SAL	**61,440**	58,947
Byblos Bank Africa	**1,181**	780
Byblos Bank Europe SA	**8,355**	8,953
Byblos Invest Bank SAL	**301**	138
Byblos Bank Syria SA	**113**	-
ADIR SAL	**1,768**	1,688
	73,158	70,506

d. General operating expenses

	2005 LL million	*2004 LL million*
Tax withheld on bank interest earned	**2,614**	1,116
Taxes and duties	**2,552**	2,872
Contribution to deposits guarantee fund	**4,069**	3,564
Rent and related charges	**4,054**	2,855
Consulting fees	**3,321**	2,516
Telecommunications and postage expenses	**3,786**	2,498
Board of Directors' attendance fees	**460**	300
Maintenance and repair	**5,934**	5,850
Electricity and fuel	**3,109**	2,835
Travel and entertainment	**2,029**	1,734
Publicity and advertising	**5,823**	3,925
Subscriptions	**1,987**	1,480
Bonuses and administrative expenses	**8,509**	3,248
Legal expenses	**1,638**	2,904
Other operating expenses	**5,445**	5,539
	55,330	43,236

30 CASH AND CASH EQUIVALENTS

	2005 *LL million*	*2004* *LL million*
Cash and balances with Central Banks	**1,116,006**	1,211,401
Deposits with banks and other financial institutions	**1,938,444**	1,278,011
	3,054,450	2,489,412
Less: Due to banks and other financial institutions	**(756,130)**	(512,593)
Cash and cash equivalents at year end	**2,298,320**	1,976,819

31 EARNINGS PER SHARE

	2005	*2004*
Weighted average number of shares outstanding during the year:		
- Common shares	**205,023,723**	205,023,723
- Preferred shares	**1,000,000**	1,000,000
- Priority shares	**11,853,420**	-
	LL million	*LL million*
Net profit for the year	**102,094**	79,415
(Less): Proposed dividends to preferred shares	**(18,168)**	(18,168)
Net profit attributable to common and priority shareholders	**83,926**	61,247
(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 (11,853,420 shares)	**(569)**	-
Net profits attributable to common and priority shareholders	**83,357**	61,247
Of which:		
Net profits attributable to priority shares (11,853,420 shares)	**4,556**	-
Net profits attributable to common shares (205,023,723 shares)	**78,801**	61,247
Earnings per share in LL:		
- Common shares	**384.35**	298.73
- Priority shares	**432.35**	-

No figure for diluted earning per shares has been presented as the bank has not issued any instruments which would have an impact on earnings per share when exercised.

32 RELATED PARTY TRANSACTIONS

The Group enters in the ordinary course of business into transactions with related parties (major shareholders, directors, companies having common directors with the bank, and financial institutions which are affiliates and subsidiaries). The terms and conditions of these transactions were approved by the Bank's management.

The year end debit and credit balances in respect of related parties as of 31 December 2005 and 2004, as well as interest income and expense for the years 2005 and 2004 are as follows:

	2005			*2004*
	Major shareholders LL million	***Directors and Senior Management LL million***	***Total LL million***	*Total*
Loans and advances (net of provisions)	-	**147**	**147**	455
Deposits (under customers' deposits)	**19,600**	-	**19,600**	63,339
Shareholders' credit balances	**428**	-	**428**	418
Interest paid	**3,317**	-	**3,317**	3,128

Compensation of the key management personnel of the Bank is as follows:

	2005			*2004*
	Chairman & Board members LL million	***Senior Management LL million***	***Total LL million***	*Total LL million*
Salaries and allowances	1,148	2,382	**3,530**	3,637
Bonuses	2,716	713	**3,429**	2,296
Attendance fees	409	-	**409**	379

33 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 letters 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:

	2005 LL million	*2004 LL million*
Commitments given:		
- Guarantees	**517,440**	411,083
- Letters of credit- export	**144,686**	78,673
	662,126	489,756
Financing commitments given:		
- Letters of credit – import	**390,527**	347,672
Acceptances (reflected on balance sheet)	**205,274**	271,128
Assets under management and fiduciary accounts	**158,948**	103,602
Assets in Custody	**844,323**	728,210

34 DERIVATIVES

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 analysed by the term to maturity. 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.

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.

				Notional amounts by term to maturity	
31 December 2005	*Positive fair value LL million*	*Negative fair value LL million*	*Total notional amount LL million*	*Within 3 months LL million*	*3 – 12 months LL million*
Derivatives held for trading purposes :					
- Currency swaps	29	68	14,824	14,824	-
- Forward foreign exchange contracts	1,718	2,348	247,606	226,407	21,199
	1,747	2,416	262,430	241,231	21,199
- Foreign exchange spot contracts	9	18	9,274	9,274	-
31 December 2004					
Derivatives held for trading purposes:					
- Currency swaps	563	66	74,366	74,366	-
- Forward foreign exchange contracts	2,392	1,736	170,084	159,656	10,428
	2,955	1,802	244,450	234,022	10,428
- Foreign exchange spot contracts	280	406	197,106	197,106	-

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.

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.

35 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 reprice in a given period. The Group manages the risk by matching the repricing of assets and liabilities through risk management strategies.

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.

35 INTEREST RATE RISK AND MARKET RISK (continued)

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

	2005		2004	
	Foreign currencies	*LL*	*Foreign currencies*	*LL*
	%	%	%	%
ASSETS				
Central Bank:				
- Weighted average rate, including:	4.58	8.51	3.80	7.47
- Certificates of deposit at zero interest rate	-	-	-	-
- Placements and other certificates of deposit	5.52	10.76	6.25	9.73
- Other accounts with Central Bank	0.06	-	0.10	0.08
Banks	2.91	9.17	1.69	3.62
Lebanese and other governmental treasury bills:				
- Weighted average rate, including:	7.10	7.94	8.20	9.17
- Treasury bills at zero interest rate	-	-	-	-
- Other treasury bills	7.12	8.10	8.20	10.66
Bonds and other financial assets with fixed income	7.60	-	7.52	-
Loans and advances to customers:				
- Weighted average rate, including:	7.95	7.51	7.14	7.99
- Commercial loans	8.41	14.25	7.64	13.22
- Other loans to customers	8.47	6.30	7.27	4.23
LIABILITIES				
Central Bank	-	7.75	-	5.16
Banks and financial institutions:				
- Weighted average rate, including:	2.64	9.64	2.34	3.46
- Deposits	1.99	9.64	1.14	3.46
- Loans	5.24	-	5.34	-
Customers' deposits	3.73	7.95	3.52	7.34
Subordinated loans	11.59	-	11.15	-
Certificates of deposit	6.26	-	6.27	-

Market risk

Market risk arises from fluctuations in interest rates, foreign exchange rates and equity prices. The board of directors has set limits on the value of risk that may be accepted. This is monitored on a weekly basis by the asset and liability committee.

35 INTEREST RATE RISK AND MARKET RISK (continued)

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2005 was as follows:

	2005						
(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 Central Banks	928,286	13,680	-	1,525,551	65,244	188,200	2,720,961
Lebanese and other governmental treasury bills and bonds	133,810	99,040	446,247	2,684,190	231,774	72,727	3,667,788
Bonds and financial instruments with fixed income	-	-	75,322	89,912	32,655	4,393	202,282
Shares, securities and financial instruments with variable income	-	-	-	-	-	35,818	35,818
Banks and financial institutions	1,788,075	141,871	90,184	10,253	15,078	8,499	2,053,960
Loans and advances to customers	968,461	147,607	263,259	526,183	258,430	67,800	2,231,740
Bank acceptances	91,702	44,330	64,776	4,466	-	-	205,274
Intangible fixed assets	-	-	-	-	-	1,449	1,449
Tangible fixed assets	-	-	-	-	-	180,026	180,026
Other assets	-	-	-	-	-	2,814	2,814
Regularisation accounts and other debit balances	-	-	-	-	-	42,801	42,801
Total assets	3,910,334	446,528	939,788	4,840,555	603,181	604,527	11,344,913
LIABILITIES AND EQUITY							
Due to Central Banks	-	-	52,006	32,569	-	9,991	94,566
Banks and financial institutions	627,644	111,307	32,493	53,252	16,219	24,716	865,631
Customers' deposits	6,308,272	1,125,707	597,304	324,072	-	155,620	8,510,975
Engagements by acceptances	91,702	44,330	64,776	4,466	-	-	205,274
Liabilities under financial instruments	-	-	-	259,194	-	7,626	266,820
Other liabilities	-	-	-	-	-	127,990	127,990
Regularisation accounts and other credit balances	-	-	-	-	-	24,379	24,379
Provisions for risks and charges	-	-	-	-	-	52,448	52,448
Subordinated loans	-	1,167	-	-	149,757	2,064	152,988
Total equity	-	-	-	-	-	1,043,842	1,043,842
Total liabilities and equity	7,027,618	1,282,511	746,579	673,553	165,976	1,448,676	11,344,913
Periodic Gap	(3,117,284)	(835,983)	193,209	4,167,002	437,205	(844,149)	
Cumulative Gap	(3,117,284)	(3,953,267)	(3,760,058)	406,944	844,149	-	

35 INTEREST RATE RISK AND MARKET RISK (continued)

The Group's interest sensitivity position based on contractual re-pricing arrangements at 31 December 2004 was as follows:

	2004						
(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 Central Banks	256,111	-	45,225	2,217,407	-	1,030,288	3,549,031
Lebanese and other governmental treasury bills and bonds	179,170	50,182	238,566	1,318,044	465,091	198,639	2,449,692
Bonds and financial instruments with fixed income	-	-	12,560	210,015	115,833	8,851	347,259
Shares, securities and financial instruments with variable income	-	-	-	-	-	16,017	16,017
Banks and financial institutions	1,202,210	73,733	359,799	9,768	7,078	2,068	1,654,656
Loans and advances to customers	967,387	41,000	316,037	486,007	180,543	29,895	2,020,869
Bank acceptances	99,053	69,324	86,681	16,070		-	271,128
Intangible fixed assets	-	-	-	-	-	1,574	1,574
Tangible fixed assets	-	-	-	-	-	154,904	154,904
Other assets	-	-	-	-	-	3,043	3,043
Regularisation accounts and other debit balances	-	-	-	-	-	36,332	36,332
Total assets	2,703,931	234,239	1,058,868	4,257,311	768,545	1,481,611	10,504,505
LIABILITIES AND EQUITY							
Due to Central Banks	-	-	-	52,009	30,586	-	82,595
Banks and financial institutions	427,225	76,139	49,336	76,744	22,094	680	652,218
Customers' deposits	6,024,529	1,240,214	737,529	200,396	4,356	47,326	8,254,350
Engagements by acceptances	99,053	69,324	86,681	16,070	-	-	271,128
Liabilities under financial instruments	-	-	-	188,971	-	4,878	193,849
Other liabilities	-	-	-	-	-	116,561	116,561
Regularisation accounts and other credit balances	-	-	-	-	-	15,130	15,130
Provisions for risks and charges	-	-	-	-	-	40,850	40,850
Subordinated loans	-	1,220	1,100	1,168	149,599	1,983	155,070
Total equity	-	-	-	-	-	722,754	722,754
Total liabilities and equity	6,550,807	1,386,897	874,646	535,358	206,635	950,162	10,504,505
Periodic Gap	**(3,846,876)**	**(1,152,658)**	**184,222**	**3,721,953**	**561,910**	**531,449**	
Cumulative Gap	**(3,846,876)**	**(4,999,534)**	**(4,815,312)**	**(1,093,359)**	**(531,449)**	-	

36 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 10% 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).

The following consolidated balance sheet as of 31 December 2005, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars in accordance with the Bank of Lebanon circular 1522:

	2005			
		Foreign currencies		*Total*
	LL million	*USD (000)*	*C/V LL million*	*LL million*
ASSETS				
Cash and balances with Central Banks	1,372,566	894,458	1,348,395	2,720,961
Lebanese and other governmental treasury bills and bonds	1,880,870	1,185,352	1,786,918	3,667,788
Bonds and financial instruments with fixed income	-	134,183	202,282	202,282
Shares, securities and financial instruments with variable income	13,408	14,866	22,410	35,818
Banks and financial institutions	62,079	1,321,314	1,991,881	2,053,960
Loans and advances to customers	298,794	1,282,220	1,932,946	2,231,740
Bank acceptances	-	136,169	205,274	205,274
Intangible fixed assets	1,449	-	-	1,449
Tangible fixed assets	123,740	37,337	56,286	180,026
Other assets	2,722	61	92	2,814
Regularisation accounts and other debit balances	10,709	21,288	32,092	42,801
Total assets	3,766,337	5,027,248	7,578,576	11,344,913
LIABILITIES AND EQUITY				
Due to Central Banks	84,574	6,628	9,992	94,566
Banks and financial institutions	674	573,769	864,957	865,631
Customers' deposits	2,973,220	3,673,469	5,537,755	8,510,975
Engagements by acceptances	-	136,169	205,274	205,274
Liabilities under financial instruments	-	176,995	266,820	266,820
Other liabilities	20,450	71,336	107,540	127,990
Regularisation accounts and other credit balances	7,241	11,368	17,138	24,379
Provisions for risks and charges	52,373	50	75	52,448
Subordinated notes	-	101,484	152,988	152,988
Share capital	494,456	-	-	494,456
Revaluation variance recognized in the complementary shareholders' equity	1,978	-	-	1,978
Reserve for general banking risks	19,038	13,811	20,821	39,859
Other reserves and premiums	159,749	102,660	154,760	314,509
Retained earnings profit (loss)	5,473	(509)	(769)	4,704
Net result of the financial period profit	94,521	5,024	7,573	102,094
Revaluation variance for other fixed assets	3,711	-	-	3,711
Cumulative changes in fair values	6,344	9,848	14,846	21,190
Foreign currency translation reserve	1,115	2,297	3,465	4,580
Minority interests	7,142	32,915	49,619	56,761
Total liabilities and equity	3,932,059	4,917,314	7,412,854	11,344,913

36 CURRENCY RISK (continued)

The following consolidated balance sheet as of 31 December 2004, is detailed in Lebanese Lira (LL) and foreign currencies translated into Lebanese Lira and US Dollars in accordance with the Bank of Lebanon circular 1522:

	2004			
		Foreign currencies		*Total*
	LL million	*USD (000)*	*C/V LL million*	*LL million*
ASSETS				
Cash and balances with Central Banks	2,189,670	901,732	1,359,361	3,549,031
Lebanese and other governmental treasury bills and bonds	991,987	966,969	1,457,705	2,449,692
Bonds and financial instruments with fixed income	-	230,354	347,259	347,259
Shares, securities and financial instruments with variable income	12,510	2,326	3,507	16,017
Banks and financial institutions	12,414	1,089,381	1,642,242	1,654,656
Loans and advances to customers	276,677	1,157,010	1,744,192	2,020,869
Bank acceptances	-	179,853	271,128	271,128
Intangible fixed assets	1,574	-	-	1,574
Tangible fixed assets	120,601	22,755	34,303	154,904
Other assets	2,754	192	289	3,043
Regularisation accounts and other debit balances	7,946	18,830	28,386	36,332
Total assets	3,616,133	4,569,402	6,888,372	10,504,505
LIABILITIES AND EQUITY				
Due to Central Banks	82,595	-	-	82,595
Banks and financial institutions	301	432,450	651,917	652,218
Customers' deposits	3,116,991	3,407,867	5,137,359	8,254,350
Engagements by acceptances	-	179,853	271,128	271,128
Liabilities under financial instruments	-	128,590	193,849	193,849
Other liabilities	16,863	66,135	99,698	116,561
Regularisation accounts and other credit balances	13,492	1,086	1,638	15,130
Provisions for risks and charges	40,005	560	845	40,850
Subordinated notes	-	102,865	155,070	155,070
Share capital	247,228	-	-	247,228
Revaluation variance recognized in the complementary shareholders' equity	1,978	-	-	1,978
Reserve for general banking risks	17,826	9,680	14,592	32,418
Other reserves and premiums	149,093	111,170	167,589	316,682
Retained earnings - profit (loss)	(2,800)	(458)	(691)	(3,491)
Net result of the financial period - profit	77,048	1,570	2,367	79,415
Revaluation variance for other fixed assets	3,711	-	-	3,711
Cumulative changes in fair values	23,605	1,040	1,568	25,173
Foreign currency translation reserve	1,115	3,665	5,525	6,640
Minority interests	6,438	4,353	6,562	13,000
Total liabilities and equity	3,795,489	4,450,426	6,709,016	10,504,505

37 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.

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 the year end are based on contractual repayment arrangement.

The maturity profile of the assets and liabilities at 31 December 2005 was as follows:

	2005					
(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	1,074,118	41,888	2,608	1,531,246	71,101	2,720,961
Lebanese and other governmental treasury bills and bonds	90,785	130,513	471,457	2,743,259	231,774	3,667,788
Bonds and financial instruments with fixed income	242	2,543	76,930	89,912	32,655	202,282
Shares, securities and financial instruments with variable income	35,818	-	-	-	-	35,818
Banks and financial institutions	1,795,758	142,686	90,185	10,253	15,078	2,053,960
Loans and advances to customers	1,064,371	146,459	257,187	520,470	243,253	2,231,740
Bank acceptances	91,702	44,330	64,775	4,467	-	205,274
Intangible fixed assets	-	-	-	-	1,449	1,449
Tangible fixed assets	-	-	-	-	180,026	180,026
Other assets	-	-	-	-	2,814	2,814
Regularisation accounts and other debit balances	5,643	8,006	474	-	28,678	42,801
Total assets	4,158,437	516,425	963,616	4,899,607	806,828	11,344,913
LIABILITIES AND EQUITY						
Due to Central Bank	9,991	-	52,006	32,569	-	94,566
Banks and financial institutions	644,824	111,306	40,030	53,252	16,219	865,631
Customers' deposits	6,435,773	1,129,095	612,668	333,439	-	8,510,975
Engagements by acceptances	91,702	44,330	64,776	4,466	-	205,274
Liabilities under financial instruments	3,856	3,770	-	259,194	-	266,820
Other liabilities	7,492	15,889	57,700	-	46,909	127,990
Regularisation accounts and other credit balances	-	2,206	-	4,703	17,470	24,379
Provisions for risks and charges	20,899	42	-	-	31,507	52,448
Subordinated loans	-	1,193	2,038	-	149,757	152,988
Total equity	-	-	52,982	-	990,860	1,043,842
Total liabilities and equity	7,214,537	1,307,831	882,200	687,623	1,252,722	11,344,913
Balance sheet items gap	(3,056,100)	(791,406)	81,416	4,211,984	(445,894)	-
Cumulative gap	(3,056,100)	(3,847,506)	(3,766,090)	445,894	-	-

37 LIQUIDITY RISK (continued)

The maturity profile of the assets and liabilities at 31 December 2004 were as follows:

	2004					
(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	971,705	239,696	120,223	2,217,407	-	3,549,031
Lebanese and other governmental treasury bills and bonds	193,976	49,597	392,630	1,342,238	471,251	2,449,692
Bonds and financial instruments with fixed income	-	-	14,909	214,127	118,223	347,259
Marketable securities and financial instruments with variable income	16,017	-	-	-	-	16,017
Banks and financial institutions	1,204,278	73,733	359,799	9,768	7,078	1,654,656
Loans and advances to customers	941,610	41,000	316,037	486,007	236,215	2,020,869
Bank acceptances	99,053	69,324	86,681	16,070	-	271,128
Intangible fixed assets	-	-	-	-	1,574	1,574
Tangible fixed assets	-	-	-	-	154,904	154,904
Other assets	-	-	-	-	3,043	3,043
Regularisation accounts and other debit balances	20,005	-	-	-	16,327	36,332
Total assets	3,446,644	473,350	1,290,279	4,285,617	1,008,615	10,504,505
LIABILITIES AND EQUITY						
Due to Central Banks	-	-	-	52,010	30,585	82,595
Banks and financial institutions	427,905	76,139	49,336	76,744	22,094	652,218
Customers' deposits	6,071,855	1,240,214	737,529	200,396	4,356	8,254,350
Engagements by acceptances	99,053	69,324	86,681	16,070	-	271,128
Liabilities under financial instruments	3,191	-	-	190,658	-	193,849
Other liabilities	2,524	14,179	58,613	-	41,245	116,561
Regularisation accounts and other credit balances	6,242	8,888	-	-	-	15,130
Provisions for risks and charges	-	-	-	-	40,850	40,850
Subordinated loans	-	1,220	3,083	1,168	149,599	155,070
Total equity	-	-	52,239	-	670,515	722,754
Total liabilities and equity	6,610,770	1,409,964	987,481	537,046	959,244	10,504,505
Balance sheet items gap	(3,164,126)	(936,614)	302,798	3,748,571	49,371	-
Cumulative gap	(3,164,126)	(4,100,740)	(3,797,942)	(49,371)	-	-

38 SEGMENTAL INFORMATION

The Group operates in two geographic markets, the local market and the international market. which comprises the Middle East, Europe. the Far East and the USA. The following table shows the distribution of the Group's operating income, total assets and capital expenditure by geographical segment:

	Domestic		International		Total	
	2005	*2004*	*2005*	*2004*	*2005*	*2004*
	LL million	*LL million*	*LL million*	*LL million*	*LL million*	*LL million*
Net interest received	**144,820**	134,098	**8,336**	6,762	**153,156**	140,860
Net commissions	**42,829**	33,624	**23,818**	14,234	**66,647**	47,858
Revenues from shares and financial instruments with variable income	**2,181**	890	-	-	**2,181**	890
Net profit from financial operations	**46,778**	37,963	**3,993**	336	**50,771**	38,299
Other operating income	**1,375**	6,060	**1,424**	247	**2,799**	6,307
Net revenues	**237,983**	212,635	**37,571**	21,579	**275,554**	234,214
General and administrative expenses	**(109,973)**	(96,197)	**(18,515)**	(17,545)	**(128,488)**	(113,742)
Amortization and depreciation	**(16,679)**	(22,049)	**(793)**	(781)	**(17,472)**	(22,830)
Other operating expenses	**(2,368)**	(1,618)	**(231)**	(183)	**2,599**	(1,801)
Profit before income tax	**108,963**	92,771	**18,032**	3,070	**126,995**	95,841
Total assets	**9,940,762**	9,571,170	**1,404,151**	933,335	**11,344,913**	10,504,505
Capital expenditure	**24,259**	26,083	**16,532**	669	**40,791**	26,752

39 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 or borrowers 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.

40 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.

40 CONCENTRATION OF ASSETS, LIABITLITIES AND OFF BALANCE SHEET ITEMS (continued)

The table below indicates the distribution of the Group's total assets, liabilities and off balance sheet items by geographic region:

	2005		
	Assets LL million	*Liabilities and stockholders equity LL million*	*Off balance sheet LL million*
Geographical segment:			
- Lebanon	**8,691,260**	**9,535,734**	**781,511**
- Europe	**1,696,381**	**270,022**	**218,387**
- Other countries	**957,272**	**1,539,157**	**52,755**
	11,344,913	**11,344,913**	**1,052,653**

	2004		
	Assets LL million	*Liabilities and equity LL million*	*Off balance sheet LL million*
Geographical segment:			
- Lebanon	8,518,031	8,283,755	309,315
- Europe	1,198,663	347,208	385,296
- Other countries	787,811	1,873,542	142,817
	10,504,505	10,504,505	837,428

41 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:

	2005			2004		
	Fair value LL million	*Book value LL million*	*Difference LL million*	*Fair value LL million*	*Book value LL million*	*Difference LL million*
FINANCIAL ASSETS						
Lebanese and other governmental treasury bills	**3,663,876**	**3,667,788**	**(3,912)**	2,472,909	2,449,692	23,217
Bonds and financial assets with fixed income	**204,251**	**202,282**	**1,969**	350,464	347,259	3,205
Shares, securities and financial assets with variable income	**35,818**	**35,818**	-	16,017	16,017	-
Banks and financial institutions	**2,053,960**	**2,053,960**	-	1,654,656	1,654,656	-
Loans and advances to customers	**2,231,740**	**2,231,740**	-	2,020,869	2,020,869	-
FINANCIAL LIABILITIES						
Central Bank	**95,133**	**94,566**	**(567)**	81,888	82,595	707
Banks and financial institutions	**865,631**	**865,631**	-	652,218	652,218	-
Customers' deposits	**8,510,975**	**8,510,975**	-	8,254,350	8,254,350	-
Subordinated loans	**163,855**	**152,988**	**(10,867)**	158,082	155,070	(3,012)
Liabilities under financial instruments	**266,820**	**266,820**	-	193,849	193,849	-

Fair values of Lebanese and other governmental treasury bills are determined based on their market values.

42 RECONCILIATION BETWEEN ACCOUNTING AND TAXABLE PROFITS FOR THE YEAR - 2005

	Accounting profit (loss) LL million	*Taxable profit (loss) LL million*	*Income tax rate %*	*Income tax due LL million*
Group banks and companies:				
Lebanese banks and companies				
- Byblos Bank SAL - Lebanon branches	85,897	116,268	15	17,440
- Byblos Invest Bank SAL *	6,201	-	15	-
- Adonis Insurance & Reinsurance Co. SAL **	3,575	1,549	15	232
- Adonis Brokerage House SAL	138	163	15	24
Foreign banks				
- Byblos Bank Europe SA	2,326	3,806	34	1,294
- Byblos Bank - Limassol branch	2,728	1,123	4,25	48
- Byblos Bank Africa ***	4,088	8,440	35	2,954
- Byblos Bank Syria	(330)			
	104,623			

(*) Byblos Invest Bank SAL was established in 2003. The bank is exempt from income tax on profit for seven years from inception till 2009.

(**) The company is subject to income tax at the rate of 15% calculated based on gross insurance premiums weighted differently for each class of business.

(***) Income tax due on Byblos Bank Africa profit represents "Tax" paid in accordance with Islamic Banking Regulations.

43 LEGAL CASES

The Group is a defendant in a number of legal cases in the normal course of business. The Group's management, based on the advice of its legal advisors, is of the opinion that the effect of any losses that might result from these cases will not materially impact the financial position of the Group.

44 PROPOSED ALLOCATION OF 2005 NET PROFIT

The Board of Directors convened on 31 March 2006 proposed to distribute the unconsolidated net profit of the Bank for the year 2005 as follows:

	LL million
Net profit for the year 2005	**88,625**
Less: Transfers to:	
- Statutory reserve	**(8,863)**
- Reserve for general banking risks	**(8,200)**
- Reserve appropriated for capital increase	**(254)**
	71,308
Add: Accumulated profits at the beginning of the year	**3,476**
Distributable profit	**74,784**
Proposed appropriation of distributable profit:	
- Distribution to 1,000,000 preferred shares at USD 12 each	**(18,168)**
- Dividends distribution to 205,023,723 ordinary common shares at LL 157.9 each (LL 150 net of tax)	**(32,373)**
Distribution on 206,023,723 priority shares for the period from 10 till 31 December 2005:	
- Annual distribution calculated at 4% of the nominal value of the share (LL 2.76 per share	**(569)**
- Share of profit at LL 9.08 per share (LL 8.63 net of tax)	**(1,872)**
Transfer to general reserves	**(12,000)**
Profit carried forward for 2006	**9,802**

45 POST BALANCE SHEET EVENTS

The Board of Directors which convened on 3 March 2006 resolved the following:

- To increase the Bank's capital for an amount ranging between USD 200 million to USD 300 million through the issuance of Global Depository Shares (GDS's) to be listed either on the London Stock Exchange or the Dubai International Financial Exchange. The Board decided to appoint Citi Group Global Markets Limited and Credit Suisse Securities (Europe) Limited to act as lead managers for the above transaction.
- To redeem Subordinated Notes issued on 1 July 2002 for a total amount of USD 100 million and maturing on 30 June 2012 at the option of their holders, and to maintain the right to call the Notes not redeemed by their holders when the conditions of such a call option are met.

The Board of Directors which convened on 31 March 2006 resolved the following:

- To call for an extraordinary general assembly to discuss and decide on the proposed capital increase through the issuance of ordinary shares restricted for new shareholders, and to mandate the Chairman to appoint an experts' committee in accordance with applicable laws of the Code of Money and Commerce, and
- To grant a foreign bank the option to sell to Byblos Bank SAL GDS's which are issued on the basis of the Bank's proposed issue of GDS's.

BYBLOS BANK SAL

Phone: (01) 335200, Fax: (01) 339436, Web: http:// www.byblosbank.com.lb

Capital LBP 511,363,536,000 Fully Paid, C.R.B.14150, List of Banks No. 39, Head Office - Beirut

UNAUDITED CONSOLIDATED BALANCE SHEET

Balance sheet and contra accounts	30/Sep/07			30/Sep/08		
at year end (Million of LBP)	LBP	C/V LBP	Total	LBP	C/V LBP	Total
ASSETS						
Cash and Central Bank	1,037,446	1,842,279	2,879,725	2,073,963	2,044,647	4,118,610
Lebanese Treasury bills and other government bills	1,905,054	1,967,303	3,872,357	1,998,966	2,104,402	4,103,368
Bonds and financial instruments with fixed income	0	114,819	114,819	0	411,892	411,892
Marketable securities & financial instruments with variable income	14,213	89,650	103,863	16,129	98,186	114,315
Banks and financial institutions	24,574	3,025,611	3,050,185	32,913	2,768,232	2,801,145
- Current accounts	(160)	(296,951)	(297,111)	(51)	(553,479)	(553,530)
- Time deposits	(24,414)	(2,728,660)	(2,753,074)	(32,862)	(2,214,753)	(2,247,615)
H.O. & branches, parent co., sister inst. & subsidiaries	0	0	0	0	0	0
- Current accounts	0	0	0	0	0	0
- Time deposits	0	0	0	0	0	0
Loans and advances to customers (*)	360,341	2,732,555	3,092,896	412,492	3,730,211	4,142,703
- Commercial loans	(62,375)	(2,275,812)	(2,338,187)	(57,855)	(3,209,905)	(3,267,760)
- Other loans to customers	(318,021)	(445,902)	(763,923)	(377,934)	(514,994)	(892,928)
- Overdraft accounts	(1,395)	(14,082)	(15,477)	(637)	(8,626)	(9,263)
- Net debtor accts / creditor accts & cash collateral	0	0	0	0	0	0
- Loans & advances to related parties	0	(3,760)	(3,760)	0	(7,954)	(7,954)
- Net non performing loans	(4,167)	(26,897)	(31,064)	(3,201)	(21,355)	(24,556)
- General provisions	25,617	33,898	59,515	27,135	32,623	59,758
Bank acceptances	0	288,452	288,452	0	325,004	325,004
Investment in related parties under equity method	0	9,820	9,820	0	802	802
Tangible fixed assets (including revaluation variance)	112,367	119,959	232,326	114,828	144,230	259,058
Intangible fixed assets	1,325	49	1,374	1,199	551	1,750
Other assets	2,630	5,922	8,552	2,582	437	3,019
Regularisation accts & miscellaneous debtor accts	20,745	44,572	65,317	30,097	60,823	90,920
Total Assets (*)	**3,478,695**	**10,240,991**	**13,719,686**	**4,683,169**	**11,689,417**	**16,372,586**
(*) of which substandard loans, net of reserved interest			25,731			19,031
(*) After deduction of:						
Provisions for Doubtful Debts			49,077			48,769
Unrealized interests on:			81,788			75,583
- Substandard Loans			15,471			14,293
- Doubtful loans			66,317			61,290
Commitments by Signature Received - Financial Inst.	0	47,516	47,516	0	152,688	152,688
Commissions by Signature Received - Customers	177,547	5,785,859	5,963,406	198,339	9,010,534	9,208,873
Total contra accounts	**177,547**	**5,833,375**	**6,010,922**	**198,339**	**9,163,222**	**9,361,561**
Npls fully provisioned transferred to Off-BS	21,432	106,690	128,122	19,403	102,351	121,754

BYBLOS BANK SAL

Phone: (01) 335200, Fax: (01) 339436, Web: http:// www.byblosbank.com.lb

Capital LBP 511,363,536,000 Fully Paid, C.R.B.14150, List of Banks No. 39, Head Office - Beirut

UNAUDITED CONSOLIDATED BALANCE SHEET

	30/Sep/07			30/Sep/08		
In LBP Millions	**LBP**	**C/V LBP**	**Total**	**LBP**	**C/V LBP**	**Total**
Liabilities and shareholders' equity						
Central Bank	36,045	40,154	76,199	38,025	134,395	172,420
Banks and financial institutions	20,628	989,048	1,009,676	63,732	1,268,349	1,332,081
- Current accounts	(917)	(160,184)	(161,101)	(5,868)	(108,522)	(114,390)
- Time deposits	(19,711)	(828,864)	(848,575)	(57,864)	(1,159,827)	(1,217,691)
H.O. & branches, parent co., sister inst. & subsidiaries	0	0	0	0	0	0
- Current accounts	0	0	0	0	0	0
- Time deposits	0	0	0	0	0	0
Deposits from customers	2,828,164	7,801,432	10,629,596	3,785,992	8,332,737	12,118,729
- Sight deposits	(218,956)	(1,105,260)	(1,324,216)	(197,595)	(1,588,343)	(1,785,938)
- Time deposits	(348,379)	(2,274,810)	(2,623,189)	(764,742)	(1,745,151)	(2,509,893)
- Saving accounts	(2,260,829)	(4,383,738)	(6,644,567)	(2,808,934)	(4,964,401)	(7,773,335)
- Net creditor accts / debtor accts & cash collateral	0	0	0	(825)	0	(825)
- Related parties accounts	0	(37,624)	(37,624)	(13,896)	(34,842)	(48,738)
Engagements by acceptances	0	288,452	288,452	0	325,004	325,004
Liabilities under financial instruments	0	268,412	268,412	0	265,634	265,634
- Certificates of deposits	0	(119,135)	(119,135)	0	(119,281)	(119,281)
- Other liabilities under financial instruments	0	(149,277)	(149,277)	0	(146,353)	(146,353)
Other liabilities	21,970	249,626	271,596	52,713	151,612	204,325
Regularisation accts & miscellaneous creditor accts	8,221	39,587	47,808	45,007	44,455	89,462
Provisions for risks and charges	65,179	1,612	66,791	50,582	4,852	55,434
Subordinated loans (or notes)	(192)	47,551	47,359	(151)	299,153	299,002
Revaluation variance accepted as supplementary capital	1,978	0	1,978	1,978	0	1,978
Share capital and cash contribution	494,457	0	494,457	511,363	0	511,363
Treasury shares	0	(104)	(104)	0	(1,242)	(1,242)
Reserves for general banking risks	36,038	20,821	56,859	46,008	27,351	73,359
Reserves and premiums and equity differences	184,198	182,253	366,451	210,469	523,895	734,364
Balance carried forward	10,128	1,690	11,818	12,770	(680)	12,090
Net income (or loss) for the year	76,916	10,948	87,864	91,048	20,727	111,775
Cumulative changes in fair value	8,791	(98,092)	(89,301)	13,733	(64,879)	(51,146)
Revaluation of other fixed assets	3,711	0	3,711	3,711	0	3,711
Consolidation differences	1,115	13,624	14,739	1,115	20,289	21,404
Minority interest	6,954	58,371	65,325	9,209	83,630	92,839
Total liabilities and shareholders' equity	**3,804,301**	**9,915,385**	**13,719,686**	**4,937,304**	**11,435,282**	**16,372,586**

CONTRA ACCOUNTS						
Engagements by Signature - Customers	44,796	945,244	990,040	47,616	1,044,955	1,092,571
Engagements by Signature - Financial Institutions	0	776,247	776,247	539	1,296,358	1,296,897
Engagements by Financial instruments	0	754	754	0	0	0
TOTAL CONTRA ACCOUNTS	44,796	1,722,245	1,767,041	48,155	2,341,313	2,389,468

UNAUDITED PROFIT AND LOSS ACCOUNT

In LBP Millions For the	1st 9m- 2007	1st 9m- 2008
(Millions of LBP)		
Interest and similar income	**692,372**	**758,874**
- Lebanese treasury bills	269,095	288,197
- Deposits & similar accounts in banks & financial institutions	227,693	223,348
- Deposits in head office & branches, parent company	0	0
& foreign sister financial institutions & subsidiaries	0	0
- Bonds and financial instruments with fixed income	7,443	16,978
- Loans and advances to customers	187,795	229,817
- Loans and advances to related parties	346	534
Interest and similar charges	**483,148**	**507,512**
- Deposits & similar accts from banks & financial institutions	40,067	46,010
- Deposits from head office & branches, parent company	0	0
& foreign sister financial institutions & subsidiaries	0	0
- Deposits from customers and other creditor accounts	423,122	425,411
- Deposits from related parties	2,719	2,992
- Cash contribution to capital and subordinated loans	4,515	20,477
- Certificates of deposits	5,822	5,830
- Bonds and financial instruments with fixed income	6,903	6,792
Net Interest Income Before Provisions	**209,224**	**251,362**
Net allocation to provisions	**14,073**	**16,751**
- Provisions for doubtful debts	19,710	20,827
- Provisions for doubtful debts no more required	5,637	4,076
Net interest received	**195,151**	**234,611**
Inocme from marketable securities &		
financial instruments with variable income	**1,314**	**4,198**
Net commissions	**61,264**	**80,691**
- Commissioins received	65,915	87,170
- Commissions paid	4,651	6,479
Profit on financial operations	**16,663**	**21,264**
- Marketable securities	5,815	6,726
- Foreign exchange transactions	10,848	14,538
Loss on financial operations	**6,819**	**8,740**
- Marketable securities	5,653	6,677
- Foreign exchange transactions	1,166	2,063
Net profit of loss on financial operations	**9,844**	**12,524**
Other operating income	**504**	**3,274**
Other operating charges	**6,021**	**4,703**
General operating expenses	**132,989**	**168,568**
- Staff expenses	72,917	91,590
- Other operating expenses	60,072	76,978
Allocation to prov. & depreciation of fixed assets	**14,171**	**14,645**
Net income for the year - before taxes	**114,896**	**147,382**
Income tax	**23,541**	**28,203**
Net profit for the year - after taxes	**91,355**	**119,179**
- Group share	87,864	111,775
- Minority share	3,491	7,404

BYBLOS BANK SAL

Phone: (01) 335200, Fax: (01) 339436, Web: http:// www.byblosbank.com.lb

Capital LBP 511,363,536,000 Fully Paid, C.R.B.14150, List of Banks No. 39, Head Office - Beirut

UNAUDITED CONSOLIDATED FINANCIAL HIGHLIGHTS & KEY RATIOS

(in US million, except for per share Data)	Sep. 2007	Sep. 2008
Total Assets	9,101	10,861
Customer Deposits	7,051	8,039
Net Advances to Customers	2,052	2,748
Cash & Due From Banks	3,934	4,590
Total Equity	702	1,199
Net Book Value (1)	670	1,000
Net Income	60.6	79.1
Number of Common & Priority Shares Outstanding	411,047,446	423,136,280
Earnings Per Share (annualized)	0.20	0.25
Book Value Per Share	1.39	1.66
Growth in Assets (Ytd)	11.12%	14.53%
Growth in Customer Deposits (Ytd)	12.35%	10.87%
Growth in Net Advances to Customers (Ytd)	17.26%	23.07%
Growth in Assets (Year on year)	15.08%	19.34%
Growth in Customer Deposits (Year on Year)	15.90%	14.01%
Growth in Net Advances to Customers (Year on Year)	27.72%	33.94%
Growth in Net Income (Year on Year)	20.25%	30.46%
Return on Average Assets	0.93%	1.04%
Return on Average Equity	11.62%	11.94%
Net Interest Margin	2.25%	2.30%
Cost-to-Income	53.29%	52.75%
Tier One Capital to Assets	7.89%	9.21%
Net Advances / Assets	22.54%	25.30%
Net Non-Performing Loans / Net Customer Loans	-0.92%	-0.85%
Liquid Assets / Assets	72.28%	69.84%
1 USD =	LBP 1,507.5	LBP 1,507.5

(1) This excludes subordinated loans.

REGISTERED OFFICE OF THE BANK

BYBLOS BANK S.A.L.
Byblos Tower Building
Elias Sarkis Avenue
Achrafieh
Beirut
Lebanon

LEGAL ADVISORS

As to Lebanese law:

ABOUHAMAD, MERHEB, NOHRA, CHAMOUN, CHEDID
Achrafieh 22
Rue Chebaro
Beirut
Lebanon

ABOUSLEIMAN & PARTNERS
11 Place de l'Etoile
Riad El-Solh Sector
Beirut Central District
Lebanon

As to English law:

DEWEY & LEBOEUF
No.1 Minster Court
Mincing Lane
London EC3R 7YL
United Kingdom

STATUTORY AUDITORS OF THE BANK

ERNST & YOUNG P.C.C.
Commerce and Finance Building
First Floor
Riad El Solh
Beirut
Lebanon

SEMAAN, GHOLAM & CO.
Gholam Building
Sioufi Street
Riad El Solh
Beirut
Lebanon